PROTOCOL FROM THE ANNUAL FINANCIAL MEETING IN THE SUPERVISORY BOARD IN HELGELAND SPAREBANK

March 26th 2020 at 08:30 am there was held a constituent meeting in the supervisory board in Helgeland Sparebank. As a consequence of measures to prevent spread of infection of the Covid-19 virus, the bank's board of director's march 19th 2020 agreed to facilitate for digital participation so that the meeting could be held at the meeting platform Skype Business.

Participants of the supervisory board:
Per Gunnar Hjorthen, Torill Beate Risøy, Helge Stanghelle, Tone Helen Jakobsen, Ingvar Møllersen, Marit Thrana, Marianne Myrnes Steinrud, Sten Oddvar Solhaug, Åsmund Skår, Reidun Breirem, Lars Martin Lunde, Anne Påsche Jakobsen, Øyvin Trønsdal, Frank Høyen, Inger Lise Strøm, Kjell Idar Juvik, Bodil Olsen, John Arne Warholm, Nils Sagrabb, Karianne Kristensen, Einar Eliassen, Tore Stamnes, Sten Ove Lisø, Steinar Johansen, Bertil Einvik(observer) and Eirik Bjørkmo(observer).

25 eligible voters of the supervisory board members and called in deputy members met, see attachments. The supervisory board was thus decisive.

Not met: Brynjar Forbergskog and Maria Olaisen.

From the board of directors participated: Stein Andre Herigstad-Olsen, Siw Moxness, Marianne Terese Steinmo, Geir Pedersen and Birgitte Lorentzen.

From the administration participated: Hanne Nordgaard, Sverre Klausen, Dag-Hugo Heimstad, Bjørn Tore Brønlund, Øyvind Karlsen and Anne Ekroll.

From the banks internal auditing: Rolf Tor Jannsen
From external auditing: Silja Eriksen, partner in PWC

Referent: Merethe Sæterstad

Agenda:

Case 1 Opening of the meeting by the supervisory board's leader by Per Gunnar Hjorthen

The supervisory board's leader Per Gunnar Hjorthen welcomed and opened the meeting.

Case 2 Approval of the meeting call in

Call in with list of cases and case documents was made available on the banks website march 5th 2020, see the banks articles of association § 3-11, and an email with call in was sent out to the supervisory board's members and deputy members the same day.

The supervisory board voted unanimously
DECITION:

There were no comments on the call in or the agenda and the meeting was declared legally set.

Case 3 Election of two representatives to sign the protocol together with the leader of the meeting.

As a consequence of changed meeting form, signing of the protocol is adapted to current recommendations for participation in digital solution.
Draft to protocol was published for the supervisory boards members prior to the meeting

The supervisory board voted unanimously
DECITION:

All of the supervisory boards members/deputy members that participates through digital solutions is signing the protocol electronically

Case 4 Lecture «the world's best savings bank» by Jon Gunnar Pedersen

The lecture was earlier reported cancelled. Case closed.

Case 5 Orientation of the banks operations 2019

CEO Hanne Nordgaard oriented about the banks operations in 2019, here under around the banks position in Helgeland, together with status and developments for Helgeland. There was also closely oriented about the newly notified bank cooperation. The presentation was published for the supervisory board prior to the meeting, and there was an opening for questions.

Case 6 Annual financial statements for 2019

CEO Hanne Nordgaard commented on the banks profit and loss statement and the balance statement. It was there after opened for comments and questions.

Case 7 Annual report for 2019

Chairman of the board Stein Andre Herigstad-Olsen was available for eventual questions.

Case 8 Auditors report

Auditors report is clean and without notes. PWC by auditor Silja Eriksen was available to answer questions.

Case 9 Determination of the financial statements and disposal of the profit.

The group statement shows a net profit of the year of MNOK 305.
The board has in the sent out case documents of March 5th 2020 suggested that the dividend basis* of MNOK 294 for the year 2019 is distributed with a degree of distribution of 50% and as follows:

- MNOK 112 in ECC capital, amounts to NOK 5.35 per ECC
- MNOK 35 to donation fund

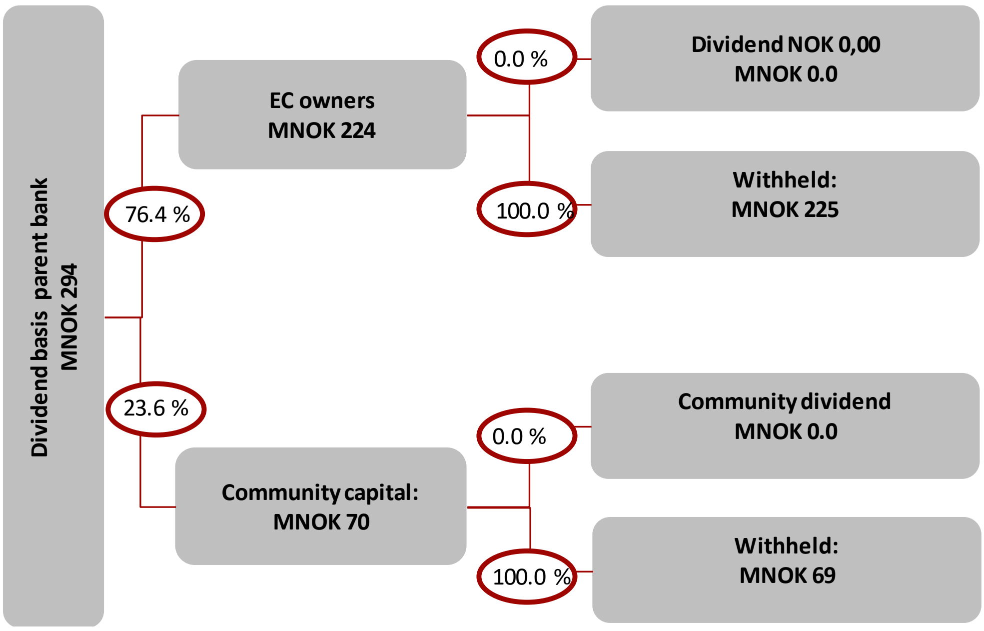
Further it is suggested to strengthen the equity with the following:

- MNOK 112 to divid equal res, amounts to NOK 5.35 per ECC
- MNOK 35 to the savings bank fund.

Dividend is paid out to the ECC owners registered as owners per 26.03.20. The banks ECC's notes ex dividend 27.03.2020.

** The parent banks net profit, adjusted for changes in funds for unrealized gains and interest subordinated bonds.*

Reassessed setting 25.03.2020:
The financial supervisory authority promoted proposals today suggesting restrictions on the distribution of dividends. Based on these conditions the board recommends that it at this time is not paid out dividend for 2019, and has as a consequence of the situation suggested the following



The supervisory board voted unanimously

DECITION:

The annual report be noted.

The annual report for 2019 and the boards reassessed proposal ragarding disposal of the profit is approved.

Case 10 Determination of the auditing fee.

Auditing fee for the year 2019 is in accordance to the invoice from PricewaterhouseCoopers AS NOK 508 000 ex vat.

Consistent with the regulations in the Financial Undertakings ACT § 8-17 (1) approval must happen in the supervisory board.

The supervisory board voted unanimously
DECITION:

Auditing fee for the year 2019, NOK 508 000 ex vat, is approved.

Case 11 Declaration of determination of salary and remuneration to leading employees.

Chairman Stein Andre Herigstad-Olsen was available for questions.

The supervisory board voted unanimously
DECITION:
Declaration of determination of salary and remuneration to leading employees is to be noticed.

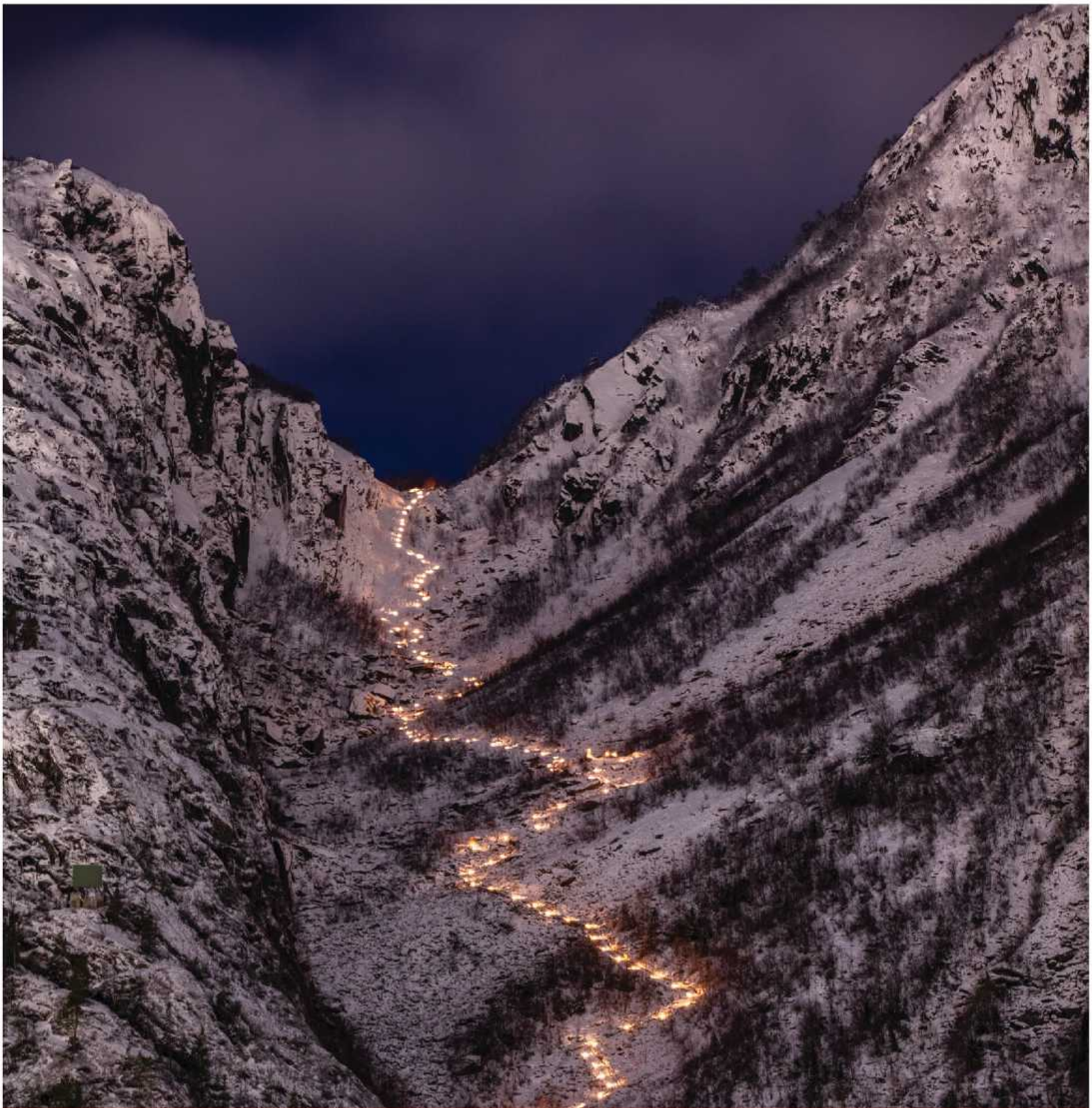
There were no more cases to be considered and the meeting was adjourned.

March 26th 2020

Sign.
Supervisory boards members
The protocol is signed electronically.

HELGELAND
SPAREBANK

A driving force for growth in Helgeland



ANNUAL REPORT 2019


Foto: Susann Sivertsen

CONTENTS

REMARKS FROM THE CEO

"WHAT WOULD HELGELAND HAVE BEEN WITHOUT HELGELAND SPAREBANK?"

Hanne Nordgaard 2019

HELGELAND SPAREBANK's vision is to continue to act as a driving force for growth in Helgeland. Growth is generated when the business sector dares to take risks, invest and innovate. This requires secure and stable framework conditions, in addition to access to customers and markets to sell what is produced, the right skills in the workforce and, last but not least, capital.

Uncertainty over future access to customers, labour, good framework conditions and capital reduces the willingness of businesses to invest and take risks. As expected, the ongoing debate over location and the various recommendations regarding the organisational structure of hospitals created a lot of uncertainty in Helgeland in 2019. When the decision is finally taken in 2020, it is vital that we put all the debate and uncertainty behind us and once again strive to create generate in Helgeland. The local bank has adopted a position where we encourage collaboration, which in turn can generate growth. We believe this position has been popular, and the market survey we conducted indicates that our customers are aware of the position.

Access to labour is a key input factor for generating growth. The unemployment rate in Helgeland has been low for a long time now. There is a shortage of both highly qualified professionals and skilled workers in Helgeland, and we depend on recruiting new people from outside the region. We need people who want to move to Helgeland and settle here with their family. The inward migration of people with the right skills will be decisive in determining whether Helgeland can be successful in generating growth going forward. This is a task we are committed to through our reputation-building work and through the strengthening of operators involved in recruitment via the Bank's gift fund.

Helgeland consists of a number of small labour markets comprised of some large, but mostly small enterprises. Cooperation between businesses, between the public and private sectors and between the municipalities of Helgeland will be vital if we are to win the battle for customers and labour.

Like capital, labour is important for generating growth. The capital must be in the form of both risk equity and more long-term bank financing. What would Helgeland have been without Helgeland Sparebank? The locally owned and locally run savings bank has always been vital for Helgeland and remains so to this day.

The local savings bank performs a very special role in the financial landscape. The local savings bank lives off, and alongside, the local business community. While international and national banks often retreat to their head offices in difficult times, the local bank has nowhere else to be other than in their community. The local bank knows its customers, trusts its customers and is keen to follow its customers through both the good and the challenging times. We live close to the business community and make an effective contribution by making good judgements. This is because we have many employees with a high level of expertise in the business sector and because we give business leaders the feedback they need in order to run their businesses.

Helgeland Sparebank gives great value back to the local community, both in the form of dividends to our local equity certificate holders and in the form of paying out dividends on our community-owned capital. The dividends on the community-owned capital are donated for socially beneficial purposes in sport, culture, knowledge and research. All 18 municipalities benefit from this and it provides a driving force for growth in volunteerism, well-being and quality of life in Helgeland. Well-being and quality of life may not necessarily lead to more people moving to Helgeland; but it undoubtedly results in more people deciding to stay here. When that is said and done, we are consciously striving to strengthen the input factors which will also help to raise the profile of Helgeland outside its boundaries, and we will continue to do this. This will involve focusing on marketing initiatives and creating experiences for the next generation of people who will develop a positive attitude towards their home district if they move away to study. Many people from Helgeland study away from home, and this is not something we can or want to prevent, but we are working with a long-term approach on our corporate social responsibility and through sponsorship to help ensure that as many people as possible return to the area. This is a long-term process which we will refine further over the coming years.

Helgeland has a well-diversified business sector, with a good balance between a vibrant and export-oriented private sector and a stabilising public sector. Salmon farming and our industrial companies are the driving forces in Helgeland, creating substantial ripple effects **throughout** the rest of the business sector. When investing in key local businesses, this has a major impact on the local community's belief in the future.

There is also considerable optimism in Helgeland within the agriculture and tourism sectors. Many young farmers are setting up in business, constructing new facilities and streamlining operations for the future. Increasing numbers of tourists are finding their way to Helgeland, and we are offering them more and more activities to enjoy while they are here.

In 2019, there was also a lot of activity within the construction and engineering sector in Helgeland. Work on the E6 trunk road through Helgeland is well underway and, once complete, will bring the residents of Helgeland closer together. We need a Helgeland which is "closer together" too, not just in physical terms. If Helgeland is to develop and grow, we need cooperation, interaction and unity across industries, municipalities and towns. Our biggest challenge as a region is not where something should be located, but how we can get more young people, skilled workers, entrepreneurs and driving forces to move to Helgeland.

Helgeland Sparebank is aiming to remain a driving force for growth and cooperation in Helgeland for the next 160 years too.

Hanne Nordgaard

"HELGELAND SPAREBANK IS AIMING TO REMAIN A DRIVING FORCE FOR GROWTH AND COOPERATION ACROSS HELGELAND FOR THE NEXT 160 YEARS TOO".

Hanne Nordgaard 2019

SUMMARY OF FINANCIAL RESULTS FOR 2019

Pre-tax profit

NOK 384 million

Return on equity

8.9%

12-month growth in lending

- 1.2%

12-month growth in deposits

9.9%

Total assets

NOK 34,068 billion

Solvency ratio

16.5% core tier 1

THE BANK'S BOARD OF DIRECTORS CONSISTS OF:

Stein Andre Herigstad-Olsen
Chair

Board member 2013-2014 and Vice chair 2015-2017. Chair from 2019.

Bjørn Audun Risøy
Vice chair

First board deputy from 2012, and permanent member of the Board from April 2015. Vice chair from 2018.

Nils Terje Furunes
Board member

Board member from April 2015.

Marianne Terese Steinmo
Board member

Board member from April 2016 and deputy member from April 2015 - April 2016.

Tone Helen Hauge
Board member

Board member from 2019 and deputy member 2012 - 2014

Siw Moxness
Board member

Board member since 2019.

Birgitte Lorentzen
Board member - employee representative

Board member since April 2016.

Geir Pedersen
Board member - employee representative

Board member since April 2017.

THE BANK'S MANAGEMENT GROUP CONSISTS OF:

Hanne Nordgaard
Chief Executive Officer

Appointed in 2017

Dag-Hugo Heimstad
Retail Market Director

Appointed in 2006

Bjørn-Tore Brønlund
Corporate Market Director

Appointed in 1993

Sverre Klausen
Chief Finance Officer

Appointed in 1981

Ranveig Kråkstad
Finance and Accounting Director

Appointed in 1990

Øyvind Karlsen
Business Development Director

Appointed on 1 March 2013

Anne Ekroll
Risk Management Director

Appointed in 1994

THE RETAIL MARKET

RETAIL MARKET, MO I RANA: Maiken Storbakk (left), Line Brygfjeld Kråkstad, Vigdis Lillebrygfjeld, Ida Varem.

HELGELAND SPAREBANK is the local bank for both the resident population of Helgeland and for Helgeland expatriates worldwide. Over 50% of Helgelanders consider Helgeland Sparebank to be their main bank, and there is a very strong relationship between the Bank and its customers.

There is strong competition in the banking market, especially in urban areas. In 2019, Helgeland Sparebank recorded growth in lending of 0.7% in the retail market, while market growth was 4.3%. One of the reasons for the Bank's low credit growth is strong pressure on prices from competing banks, combined with a focus on profitable growth. The Bank is developing initiatives to boost growth to ensure that we maintain and strengthen our position as market leader for home financing, while at the same time strengthening our profitability.

The housing market was buoyant in Helgeland in 2019. More homes were sold than in 2018 and the days on market figure was below 60 days in both Mosjøen and Mo i Rana. Historically, house prices in Helgeland have displayed cautious growth, and this was again the case in 2019, although prices fell a little during Q4. The price trend during Q4 was -2.7% for apartments and -1.9% for detached houses. The price per square metre remains well below the levels seen in Trondheim and Oslo.

Growth in deposits in the retail market during 2019 was 4.4%. Despite low interest rates on bank savings, this is the form of saving that is closest to Helgelanders' hearts.

During the last year, new pensions savings products have come onto the market. These aim to encourage young people in particular to make an early start in saving for their pensions. Today's welfare programmes are facing challenges and in the future it will become increasingly important for people to secure their retirement through their own savings. The Bank has been very successful in selling non-life and personal insurance for Frende Forsikring and is the largest insurance provider in Helgeland, with a market share of 23%.

The Bank is also taking an ever-greater share of the market for car and boat financing through secured loans. Helgeland Sparebank operates through Brage Finans in this market.

Use of the Bank's digital customer interfaces continues to rise. In terms of the number of log-ins, mobile banking has now become our most frequently used customer channel. With mobile banking, you have the Bank practically in your pocket, available 24/7.

Despite this, personal interaction between the Bank and the customer remains just as relevant today as it has always been. This is particularly true when the customer is making a major investment or investing in something for the first time. Face-to-face meetings are also very important when our customers find themselves in difficult situations and where financial advice and guidance are crucial.

THE CORPORATE MARKET AND THE STATUS OF THE BUSINESS SECTOR IN HELGELAND

HELGELAND is a Norway in miniature as regards the composition of the business sector. We have a good mix of primary industries, industry, public sector, private sector services, transport, research and development and wholesale and retail trade. Current levels of activity and the planned level of investment have never been higher.

2019 was characterised by high levels of efficiency and consistently low unemployment rates. Export-oriented enterprises within industry and aquaculture are automating their production processes and experiencing growth in turnover and value creation as a result of low exchange rates and demand for products on the global market.

The growth engines in the region are aquaculture, the metals industry and transport. The growth leader is the aquaculture industry, which has seen a substantial increase in turnover in recent years.
This increase is so far linked to price and, to a lesser extent, to volume.

In the context of Northern Norway, Helgeland has the largest power generators, smelting plants and mining, timber and transport companies. We have three oil/gas field centres in operation on the Continental Shelf off the coast of Helgeland, we produce more than 10% of Norwegian hydropower, and a wind farm is to be built on Øyfjellet west of Mosjøen. New industrial technologies and a stronger focus on circular processes with high levels of recycling promise great opportunities for Helgeland in the years ahead.

INDUSTRY, CONSTRUCTION AND ENGINEERING

Helgeland is one of the country's leading industrial regions and has strengthened its position through the creation of the Arctic Cluster Team industrial development. As a result of this cluster project, industrial cooperation in Helgeland is becoming ever stronger, and the project is expected to increase momentum in industry through exciting projects in the circular economy. Both Alcoa in Mosjøen and Mo Industripark are reporting investments in automation and increased production over the next few years.

Industry, construction and engineering accounts for about 40% of turnover in Helgeland and is the largest industry in the region. Capacity in the metals industry and construction and engineering sector is well-utilised, and employment is flat, despite strong growth.

WHOLESALE AND RETAIL TRADE, TRAVEL AND TRANSPORT

The second-largest sector in Helgeland is wholesale and retail trade, tourism and transport, which accounts for one quarter of turnover. Helgeland is home to the head office of Torghatten ASA, one of the country's largest transport groups, which has operations all over Norway.

Wholesale and retail trade is a sector which is undergoing change, with e-commerce representing the greatest opportunity and/or threat to local stores. Some businesses in the sector will not survive this restructuring process and we are seeing a decline in the number of local stores. Experience-based tourism and the hotel industry, as well as the training and conference market, are boosting growth in the sector.

THE AQUACULTURE INDUSTRY HAS DEVELOPED INTO A BEDROCK OF THE HELGELAND ECONOMY, ALONGSIDE THE METALS INDUSTRY

Cooperation between businesses in the tourism sector and continual product development within the experience sector means that the industry is growing.

SERVICES FOR THE CORPORATE MARKET

The third-largest sector in the region is services for the corporate market in Helgeland. The sector accounts for approximately one fifth of the turnover of Helgeland. This is a broad and diverse sector which is extremely important for the competitiveness of trade and industry. Local access to services often helps to create new and competitive solutions.

AQUACULTURE AND AGRICULTURE

The aquaculture and agriculture industries are the region's fourth-largest sector. Agriculture in Helgeland is characterised by optimism, investment in and by young people and renewal. The production of grass, milk and meat are the foundations of agriculture in Helgeland.

The aquaculture industry has developed into a bedrock of the Helgeland economy, alongside the metals industry. The aquaculture industry's focus on industrialisation, automation and solving the biological challenges in production is expected to yield results and provide firm foundations for further growth.

LetSea. Photo: Rune Nilsen

A DRIVING FORCE FOR GROWTH IN HELGELAND

HELGELAND SPAREBANK is Helgeland's local bank and our focus is on Helgeland. As a savings bank, we have a wonderful opportunity to give something back to our beautiful region of which we are so proud to be part. Our aim is to be a driving force for growth and collaboration in Helgeland, and therefore every year we give much of our surplus back to the community through donations for charitable and socially beneficial causes across the region. Through our community involvement, we are pleased to help promote the region as an attractive, healthy and active place to live for young and old alike. This is our contribution to making life in Helgeland even better.

THE BANK'S GIFT INITIATIVE

Since the start of our charitable activities in 2007, the Bank has donated almost NOK 200 million to charitable and socially beneficial initiatives across the region. This has benefited many local communities, sports clubs, associations, and children and young people, and been a driver for growth in volunteerism, well-being and local quality of life. In its gift policy, the Bank prioritises the formative conditions of children and young people in a broad sense in areas such as:

- **Sport, culture and the experience economy**
- **Knowledge and research, and innovation measures**
- **Grants for sport and culture**
- **The Drivkraft (Driving Force) Prize – a community prize**

Each of these focus areas is important in different ways for Helgeland's growth and development.

THE "FLERE FARGER" (MANY COLOURS) PROJECT *was one of many events in Helgeland to receive gift support from Helgeland Sparebank in 2019. This is a performance by children and young people aged between 7 and 22 with a background from other parts of the world, mainly recruited from asylum centres. These young people bring music and dance from their homelands, along with long training and expert guidance over several months, culminating in a fantastic performance during the Smeltedigelen Music Festival. The Smeltedigelen Music Festival is the driving force behind the event. This year, they carried out the project in cooperation with Lyngheim School (reception school), Rana Kulturskole, SydSami Teater, Nordland Teater, Den kulturelle skolesekken (DKS), Rana Voksenopplæring, Hemnes Voksenopplæring, Vefsn kulturskole and Kraft dansestudio when the Flere Farger project was set up during the festival in October 2019.*

THE BANK’S DONATIONS IN 2019

Sports and outdoor activities are part of our cultural heritage, and a rich cultural life is an important factor in the region’s attractiveness. Good sports and cultural facilities attract new people, which Helgeland needs in order to meet the recruitment challenges we face.

Therefore, the formative conditions for children and young people have a high priority in the Bank's allocation of funding. We know that the childhood years are very important for how people manage later on in life, and Helgeland has many voluntary associations and organisations who put in an enormous amount of work for children and young people. This is something we value highly and we want to be an active contributor and motivator in this regard through our donation policy.

Many different types of groups and associations benefited from the Bank’s gift policy in 2019. Festivals are flourishing in Helgeland and a wide variety of concerts and events are organised all year round – many of them with support from the Bank’s Donation Fund. New football arenas, repairs to shooting ranges and facilities, new artificial turf pitches, new ski jumps in Fageråsen and the further development of the hiking trail and steps on Vega were just a few of the many non-profit making projects for the common good in Helgeland to receive funding from the Bank's Gift Foundation in 2019. In total, more than NOK 18 million was paid out from the Bank’s Gift Fund and Gift Foundation during the year.

INDUSTRY, KNOWLEDGE, RESEARCH AND EDUCATION

The future will impose exacting requirements regarding the development of new knowledge and innovation, and Helgeland Sparebank is actively contributing through its gift policy to collaborative projects with universities colleges and universities, local knowledge parks and business associations in order to promote local expertise and competitiveness. Almost 25% of the Bank's total gift funds have been allocated to industry, knowledge, research and innovation initiatives since the gift initiative began back in 2007. In 2019, the Bank awarded gift funding to Nordlandsforskning and its four "Lytring" projects at Campus Helgeland, and provided financial support to Gründeruka (Entrepreneurship Week) in Helgeland.

Vegatrappa (Vega Stairs) is one of many hiking trails that the Bank donated gift funding to in 2019. The Bank often awards gift funding for outdoor projects which help to make it easier for everyone to get out into Helgeland’s beautiful great outdoors. The Vega Stairs are 500 metres long and have a total of seven rest areas.

It is estimated that over 10,000 people have so far reached the summit of Ravnfloget and that more than 3,500 people has taken the stairs part-way to the top. Half of Vega’s residents have used the stairs and of these 80% have used them on several occasions. This is further proof that the Bank’s donation to the stairs and the trail has helped to boost interest in outdoor recreation on Vega, which also helps to improve public health. The stairs have also become an excellent tourist attraction in an area which already has a huge amount to offer tourists. A wonderful project for the whole of Helgeland.

GRANTS FOR SPORT AND CULTURE

The Bank also wants to help ensure that young talent in sport and culture in Helgeland gets the attention and support it needs to grow. In 2019, the Bank awarded a scholarship of NOK 30,000 each to eight young athletes and four arts students. The scholarships had a good geographic distribution and the local banks in Brønnøysund, Sandnessjøen, Mosjøen and Mo i Rana were responsible for the distributing the funding. Since 2011, no fewer than 91 young and talented people in Helgeland have now received this scholarship. The Bank has paid out a total of NOK 2,730,000 in grants for sport and culture during this period.

THE DRIVKRAFT (POWERHOUSE) PRIZE

Helgeland Sparebank founded the Drivkraft (Powerhouse) community prize. The prize is awarded to a person or organisation that has distinguished themselves through their commitment to individuals, groups or the local community as a whole.

In 2019, the Drivkraft Prize was awarded to cultural personality Stein Ivar Mortensen. Stein Ivar has been a cultural driving force in Helgeland for a generation. He previously lived in Mosjøen and has been involved in many music-related projects both in Mosjøen and across Helgeland. For the past seven or eight years, he has lived on Dønna and is heavily involved in many projects in the HALD region, including Dønnesrosen, Helgeland Gitar and many others.

Stein Ivar holds a very strong "position" in the music/cultural community of Helgeland. Stein Ivar Mortensen brings together the very best musicians from across Helgeland to play diverse, beautiful, expertly played and well-produced material.

Stein Ivar Mortensen also received Alstahaug Municipality's Cultural Prize in 2016.

IN 2019, THE LOCAL BANK AWARDED EIGHT YOUNG ATHLETES AND FOUR ARTS STUDENTS A SCHOLARSHIP OF NOK 30,000 EACH.

Twelve young athletes and arts students received their prizes. The picture is from the awards ceremony in Mo just before Christmas 2019. From left:

- **Nicklas Sundsvåg; football**
- **Oda Leiråmo; Nordic combined**
- **Sunniva Solhaug Rognan; dance**
- **Kaja Helen Remmen; shooting**
- **Marius Skevik Westgaard; karate**

Stein Ivar Mortensen is pictured here receiving the Drivkraft Prize for 2019. The prize consists of a work of art by a local Helgeland artist and NOK 100,000, which must be donated to a charitable cause. Stein Ivar chose to give NOK 75,000 to the "Dønnesrosen" project and NOK 25,000 to Grendelaget Glimt.

Here, Stein Ivar receives the certificate and the work of art, as well as the money from CEO Hanne Nordgaard, and Retail Market Director Dag Hugo Heimstad during the Bank's Drivkraft conference in August 2019

ECONOMIC DEVELOPMENTS IN 2019

During 2019, the economy was influenced by high and increasing levels of anxiety internationally. The trade war between the USA and China, conflicts in the Middle East, major structural challenges for traditional industry across Europe and uncertainty over Brexit have all left their mark on the year. In an otherwise troubled world, the Norwegian economy has fared relatively well. Driven by strong investment growth in the oil sector, as well as strong growth in corporate investment, growth in the mainland economy amounted to approximately 2.6%, with growth in employment of 1.8%.

GLOBAL DEVELOPMENT

The uncertainties in the global economy which characterised 2018 intensified into 2019. In 18 months, average tariffs on US imports from China rose sharply, while China has responded by imposing similar retaliatory measures. This has contributed to a 1% fall in global trade over the past 12 months.

Greater uncertainty and unpredictability have impacted on business confidence and appetite for investment across a broad front, and fewer investments are in turn dampening the production potential in the economy. There is reason to believe that these uncertainties may persist in the future and contribute to further sluggish development in the global economy.

The cooling of the world economy has once again been met with monetary policy easing around the world, and the gradual normalisation of the central banks' interest rates has now been reversed from increases to cuts. At the end of November, 20 out of 38 selected countries had lower key rates than six months earlier. Powerful monetary policy measures aimed at stimulating the economy have helped to reduce the adverse impact on the economy, but the scope of the central banks to act going forward is very limited.

Despite increased international unease and the fact that we are still in the longest sustained period of recovery in the history of the USA, the US economy continued to thrive throughout 2019. Developments in the United States are driven by strong growth in household consumption. This is linked to a strong and sustained upturn in the labour market over the past ten years. However, growth in employment has tailed off somewhat, but the unemployment rate at the end of the year is still as low as 3.5%. The anxiety regarding trade is also impacting on the industrial sector in the USA, and growth in employment in industry throughout 2019 was far lower than previously, while growth in industrial output also fell.

Following a series of increases in the key interest rate by the US central bank, dampening prospects of inflation and an increase in economic unease have contributed to central bank interest rates being cut on three separate occasions during 2019 to 1.75%.

In the euro zone, the sluggish economic development from 2018 continued into 2019, with European industry facing numerous major challenges. An increase in protectionism and Brexit is creating more and more uncertainty, and European exports to the USA are also being met with higher customs duties. In October 2019, German industrial output was down 6.2% on a year earlier, and the manufacture of vehicles and other transport means fell by almost 15%. This is causing GDP growth in Europe's strongest economy to remain sluggish at around 0.3%. The unemployment rate in the euro zone is about 7.5%, and inflation is about 1.1 - 1.2%.

The European Central Bank has continued its active expansionary monetary policy, launching a new stimulus package in autumn 2019, with interest rate cuts and new central bank acquisitions of securities. Both the ECB and other central banks have announced that fiscal policy must aim to stimulate economic growth. However, the scope for fiscal policy is limited, as many countries are still facing high debt levels, while countries with fiscal policy muscle are unwilling to allow a budget deficit to build up.

THE NORWEGIAN ECONOMY

The overall picture is that the Norwegian economy remained relatively strong throughout 2019, and is following the economic upturn that has persisted over the past three years. Mainland GDP grew faster throughout 2019 and is forecast to grow at 2.6%. Growth in employment increased throughout both 2018 and 2019, although the increase slowed somewhat towards the end of 2019. On mainland Norway, employment rose by 32,500 persons from Q4 2018 to Q3 2019, corresponding to an increase of 1.7%. The unemployment rate appears to have flattened out at 3.6%, while according to NAV figures, 2.2% of the workforce is without any employment.

Oil and gas investments are expected to increase by 14% in 2019 and are a strong driver for growth. Despite the decline in global trade, Norwegian exports held up well throughout 2019. Exports of fish increased substantially and reached a record high at the end of 2019. However, the outlook for growth in the Norwegian has dampened. Indicators point to lower growth in investments, production and exports in the future.

Household consumption grew relatively sluggishly throughout 2019 and, with growth at 1.6%, is markedly weaker than the mainland economy in general. According to Finans Norge’s barometer, the outlook for households is somewhat less encouraging, mainly due to a decline in confidence in the country’s economy. Household savings are increasing, and expectations amongst households regarding their own finances have improved somewhat. This may be linked to Norges Bank’s announcement of a flat development in the key interest rate going forward, after it was increased to 1.5% in September.

After many years of strong growth in house prices, growth in the housing market has been modest and stable since 2017. At the end of the year, the average twelve-month growth was 2.5%, slightly above the growth in consumer prices. The housing market remains very buoyant. Overall, this indicates a relatively stable and balanced housing market.

HELGELAND
SPAREBANK

A driving force for growth in Helgeland

ANNUAL REPORT AND FINANCIAL STATEMENTS

Annual report 2019

Introductory remarks 2019

Helgeland Sparebank is an independent savings bank with a clear objective of being the leading bank and a driving force for growth in Helgeland. Helgeland Sparebank is the only bank with its head office in the region. The Bank's strong market position, combined with professional expertise, competitive prices and strong capital adequacy, means that the Bank is well-equipped to face the competition going forward.
The Bank has offices in four municipalities in Helgeland and is the eleventh largest savings bank in Norway.

Key features

- Strong result from ordinary banking operations. Pre-tax profit was NOK 384 million, compared with NOK 185 million in 2018.
- Losses on loans have been reduced by NOK 184 million.
- 12-month growth in lending -1.2% (5.2%)
- 12-month growth in deposits 9.9% (1.6%)
- Return on equity after tax (adjusted for hybrid capital) of 9.3%
- Core tier 1 capital adequacy ratio of 16.5% and leverage ratio of 9.4%
- The Board proposes to the Bank's Supervisory Board to distribute a dividend for 2019 of NOK 5.35 per equity certificate

About Helgeland Sparebank

History

Helgeland Sparebank was established through the merger of a number of former local savings banks in South Helgeland: Vefsn Sparebank, Herøy Sparebank, Brønnøysund Sparebank, Velfjord Sparebank, and Vevelstad Sparebank on 1 April 1977. On 1 April 2005, the current Helgeland Sparebank was established through a merger with Sparebanken Rana. Sparebanken Rana was established through various mergers of local savings banks in northern Helgeland.

In 2007, the Bank was licensed as an investment firm. Together with other banks, the Bank established Frende Forsikring in 2007. From 2007, the Bank began selling life insurance, and from 2011 non-life insurance for the company.

Helgeland Boligkreditt AS was founded in November 2008 as a wholly owned subsidiary of the Bank.. The company was licenced as a financial enterprise in February 2009 and was established to act as the Bank’s company for issuing of covered bonds.

On 26 October 2010, the Bank’s Supervisory Board decided to convert some of the Bank’s primary capital into equity share capital by issuing equity certificates. These equity certificates were issued free of charge to Sparebankstiftelsen Helgeland, which was established at the same time as the conversion. The Bank issued equity certificates amounting to NOK 684 million, which was transferred to the foundation.

The Bank and Helgeland Boligkreditt AS were rated by the rating agency Moody's in 2014.

Together with two other banks (Sparebanken Sogn and Fjordane and Gjensidige bank), the Bank has entered into a comprehensive agreement with EVRY concerning the provision of IT services. EVRY provides a complete portfolio of banking solutions, which will support the Bank in its efforts to further develop good digital solutions. This agreement was renewed with effect from 1 January 2020 and expires on 31 December 2022. The agreement has an option for extension by a further two years.

Vision, mission and strategy

The Bank’s vision is to be a driving force for growth in Helgeland. The mission is to be a profitable and leading local bank which builds the future of Helgeland. Helgeland shall sell financial products and services to private customers, small and medium enterprises, municipal authorities and institutions linked to Helgeland.

The Bank has a strategic goal of maintaining its strong market position and being an active support player in the development of the region. The lending activities are concentrated in Helgeland. The Bank strives to be an attractive, positive and nurturing employer and endeavours to establish an equal gender balance as regards representation on controlling bodies and management.

The Bank’s goal is to give the owners a good and stable long-term return in the form of dividends and added value. The two owner groups are to be treated equally. Half of the profit can be distributed in the form of dividends and gifts.
The Bank aims to achieve a return on equity which is competitive in the market viewed in relation to the Bank’s risk profile. The target for return on equity is a minimum of 10% (Group).

The Bank aims to have a core tier 1 capital ratio of at least 16.0% and a tier 2 capital ratio of 19.5%.
The Bank’s target is annual growth in costs of 1.0%. The target for the Bank’s deposit-to-loan ratio is a minimum of 60%, while the target for the retail market share is at least 60% (at group level).

The HSB Group’s sphere of operations

Helgeland Sparebank’s operations primarily comprise traditional banking and financial services in the Helgeland region, along with the sale of savings products, investment and insurance products, leasing and mortgages.
In order to offer a full range of financial services, the Bank has cooperation and distribution agreements with Frende Insurance AS, Norne Securities AS, Brage Finance AS, Enter Card AS, Balder Betaling (Vipps), and a number of fund management companies.
The Bank also has a close cooperation with Rede Eiendomsmegling AS, which is an estate agents which that the Bank jointly owns with Mo og Omegn Boligbyggelag and Mosjøen Boligbyggelag. Rede is collocated with the Bank.
The Bank has four offices across four municipalities in Helgeland and is the eleventh largest savings bank in Norway.

The HSB Group mainly serves the retail market, business, trade and industry, groups/associations and the public sector in Helgeland.
The HSB Group also carries on property letting through its subsidiaries and has strategic holdings in associated companies and product companies.

Subsidiaries

Helgeland Boligkreditt AS
The company is licensed as a credit company with a permit to issue covered bonds. The company's main purpose is to secure the HSB Group stable and long-term financing on competitive terms. The Bank owns all of the shares in the company. The CEO is hired from the Bank on a 25% full-time equivalent basis.

AS Sparebankbygg
The business consists of owning and managing the letting of premises at Storgt. 75 in Brønnøysund, where the Bank is the largest lessee. The company is based in Brønnøy municipality. The Bank owns all of the shares in the company. The company has no employees.

Helgeland Sparebanks Eiendomsselskap AS
The company carries on the letting of property and is based in Mosjøen, where the Bank is the largest lessee. The Bank owns all of the shares in the company. The company has no employees.

Helgeland Utviklingsselskap AS
Helgeland Utviklingsselskap AS carries on the letting, buying and selling of property. The company's office is located in Vefsn municipality. The Bank owns all of the shares in the company. The company has no employees.

ANS Bankbygg Mo
The business consists of owning and managing the letting of commercial premises at Jernbanegata 15 in Mo i Rana. The Bank is the largest lessee in the building and owns 97.9% of the shares in the company. The company has no employees.

Storgata 73 AS
The company is a property company in Brønnøysund. The Bank owns 53% of the shares in the company. The company has no employees.

Strendene Utviklingsselskap AS
The company is a property company in Sandnessjøen. The Bank owns 100% of the shares. The company has no employees.

Associated companies

Helgeland Invest AS
Helgeland invest is an investment company based in Helgeland and was founded in 2011 as a result of the merger of ROI Invest AS and Helgeland Vekst AS. The company has two employees. The Bank owns 48.3% of the shares in the company.

REDE Eiendomsmegling AS
The company is the market leader within the estate agency sector in the Helgeland region, and is Helgeland Sparebank's collaboration partner. Helgeland Sparebank owns 40% of the shares in the company.
The company has 23 employees, of whom 17 are certified estate agents and two are estate agent clerks with many years of experience in Helgeland. REDE Eiendomsmegling AS has offices in the Bank's premises in Mo i Rana, Mosjøen, Sandnessjøen and Brønnøysund.

Product companies

Frende Forsikring AS
Frende Forsikring consists of the companies Frende Livforsikring and Frende Skadeforsikring. The company was founded in 2007 and has its head office in Bergen. The Bank has a 7.9% stake in the parent company, Frende Holding AS. The remaining shares are owned by fourteen other independent savings banks.

Norne Securities AS
Norne Securities AS was founded in 2008 and has established three business areas: e-commerce, stockbrocking and corporate finance. The company has its head office in Bergen, and the Bank's stake is 7.5%. The remaining shares are owned by thirteen other independent savings banks and Must Invest AS.

Brage Finans AS
Brage Finans AS is a finance company which has its head office in Bergen. The company was established in 2010. In addition to Helgeland Sparebank, which owns 8.6%, Brage Finans has nine other saving banks as owners. The company offers custom finance products with a principal focus on the leasing of all types of assets, along with car financing.

Balder Betaling AS
Helgeland Sparebank has a 6.9% stake. The company is owned jointly with 14 other savings banks. The company has a 10.5% stake in VIPPS, and aims to further develop Vipps together with the company's other owners.

Market

The Bank has its main market in the 18 Helgeland municipalities bounded by Saltfjellet in the north and Trøndelag in the south. The largest towns/urban areas in the market are Mo i Rana, Brønnøysund and Sandnessjøen. The population of these municipalities accounts for approximately 60% of the entire population of Helgeland, which is approximately 78,600 inhabitants. The Bank's biggest competitors are SpareBank 1 Nord-Norway, DNB Bank ASA and Handelsbanken. In addition, Grong Sparebank is established in Mosjøen.

Helgeland Sparebank has a strong and leading market position in the retail market, with a market share of around 50% of all mortgage customers in Helgeland. The competition is significant across the entire market area. Helgeland Sparebank offers advice and financial solutions to its customers through competent advisors. The Bank has an extensive distribution network across Helgeland, as well as modern solutions for serving customers via digital channels. The Bank aims for all retail market advisers to be authorised financial advisers.
Helgeland Sparebank also has a strong market position with regard to small and medium enterprises, with a market share of well over 50% in Helgeland.

In the agriculture segment, which is traditionally a low-risk segment, the Bank is the market leader with a share of almost 75%. The customer portfolio mainly consists of small and medium enterprises across a variety of industries. The Bank's advisers possess expertise in many industries and offer professional advice to the business sector. The Bank's market area is Helgeland. Only in exceptional cases are good corporate customers are followed out of the region.
Helgeland Sparebank is registered in the Norwegian Registry for Business Enterprises under the organisation number 937 904 029. The company's visiting address is Jernbanegata 15, 8622 Mo i Rana. The postal address is Postboks 68, 8601 Mo i Rana. The telephone number is +47 75 11 90 00.

Corporate governance
Helgeland Sparebank's principles and policy for corporate governance are intended to ensure that the Bank operates in line with generally accepted and recognised practices and standards, as well as laws and regulations. Good corporate governance at Helgeland Sparebank encompasses the values, goals and general principles by which the Bank is governed and controlled. This is in order to ensure good cooperation between the Bank's various stakeholders, such as equity certificate holders, creditors, customers, employees, governing organs, management, and society at large.

Corporate governance should ensure prudent asset management and give greater assurance that communicated goals and strategies are being implemented and achieved. The HSB Group's principles and parameters for internal control and risk management are set out in governing documents, which are reviewed annually by the Board. These governing documents form the HSB Group's internal framework for good governance and control, and provide guidelines for the HSB Group's overarching approach to its risk profile and risk management.
In its corporate governance, Helgeland Sparebank's Board aims to follow the guiding documents outlined in the Norwegian Code of Practice for Corporate Governance.
Helgeland Sparebank has compared its policy with the revised Norwegian Code of Practice for Corporate Governance, as well as relevant principles from the European Banking Authority's recommendations in the area. The Board considers the Bank's corporate governance to be satisfactory and in accordance with Norwegian recommendations.

In 2019, 14 board meetings were held at the Bank. Development of the Bank's strategy, structural changes, risk and capital management, along with profitability, have been the Board's main focus areas.
The Board has prepared an annual plan for its work. Emphasis is placed on ensuring that the Board's members possess sufficient knowledge and expertise. A self-evaluation has been conducted covering working forms, expertise, priorities and collaboration between the Board and the management.

As part of the Board's work, it has set up an Audit Committee, a Risk Committee and a Remuneration Committee. These committees are intended to ensure that Helgeland Sparebank has an independent and effective internal and external audit, and that accounting and risk reporting are in line with rules and regulations, and help to promote and incentivise good corporate governance with regard to the enterprise's risks, counteract high risk taking and help to prevent conflicts of interest. The Risk Committee comprises Stein Andre Herigstad-Olsen (chair), Siw Moxness and Bjørn Audun Risøy. The Audit Committee comprises Siw Moxness (chair), Stein Andre Herigstad-Olsen and Bjørn Audun Risøy. The Remuneration Committee comprises Stein Andre Herigstad-Olsen (chair), Bjørn Audun Risøy and Birgitte Lorentzen (employee representative). The Audit Committee held eight meetings in 2019, the Risk Committee six meetings and the Remuneration Committee two meetings.

A comprehensive account of corporate governance can be found in a separate chapter of the annual report.

Annual Accounts 2019

Accounting policies
Helgeland Sparebank prepares its consolidated accounts and the parent bank's accounts in line with the International Financial Reporting Standards (IFRS). The HSB Group's accounts are a consolidation of the parent bank and the subsidiaries. A more detailed description of the accounting policies can be found in the notes to the annual report.

The annual accounts are presented in accordance with the going concern principle. The Bank has an ongoing legal case in connection with a repossessed property. This is not expected to impact on the result in any material regard. The Group is otherwise not involved in any legal disputes that are considered to be of any significance as regards the Group's solvency or profitability. The Board is not aware of any circumstances after the year-end which could have a significant impact on the annual accounts.
The figures stated in this report are generally consolidated figures, unless stated otherwise.

<u>Key features</u>
The Group recorded a pre-tax profit of NOK 384 million (NOK 185 million).
A pre-tax profit of NOK 305 million (NOK 149 million) gives a return on equity of 9.3% (4.6%). Earnings per equity certificate amount to NOK 10.7 (NOK 5.0).
A dividend ratio of 50% (41%) of the dividend basis is proposed, giving a cash dividend of NOK 5.35 (NOK 1.60) per equity certificate.

<u>Key figures as of 31 December 2019:</u>
(Comparison as of 31 December 2018)
- Net interest rate 1.77% (1.74%)
- Costs as a percentage of total assets 0.86% (0.88%).
- Write-downs on lending as a percentage of gross lending 0.24% (0.90%)
- Earnings per equity certificate amount to NOK 10.7 (NOK 5.0)
- 12-month growth in lending -1.2% (5.2%)
- 12-month growth in deposits 9.9% (1.6%)
- Core tier 1 capital ratio 16.5% (15.3%)
- Tier 2 capital ratio 20.7% (19.3%)

<u>Net interest</u>
Net interest and credit commission income amounted to NOK 602 million at the year-end, equivalent to an increase of NOK 36 million from 2018. As a percentage of average total assets, net interest amounted to 1.77% (1.74%) Norges Bank increased the key interest

rate in March, June and September 2019. The Bank's interest rate changes with effect from May and August and November respectively have had a positive effect on net interest. The increase in the Nibor rate has resulted in higher borrowing costs.

Through Helgeland Boligkreditt AS, the Group has access to lower borrowing costs through the issuing of covered bonds. A higher volume of covered bonds in the mortgage company has contributed to an increase in net interest income in NOK.

Net commission income

Net income from commission amounted to NOK 100 million (NOK 90 million). Of this income, commission from non-life and life insurance amounted to NOK 33 million (NOK 32 million). This includes a non-recurring payment of NOK 2.5 million linked to a profitability bonus from a product company.
The Bank has stakes in various product companies and offers a broad range of products. The Bank owns 7.9% of the insurance company Frende Holding AS. The Bank has a stake of 8.6% in the leasing company Brage Finans AS and a stake of 7.4% in the brokerage firm Norne Securities. Broad sales with a focus on insurance and leasing will continue to be a priority for the Bank.
As a percentage of average total assets, net commission income amounted to 0.30% (0.28%).

Net income from financial instruments

Net income from financial instruments amounted to NOK 34 million, a reduction of NOK 14 million compared with 2018. Income from associated companies increased by NOK 29 million and amounts to NOK 21 million (NOK 50 million). A dividend from Frende Holding AS has been recognised as income in the amount of NOK 16 million (NOK 5 million), and the subsidiary Helgeland Utviklingsselskap AS has been written down by NOK 6 million.

Other operating income

Other income amounted to NOK 5 million (NOK 16 million), a reduction of NOK 11 million compared with 2018. The change is due to gains from the sale of buildings in 2018.

Operating expenses

Total operating expenses amounted to NOK 293 million (NOK 286 million). The increase in operating expenses is primarily linked to wages, administrative costs and depreciation. The Bank closed two smaller offices with effect from 1 November this year. Following these closures, the Bank has four offices, one in each of the four main towns of Helgeland.

A major project has been under way aimed at identifying new solutions for the Bank’s own premises. This is a process which involves all the Bank’s employees. As part of the implementation of the feasibility project, the Bank has hired in external expertise.

As a percentage of average total assets, costs amounted to 0.86% (0.88%), while costs measured against income amounted to 39.5% (39.7%).

The Bank's absence due to illness rate has decreased slightly, ending at 4.4% (4.1%).

Expensed write-downs on commitments

Write-downs to date this year have been expensed in the amount of NOK 65 million (NOK 249 million). Expensed write-downs are the result of model write-downs and individual write-downs at commitment level. Write-downs expressed as a percentage of gross lending amount to 0.24% (0.90%), and were at a level that is classified as normal at the end of 2019.

Balance sheet development (Group)

Total assets amount to NOK 34.0 billion (NOK 33.0 billion). During the past 12 months, total assets increased by NOK 1,099 million (NOK 1,119 million) or 3.3% (3.5%).

Cash flow

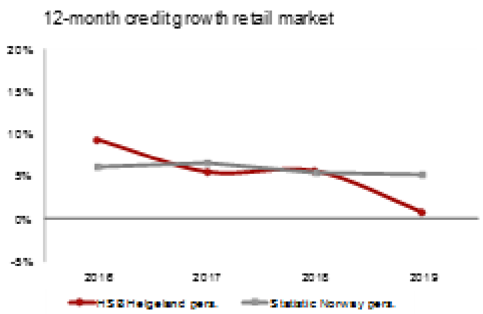
The cash flow statement shows how Helgeland Sparebank has received and used liquid assets. It is prepared on the basis of gross cash flows from operating, investment and financing activities. Increased holdings of securities are mainly financed through increased deposits. Liquidity holdings have been reduced by NOK 295 million since the year-end.

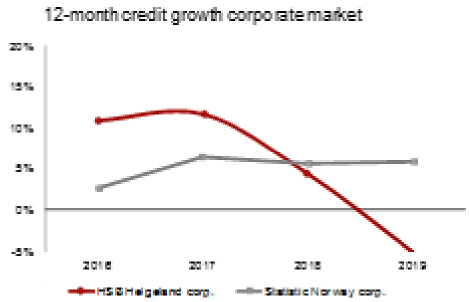
Interest-bearing securities

The Group's holding of interest-bearing securities as of 31 December 2019 amounted to NOK 4,904 million (NOK 3,799 million). The duration of the portfolio is 1.5 years (2.0 years). 98.9% of the portfolio is rated A- or better. 98.7% comprise covered bonds or state-/municipal- guaranteed bonds.

Commitments

By the year-end, gross lending amounted to NOK 27,665 million. Overall 12-month growth was negative in the amount of NOK -340 million (NOK 1,604 million), or -1.2% (5.2%).
Of the Group’s gross lending, 82.0% (82.5%) was loaned to customers in Helgeland. Of gross lending, NOK 18,773 million or 67.9% (66.6%) comprises loans to retail customers, of which NOK 7,600 million has been transferred to the Bank's mortgage company.
The 12-month growth in the retail market was NOK 124 million (NOK 989 million), or 0.7% (5.6%).

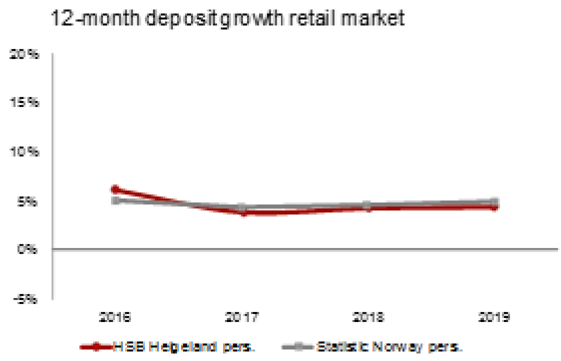




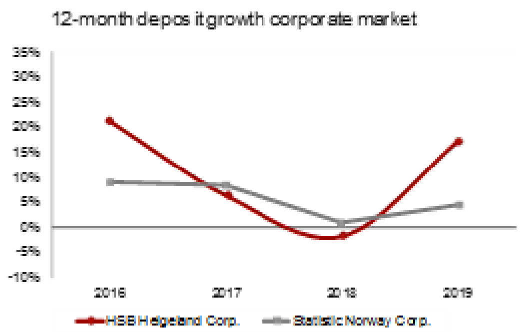
The 12-month growth in the corporate market was NOK -464 million (NOK 395 million), or -5.0% (4.4%). The downturn in the Group's growth in the corporate market is due to a managed balance optimisation process towards the end of the year.

Deposits from customers

By the end of the quarter, customer deposits amounted to NOK 18,959 million. During the past 12 months, deposits have increased by NOK 1,711 million (NOK 276 million), or 9.9% (1.6%). The Bank's growth in deposits is on par with the national growth in deposits in the retail market.



The Group has a stable and local pool of deposits, 89.0% (90.2%) of which comprises deposits from customers in Helgeland.
The 12-month growth in the retail market was NOK 439 million (NOK 411 million), or 4.4% (4.3%). Of the total deposits of NOK 18,959 million, NOK 10,306 million or 54.4% (57.2%) of deposits originate from retail customers.
In the corporate market, deposits rose during the past 12 months by NOK 1,272 million (NOK -135 million), or 17.2% (-1.8%). Stronger growth in deposits than in lending has resulted in an increase in the deposit-to loan ratio, which at the end of 2019 amounted to 68.5% (61.6%).



Financing

Deposits from customers represent an important source of financing for the Bank. The volume difference between loans and deposits is financed in the Norwegian money and securities market. Total capital market financing amounted to NOK 10,326 million (NOK 11,502 million). The Group has long-term financing. At the end of the quarter, the proportion of borrowing with a remaining term in excess of one year was 97.3% (92.2%). The average remaining term for these debt securities was 3.0 years (2.9 years). The Group's target is a duration of in excess of 2.5 years. The duration in the mortgage company is slightly longer, at 3.4 years.

The Bank continually facilitates the transfer of approved mortgages to the wholly owned mortgage company. Volumes increased from NOK 7,385 million as of 31 December 2018 to NOK 7,600 million as of 31 December 2019. The Bank has set a maximum limit for the transfer of loans to Helgeland Boligkreditt of 35% of gross lending and 50% of gross lending to the retail market at the end of 2019. As of 31 December 2019, the transfer ratios were 27.5% and 40.6% respectively.

Rating

Helgeland Sparebank is rated by Moody's. The Bank's rating is A3 with a "stable outlook". Bonds issued by Helgeland Boligkreditt AS are rated by Moody's as Aaa.

Equity certificates - HELG

By the end of the year, the Bank had 2,316 equity certificate holders. The 20 largest holders own 77.3% of the equity share capital. Of this, Sparebankstiftelsen owns 35.0%.
A total of 20,871,427 equity certificates have been issued. As of 31 December 2019, the Bank owned 10,342 of its own equity certificates. These were acquired via Oslo Stock Exchange at market prices. As of 31 December 2019, HELG was trading at NOK 84.00. This represents an increase of NOK 14.50 from the year-end.

Dividend policy

The Board last approved the current dividend policy in autumn 2019.

The dividend policy is worded as follows:
Helgeland Sparebank's goal is to manage the HSB Group's resources in a way that gives the equity owners a satisfactory combined yield in the form of dividends and added value.
The surplus will be divided equally between equity share capital and primary capital in accordance with their share of the bank's equity.
Half of the equity capital share of the surplus[1] can be distributed as dividends, and half of the primary capital share can be distributed as gifts or transferred to foundation(s). The remainder of the profit will be transferred to the cohesion fund and the primary capital fund.

The Group's equity development and solvency ratio is afforded priority in connection with the determination of the dividend that is to be distributed. The expected trend in performance in a normalised market situation, external framework conditions and the Group's requirement for core capital will also be accorded emphasis.

Distribution of the Parent bank's profit

The Parent bank's net profit amounted to NOK 304 million. Adjusted for the change in the fund for unrealised gains and interest on subordinated bonds, the dividend basis amounted to NOK 294 million.

Recommended distribution of the profit:

[1] Dividend basis

Pay-out ratio 50% (41%).

Dividends

- NOK 112 million as a cash dividend, corresponding to NOK 5.35 per equity certificate
- NOK 35 million to the gift fund/gift foundation

Strengthening of equity

- NOK 112 million to the cohesion fund, corresponding to NOK 5.35 per equity certificate
- NOK 35 million to the primary capital fund

Dividends are paid to the equity certificate holders who are registered as owners as of 26 March 2020. The Bank's equity certificates are listed ex-dividend on 27 March 2020.

Risk and capital management

Risk and capital management supports the Group's strategic development and ambitions, and helps to ensure attainment of the Group's financial and operational objectives. Nevertheless, unforeseen losses can occur which require the Group to have sufficient equity. As a part of the risk management process, the requirement for supplementary capital for the various risk areas is evaluated. These assessments are underpinned by computational models. This is summarised in the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

Risk categories and definitions:

- Credit risk is defined as the risk of losses as a result of customers or counterparties being unable to fulfil their obligations.
- Liquidity risk: the risk of the Group being unable to meet its obligations at maturity.
- Market risk: the risk of losses due to changes in market prices linked to activities and positions in securities (interest and shares) and currency.
- Operating risk: the risk of direct or indirect losses due to failures in internal routines, systems and processes, insufficient competency, damage to assets, suspension of operations, system failure, and internal or external fraud.
- Compliance risk: Risk of not complying with regulatory requirements and internal procedures/guidelines
- Anti-money laundering risk: Risk of not complying with anti-money laundering and terrorist financing laws and regulations, and not complying with internal regulations with the intention of fulfilling the requirements of the law.

Risk management is pivotal to the day-to-day operation and the ongoing work of the Board. Risk is primarily managed through risk strategy, general guidelines concerning operational risk, periodic measurement and reporting of established management goals in all business areas, guidelines, frameworks, authorities, reporting requirements and competency requirements.

The Board determines the HSB Group’s credit strategy, which covers credit risk, and the HSB Group’s finance strategy, which covers liquidity risk and market risk. The Bank has a Credit Committee and Finance Committee for the management and follow-up of risk in line with guidelines and authorities issued by the board.

The Bank's risk management unit comprises six full-time equivalents. The Risk Management Director reports directly to the CEO, and is responsible for monitoring and coordinating overarching risk management within the Bank. The Risk Management Director also reports directly to the Board.

The HSB Group’s internal audit unit consists of one full-time equivalent and reports directly to the Board. The internal auditor is responsible for evaluating whether adequate routines are in place in key areas within the Bank in order to reduce risk. The Board annually approves the internal auditor’s instructions and schedule of work. The internal auditor can utilise external services if needed.

Credit risk

Credit risk constitutes the risk of customers or counterparties being unable to fulfil their obligations with respect to the Group. The credit risk, and its exposure, is governed by credit strategy, credit policy, credit routines and grant regulations. Credit policy, credit routines and grant regulations were reviewed and updated in October 2019, and applied from 1 January 2020. The credit strategy has been adopted for a three-year period, subject o annual re-evaluations. The current strategy from 1 January 2020 was adopted by the Board in November 2019.
The Group’s credit strategy is derived from the overall strategy, and contains guidelines and management frameworks for risk profile and risk concentrations. Management frameworks are established for risk profile and risk concentrations. There are set limits for allocation of lending between the retail and corporate markets, size of commitment and number thereof, exposure within sectors (concentration risk) and geographical limitations. The risk management framework is monitored and reported quarterly to the Board, supplemented by annual portfolio reviews.

Developments in credit risk are monitored through regular analyses of the trend in defaults in specific sectors, geographical areas, borrowers’ and potential borrowers’ ability to service interest and instalments, and an assessment of the collateral that underlies the credit commitments. For the ongoing monitoring of risk, a set of actions and action plans for the follow-up of borrowers has been defined. These were intensified and updated in 2019 through specific default procedures. Default monitoring is reported periodically to the Board.

The total capital requirement for credit risk is stated in the Group’s ICAAP. The level of tolerance for credit risk is defined for selected sectors and areas. A management level for the corporate market portfolio has been established and is followed and reported periodically. Stress tests are used to assess the loss potential in the credit portfolio as a result of a large fall in property prices.

The risk in the retail market portfolio has been low over time. House price data indicates that the price of detached houses in Helgeland rose slightly during 2019. Housing development across the whole of Helgeland was sluggish/modest throughout 2019, with few new housing projects involving the construction of apartments and detached housing.

The risk in the corporate market portfolio is moderate, and defaulted and doubtful commitments are considered to be low.

Net lending to the corporate market fell by NOK 464 million during 2019. The Bank carried out a strategic assessment in accordance with new capital adequacy requirements, and reduced the lending portfolio in the corporate market, partly through the winding up of two major corporate commitments.

The Bank has a small portfolio of guaranteed foreign currency loans. As of 31 December 2019, the countervalue was NOK 89 million. The portfolio is divided into a small number of customers who have pledged collateral in the form of property and/or deposits. The credit risk in this portfolio is low.

In 2019, the Bank continued its annual validation of the model for calculating Group write-downs based on its own score models. The model is based on the probability of default and loss level assuming that a commitment is defaulted upon. The score models are used by a number of other savings banks which cooperate regarding the validation process and, where necessary, parameter adjustment. The validation indicates that the score models are satisfactory and that they differentiate well between customers. Write-downs are calculated in accordance with IFRS 9.

In 2019, expensed write-downs on loans amounted to NOK 65 million, compared with NOK 249 million in 2018. The write-downs are considered to be normal, and represent 0.24% (0.90%) of gross lending. Total net defaulted (>90 days) and doubtful commitments amounted to NOK 297 million (NOK 333 million), equivalent to 1.1% (1.2%) of gross lending.

Based on the Financial Supervisory Authority of Norway's lending regulations and internal guidelines, commitments are monitored on an ongoing basis in order to identify doubtful commitments. There is a strong focus on this area and regular reviews are carried out of good credit practices and the quality of the work relating to credit. This includes an understanding of good monitoring and the control of customer portfolios. Compliance through individual cases is ensured through the Credit Committee, the managers' key controls, and the delegation of tasks between advisors and custodians. For the corporate market, management and monitoring are ensured through the ongoing assessment of customer relationships, ability to pay, and collateral assessments. This takes place through both monthly and quarterly reviews. For monitoring and development in the retail market portfolio, quarterly analyses are carried out concerning the quality of new approved loans, along with six-monthly analyses of the overall portfolio.

Close monitoring of key corporate customers and monitoring of the probability of default in the portfolio and for specific defined sectors have been continued as priority focus areas. At the end of 2019, the Bank had one commitment totalling more than 10% of subordinated capital, at 10.6%.

Liquidity risk

Liquidity risk is the risk of the Bank not being able to meet its payment obligations when these fall due or to replace deposits when they are withdrawn.
The Bank shall at all times have sufficient liquidity to meet its liabilities when they fall due, and have a liquidity strategy that secures access to long-term financing. The Bank makes use of the usual funding sources in the market to optimise a diversified funding structure.

The Board has established a liquidity management strategy, which specifies the purpose, management objectives and risk tolerance for liquidity risk management. The main objective of this strategy is to ensure that the Group has adequate liquidity management which helps to ensure that the Group is able to meet its payment obligations.
The liquidity strategy is reviewed annually by the Board.

The Bank's liquidity portfolio mainly consists of interest-bearing securities issued by solid issuers.
The Bank satisfies LCR / NSFR (liquidity coverage ratio/net stable funding ratio) in accordance with the applicable rules.

Monitoring and measuring of the liquidity situation is based on various stress test scenarios which take into account both market-specific and bank-specific events.
The Bank had an LCR of 197% (128%) at the year-end. NSFR ended at 154% (140%) at the year-end.
Collateral in the Bank's assets (bonds) has been pledged for borrowing in Norges Bank totalling NOK 525 million (NOK 545 million), which was available in its entirety at the year-end.
Liquidity risk is reduced by spreading borrowing over various markets, lenders, instruments and maturities.
Management of the Group's liquidity risk is based on target requirements for long-term funding ratio, deposit-to-loan ratio and liquidity buffer capital, in addition to regulatory requirements regarding LCR and NSFR.
The Board has also stipulated that the proportion of long-term funding must amount to at least 70% of total borrowing. The proportion of long-term funding remained well within this framework throughout 2019.

The Bank has liquidity reserves in the form of cash, deposits in Norges Bank and other banks, interest-bearing securities, and well as unused drawing rights. Minimum requirements for liquidity buffer levels are stipulated in the Bank's liquidity strategy. In recent years, the HSB Group has gradually adapted the buffers to the minimum requirements in accordance with Basel III. As of 31 December 2019, the liquidity buffer capital amounted to 16.8% (12.9%) of total assets. The HSB Group's combined liquidity buffer capital is considered to be satisfactory.
The deposit-to-loan ratio is a key parameter for the monitoring of liquidity risk, i.e. the proportion of gross lending to customers that is covered through deposits from customers. The Board has stipulated a minimum requirement of 60% for the deposit-to-loan ratio and this requirement was met throughout 2019.

Helgeland Boligkreditt AS has become an increasingly important source of funding for the Group. Helgeland Boligkreditt AS has gradually increased its activity levels, and has issued covered bonds in the market over the past eleven years. The maximum limit set for the transfer of loans to Helgeland Boligkreditt AS is currently 35% of gross lending and 50% of gross lending in the retail market. At the end of 2019, the transferred lending volume was within this framework.
The over-collateralisation level (lending relative to outstanding obligations) in the company is considered to be good, and was 17% (19%) by the year-end. The average debt-to-asset ratio for the loans was 57% (56%).

Market risk

Market risk arises as a consequence of the Bank's positions in the interest and equity market, together with the interest risk that is linked to the Bank's deposit and lending portfolio. The overall market risk level mainly consists of share, interest, currency, property, credit spread and owner risk.

The Board has adopted a strategy for market risk that sets out the framework and overarching goals for the HSB Group's market risk tolerance, as well as a specific framework for interest rate, credit spread and share price risk. This strategy is reviewed annually. The HSB Group has no active trading portfolios within interest, shares or foreign exchange.

The Bank's liquidity reserves primarily consist of interest-bearing securities that qualify under the LCR regulations. The securities mainly consist of liquid 0/10/20% - weighted securities. The securities are primarily based on a FRN (Floating Rate Note) structure and are thus associated with a low interest rate risk. Credit duration on the entire portfolio must be within 2.5 years. An authority framework ensures good diversification and limits any counterparty risk.

The Bank's loans and deposits from customers are mainly based on floating interest rates. The same applies to the Bank's liquidity portfolio. The Bank's funding portfolio consists of FRN-based loans, and loans at fixed interest rates. The interest rate risk on fixed interest loans is limited through the use of interest swap agreements.

The Bank assumes credit spread risk, primarily through the management of interest-bearing assets in the Bank's liquidity portfolio. The portfolio mainly consists of assets issued by Norwegian banks, mortgage companies, municipalities, governments and non-financial institutions. The credit spread risk lies within the Board's agreed limits.

The overarching interest rate risk is maintained at the desired level by an overall evaluation of balance sheet items and the use of interest rate swaps. Interest rate risk is at a low level.

The HSB Group has a relatively conservative strategy for investments in interest-bearing securities, where the main objective is to secure adequate liquidity buffer capital for the Group. There are specific requirements regarding issuers' ratings. There is also a maximum limit on duration for the interest-bearing securities portfolio, and the composition must be diversified between different sectors and types of issuer.

The Bank's positions in shares are mainly strategically motivated through investments in subsidiaries, associated companies, product companies and a local investment company. The market risk linked to such equity investments is considered to be moderate. The Bank has no active property management activity, and exposure in property is linked to property which is used in the business and any repossessed properties for disposal.

Currency risk

Helgeland Sparebank is not a foreign exchange bank, and the HSB Group has no active foreign exchange portfolios other than its euro stock in ATMs. The HSB Group's foreign exchange risk is therefore insignificant.

Operational risk

Good internal controls and quality assurance are essential for the satisfactory management of operational risk. The governing documents and control systems are built up to safeguard efficient operation, risk control, prudence, accurate financial and non-financial information, compliance with laws and guidelines, and internal guidelines and strategies.

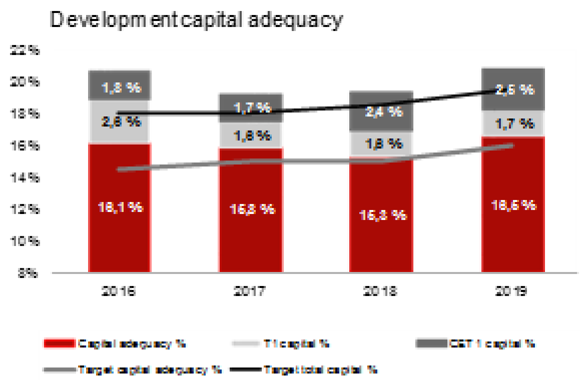
Risk evaluations are conducted at all levels. Risk evaluations are documented and give an overview of processes and key controls in the operational functions. A focus on the systems and processes in the operational functions contributes to a constant focus on quality and efficiency, as well as target-oriented operation within the HSB Group. Operational risk is measured through the evaluation of operational events assigned to defined loss event categories for random events, and for summarised non-conformities identified through routine checks. Operational risk is quantified by calculating the capital requirement for operational risk. This is summarised in a requirement to hold some subordinated capital as collateral for future expected losses to which the Group could be exposed as a result of operational risk. Assessed on the basis of the organisation's competency, organisation and delegation of responsibilities, and the Group's earnings and solvency, the Board considers the overall risk exposure to be appropriate.

Compliance

It is the HSB Group's fundamental belief that its operations must comply with applicable laws and regulations and that internal rules and guidelines must be followed. Stricter regulatory requirements regarding the HSB Group's operations are afforded a high priority and more resources have been allocated to compliance.

Solvency

Net subordinated capital amounted to NOK 3,723 million, of which subordinated bonds amounted to NOK 299 million and subordinated loans NOK 451 million. The HSB Group has a core tier 1 capital ratio of 16.5% (15.3%). The tier 1 capital ratio was 18.2% (16.9%) and the tier 2 capital ratio amounted to 20.7% (19.3%).



This includes a proportionate consolidation of collaborating groups, which for Helgeland Sparebank concerns Brage Finans. Statutory minimum requirement for core tier 1 capital ratio of 12.5%. The Bank has a Pillar 2 supplement of 2.2%. The Group's capital requirement including Pillar 2 supplement thus amounts to 14.7%. The Group has a capital target for core tier 1 capital ratio of at least 16.0 % and a tier 2 capital ratio of over 19.5%. Helgeland Sparebank uses the standard method in its capital adequacy calculations.

At the year-end, the Group's leverage ratio was 9.4% (9.2%). The minimum requirement is now set at 5% for non-systemically important banks.

Subsidiaries

Helgeland Boligkreditt AS (100%)
Net profit amounted to NOK 49.6 million (NOK 52.7 million) for 2019, and equity as of 31 December 2019 amounted to NOK 597 million (NOK 601 million).

AS Sparebankbygg (100%)
For 2019, net profit was NOK -0.4 million (NOK 0.0 million), and equity at the year-end was NOK 0.5 million (NOK 0.9 million).

Helgeland Sparebanks Eiendomsselskap AS (100%)
In 2019, net profit was NOK 0.7 million (NOK 0.5 million), and equity at the year-end was NOK 7.5 million (NOK 6.8 million).

Helgeland Utviklingsselskap AS (100%)
In 2019, net profit was NOK -1.3 million (NOK -1.8 million), and equity at the year-end was NOK 4.7 million (NOK 6.0 million).

ANS Bankbygg Mo (98%)
In 2019, net profit was NOK 0.8 million (NOK 0.4 million), and equity at the year-end was NOK 47.3 million (NOK 47.1 million).

Strendene Utviklingsselskap AS (100%)
Net profit was NOK -2.4 million in 2019, and the equity share was NOK 11.2 million (NOK -1.0 million). The company received equity in 2019.

Storgata 73 AS (53%)
In 2019, net profit was NOK 0.7 million (NOK 0.7 million), and the equity share was NOK 5.0 million (NOK 4.9 million).

Associated companies

Helgeland Invest AS (48.3%)
Helgeland Sparebank's share of earnings as of 31 December 2019 was NOK 20 million (NOK 50 million) and the equity share was NOK 364 million (NOK 367 million). (Preliminary accounting NGAP in Helgeland Invest reworked in accordance with IFRS).

REDE Eiendomsmegling AS (40%)
Helgeland Sparebank's share of earnings as of 31 December 2019 was NOK 1 million (NOK 0 million), and the equity share was NOK 15 million (NOK 14 million).

Corporate social responsibility

Our vision is to be a driving force for growth at Helgeland and this is an expression of our values and actions that are rooted in our corporate responsibilities. We are a business that aims to be a driving force and a partner in the local community that we are part of, both in cultural, sports, talent, education, research and economic development.

We draw motivation from our customers and partners through close dialogue, learning and monitoring, and give financial support to hundreds of activities every year. Children and adolescents are society's most important resources and we have a strong focus on everything that creates a meaningful and rich community for children and adolescents. Helgeland Sparebank believes that the private, public and voluntary sectors in Helgeland are all key partners in the efforts being made to make Helgeland a vibrant and thriving society.

As a local savings bank, we distribute a substantial portion of our net profit and dividends to charitable causes, and in 2019 the Bank distributed over NOK 18 million to the benefit of young and old alike across Helgeland.
For many years, Helgeland Sparebank has focussed on demonstrating its corporate social responsibility by contributing to charitable causes, and since 2007 the Bank's gift fund and gift foundation has granted financial contributions amounting to approximately NOK 200 million to worthy causes in Helgeland.
In 2019, the Bank allocated NOK 35 million of its profit to non-profit causes.

Sport and outdoor recreation are part of our cultural heritage, and a rich cultural life is a vital factor in the attractiveness of the region. Good sports and cultural facilities attract new people, which Helgeland needs in order to meet the recruitment challenges we face. The formative conditions of children and young people are thus afforded a high priority in the Bank's allocation of funding.

Helgeland is rich in natural resources, which will always be an important premise for future value creation and development.
The future will impose demands regarding new knowledge and innovation, and Helgeland Sparebank actively contributes to collaborative projects with university colleges and the university in order to promote local expertise and competitiveness.
In total, Helgeland Sparebank has contributed over NOK 50 million to education and research in Helgeland in recent years.

Ethics

The HSB Group is dependent on the confidence it engenders amongst its customers, public authorities and society at large. Helgeland Sparebank believes it is vital that its employees set and maintain high ethical standards. The ethical guidelines are part of the employee manual, and are made known to all new employees. These guidelines are currently being revised and updated. The new guidelines will be considered by the Board in early 2020.

Employees and working environment

At the year-end, Helgeland Sparebank had 154 employees across four offices. This represents 148 full-time equivalents, including caretakers and canteen staff. The Board believes that it is very important that the Bank has a good working environment. The Bank's employees and their well-being, local knowledge and expertise are some of the Bank's most important competitive advantages.

Employee well-being is measured through various types of survey. In 2019, we conducted our major working environment survey. This enables the Bank to compare results with other companies both within and outside the financial sector. There was a drop in all main indicators, commitment, flexibility and implementation capacity, compared with the previous survey conducted in 2017. The Bank is now on a par with the financial industry, but has initiated measures to improve and maintain the well-being of employees at a high and acceptable level.

Helgeland Sparebank is a well-established inclusive working life company, with appropriate procedures and a culture of monitoring and supporting employees. Managers monitor their employees digitally and in physical meetings. Our goal is an attendance rate of at least 97%, with no absence being work-related. The combined absence due to sickness rate in 2019 was 4.4%, giving an attendance rate of 95.6%. This is below the target figure, and absence due to sickness was slightly higher than in 2018, when it was 4.1%. The absence is primarily medically related long-term absence.

Authorisations and approvals such as AFR (Authorisation for Financial Advisers), GOS (Approval Scheme for Sellers and Advisors in Non-life Insurance) and Kreditt PM help to strengthen the Bank's overall expertise in the advisory area. It has been decided that all employees in customer fronting roles in the retail market must be authorised. The Bank is in the process of implementing this competence boost. AIP (Authorisation for Personal Insurance) is new in 2019, and advisers in the private and insurance areas are well under way in obtaining their authorisations. During 2019, the Bank's corporate department was reorganised and expanded through the addition of new expertise in order to meet the needs of customers of different categories and sizes with the right expertise. During 2019, the Bank's managers implemented a one-year management development programme, one concrete result of the programme being the Management Platform for all the Bank's managers with personnel responsibility. Compliance with these will be vital in the future management of the Bank.
Easier access to new learning and the updating of existing knowledge is important for the Bank's employees. A "Digital School Bag" was therefore in development during the year. The "Digital School Bag" was launched at the start of February 2020.

Equal employment is an important area of focus, for which goals and measures have been established in three key areas: Inclusive working environment, Equal pay and Recruitment. During 2019, the project identified differences in pay between the genders, and a lack of recruitment of female managers. The Bank has therefore drawn up specific measures to reduce the gender pay gap and gender balance in managerial positions..

The Bank's Supervisory Board has 25 members, ten of whom are women and fifteen are men. The Bank's Board of Directors has eight permanent members, four of whom are women and four are men. The Bank's management team consists of six members, two of whom are women and four are men.

Corruption and internal irregularities
In the work to prevent undesirable incidents, routines and measures have been established in many areas. Routine controls are carried out to detect any irregularities. In the area of personnel, efforts to prevent robbery and other threat situations are still just as relevant today, even though employees do not handle cash on a daily basis.
The Bank has a system for reporting undesirable incidents based on established routines for whistleblowing and the non-conformity system within the area of health, safety and environment. The employee, management and health, safety and environment manuals are made available to all employees. Important information in normal or critical situations has been made readily available. In 2019, training and routine reviews were carried out to make employees more aware of risks associated with IT, robbery and other threat situations.

Money laundering and terrorism financing
Helgeland Sparebank works systematically to uncover and combat financial crime.
The money laundering routine ensures that the Bank's money laundering policy is in line with applicable laws and regulations. The Bank's employees are widely involved in training related to the identification of possible cases of money laundering and terrorist financing. E-learning courses have been held regarding anti-corruption and the GDPR (General Data Protection Regulation) in the finance sector, as well as nano-learning concerning data security and the GDPR in general.
Authorities, customers and competitors must have confidence in the Bank's professionalism and integrity. Suspicious transactions are dealt with and reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) if certain criteria are met. The Bank has implemented measures to ensure compliance with applicable instructions and procedures, including the allocation of more resources and the addition of expertise to ensure the enforcement of regulatory and internal requirements.

Environment
Helgeland Sparebank's two largest offices at Mo i Rana and Mosjøen are approved "Miljøfyrtårn" (Environmental Beacon) businesses. The offices focus on energy savings, waste recycling and reducing paper consumption. The use of tablets, car-sharing when travelling between offices, and the use of conference call equipment for meetings between employees and customers is becoming increasingly common. Much of the Bank's training takes place via e-learning and online meetings.

Helgeland Sparebank aims to comply with the UN's principles for sustainable banking. In order to achieve the overarching goals, the Bank must implement effective management systems and a culture of sustainable activity. During 2019, the Bank committed to some of the UN's sustainable development goals, i.e. Gender equality, Decent work and economic growth, Industry, innovation and infrastructure, Responsible consumption and production, and Climate action, with sub-goals and initiatives which set out the Bank's overarching corporate social responsibility in Helgeland for current and future generations.

The HSB Group's remuneration policy
All remuneration agreements in Helgeland Sparebank are drawn up in line with the Financial Services Act and the Securities Trading Act and associated regulations concerning the remuneration schemes of financial institutions, asset management firms and mutual funds. The guidelines concerning Helgeland Sparebank's remuneration scheme were last updated and approved in October 2019.

Events after the balance sheet date
No events of importance to the financial statements have occurred since the balance sheet date.

Outlook
Helgeland Sparebank is delivering strong financial results and is seeing the effects of the profitability programme it has implemented. The interest rate rises which occurred in 2019, involving an increase in both interest rate levels and the NIBOR premium, raised the net interest rate during the year. The profit

forecasts indicate that the Bank will move towards its target for return on equity towards the end of 2020.

The Bank made the necessary adjustments to the balance sheet in order to fulfil the capital requirements applicable as of 31 December 2019. After the measures that have been implemented, the Bank also has sufficient capital for forecast growth going forward.

Market growth in the retail market in Helgeland continues to fall. Growth of 4.3% during the last 12 months is down from 5.5% during the same period last year. Uncertainty linked to future interest rates and low population growth are contributory factors behind the reduction in market growth.

The Bank's 12-month growth in lending in the retail market is 0.7%, which is significantly lower than the growth in Helgeland. One of the reasons for this is the Bank's increased focus on profitability in a market where lending margins are under pressure as a result of fierce competition. We expect moderate market growth going forward, and consequently also moderate and healthy lending growth in the retail market in 2020.

Throughout 2019, housing sales remained at the same level as the “normal year” of 2017. The housing market in Helgeland, particularly in Mosjøen and Mo i Rana, can be characterised as effective. The days on market figure fell slightly and lay between 35-60 days at the end of the year. Prices are approximately at valuation level. For 2020, moderate price growth is expected in the housing market in Helgeland.

The weak Norwegian krone is still helping to boost industry in general, and the salmon industry in particular. In the construction industry in Helgeland, activity levels are also high in both the private and public sectors. The unemployment rate is still low in Helgeland at 1.9%. This low level of unemployment is expected to continue.

The level of commission income is satisfactory overall. Established pricing initiatives and an offensive sales organisation provide the basis for an expectation that the level will have a positive trend in 2020.

The Bank has guided the market regarding an expectation of normalised losses. This is the situation for 2019 as a whole and is also expected to be the situation in 2020.

Helgeland Sparebank has sufficient capital, and the Bank is well-placed to take its share of profitable growth in the region.

Thank you to the Bank's employees, customers and business partners

2019 was a strong year for the Bank. The Board would like to extend a big thank you to all the Bank’s employees for their vital contributions over the past year. The Board would also like to thank the Bank's customers and business contacts for the support and trust they have shown in the Bank.

Board of Helgeland Sparebank
<u>Mo i Rana, 27 February 2019</u>

Stein Andre Herigstad-Olsen *Chair*	Bjørn Audun Risøy *Vice Chair*	Marianne Terese Steinmo
Siw Moxness	Nils Terje Furunes	Tone Helen Hauge
Birgitte Lorentzen *Employee representative*	Geir Pedersen *Employee representative*	

Hanne Nordgaard
Chief Executive Officer

Corporate governance

The Bank's corporate governance policy is intended to ensure that the Bank's corporate governance is in line with generally recognised interpretations and standards, as well as applicable laws and regulations. The strategy sets out the values, objectives and overarching principles that the Bank is governed and controlled by in order to safeguard the interests of owners, depositors and other groups within the Bank.
Governing documents for Helgeland Sparebank's various business areas set out management objectives and frameworks in concrete terms. This includes *inter alia* the Bank's articles of association, ethical guidelines, strategy document, policy documents, budget, authorisations and limitations, descriptions of procedures, insider rules and dealing on own account, overarching management of operational risk and guidelines for systems and processes that focus on risk evaluation and internal controls within the Bank.

Helgeland Sparebank's roots are deeply anchored in Helgeland soil, and the Bank takes a keen interest in what is happening in the region. The Bank therefore has a vision of being a driving force for growth in Helgeland.

Because Helgeland Sparebank is a solid and robust local bank with a strong market position, the Bank can contribute to the development of the local community. The legislator has given saving banks the opportunity to give a proportion of their profits back to the local community in the form of gifts and donations to non-profit causes. Saving banks can pay out dividends to the local community from the equity that is owned by the Bank's customers and the community.

Residential settlement and growth are prerequisites for the Banking sector. Without thriving and attractive local communities, it would be difficult to recruit labour in both the private and public sectors, which we need to do in order to promote local development. We therefore have a common destiny – the Bank and the people of Helgeland. Helgeland Sparebank's gift fund forms part of the Banks contribution to development, optimism and growth in both rural areas and towns alike in Helgeland.
In addition to the strategic and financial objectives, Helgeland Sparebank has chosen to take its environmental responsibility seriously, and has therefore adopted its own environmental strategy.

The governing documents are based *inter alia* on the Norwegian Code of Practice for Corporate Governance and the Committee of European Banking Supervisors' principles for overarching governance and control.

Helgeland Sparebank's ambition is to follow the aforementioned recommendations insofar as they are applicable.

In line with the first point of the Norwegian Code of Practice for Corporate Governance, there follows an account of the Bank's compliance with the points in the recommendation.

Operations

Helgeland Sparebank is a financial group consisting of the Parent bank and a number of subsidiaries. References to the Bank and/or Helgeland Sparebank in this article concern the Helgeland Sparebank Group.

In accordance with Helgeland Sparebank's articles of association, the object of the business is to promote savings by accepting deposits from an undefined group of depositors, provide investment services and other financial services, and securely manage the funds for which it is responsible in accordance with applicable legislation concerning savings banks at all times. The Bank can carry out all transactions and provide all services that are customary or natural for savings banks to perform in accordance with the relevant licences and applicable legislation.

The report from the Board contains a description of the Bank's objectives and strategies. The Board and management have a three-year strategic period, with annual reviews. The Board and management evaluate the strategic basis at least annually. The Bank's plans are adjusted and adapted on an ongoing basis. The Bank's strategic platform is summarised under the following key points: vision, business idea, core values, strategic and financial objectives, and ethical guidelines.
The Bank is a customer-oriented organisation with a focus on the retail market, corporate market and capital market as business areas. This is supplemented by supporting areas and staff functions. The Bank's organisational structure is dynamic and is assessed on the basis of changes in requirements and framework conditions.

Company capital and dividend
The Bank's equity is composed of equity certificate capital, share premium reserve, primary capital, fund for unrealised gains, gift fund, cohesion fund, subordinated bonds and other equity.
The Bank's objective for core tier 1 capital ratio is a minimum of 16.0% and a tier 2 capital ratio of over 19.5%.

The Bank's dividend policy:
Helgeland Sparebank's goal is to generate financial results that give the owners of the capital a good and stable long-term return in the form of dividends and increases in the value of the equity. It is a goal for the Bank to treat the Bank's two owner groups equally.
The Bank aims to achieve a return on equity which is competitive in the market viewed in relation to the Bank's risk profile. The target for return on equity is a minimum of 10% (Group).

Equal treatment of equity certificate holders

Holders of equity certificates shall have predictable conditions with regard to equal treatment, return and management influence.

The listing of the equity certificates ensures that the Bank accepts and follows the market conditions that apply at all times in the equity market and to equity certificates.

Free negotiability

The articles of association do not contain any limitations on the transferability of equity certificates.

The Sparebankstiftelsen Helgeland foundation owns equity certificates in Helgeland Sparebank. According to the articles of association, the foundation cannot own less than 25% of the equity certificates in Helgeland Sparebank.

Beyond this, the only limitation is the statutory requirement which currently stipulates that the acquisition of equity (10% or more) requires the consent of the Financial Supervisory Authority of Norway.

Supervisory Board

The Bank's supreme body is the Supervisory Board, which is composed of the holders of equity certificates, customers and employees. The Supervisory Board is responsible for ensuring that the Bank acts in accordance with its purpose and in compliance with law and the articles of association. The Supervisory Board elects the Bank's Board.

The Supervisory Board has 25 members and 25 deputy members. Decisions are made by simple majority. However, decisions regarding amendments to the articles of association require a two thirds majority of those present, and at least 50% of the Supervisory Board's members must vote for the proposal.

Elections take place in accordance with applicable savings bank legislation and the provisions of the Financial Activity Act. Notices of meetings and minutes of meetings of the Supervisory Board are sent to Oslo Stock Exchange.

Elections to the Supervisory Board take place through election meetings and on election day(s). All elections must be held by the end of April, and before the statutory general meeting of the Supervisory Board. Invitations to the equity certificate holders' election meeting, with an agenda, registration form and the Nomination Committee's recommendation, are sent to all holders of equity certificates 14 days before the meeting is scheduled to take place, and the meeting is also announced in newspapers and on the Bank's website. The depositors' election is announced through notices on the Bank's premises and announcements in newspaper and on the Bank's website six weeks prior to the election.

Nomination Committee

The Bank's Nomination Committee prepares:

- elections that are held by the Supervisory Board
- elections of holders of equity certificates to the Supervisory Board
- elections of depositors to the Supervisory Board

The Nomination Committee also proposes fee scales. The Bank's website contains information on the members of the Nomination Committee.

Composition of the Board and independence

Helgeland Sparebank's Nomination Committee proposes candidates for the Board in line with the applicable provisions in law and the articles of association. No member of the Board of Directors or representative of the management may be a member of the Nomination Committee. The chair and vice chair of the Board are elected in separate elections.
The Board consists of between six and nine members and up to four deputy members. The Board currently consists of eight permanent members. Four of the permanent members are currently women.
Important criteria regarding the Board's members and composition are qualifications, capacity, independence and gender.
The majority of the Board's members must be independent of the Bank's management and key business contacts.
The Board undertakes an annual review of its members' independence and the Board's collective competence. Everyone who is elected as a member must satisfy the requirements regarding suitability that follow from applicable legislation.

The work of the Board

The Board holds meetings once a month on average and performs its work in accordance with a plan which is drawn up for the year. In addition to the elected members, the Bank's CEO and internal auditor are present at Board meetings.
The Board has overall responsibility for the management of Helgeland Sparebank and for supervising the day-to-day management and activities of the Bank.

The Board's responsibility for administration includes responsibility for organising the Bank in a proper manner, for establishing plans and budgets for the Bank, for keeping itself informed about the Bank's financial position and for ensuring that the Bank's activities, asset management and accounts are subject to satisfactory controls.
The annual strategy process with roll-out of the strategy plan is a priority. Overall goals and strategies are established, and action plans and budgets are then prepared on the basis of these.
The CEO prepares matters which are to be considered by the Board in co-operation with the chair of the Board.
The Board has appointed an Audit Committee, a Risk Committee and a Remuneration Committee, which are responsible for ensuring that Helgeland Sparebank has an independent and effective external and internal audit function, that accounting and risk reporting are in line with applicable laws and regulations and that the Bank has remuneration schemes in place which help to promote and incentivise good management and control of the Bank's risks and discourage excessive risk-taking.

Risk management and internal control

Good risk and capital management is key to Helgeland Sparebank's long-term value creation.

The Bank must identify – analyse – act – and live with an acceptable level of risk for the Bank's most important commercial risks.
Helgeland Sparebank aims to ensure that the Bank's risk profile is moderate.

Risk management is linked to the key areas:

- Credit
- Market
- Liquidity
- Operational risks, including HSE, IT, communication, market, compliance and anti-laundering and terrorism financing.

The choice of risk assessment method must be justified in the Bank's complexity and scope in the various business areas.
The Board of Helgeland Sparebank requires the Bank to be well-capitalised. Capital assessments (ICAAP) are undertaken once a year. The Bank's capital strategy is based on actual risk in the activity, supplemented by the effects of different stress scenarios.

Responsibility for implementing the Bank's risk and capital management and controls is split between the Board, the management and the operational units. The Board is responsible for ensuring that the Bank has sufficient capital based on the desired level of risk and the Bank's operations. The CEO is responsible for overarching risk management at the Bank, including the development of good models and a framework for management and control. The CEO chairs the Bank's Credit Committee, which considers credit matters within the powers granted by the Board. The CEO is a permanent member of the Credit Committee.
The Chief Financial Officer chairs the Bank's Finance Committee, which considers borrowing and appurtenant evaluation within the powers granted by the Board. The CEO is a permanent member of the Finance Committee.

The Bank's management includes the position of Risk Management Director. The Risk Management Director reports to the CEO. In certain defined cases, the Risk Management Director reports directly to the board.
The Risk Management Department performs functions such as compliance responsibility, governance, control and reporting. Quantification of capital requirements linked to risk in the Bank's various business areas represents an integral part of the Board's strategic work and assessment of risk areas (the ICAAP process).
All managers at Helgeland Sparebank are responsible for managing risk and ensuring that appropriate internal controls are in place within their own sales responsibility and professional area in line with the Bank's risk profile.
Helgeland Sparebank has adopted a policy for risk management and internal controls, which sets the objectives, organisation and implementation of internal controls. Also included in this is a requirement for reporting the status of the Bank's risk picture, the quality of internal controls both generally and within the compliance areas, anti-money laundering and GDPR in particular. In addition, recorded incidents and the follow-up of risk-mitigation measures are reported.
The Bank has also employed an internal auditor, who, on behalf of the Board is responsible for evaluating and verifying that appropriate procedures are in place for reducing risk. The internal auditor's controls are based on an annual audit plan.
The Bank's ethical guidelines impose a duty on employees to report any breaches of internal guidelines, laws and regulations and the procedures for such reporting.

Remuneration to the Board

The Supervisory Board sets the fee scale for the Bank.
The remuneration paid to the Board reflects the Board's responsibilities, competence, time spent and complexity. The fees paid to individual Board members are stated in the notes to the accounts.

Remuneration to senior executives

The Board sets the remuneration to the CEO, and the principles for remuneration to senior executives. As of 31 December 2019, the Bank has no option or bonus agreements. A summary of pay and benefits to senior employees is presented in a note to the annual report. The Bank has established procedures for ensuring compliance with regulations concerning the remuneration schemes of financial institutions, investment firms and management companies for mutual funds.

Information and communication

Helgeland Sparebank is listed on Oslo Stock Exchange and reports dates for important events such as election meetings, meetings of the Supervisory Board, and the publication of financial information in the form of interim reports and annual reports and accounts. Information to the market is communicated through open investor presentations in the first, third and fourth quarterly accounting reports, as well as stock exchange notices and press releases.
The same information is published on the Bank's website.

Takeover

The Act relating to Financial Activity imposes limits on the proportion of equity certificates that can be held by a single owner. Issues concerning mergers are decided by the Supervisory Boards of the savings banks concerned.

Auditor
The Supervisory Board has elected PricewaterhouseCoopers as external auditor and approves the auditor's fees.

PROFIT

Parent bank		**Income statement**		*Group*
2018	**2019**	**(amounts in NOK million)**	**2019**	**2018**
788	904	Interest income and other similar income (Note 5)	1,121	957
298	380	Interest expenses and other similar expenses (Note 5)	519	391
490	**524**	**Net interest and credit commission income (Note 4)**	**602**	**566**
100	114	Commission income and income from banking services (Note 6)	114	100
10	14	Commission expenses and costs attributable to banking services (Note 7)	14	10
90	**100**	**Net income from commission (Note 4)**	**100**	**90**
56	70	Dividends	16	6
50	21	Net income from associated companies	21	50
			-3	
-12	-4	Net income from financial instruments		-8
94	**87**	**Net income from financial instruments (Note 8)**	**34**	**48**
18	9	Other operating income (Note 9)	5	16
279	286	Operating costs (Notes 4,10,11,12, 13,14,15,28,44)	293	286
249	64	Losses on loans, guarantees, etc. (Note 4,16)	65	249
164	**370**	**Net income before tax**	**384**	**185**
20	66	Tax (Note 17)	79	36
144	**304**	**Profit for the year (Note 18)**	**305**	**149**
4.8	10.7	Earnings per equity certificate in NOK (Note 18)	10.7	5.0
4.8	10.7	Diluted earnings per equity certificate in NOK (Note 18)	10.7	5.0
144	**304**	**Profit for the year after tax**	**305**	**149**
		Items not to be reclassified to the income statement:		
			-2	
0	-2	Recognised estimate variances, pensions		0
		Items not to be subsequently reversed via the income statement:		
0	0	Tax on comprehensive income	0	0
0	-2	Net other comprehensive income items	0	0
144	**302**	**Total comprehensive income for the period**	**303**	**149**

BALANCE SHEET

Parent bank		Balance Sheet	Group	
31.12.18	**31.12.19**	(amounts in NOK million)	**31.12.19**	**31.12.18**
		ASSETS		
82	88	Cash and receivables from central banks (Notes 19,22,27,32)	88	82
1,170	1,432	Loans to and receivables from credit institutions (Notes 20,22)	750	461
20,289	19,778	Loans to and receivables from customers (Notes 2.1,4, 21,22)	27,320	27,614
54	16	Financial derivatives (Notes 22,23)	15	54
4,132	5,314	Certificates, bonds and shares (Notes 2.2,22,24,25)	5,283	4,157
382	379	Investments in associated companies (Note 27)	379	382
595	604	Investments in subsidiaries (Notes 26,28)		
11	8	Deferred tax asset (Note 29)	12	15
69	75	Tangible fixed assets (Note 30)	173	133
70	66	Other assets (Note 31)	48	71
26,854	**27,760**	**Total assets**	**34,068**	**32,969**
		LIABILITIES AND EQUITY		
250	553	Liabilities to credit institutions with agreed maturity (Notes 2.2,22.33)	554	252
17,718	19,391	Deposits from customers (Notes 2.2,4,22,34)	18,959	17,248
5,058	3,669	Liabilities established through the issuing of securities (Notes 2.2,22,23,35)	10,334	11,556
22	18	Financial derivatives (Notes 22 and 23)	25	22
104	184	Other liabilities (Note 12,36)	179	118
451	452	Subordinated loan capital (Note 37)	452	451
23,603	**24,266**	**Total liabilities**	**30,503**	**29,647**
		Equity		
207	208	Equity share capital (Note 39)	208	207
971	971	Share premium reserve	971	971
710	822	Cohesion fund	822	710
1,888	**2,001**	**Total equity share capital**	**2,001**	**1,888**
558	590	Primary capital	590	558
33	53	Gift fund	53	33
591	**643**	**Total primary capital**	**643**	**591**
440	439	Fund for unrealised gains	439	440
299	299	Subordinated bonds	299	299
33	112	Other equity (Note 38)	181	102
3,251	**3,494**	**Total equity excluding minority interest**	**3,563**	**3,320**
		Non-controlling interests	2	2
3,251	**3,494**	**Total equity**	**3,565**	**3,322**
26,854	**27,760**	**Total liabilities and equity**	**34,068**	**32,969**

Contingent liabilities off balance sheet (Note 40)

Board of Helgeland Sparebank

Mo i Rana, 27 February 2020

Stein Andre Herigstad- Olsen
Chair

Bjørn Audun Risøy
Vice Chair

Marianne Terese Steinmo

Siw Moxness

Nils Terje Furunes

Tone Helen Hauge

Hanne Nordgaard
CEO

Birgitte Lorentzen
Employee representative

Geir Pedersen
Employee representative

CHANGE IN EQUITY

Group

31.12.18

	Paid-up equity									Retained earnings		
	Equity certificate capital	**Share premium reserve**	**Own equity certificates**	**Subordinated bonds**	**Fund for unreal. gains**	**Primary capital**	**Gift fund**	**Gift foundation**	**Cohesion fund**	**Other equity**	**Non-cont. interests**	**Total**
Equity as of 1 January 2018	**209**	**971**	**-3**	**299**	**424**	**541**	**31**	**12**	**659**	**144**	**2**	**3,287**
Implementation effects as of 1 January, IFRS 9						-1			-5	4		-2
Change in accounting policies for securities as of 1 January					-10	2			7			-1
Profit for the year				12	26	15	4	6	48	38		149
Other comprehensive income												0
Total comprehensive income for the year	**0**	**0**	**0**	12	16	16	4	6	50	42	**0**	149
Interest paid, subordinated bonds				-12	0							-12
Gifts distributed							-8	-12				-20
Transactions with the owners			1									1
Dividends/interest paid										-83		-83
Equity as of 31 December 2018	**209**	**971**	**-2**	**299**	**440**	**557**	**27**	**6**	**709**	**104**	2	**3,322**
Paid-up equity/retained earnings		1,178									2,145	3,322

The fund for unrealised gains includes unrealised added value shares amounting to NOK 440 million.

Group

31.12.19

	Paid-up equity									Retained earnings		
	Equity certificate capital	**Share premium reserve**	**Own equity certificates**	**Bonds**	**Fund for unreal. gains**	**Primary capital**	**Gift fund**	**Gift foundation**	**Cohesion fund**	**Other equity**	**Non-cont. interests**	**Total**
Equity as of 1 January 2018	**209**	**971**	**-2**	**299**	**440**	**557**	**27**	**6**	**709**	**103**	2	**3,322 3**
Profit for the year				13	-3	35	21	14	112	112		305
Other comprehensive income						-2						-2
Total comprehensive income for the year	**0**	**0**	**0**	**13**	**-3**	**33**	**21**	**14**	**112**	**112**	**0**	**302**
Interest paid, subordinated bonds				-13								-13
Gifts distributed							-8	-6				-13
Other changes					2					-2		0
Transactions with owners			1									1
Dividends paid/debt transferred										-33		-33
Equity as of 31 December 2019	**209**	**971**	**-1**	**299**	**439**	**590**	**39**	**14**	**822**	**181**	**2**	**3,565**
Paid-up equity/retained earnings			1,178								2,387	3,565

The fund for unrealised gains includes unrealised added value shares amounting to NOK 439 million.

CHANGE IN EQUITY

											Parent bank
											31.12.18
	Paid-up equity									Retained earnings	
	Equity certificate capital	**Share premium reserve**	**Own equity certificates**	**Bonds**	**Fund for unreal. gains**	**Primary capital**	**Gift fund**	**Gift foundation**	**Cohesion fund**	**Other equity**	**Total**
Equity as of 1 January 2018	**209**	**971**	**-3**	**299**	**424**	**541**	**31**	**12**	**659**	**83**	**3,226**
Implement. 1 January, IFRS 9						-1			-4		-5
Change in policies, securities					-10	2			8		0
Profit				12	26	15	4	6	48	33	144
Other comprehensive income for the year											0
Total comprehensive income	**0**	**0**	**0**	**12**	**26**	**15**	**4**	**6**	**48**	**33**	**144**
Interest paid, subordinated bonds				-12							-12
Gifts distributed							-8	-12			-20
Transactions with the owners			1								1
Dividends/interest paid										-83	-83
Equity as of 31 December 2018	**209**	**971**	**-2**	**299**	**440**	**557**	**27**	**6**	**711**	**33**	**3,251**
Paid-up equity/retained earnings			1,178							2,073	3,251

The fund for unrealised gains includes unrealised added value shares amounting to NOK 440 million.

											Parent bank
											31.12.19
	Paid-up equity									Retained earnings	
	Equity certificate capital	**Share premium reserve**	**Own equity certificates**	**Bonds**	**Fund for unreal. gains**	**Primary capital**	**Gift fund**	**Gift foundation**	**Cohesion fund**	**Other equity**	**Total**
Equity as of 1 January 2018	**209**	**971**	**-2**	**299**	**440**	**557**	**27**	**6**	**711**	**33**	**3,251**
Profit				13	-3	35	21	14	112	112	304
Other comprehensive income for the year						-2					-2
Total comprehensive income	**0**	**0**	**0**	**13**	**-3**	**33**	**21**	**14**	**112**	**112**	**302**
Interest paid, subordinated bonds				-13							-13
Gifts distributed							-8	-6			-14
Other changes					2				-1		0
Transactions with the owners			1								1
Dividends/interest paid										-33	-33
Equity as of 31 December 2019	**209**	**971**	**-1**	**299**	**439**	**590**	**39**	**14**	**822**	**112**	**3,494**
			1,179							2,315	3,494

The fund for unrealised gains includes unrealised added value shares amounting to NOK 439 million.

CASH FLOW

Cash flow statement

Parent bank			*Group*	
31.12.18	**31.12.19**	(amounts in NOK million)	**31.12.19**	**31.12.18**
-689	559	Change in lending to customers	340	-1,398
710	801	Interest payments on loans to customers	1,037	898
278	1,673	Change in customer deposits	1,711	246
-178	-242	Interest payments on deposits from customers	-239	-180
0	300	Change in receivables and liabilities to credit institutions	300	0
15	-1,157	Change in certificates and bonds	-1,136	15
55	71	Interest payments on certificates and bonds	71	55
89	100	Commission payment	100	90
-266	-272	Payments to operations	-273	-267
-60	-61	Tax paid	-76	-72
33	-15	Other accruals	14	37
-13	**1,757**	**A Net change in liquidity from operating activities**	**1,849**	**-576**
-9	-50	Investments in tangible fixed assets	-90	-9
8	0	Proceeds from sale of tangible fixed assets	0	8
-23	-15	Long-term investments in shares	-15	-23
56	70	Dividends from long-term investments in shares	16	7
32	**5**	**B Net change in liquidity, investment**	**-89**	**-17**
2,943	2,563	Take-up of liabilities established through the issuing of securities	6,308	5,390
-3,249	-3,907	Repayment – issued securities	-7,454	-4,673
150	0	Take-up of subordinated loan capital	0	150
-92	-104	Interest payments on liabilities established through the issuing of securities	-274	-188
-11	-13	Interest payments on subordinated loans	-13	-11
-83	-33	Dividends to shareholders	-33	-83
-342	**-1,494**	**B Net change in liquidity, financing**	**-1,466**	**585**
-323	268	A+B+C Net change in liquidity during the period	295	-8
1,575	1,252	Change in liquidity at start of period	543	551
1,252	1,520	Change in liquidity at end of period	838	543
		Liquidity holdings specified		
82	88	Cash and receivables, central banks	88	82
1,170	1,432	Receivables from credit institutions without notice period	750	461
1,252	**1,520**	**Liquidity holding**	**838**	**543**

Contents:

NOTE 1 - Accounting policies

Group and Parent bank

General

The parent bank
Helgeland Sparebank aims to be a profitable and leading bank in the Helgeland region. The objective of the Bank is to sell all types of financial products and services, including insurance and pension products to retail customers, small and medium enterprises, municipal authorities and institutions in Helgeland.

The Bank's registered office is situated at Jernbanegata 15, 8622 Mo i Rana. The Bank's head office is situated in Mo i Rana. The Bank also has five branches located throughout Helgeland: Mosjøen, Brønnøysund, Sandnessjøen, Sømna and Korgen.

Helgeland Sparebank's equity capital certificates are listed on Oslo Stock Exchange.

Accounting basis

Helgeland Sparebank prepares its consolidated and company financial statements in line with the international financial reporting standards (IFRS), which are the prevailing standards in Norway. This also includes interpretations from the IFRS interpretations committee (IFRIC).

The consolidated and company financial statements are reported based on the historical cost principle, with the following exceptions:

- Financial derivatives, which are recognised at fair value via the income statement
- Certificates, bonds and shares, which are recognised at fair value, with changes in value via the income statement
- Lending rate, which is recognised at fair value, with changes in value via the income statement
- Fixed-rate debt securities, which is defined as a hedged item in value hedging.

For financial assets and liabilities, amortised cost is used, with the exception of financial instruments which are recognised at fair value.

Amortised cost is the amount at which the instrument was valued upon initial recognition (cost price) less interest and instalments paid on the principal, plus accumulated effective interest and minus all net write-downs.

Fair value is the price that would have been received when selling the asset, or paid in order to transfer the commitment between independent market operators at the time of recognition.

Financial instruments that are hedged items in a value hedge are capitalised at amortised cost with an adjustment for changes in the fair value of the hedged risk. This will often be approximately the same as fair value.

The preparation of the financial statements in line with IFRS requires the use of estimates. The use of international standards also requires that the management to exercise judgement. Areas where the assumptions and estimations are significant are described in Note 1.1.

The Bank's Board approved the consolidated financial statements on 27 February 2020. The notes form an integral part of the financial statements.

Consolidation policies

The consolidated financial statements include the Parent bank and subsidiaries, including underlying subsidiaries. The accounting policies are applied consistently in connection with the incorporation of owner interests in subsidiaries (and associated companies) and are based on the same reporting periods as are used for the Parent company. Because of early reporting, the Bank partly uses provisional accounting figures and forecasts from subsidiaries.
Internal transactions within the Group, including internal profits and unrealised profit and loss, are eliminated in connection with the preparation of the consolidated financial statements.

Subsidiaries
Subsidiaries include all companies over which the Bank, whether directly or through other subsidiaries, has control (i.e. the authority to manage a company's financial and operational principles with the intention of achieving benefits from the company's activities). Subsidiaries are consolidated from the date on which when the Bank acquires control, and eliminated from the date on which the Bank no longer has control. Subsidiaries are recognised at acquisition cost in the company's financial statements. Write-downs are performed when the carrying amount exceeds the value of the ownership share.

Associated companies
Associated companies are companies where the group exercises significant influence, but not control. This would normally be investments of between 20 to 50% of the company's equity. Accounting of investments in associated companies is treated according to the equity method in both the consolidated financial statements and the company's financial statements. For accounting according to the equity method, the accounts are reworked in accordance with IFRS.

At the time of acquisition, the investment is recognised at acquisition cost. For more information, see Note 27, which provide further details of the stake in Helgeland Invest AS.

Segment reporting

The Group's operations comprise only one strategic business area, which is organised and managed collectively. The Group carries on traditional banking operations involving the intermediary sale of savings, investment and insurance products. The Bank's operations are divided into the following segments: Retail Market (RM) and Corporate Market (CM). Income and expenses not directly allocated to these segments are presented as unallocated.
The geographical segment is the Helgeland region, with only a small share outside of Helgeland.

Accounting currency

The Norwegian krone (NOK) is the accounting currency, which is also the Bank's functional currency. All amounts are stated in NOK million, unless specified otherwise. The Group has no operations abroad.

Presentation in the balance sheet and income statement

Lending
Loans are recognised in the balance sheet either as loans to or receivables from credit institutions or customers. Interest is recognised in the income statement under interest income and other similar income. Changes in value due to impairment are recognised in the income statement under losses on loans, guarantees, etc.
Changes in the value of fixed-rate loans, which are recognised at fair value, are recognised in the income statement under net profit/loss from financial instruments, with the exception of mortgages in the Parent bank, which are recognised via other comprehensive income.

Certificates and bonds
This balance sheet item includes the Group's certificates and bonds. All changes in value and realised gains/losses are recognised under net income from financial instruments. Interest income from certificates and bonds is recognised in interest income and similar income.

Financial derivatives (assets and liabilities)
This balance sheet item includes financial derivatives. Changes in value linked to derivatives are recognised via the income statement under net income from financial instruments.

Liabilities to credit institutions and deposits from customers.
Commitments to credit institutions and customers are recognised, depending on the counterparty, either as loans from credit institutions or as deposits from customers. Interest is recognised in the income statement under interest expenses.

Liabilities established through the issuing of securities
The balance sheet item includes debt established through the issuing of securities. Effective interest is recognised in the income statement under interest expenses and other similar expenses.
Fixed-rate debt securities are subject to fair value hedging. Changes in value are recognised under net profit or loss on financial instruments.
In the event of early repayment or buy-back of issued bonds, any gain/loss is recognised under net income from financial instruments.

Subordinated loan capital
The balance sheet item includes issued subordinate loans. Interest is recognised in the income statement under interest expenses and similar costs.

Subordinated bonds
The balance sheet item includes subordinated bonds. Subordinated bonds are perpetual and the Bank has a unilateral right not to pay interest to investors, subject to certain conditions. Subordinated bonds do not meet the definition of financial liability in accordance with IAS 32 and are classified as equity. Interest is not presented as an interest expense in the income statement, but as a reduction in other equity. Tax on interest in subordinated bonds are recognised via the income statement.

Changes in accounting policies and information

(a) New and amended standards adopted

IFRS 16 Leases
According to the standard, no distinction is now to be made between operational and financial leases, because both types of agreement transfer the usufruct to a specific asset from the lessor to the lessee for a specific period of time. For lessors, the regulations of IAS 17 are largely continued. The standard applies with effect from 2019. The standard has the effect that leases (mainly office premises) are recognised in the balance sheet. For more information, see Note 17.1

(b) New standards and interpretations not yet in use
A number of new standards, changes to the standards and interpretations are required for future financial statements. Among those that the group has opted not to use early, the most important are explained below.

The IBOR reform
As a result of the IBOR reform, the IASB has issued relief linked to IFRS 9 and hedge accounting. Where the Bank has agreements which could be affected by the future choice of reference interest rate, the probability requirements will be reduced. The reduction in the requirements means that it is assumed that cash flows in hedged items and/or hedging instruments based on current reference interest rates will continue as before, and that hedge accounting will remain unchanged. Furthermore, new note requirements apply with effect from January 2020 as a result of the uncertainty associated with the new reference interest rate.

The Group only has fair value hedging on fixed-rate debt securities in Norwegian kroner. The changes in IFRS 9 and IFRS 7 have not been implemented early. The IBOR reform and associated accounting changes are not expected to have a major impact on the Group's current exposures.

There are no other standards or interpretations which have not yet entered into force which are expected to have a material impact on the Group's financial statements.

Financial instruments

Financial instruments are recognised in accordance with IFRS 9. The measurement categories for financial instructions in IFRS 9 consist of changes in value via the income statement, fair value with changes in value via other comprehensive income profit (OCI) and amortised cost.

Recognition of financial assets is determined upon initial recognition of the asset. The business model for holding the financial instruments will be decisive for determining the category.

Financial instruments held to receive contractual cash flows are in principle recognised at amortised cost.

Financial assets held to receive contractual cash flows and for resale are in principle recognised at fair value, with changes in value via other comprehensive income (OCI).

Instruments with cash flows that are not only payments of interest and principal, or where the purpose of owning the instrument is not to receive

contractual cash flows, are recognised at fair value, with changes in value via the income statement.
Derivatives used in connection with hedge accounting are recognised according to the principles for hedge accounting. Note 2.1.1 shows lending and write-downs in accordance with IFRS 9.

Recognition and derecognition

Financial assets and liabilities are capitalised when the Bank becomes a party to the instrument's contractual provisions.
Financial assets are derecognised when the contractual right to the cash flows from the financial asset expire, or the Bank transfers the financial asset in such a way that the risk and profit potential of the financial asset is largely transferred. Financial liabilities are derecognised when they are fulfilled, cancelled or expire.

Financial instruments at amortised cost

Debt instruments that have cash flows that only represent the payment of interest and instalments, and where the purpose is only to hold the instrument in order to receive contractual cash flow, are recognised at amortised cost. Within the Group, all loans and loans with floating interest rates are classified at amortised cost.
The Parent bank's financial statements include an exception related to lending to personal customers with collateral in housing. This arises as a result of the fact that many of the loans will subsequently be sold to the Bank's wholly owned mortgage company and will therefore be recognised as held for sale in accordance with IFRS 9. Financial instruments at amortised cost primarily comprise the following:

Assets and liabilities:

- Loans at floating interest rates
- Liabilities to credit institutions and deposits from customers
- Debt securities at floating interest rates
- Subordinate debt at floating interest rates

<u>Loans to customers</u>
Loans to and receivables from customers are initially recognised at fair value with the addition of direct transaction costs. During periods after initial recognition, loans at amortised cost are valued according to the effective interest method. Loans are written down in accordance with IFRS 9.
Write-downs are calculated as the difference between the carrying amount and the present value of future cash flows, calculated over the expected life of the loan. For the present value calculation, the most recently determined effective interest rate on the loan or loans to be written down is used.

<u>Potential exposure</u>
Unused drawing rights and approved, non-discounted loans are off-balance sheet items which are presented in notes. Revenue is recognised under commission income and income from banking services. Off-balance sheet items included in the calculation of expected losses are presented in the balance sheet under "Other liabilities".

<u>Financial guarantees issued</u>
Contracts that require the Bank to reimburse the holder for a loss due to a specific debtor failing to pay in accordance with the terms of a debt instrument, are classified as issued financial guarantees. Commission income is recognised over the term of the guarantee under "Commission income and revenues from banking services". Changes in value as a result of credit commitments that have been written down are recognised under "Write-downs and losses on loans and guarantees." Expected losses are capitalised under "Other liabilities".

<u>Write-downs on loans</u>
The rules in IFRS 9 regarding impairment of financial assets apply to commitments recognised at amortised cost (commitments with floating interest rates are defined under this category) and to commitments recognised at fair value, with changes in value via other comprehensive income (mortgage loans at floating interest rates in the Parent bank). The standard also entails requirements regarding loss provisions on new commitments, in that a write-down must be performed for expected credit losses as a result of expected default in the next twelve months. Expected losses for all customers are calculated at account level. The calculation includes loans, guarantees, unused credit and loan commitments.
For loans where the credit risk has increased substantially following initial recognition, write-downs must be performed for the expected credit loss over the maturity of the loans.
The Bank has developed a model in collaboration with a number of other banks. The model contains macro-scenarios in accordance with IFRS 9 (three scenarios). The model is described in more detail in Note 2.1.1.

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

<u>Step 1:</u> 12-month expected loss.

This includes most cases of financial assets that are covered by the general loss model. Financial instruments that have a similar probability of defau|lt (or better) over the remaining term as upon initial recognition are covered by this step. The estimated expected loss which is recognised in the financial statements corresponds to the expected loss from default in the next 12 months.

<u>Step 2:</u> Expected loss over lifetime.

Financial assets that have seen a significant increase in the probability of default (PD) since initial recognition are placed in step 2.

Whether or not a commitment is significantly worsened is determined by comparing the probability of default (PD) at the time of approval with the PD at the time of calculation.

The assessment of significant deterioration is based on both the relative increase in PD and the absolute change. The level has been set so that both the relative change is significant and the level itself is not immaterial compared to what is considered to be low risk. In addition, it is assumed that substantial absolute changes will be considered to be a significant deterioration under any circumstances.
A commitment is deemed to be significantly worse if, at the time of calculation, it has a PD higher than 0.75% and has also been assigned a PD which is twice as high, or a PD which is at least 5% points higher.
In addition, the following events are also considered to constitute a significant increase in credit risk:

- Commitments where there is a 30-day cover. This applies to overdrafts from the first krone, but more than 30 days old.
- Commitments where the overdraft is larger. This applies to overdrafts from the first day, where the balance is substantially greater than the award. Minimum of NOK 1,000 and five times the award overdrawn
- Commitments with amended payment terms or refinancing (forbearance)

The Bank has internal procedures for marking and identifying customers who have been granted payment deferment. A customer who has been granted payment relief covered by the Financial Supervisory Authority of Norway's reporting guidelines will be marked for a period of at least two years.

Step 3: Expected loss over lifetime.

Step 3 of the loss model covers assets that have seen a significant increase in credit risk since initial recognition and where there is objective evidence of loss as of the reporting date. The expected loss for assets in step 3 is calculated over the remaining term of the asset. Interest income is calculated on the net book value of the asset. Step 3 includes both defaulted loans and credits, as well as commitments where there is other objective evidence for loss.

The same model is used for the Group, Parent bank and wholly owned mortgage company, but with different date definition as regards initial recognition. For the Group and the Parent bank, the account's date of approval must be used, while for the mortgage company, the score as of the transfer date is used.

Objective evidence of loss

Based on current internal guidelines, commitments are continually monitored with a view to identifying potentially doubtful commitments.

Objective evidence of loss is default in accordance with the definition below, as well as loans and other commitments which are not in default, but where the customer's financial situation renders it probable that the Group will incur a loss. In the case of individually assessed write-downs, model write-downs are overridden for the commitment concerned. Objective evidence of loss is considered at customer level.

In addition to defaulted commitments, the Bank has stated that objective evidence of loss exists in a commitment where bankruptcy proceedings have been opened, confirmed losses have been incurred on the commitment, an individually assessed provision has been made, or where there are other individual assessments which indicate that there is objective evidence of loss.

Recovery

Step 1 is considered to be the standard step. Any account commitment which at the time of calculation does not meet the criteria for step 2 or 3, as described above, will be placed in step 1.

Defaults

A collective commitment from a customer is considered to be in default when overdue instalments or interest are not paid within 90 days after the due date, and the amount concerned exceeds NOK 1,000 or credit limits are exceeded for a period of 90 days or more.

Non-recoverable losses

When it is highly probable that losses are final, the losses are classified as non-recoverable. Non-recoverable losses covered by previous loss provisions are recognised against loss provisions. Non-recoverable losses not covered by previous loss provisions and over- or under-cover in relation to previous loss provisions are recognised in the income statement.

Modification

When the contractual cash flows from a financial asset are renegotiated or otherwise changed, and the renegotiation or change does not result in the derecognition of the financial asset, the gross carrying amount for the financial asset is recalculated and a gain or loss is recognised in the income statement. The gross carrying amount for the financial asset is recalculated as the present value of the renegotiated or amended contractual cash flows, discounted by the original effective interest rate on the financial asset. Any accrued costs or fees are taken into account in the calculation.

Liabilities to credit institutions and deposits from customers

Liabilities to credit institutions and deposits from customers are recognised at amortised cost. Upon initial recognition, liabilities are recognised at fair value plus direct transaction costs. Upon subsequent recognition, the liabilities will then be recognised at amortised cost using the effective interest method.

Debt securities with floating interest rates

Upon initial recognition, liabilities are recognised at fair value plus direct transaction costs. Upon subsequent recognition, the liabilities will then be recognised at amortised cost using the effective interest method.

Financial assets at fair value via the income statement

Assets and liabilities:

- Fixed-rate loans
- Derivatives without hedging
- Certificates, bonds (interest-bearing securities) and shares

Fixed-rate loans

Fixed-rate loans are recognised at fair value (FVO). The Bank uses interest rate derivatives to financially hedge the interest rate exposure in these loans. The use of the fair value option (FVO) significantly reduces the profit volatility that would normally occur, using different estimation methods for lending and derivatives. The fair value is estimated by discounting the future cash flows (interests and instalments) from the loans with yield requirements derived from the yield curve on the balance sheet date. The credit spread on lending is estimated as an overall evaluation based on observed changes in the market.

Derivatives without hedging

The agreements that the Group has entered into are interest rate derivatives.
Derivatives are capitalised at fair value at the time the derivative contract is entered into, and thereafter continually at fair value.

Certificates, bonds and shares

Certificates, bonds and shares are classified at fair value. The fair value of listed investments is based on the current price as of the balance sheet date. For shares that are not listed on the stock exchange and where there is no active marked, known trading values or the last issue price are used as a basis. Securities without sale are valued on the basis of available accounting information or similar.

Hedging of financial instruments

Assets and liabilities:
- Debt securities with fixed interest rates
- Hedging derivatives

The Bank and the Group use hedge accounting for debt securities at fixed interest rates. The hedge covers the interest rate risk in the bonds. Changes in value are recognised under net gains/ losses on financial instruments. In the event of early repayment or repurchase of issued bonds, any gain/loss is recognised under net gains/losses on financial instruments. The Bank's policy is to hedge all exposure against debt securities with a fixed interest rate. The Group only has fair value hedging on debt securities in Norwegian kroner with fixed interest rates. The hedging instruments secure the total amount and have a maturity, volume and fixed interest rate corresponding to the individual fixed rate loan. The floating rate in the hedging instrument is agreed at the 3-month NIBOR.

IFRS 9 simplifies the requirements for hedge accounting by linking hedge effectiveness more closely to risk management, and thus provides greater opportunity for qualitative assessment. In order to use hedging accounting in accordance with IFRS 9, there must be a financial relationship between the hedging instrument and the secured element. In addition, the effect of credit risk must not dominate value changes in the hedging relationship. In accordance with the requirements of IFRS 9, a prospective (future-oriented) effectiveness test is sufficient. Effectiveness tests are carried out in accordance with the requirements of IFRS 9. The ineffectiveness of the hedge, defined as the difference between the value adjustment of hedging instruments and the value adjustment of the hedged risk, is recognised in the income statement as it arises. The fair value of the derivatives used in hedging relationships is shown in Note 22.2.

Financial assets at fair value via other comprehensive income (OCI)

Assets:
- Floating rate home loans in the parent bank

In accordance with IFRS 9, the loans must be classified at fair value via other comprehensive income (held to receive contractual cash flows and resale). This comes as a consequence of the fact that the loans can be sold to the Bank's wholly owned mortgage company at a later date.

Interest income and interest expenses

Interest income is recognised as income using the effective interest method. This entails the ongoing recognition of nominal interest rates, with the addition of amortisation of establishment fees minus direct establishment costs. Income recognition of interest using the effective interest method is used for both balance sheet items recognised at amortised cost and balance sheet items recognised at fair value via the income statement. Interest income for financial assets in steps 1 and 2 is calculated using the effective interest rate method on the financial asset's gross value, while interest income for financial assets in step 3 is calculated based on the net value of the financial asset.

Commission income and costs

Commission income and costs are recognised in the income statement as a service is provided and the Bank becomes entitled to payment in accordance with IFRS 15. Included in this are fees from payment mediation and insurance sales.

Intangible assets

Intangible assets are capitalised when probable future financial benefits attributable to the asset can be demonstrated and the cost price of the asset can be estimated reliably. Intangible assets are recognised at cost price.

Development of software is recognised in the balance sheet and classified as intangible assets if the value is considered significant and the asset is expected to have lasting value. In connection with the development of software, use of the Group's own resources is capitalised if accrued expenses can be measured reliably. Expenses for project planning, implementation and training are expensed on an ongoing basis. Capitalised proprietary software is depreciated on a straight-line basis over its estimated useful life. Depreciation commences when the software is made available for use in the company, so that software under development is recognised at cost price until development has been completed.
Intangible assets with a limited life are depreciated, and any need for write-down is evaluated.

Fixed assets

Tangible fixed assets and property are valued at historic cost and written off over the expected economic life of the asset.
It is a requirement that the various elements with different lifetimes are separated out and written off separately. Ordinary depreciation is based on cost price and distributed linearly over the economic life of the fixed assets:

- Buildings and other real property 30 - 40 years
- Machinery, equipment, fixtures and vehicles 3 - 10 years

The depreciation period and method are evaluated annually to ensure that the period and method used is in line with the financial realities of the asset. The same applies to the salvage value.

Other assets

Properties held for sale consists of properties that the Group has acquired as part of the recovery of commitments in default. These are business assets which the Group does not intend to retain and which will normally be sold within about one year. At the time of acquisition, the assets are valued at the expected realisation value, and are not subject to depreciation. These properties are classified as other assets.

Leases

<u>The Group as lessee</u>
The Group's leases are recognised in accordance with IFRS 16. The distinction between operational and financial leases has largely been eliminated since IFRS 16 replaced IAS 17 with effect from 2019. The

Group recognises the usufruct asset and associated liability at fair value at the time of recognition. The asset is depreciated over the leasing period, while the liability is recognised at amortised cost.

The Group as lessor
The Group presents assets that are leased as fixed assets in the balance sheet. Rental income is recognised in the income statement over the leasing period. The introduction of IFRS 16 has no effect on the Group as a lessor.

Provisions

A provision is recognised when the Group has an actual liability (legal or assumed) due to events that have occurred, when a financial settlement resulting from the commitment is likely, and when the amount can be estimated reliably. Provisions are reviewed as of each financial reporting date, and the level reflects the best estimate of the commitment.

Pension liabilities and pension costs

The Group has a defined contribution pension scheme, but there are some members still in the old defined benefit pension scheme. See Note 12 for more details.

Defined contribution scheme
In 2016, the Bank's employees were transferred from a defined benefit scheme to a defined contribution scheme. The contributions are recognised and amortised as pension costs. Regarding the distribution of employees between the two schemes, please refer to the accounting note for details.

Defined benefit scheme
Those who remain in the defined benefit plan are members who, under the current rules cannot be transferred.
The Group's pension liabilities are related to defined benefit pension schemes secured in insurance companies and uninsured schemes. Pension expenses and liabilities presented in the statement are obtained from actuarial calculations.
The yield on covered bonds is used as the discount rate.
Note 12.2 shows the sensitivity in calculating pension costs and liability.
Secured and unsecured liabilities are calculated as the discounted value of future pension benefits as of the balance sheet date, secured and unsecured, based on the employees earning pension rights steadily throughout the working period.
Plan assets are valued and posted net against pension liabilities in the balance sheet. Each scheme is considered separately, but the value of the overfinancing in a scheme and underfunding in other schemes are recognised net in the balance sheet if the pension funds can be transferred between the schemes.
Net pension funds are presented in the balance sheet as prepaid expenses and accrued income, whereas net pension liabilities are presented under other liabilities.
The net pension cost is recognised under personnel expenses, and consists of the pension accrual during the period, the interest cost on the calculated pension obligation and the projected yield on the pension funds. The difference between the actual yield and the calculated yield is recognised via other comprehensive income.
The effects of plan changes are recognised in the income statement, while estimate variances are recognised via other comprehensive income.

Taxes

Deferred tax and deferred tax asset are capitalised in accordance with IAS 12 Income tax.
The tax cost in the income statement includes both the period's payable tax and change in deferred tax. Deferred tax/deferred tax asset is estimated as being 25% of the net temporary differences that exist between accounting and tax values at the end of the financial year. Tax-increasing and tax-reducing temporary differences that reverse or could reverse in the same period are offset and recognised net.
Deferred tax assets are capitalised based on expectations regarding taxable income through earnings in subsequent years.
Payable tax in the balance sheet comprise the payable tax for the period linked to the profit for the year, tax on wealth and payable tax linked to group contributions received. Wealth tax is treated as an operating cost.

Equity certificate capital

Equity consists of equity share capital, primary capital, fund for unrealised gains, other equity (Group) and hybrid capital.

The equity share capital consists of capital related to equity capital certificates, own equity capital certificates, share premium reserve and cohesion fund. Primary capital includes paid and accrued primary capital, the gift fund and the compensation fund.

In the Parent bank, the fund for unrealised gains consists of gains on changes in the value of financial instruments where the principle for valuation in accordance to IFRS deviates from the principle according to Norwegian Good Accounting Practice (*Norsk God Regnskapsskikk*).

Other equity (Group) consists of accrued equity in subsidiaries and associated companies following group establishment and the effect of equity eliminations in the consolidated financial statements.
Subordinated bonds that do not satisfy the definition of financial obligation in accordance with IAS 32 are recognised under equity. Accrued interest on subordinated bonds is allocated to subordinated bond capital.

In connection with the issuing of new equity capital certificates or the acquisition of other enterprises, the additional costs directly attributable to the new equity capital certificates or acquisition are treated as a reduction in paid-up capital.
This year's profit is allocated to the owners of equity capital certificates and the primary fund in accordance with the dividend policy.
Dividends from equity capital certificates are classified as equity during the period up until the dividend has been determined by the Bank's Supervisory Board.
When the dividend has been approved by the Supervisory Board, it is eliminated from equity and classified as a current liability until the payment date.
When the Bank or other companies in the Group purchase equity capital certificates issued by the Bank, the combined purchase consideration is eliminated from the total equity certificate capital.

Segments

Segment reporting is divided according to the way in which different business areas are reported and followed up. The Bank has two operating segments: the Retail Market and the Corporate Market.

Cash flows

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

Cash and cash equivalents consist of cash, bank deposits, other short-term, readily negotiable investments with an original term not exceeding three months.

Comparability

Comparative figures are adjusted where it is deemed necessary to ensure comparability with the presentation for the present year

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Events after the balance sheet date

Events after the reporting date are reported in accordance with IAS 10. The information covers events which are not recognised in the consolidated financial statements, but which are of significance to the evaluation of the business.
The financial statements are submitted under the assumption of a going concern. In the opinion of the Board, this assumption was met at the time the financial statements were approved for submission. The Board’s recommendation regarding a dividend is presented in the annual report.

NOTE 1.1 - Accounting estimates and discretionary assessments

Parent bank and Group

The Group prepares estimates and assumptions which have an impact on reported balance sheet figures for the next financial year. Estimates and assessments are constantly subject to evaluation and are based on historical experience and other factors, including expectations in relation to future events which are deemed to be reasonable.

Write-downs on lending
Assessments of write-downs are partly based on judgement.
Loan portfolios/guarantee liabilities are continuously monitored with regard to the need for impairment/provisions. Impairment/provisions are implemented in accordance with IFRS 9. See the accounting policies and Note 2.1.1.

Fair value of financial instruments

The fair value of financial instruments is partly calculated based on assumptions not observable in the market. This is particularly relevant as regards the determination of a relevant supplement for credit risk in connection with fair value determination for fixed-rate securities in the form of borrowing and securities issued by others. In these cases, the Bank bases its evaluations on the information available in the marked, combined with best judgement. This information includes credit assessments by leading market operators.

Associated companies

Helgeland Sparebank own 48.3% of Helgeland Invest (HI). The Bank finalises its accounts early, partly on the basis of preliminary forecasts for HI. See the explanatory remarks in Note 27.

NOTE 2 - Financial risk management

Group and Parent bank

Risk and capital management
Risk and capital management supports the Group's strategic development and ambitions, and helps to ensure attainment of the Group's financial and operational objectives. Nevertheless, unforeseen losses can occur which require the Group to have sufficient equity. As a part of the risk management process, the requirement for supplementary capital for the various risk areas is evaluated. These assessments are underpinned by computational models. This is summarised in the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

Risk categories and definitions:
• Credit risk is defined as the risk of losses as a result of customers or counterparties being unable to fulfil their obligations.
• Liquidity risk: the risk of the Group being unable to meet its obligations at maturity.
• Market risk: the risk of losses due to changes in market prices linked to activities and positions in securities (interest and shares) and currency.
• Operating risk: the risk of direct or indirect losses due to failures in internal routines, systems and processes, insufficient competency, damage to assets, suspension of operations, system failure, and internal or external fraud.
• Compliance risk: Risk of not complying with regulatory requirements and internal procedures/guidelines
• Anti-money laundering risk: Risk of not complying with anti-money laundering and terrorist financing laws and regulations, and not complying with internal regulations with the intention of fulfilling the requirements of the law.

Risk management is pivotal to the day-to-day operation and the ongoing work of the Board. Risk is primarily managed through risk strategy, general guidelines concerning operational risk, periodic measurement and reporting of established management goals in all business areas, guidelines, frameworks, authorities, reporting requirements and competency requirements.

The Bank's risk management unit comprises six full-time equivalents. The Risk Management Director reports directly to the CEO, and is responsible for monitoring and coordinating overarching risk management within the Bank. The Risk Management Director also reports directly to the Board.

The HSB Group’s internal audit unit consists of one full-time equivalent and reports directly to the Board. The internal auditor is responsible for evaluating whether adequate routines are in place in key areas within the Bank in order to reduce risk. The Board annually approves the internal auditor's instructions and schedule of work. The internal auditor can utilise external services if needed.

Corporate governance

Helgeland Sparebank's principles and policy for corporate governance are intended to ensure that the Bank operates in line with generally accepted and recognised practices and standards, as well as laws and regulations. Good corporate governance at Helgeland Sparebank encompasses the values, goals and general principles by which the Bank is governed and controlled. This is in order to ensure good cooperation between the Bank's various stakeholders, such as equity certificate holders, creditors, customers, employees, governing bodies, management and society at large. Corporate governance should ensure prudent asset management and give greater assurance that communicated goals and strategies are being implemented and achieved. The Group's principles and frameworks for internal control and risk management are enshrined in the governing documents, which are reviewed annually by the Board. The governing documents set out the Group's internal framework for good governance and control, and the policy provides guidance regarding the Group's overarching approach to risk management.

The Board of Helgeland Sparebank places emphasis on compliance with the principles laid down in the Norwegian Code of Practice for Corporate Governance in the management of the business.

Helgeland Sparebank has compared its own policy to the Norwegian Code of Practice for Corporate Governance and the aforementioned principles from the European Banking Authority. The Board considers that the Bank's corporate governance is satisfactory and in accordance with Norwegian recommendations.

In 2019, 14 board meetings were held at the Bank. The follow-up of strategy, risk and capital management and profitability have been the Board's main focus areas.

The Board has prepared an annual plan for its work. Emphasis is placed on ensuring that the Board's members possess sufficient knowledge and expertise. A self-evaluation has been conducted covering working forms, expertise, priorities and collaboration between the Board and the management.

As part of the Board's work, it has set up an Audit Committee, a Risk Committee and a Remuneration Committee. These committees are intended to ensure that Helgeland Sparebank has an independent and effective internal and external audit, and that accounting and risk reporting are in line with rules and regulations, and help to promote and incentivise good corporate governance with regard to the enterprise's risks, counteract high risk taking and help to prevent conflicts of interest. The Risk Committee comprises Stein Andre Herigstad-Olsen (chair), Bjørn Audun Risøy and Siw Moxness.

The Audit Committee comprises Siw Moxness (chair), Stein Andre Herigstad-Olsen and Bjørn Audun Risøy.

The Remuneration Committee comprises Stein Andre Herigstad-Olsen (chair), Bjørn Audun Risøy and Birgitte Lorentzen (employee representative).

The Audit Committee held eight meetings in 2019, the Risk Committee six meetings and the Remuneration Committee two meetings.

A comprehensive account of corporate governance can be found in a separate chapter of the annual report.

NOTE 2.1 - Credit risk

Group and Parent bank

Credit risk constitutes the risk of customers or counterparties being unable to fulfil their obligations with respect to the Group. The credit risk, and its exposure, is governed by credit strategy, credit policy, credit routines and grant regulations. Credit policy, credit routines and grant regulations were reviewed and updated in October 2019, and applied from 1 January 2020. The credit strategy has been adopted for a three-year period, subject o annual re-evaluations. The current strategy from 1 January 2020 was adopted by the Board in November 2019.

The Group's credit strategy is derived from the overall strategy, and contains guidelines and management frameworks for risk profile and risk concentrations at portfolio level and sector level. There are set limits for allocation of lending between the retail and corporate markets, size of commitment and number thereof, exposure within sectors (concentration risk) and geographical limitations. The risk management framework is monitored and reported quarterly to the Board, supplemented by annual portfolio reviews.

Developments in credit risk are monitored through regular analyses of the trend in defaults in specific sectors, geographical areas, borrowers' and potential borrowers' ability to service interest and instalments, and an assessment of the collateral that underlies the credit commitments. For the ongoing monitoring of risk, a set of actions and action plans for the follow-up of borrowers has been defined, along with reports which are submitted periodically to the Board.

The total capital requirement for credit risk is stated in the Group's ICAAP. The level of tolerance for credit risk is defined for selected sectors and areas. A management level for the corporate market portfolio has been established and is followed and reported periodically. Stress tests are used to assess the loss potential in the credit portfolio as a result of a large fall in property prices.

The risk in the retail market portfolio has been low over time. House price data indicates that the price of detached houses in Helgeland flattened out or fell slightly during 2019. With price rises in 2019 in line with Northern Norway generally, Helgeland is still far below the sales price per square meter across the rest of Northern Norway and the country in general. The risk in the corporate market portfolio is moderate. Loss provisions are calculated in accordance with IFRS 9.

Based on the loss rules in IFRS 9 and internal guidelines, commitments are monitored continuously with a view to identification and modelling.

There is a strong focus on this area and regular reviews are carried out of good credit practices and the quality of the work relating to credit. This includes an understanding of good monitoring and the control of customer portfolios. Compliance through individual cases is ensured through the Credit Committee, the managers' key controls, and the delegation of tasks between advisors and custodians. For the corporate market, management and monitoring are ensured through the ongoing assessment of customer relationships, ability to pay, and collateral assessments. This takes place through both monthly and quarterly reviews. For monitoring and development in the retail market portfolio, quarterly analyses are carried out concerning the quality of approved loans, along with six-monthly analyses of the overall portfolio.

The risk-distributed loan portfolio, broken down according to low (risk class A-D), medium (risk classes E-G) and high risk (risk classes H-K), is reported based on the scoring models. Risk migration is reported quarterly as part of the overall reporting of risk to the Board.
Close monitoring of key corporate customers and monitoring of the probability of default in the portfolio and for specific defined sectors have been continued as priority focus areas. At the end of 2019, the Bank had one (three) commitment which totalled more than 10% of subordinated capital.

Outstanding contractual amounts of financial assets that are recognised during the year, but still subject to enforcement, amounted to NOK 2 million.

NOTE 2.1.1 - Loans and loss provisions

Write-downs for losses on loans and off-balance sheet items in accordance with IFRS 9

See the description in Note 1 - Accounting policies.

Assumptions used in the calculation model

Periodically expected losses are calculated as the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD), and must be unbiased. The PD model has been used and validated by the Bank since 2009, while the LGD model has been developed from 2017.

PD

The Bank's PD model gives PD (probability of default), at customer level, one year ahead. The PD model gives the likelihood that the customer will default on all their commitments. The customer's PD can therefore be used at account level.
The Bank has not developed any models to calculate lifetime PD, but is continually reviewing the opportunities to develop a lifetime PD. The Bank therefore uses models that calculate the probability of default in the next 12 months (12-month PD). The Bank has carried out analyses of the observed default rate (default rate, DR) as a function of the age of the loan at the time of default. The analyses show that DR increases somewhat in the early years after granting, and then decreases. The variation in DR is considered to be at such a level that 12 months PD represents a reasonable substitute for lifetime PD. The Bank has relatively little data, and there is thus some uncertainty associated with the analyses.

LGD

The LGD model is a function of the relationship between the commitment and the underlying collateral, the probability of recovery and the costs associated with realisation. A linear distribution of the collateral coverage is used for customers with multiple commitments. Collateral coverage is limited upwards to the usable collateral that constitutes collateral coverage with quantitative limitations, including downward adjustment of collateral coverage based on the quality of the collateral.
See Note 21 for a more detailed description of collateral.

The probability of recovery varies depending on the step that the commitment has been placed in. The probability of recovery in step 1 is 70% for the retail market and 25% for the corporate market; in steps 2 and 3, the corresponding probabilities are 40% and 15%. An exception has been established linked to the municipal sector, where the probability of recovery is set at 100%.

The cost of capitalising collateral is set to 5% of the collateral. Internal costs associated with capitalisation are set to 0%.

Minor adjustments were made to the calculation model during the reporting period, which have not had any material effect.

EAD

EAD provides an indication of the Group's exposure in commitments at any given time. This is mainly calculated from the remaining term and instalments. EAD is a function of balance, granting and a conversion factor. For example, EAD will never be greater than the appropriation for an individual commitment, or less than the balance.

The remaining term of a repayment loan is set to the closing date. The instalment profiles in the model are adapted to the characteristics of the repayment loan.

In the case of non-repayment loans, the grants are used as a basis for calculating exposure. This mainly applies to flexible loans. The term for flexible loans is assumed to be five years.

Prepayment (PP) is taken into account for all loans and is considered to be constant over the term. At the end of the year, PP only had an effect on repayment loans.

For approved, but not discounted grants, conversion factors have been established to take account of grants that are not used. For all types of grant, excluding construction loans (25%) and contract guarantees (50%), the conversion factor is set to 100%.

Scenarios

The model uses three different scenarios, which impact on the projected LGD and PD. These scenarios have been developed using historical data and macro variables.

Applicable to all the scenarios is that they apply from and including a calculation date, i.e. we are in the first scenario period at the time of calculation. This approach was used so that the scenarios have an effect on the entire calculation, including steps 1 and 3.

Description of scenarios

The scenarios were determined based on an overall assessment of a number of macro-variables and other factors, including unemployment, price falls and outward migration. There are effects at overall level for PD and collateral values which form the basis for possible adjustments to scenarios. Regional development is expected to be on par with the national economy in the three scenarios.

Three scenarios have been defined:

Realistic scenario is a macroeconomic scenario that represents expected future economic growth over the next five years. Realistic scenario is a scenario comparable to the 'Base case' ICAAP scenario. This scenario is weighted by 60%.

Optimistic scenario is a macroeconomic scenario that represents a boom, with strong economic growth. In year 5, the scenario converges on equilibrium with realistic scenario. This scenario is weighted by 20%.

Pessimistic scenario is a macroeconomic scenario that represents a downturn with sluggish economic growth. Pessimistic scenario represents a downturn based on a 25-year cycle, but which is considerably less severe than the credit crisis which occurred in the early 1990s. In year 5, the scenario converges on equilibrium with realistic scenario. The scenario is weighted by 20%.

Realistic scenario

Global economy: Stable and moderate global economic growth is expected over the next five years.

National economy: Stable growth is expected in the Norwegian economy over the next five years.

Optimistic scenario

Global economy: Positive development and strong economic growth are expected over the next five years.

National economy: Oil prices will rise and the Norwegian economy will experience strong economic growth.

Pessimistic scenario

Global economy: Growth in emerging markets is expected to decline. An increase in protectionism will create trade barriers and global economic growth will slow.

National economy: Oil prices are declining and, combined with weak economic development amongst our main trading partners, this will lead to sluggish development and growth in the Norwegian economy.

Sensitivity assessments of key assumptions
The model is most sensitive to the parameters LGD and PD. These have a sensitivity of up to 35% when they are altered for both the retail market and the corporate market. Accordingly, a 10% change in LGD/PD will result in a change in loss provisions of up to 3.5%. If the variables are altered for individual segments (retail market or corporate market), the sensitivity is around 20%. A high sensitivity indicates that the outcome of the model is particularly affected by changes in these parameters. Parameters with high sensitivity are therefore closely monitored with regard to model input and validation.

Estimate uncertainty

There is estimate uncertainty linked to a number of the parameters used in the model. This is mainly linked to underlying collateral values, parameters in LGD, and PD. As the model is relatively new, the Bank will continually implement updates and changes indicated as being appropriate by the validation process. There are no indications of significant errors or deficiencies in the model as of the end of 2019.

Parent bank						*Group*
31.12.19						**31.12.19**
Provision for losses on loans (exc. individual write-down)	**Base Case**	**Effect of Scenario**	**Effect of macro-scenarios on estimated loss**	**Provision for losses on loans (exc. individual write-down)**	**Base Case**	**Effect of Scenario**
102	86	16	Loss provisions under IFRS 9	102	86	16

Parent bank						*Group*
31.12.18						**31.12.18**
Loss provisions for loans in steps 1 and 2	**Base Case**	**Effect of Scenario**	**Effect of macro-scenarios on estimated loss**	**Loss provisions for loans in steps 1 and 2**	**Base Case**	**Effect of Scenario**
78	66	12	Loss provisions under IFRS 9	80	67	13

Gross lending, corporate market and retail market

Gross lending	Step 1 With expected loss over 12 months	Step 2 With expected loss over the instruments life time	Step 3 With expected loss over the instruments life time	*Group* 31.12.19 Total
Gross lending pr. 01.01.19	**22.813**	**3.338**	**638**	**26.789**
New loans / credits / guarantees	6.015	1.369	11	7.395
Transfers from step 1 to step 2	-1.936	1.865		-71
Transfers from step 1 to step 3	-38		47	9
Transfers from step 2 to step 3		-156	158	2
Transfers from step 3 to step 2		6	-6	0
Transfers from step 3 to step 3	23		-24	-1
Transfers from step 2 to step 1	1.037	-1.082		-45
Reduced portfolio	-5.488	-1.180	-290	-6.958
Other adjustments	-1.598	603	16	-980
Gross lending pr. 31.12.19	**20.827**	**4.764**	**550**	**26.141**
IB unused drafts, guarantees etc.	2.693	299	15	3.007
UB unused drafts, guarantees etc.	2.570	190	23	2.782

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

Lending fixed interest rate, which is measured at fair value with value change over profit, is not included.

Gross lending	Step 1 With expected loss over 12 months	Step 2 With expected loss over the instruments life time	Step 3 With expected loss over the instruments life time	*Group* 31.12.18 Total
Gross lending pr. 01.01.18	**22.025**	**3.336**	**316**	**25.677**
New loans / credits / guarantees	7.540	1.186	103	8.829
Transfers from step 1 to step 2	-1.791	1.530	0	-261
Transfers from step 1 to step 3	-199		201	2
Transfers from step 2 to step 3		-246	203	-43
			0	
Transfers from step 3 to step 2		40	-46	-7
Transfers from step 3 to step 3	32		-36	-4
Transfers from step 2 to step 1	989	-1.008	0	-19
Reduced portfolio	-5.521	-801	-85	-6.407
			0	
Other adjustments	-263	-698	-17	-979
Gross lending pr. 31.12.18	**22.812**	**3.338**	**638**	**26.789**
IB unused drafts, guarantees etc.	2.688	260	6	2.954
UB unused drafts, guarantees etc.	2.702	290	15	3.007

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

Lending fixed interest rate, which is measured at fair value with value change over profit, is not included.

	Step 1	Step 2	Step 3	*Parent bank* 31.12.2019
Gross lending	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.19	**15.770**	**3.055**	**638**	**19.463**
New loans / credits / guarantees	4.836	1.206	18	6.060
Transfers from step 1 to step 2	-1.514	1.452		-62
Transfers from step 1 to step 3	-35		44	9
Transfers from step 2 to step 3		-151	153	2
Transfers from step 3 to step 2		6	-6	0
Transfers from step 3 to step 3	22		-23	-1
Transfers from step 2 to step 1	754	-787		-33
Reduced portfolio	-4.768	-1.061	-291	-6.120
				0
Other adjustments	-853	116	15	-721
Gross lending pr. 31.12.19	**14.212**	**3.835**	**550**	**18.596**
IB unused drafts, guarantees etc.	2.228	290	15	2.533
UB unused drafts, guarantees etc.	2.060	185	23	2.267

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

Lending fixed interest rate, which is measured at fair value with value change over profit, is not included.

	Step 1	Step 2	Step 3	*Parent bank* 31.12.18
Gross lending	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.18	**15.986**	**2.777**	**315**	**19.078**
New loans / credits / guarantees	5.682	927	108	6.717
Transfers from step 1 to step 2	-1.477	1.226	0	-251
Transfers from step 1 to step 3	-197		199	2
Transfers from step 2 to step 3		-243	200	-43
			0	
Transfers from step 3 to step 2		40	-46	-7
Transfers from step 3 to step 3	32		-36	-4
Transfers from step 2 to step 1	809	-818	0	-9
Reduced portfolio	-4.560	-658	-85	-5.304
			0	0
Other adjustments	-504	-195	-17	-716
Goss lending pr. 31.12.18	**15.770**	**3.055**	**638**	**19.463**
IB unused drafts, guarantees etc.	2.240	258	6	2.504
UB unused drafts, guarantees etc.	2.228	290	15	2.533

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

Lending fixed interest rate, which is measured at fair value with value change over profit, is not included.

Write-down on loans, corporate market and retail market

	Step 1	Step 2	Step 3	*Group* 31.12.19
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.19	**17**	**63**	**305**	**385**
New or increased loans / credits / guarantees	6	30	1	**37**
Transfers from step 1 to step 2	-2	20		**18**
Transfers from step 1 to step 3	0		9	**9**
Transfers from step 2 to step 3		-3	27	**24**
				0
Transfers from step 3 to step 2		0	-1	**0**
Transfers from step 3 to step 3	0		-10	**-10**
Transfers from step 2 to step 1	0	-9		**-9**
Reduced portfolio	-6	-28	-86	**-120**
				0
Other adjustments	-1	-2	8	**5**
Loss deduction pr. 31.12.19	**14**	**71**	**253**	**338**

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

	Step 1	Step 2	Step 3	*Group* 31.12.18
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.18	**20**	**55**	**86**	**161**
New or increased loans / credits / guarantees	7	16	81	104
Transfers from step 1 to step 2	-5	25		20
Transfers from step 1 to step 3	-2		53	51
Transfers from step 2 to step 3		-19	90	71
				0
Transfers from step 3 to step 2		1	-9	-8
Transfers from step 3 to step 3	0		-3	-2
Transfers from step 2 to step 1	1	-12		-10
Reduced portfolio	-3	-4	-7	-15
				0
Other adjustments	-2	2	14	15
Loss deduction pr. 31.12.18	**17**	**63**	**305**	**386**

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

Parent bank

Loss provisions on gross loans and off-balance sheet items	Step 1 Expected loss over 12 months	Step 2 Expected loss over the instruments life time	Step 3 Expected loss over the instruments life time	31.12.19 Total
Loss deduction pr. 01.01.19	**17**	**64**	**304**	**385**
New or increased loans / credits / guarantees	6	30	2	37
Transfers from step 1 to step 2	-2	19		17
Transfers from step 1 to step 3	0		9	9
Transfers from step 2 to step 3		-3	27	24
				0
Transfers from step 3 to step 2		0	-1	0
Transfers from step 3 to step 3	0		-10	-10
Transfers from step 2 to step 1	0	-9		-8
Reduced portfolio	-6	-28	-86	-120
				0
Other adjustments	-1	-4	9	4
Loss deduction pr. 31.12.19	**14**	**69**	**253**	**336**

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

Parent bank

Loss provisions on gross loans and off-balance sheet items	Step 1 Expected loss over 12 months	Step 2 Expected loss over the instruments life time	Step 3 Expected loss over the instruments life time	31.12.18 Total
Loss deduction pr. 01.01.18	**19**	**55**	**86**	**160**
New or increased loans / credits / guarantees	7	16	81	104
Transfers from step 1 to step 2	-5	25		20
Transfers from step 1 to step 3	-2		53	51
Transfers from step 2 to step 3		-19	89	70
Transfers from step 3 to step 2		1	-9	-8
Transfers from step 3 to step 3	0		-3	-2
Transfers from step 2 to step 1	1	-12		-10
Reduced portfolio	-3	-4	-7	-15
				0
Other adjustments	-2	2	14	15
Loss deduction pr. 31.12.18	**17**	**64**	**304**	**385**

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

Gross lending, corporate market

Corporate market	Step 1	Step 2	Step 3	*Group* 31.12.2019
Gross lending	With expected loss over 12 months	With expected loss over the instruments life time	With expected loss over the instruments life time	Total
Gross lending pr. 01.01.19	**6.889**	**1.844**	**568**	**9.301**
New loans / credits / guarantees	1.917	825	1	2.743
Transfers from step 1 to step 2	-848	809		-40
Transfers from step 1 to step 3	-23		32	9
Transfers from step 2 to step 3		-103	107	4
Transfers from step 3 to step 2		5	-5	0
Transfers from step 3 to step 3	12		-12	0
Transfers from step 2 to step 1	388	-412		-24
Reduced portfolio	-2.025	-702	-274	-3.001
Other adjustments	-167	-18	16	-169
Gross lending pr. 31.12.19	**6.144**	**2.248**	**433**	**8.824**
IB unused drafts, guarantees etc.	1.641	259	16	1.916
UB unused drafts, guarantees etc.	1.401	169	22	1.593

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

0

Corporate market	Step 1	Step 2	Step 3	*Group* 31.12.2018
Gross lending	With expected loss over 12 months	With expected loss over the instruments life time	With expected loss over the instruments life time	Total
Gross lending pr. 01.01.18	**7.274**	**1.399**	**209**	**8.882**
New loans / credits / guarantees	2.476	503	91	3.070
Transfers from step 1 to step 2	-1.038	804	0	-234
Transfers from step 1 to step 3	-194		193	-1
Transfers from step 2 to step 3		-240	167	-73
Transfers from step 3 to step 2		31	-38	-7
Transfers from step 3 to step 3	7		-10	-3
Transfers from step 2 to step 1	391	-385		6
Reduced portfolio	-1.691	-229	-43	-1.963
Other adjustments	-336	-39	-1	-376
Gross lending pr. 31.12.18	**6.889**	**1.844**	**568**	**9.301**
IB unused drafts, guarantees etc.	-	-	-	-
UB unused drafts, guarantees etc.	1.641	259	16	1.916

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

Corporate market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2019
Gross lending	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.19	**6.883**	**1.814**	**568**	**9.265**
New loans / credits / guarantees	1.903	812	2	2.717
Transfers from step 1 to step 2	-841	801		-40
Transfers from step 1 to step 3	-22		31	9
Transfers from step 2 to step 3		-103	107	4
Transfers from step 3 to step 2		5	-5	0
Transfers from step 3 to step 3	12		-12	0
Transfers from step 2 to step 1	383	-406		-23
Reduced portfolio	-2.018	-700	-274	-2.992
Other adjustments	-265	-8	16	-257
Gross lending pr. 31.12.19	**6.036**	**2.214**	**433**	**8.683**
IB unused drafts, guarantees etc.	1.629	268	16	1.913
UB unused drafts, guarantees etc.	1.394	169	22	1.585
Transition between steps includes changes in lending from the beginning to the end of the period.				
	0			

Corporate market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2018
Gross lending	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.18	**7.191**	**1.382**	**209**	**8.782**
New loans / credits / guarantees	2.460	494	91	3.045
Transfers from step 1 to step 2	-1.027	792	0	-235
Transfers from step 1 to step 3	-194		193	-1
Transfers from step 2 to step 3		-240	168	-72
Transfers from step 3 to step 2		31	-38	-7
Transfers from step 3 to step 3	7		-10	-3
Transfers from step 2 to step 1	387	-381	0	6
Reduced portfolio	-1.656	-225	-43	-1.924
			0	
Other adjustments	-285	-39	-2	-326
Gross lending pr. 31.12.18	**6.883**	**1.814**	**568**	**9.265**
IB unused drafts, guarantees etc.				-
UB unused drafts, guarantees etc.	1.629	268	16	1.913

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

Write-down, corporate market

Corporate market	Step 1	Step 2	Step 3	*Group* 31.12.2019
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.19	**16**	**60**	**292**	**368**
New or increased loans / credits / guarantees	5	29	1	35
Transfers from step 1 to step 2	-2	17		15
Transfers from step 1 to step 3	0		9	8
Transfers from step 2 to step 3		-3	24	21
				0
Transfers from step 3 to step 2		0	-1	0
Transfers from step 3 to step 3	0		-10	-10
Transfers from step 2 to step 1	0	-8		-8
Reduced portfolio	-6	-27	-82	-115
Other adjustments	-2	-5	7	0
Loss deduction pr. 31.12.19	**11**	**64**	**240**	**315**

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

Corporate market	Step 1	Step 2	Step 3	*Group* 31.12.2018
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.18	**19**	**51**	**61**	**131**
New or increased loans / credits / guarantees	7	15	77	99
Transfers from step 1 to step 2	-5	22		17
Transfers from step 1 to step 3	-2	1	59	58
Transfers from step 2 to step 3		-19	92	73
				0
Transfers from step 3 to step 2		1	-8	-7
Transfers from step 3 to step 3	1		-2	-1
Transfers from step 2 to step 1	1	-10		-9
Reduced portfolio	-3	-3	-12	-18
Other adjustments	-2	2	25	26
Loss deduction pr. 31.12.18	**16**	**60**	**292**	**368**

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

Parent bank

Corporate market	Step 1	Step 2	Step 3	31.12.2019
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.19	**16**	**60**	**291**	**367**
New or increased loans / credits / guarantees	5	29	1	35
Transfers from step 1 to step 2	-2	17		15
Transfers from step 1 to step 3	0		9	8
Transfers from step 2 to step 3		-3	26	23
Transfers from step 3 to step 2		0	-1	0
Transfers from step 3 to step 3	0		-10	-10
Transfers from step 2 to step 1	0	-8		-8
Reduced portfolio	-6	-27	-82	-115
				0
Other adjustments	0	-6	6	0
Loss deduction pr. 31.12.19	**13**	**63**	**240**	**315**

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

Parent bank

Corporate market	Step 1	Step 2	Step 3	31.12.2018
Loss provisions on gross loans and off-balance sheet items	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.18	**19**	**51**	**61**	**131**
New or increased loans / credits / guarantees	7	15	77	99
Transfers from step 1 to step 2	-5	22		17
Transfers from step 1 to step 3	-2	1	59	58
Transfers from step 2 to step 3		-19	92	73
Transfers from step 3 to step 2		1	-8	-7
Transfers from step 3 to step 3	1		-2	-1
Transfers from step 2 to step 1	1	-10		-9
Reduced portfolio	-3	-3	-12	-18
				0
Other adjustments	-2	2	24	25
Loss deduction pr. 31.12.18	**16**	**60**	**291**	**367**

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

Gross lending, retail market

Retail market	Step 1	Step 2	Step 3	Group 31.12.2019
Brutto utlån (eks. fastrente utlån)	With expected loss over 12 months	With expected loss over the instruments life time	With expected loss over the instruments life time	Total
Gross lending pr. 01.01.19	**15.923**	**1.494**	**71**	**17.488**
New loans / credits / guarantees	4.098	544	10	4.652
Transfers from step 1 to step 2	-1.088	1.056		-31
Transfers from step 1 to step 3	-15		15	0
Transfers from step 2 to step 3		-53	51	-2
Transfers from step 3 to step 2		1	-1	0
Transfers from step 3 to step 3	11		-11	-1
Transfers from step 2 to step 1	648	-670		-21
Reduced portfolio	-3.463	-477	-16	-3.957
Other adjustments	-1.429	621	-1	-809
Gross lending pr. 31.12.19	**14.685**	**2.516**	**117**	**17.318**
IB unused drafts, guarantees etc.	1.061	31	-	1.092
UB unused drafts, guarantees etc.	1.168	21	0	1.189

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

Retail market	Step 1	Step 2	Step 3	Group 31.12.2018
Brutto utlån (eks. fastrente utlån)	With expected loss over 12 months	With expected loss over the instruments life time	With expected loss over the instruments life time	Total
Gross lending pr. 01.01.18	**14.724**	**1.937**	**108**	**16.769**
New loans / credits / guarantees	5.128	683	12	5.823
Transfers from step 1 to step 2	-747	720		-27
Transfers from step 1 to step 3	-15		19	4
Transfers from step 2 to step 3		-9	8	-1
			0	
Transfers from step 3 to step 2		9	-9	0
Transfers from step 3 to step 3	25		-26	-1
Transfers from step 2 to step 1	587	-610	0	-23
Reduced portfolio	-3.933	-572	-41	-4.546
			0	
Other adjustments	154	-664	0	-510
Gross lending pr. 31.12.18	**15.923**	**1.494**	**71**	**17.488**
IB unused drafts, guarantees etc.	-	-	-	-
UB unused drafts, guarantees etc.	1.061	31	0	1.092

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

Retail market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2019
Brutto utlån (eks. fastrente utlån)	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.19	**8.888**	**1.240**	**71**	**10.199**
New loans / credits / guarantees	2.933	394	16	3.343
Transfers from step 1 to step 2	-672	650		-22
Transfers from step 1 to step 3	-13		13	0
Transfers from step 2 to step 3		-48	46	-2
Transfers from step 3 to step 2		1	-1	0
Transfers from step 3 to step 3	10		-10	-1
Transfers from step 2 to step 1	371	-380		-10
Reduced portfolio	-2.750	-361	-17	-3.129
				0
Other adjustments	-591	126	-1	-467
Gross lending pr. 31.12.19	**8.174**	**1.621**	**117**	**9.912**
IB unused drafts, guarantees etc.	599	22	-	621
UB unused drafts, guarantees etc.	667	16	0	682

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

Retail market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2018
Brutto utlån (eks. fastrente utlån)	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Gross lending pr. 01.01.18	**8.725**	**1.395**	**107**	**10.227**
New loans / credits / guarantees	3.286	432	17	3.735
Transfers from step 1 to step 2	-444	428		-16
Transfers from step 1 to step 3	-14		18	4
Transfers from step 2 to step 3		-5	5	0
Transfers from step 3 to step 2		9	-9	0
Transfers from step 3 to step 3	25		-26	-1
Transfers from step 2 to step 1	411	-426		-15
Reduced portfolio	-2.975	-435	-41	-3.451
			0	0
Other adjustments	-126	-158	0	-284
Gross lending pr. 31.12.18	**8.888**	**1.240**	**71**	**10.199**
IB unused drafts, guarantees etc.				-
UB unused drafts, guarantees etc.	599	22	0	621

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

Write-down, retail market

Retail market	Step 1	Step 2	Step 3	*Group* 31.12.2019
Tapsavsetninger brutto utlån og utenombalanseposter	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.19	**2**	**7**	**9**	**18**
New or increased loans / credits / guarantees	0	1	0	2
Transfers from step 1 to step 2	0	3		3
Transfers from step 1 to step 3	0		1	1
Transfers from step 2 to step 3		-1	2	2
Transfers from step 3 to step 2		0	0	0
Transfers from step 3 to step 3	0		0	0
Transfers from step 2 to step 1	0	-1		-1
Reduced portfolio	0	-1	-4	-5
				0
Other adjustments	0	-1	6	5
Loss deduction pr. 31.12.19	**2**	**8**	**14**	**23**

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

Retail market	Step 1	Step 2	Step 3	*Group* 31.12.2018
Tapsavsetninger brutto utlån og utenombalanseposter	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.18	**1**	**6**	**20**	**27**
New or increased loans / credits / guarantees	1	2	3	6
Transfers from step 1 to step 2		2		2
Transfers from step 1 to step 3			1	1
Transfers from step 2 to step 3				0
Transfers from step 3 to step 2				0
Transfers from step 3 to step 3			-1	-1
Transfers from step 2 to step 1		-1		-1
Reduced portfolio		-2	-6	-8
				0
Other adjustments			-8	-8
Loss deduction pr. 31.12.18	**2**	**7**	**9**	**18**

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

Retail market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2019
Tapsavsetninger brutto utlån og utenombalanseposter	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.19	**2**	**4**	**12**	**18**
New or increased loans / credits / guarantees	0	1	1	2
Transfers from step 1 to step 2	0	2		2
Transfers from step 1 to step 3	0		0	0
Transfers from step 2 to step 3		-1	1	1
Transfers from step 3 to step 2		0	0	0
Transfers from step 3 to step 3	0		0	0
Transfers from step 2 to step 1	0	-1		-1
Reduced portfolio	0	-1	-1	-2
				0
Other adjustments	-1	0	1	1
Loss deduction pr. 31.12.19	**1**	**5**	**15**	**21**

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

Retail market	Step 1	Step 2	Step 3	*Parent bank* 31.12.2018
Tapsavsetninger brutto utlån og utenombalanseposter	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
Loss deduction pr. 01.01.18	**1**	**5**	**15**	**21**
New or increased loans / credits / guarantees	1	1	3	5
Transfers from step 1 to step 2		1		1
Transfers from step 1 to step 3			1	1
Transfers from step 2 to step 3				0
Transfers from step 3 to step 2				0
Transfers from step 3 to step 3				0
Transfers from step 2 to step 1		-1		-1
Reduced portfolio		-2	-6	-8
				0
Other adjustments			-1	-1
Loss deduction pr. 31.12.18	**2**	**4**	**12**	**18**

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

Risk classifications

Parent bank 31.12.19					Group 31.12.19			
Step 1	Step 2	Step 3	**Total**	**Loans divided on risk class and step**	Step 1	Step 2	Step 3	**Total**
11,691	0	0	11,691	Low risk	18,172	0	0	18,172
2,017	2,166	18	4,201	Medium risk	2,142	2,869	20	5,031
504	1,669	532	2,704	High risk	513	1,895	530	2,938
14,212	3,835	550	**18,596**	**Gross lending (eks. loans to real value)**	20,827	4,764	550	**26,141**

Parent bank 31.12.19					Group 31.12.19			
Step 1	Step 2	Step 3	**Total**	**Loans divided on risk class and step**	Step 1	Step 2	Step 3	**Total**
12,567	0	0	12,567	Low risk	18,937	0	0	18,937
2,670	1,640	18	4,328	Medium risk	3,385	1,615	18	5,018
533	1,415	604	2,551	High risk	490	1,723	620	2,834
15,770	3,055	622	**19,446**	**Gross lending (eks. loans to real value)**	22,812	3,338	638	**26,789**

The risk groups are based on the Bank's PD model. Risk class K constitutes a commitment where there is objective evidence of loss.
Low risk = risk classes A - D
Medium risk = risk classes E - G
High risk = risk classes H - K

NOTE 2.1.2 - Central banks and credit institutions

Central banks and credit institutions

For the balance sheet items 'Receivables from central banks' and 'Loans to and receivables from credit institutions', the Bank has applied the exception for low credit risk. The Bank's 'Cash and receivables from central banks' is exclusively linked to Norges Bank. Norges Bank is rated Aaa by Moody's and AAA/A-1 + from S&P and thus meets the standard presumption concerning low credit risk. The Bank's 'Loans to and receivables from credit institutions' is exclusively linked to banks with a credit rating which meet the standard's presumption concerning low credit risk. The Bank has concluded that this, combined with LGD and low exposure, leads to insignificant loss provisions. Consequently, the Bank has not made any loss provisions linked to this balance sheet item.

Loans and receivables from credit institutions by external rating

Parent bank			*Group*	
31.12.18	**31.1219**		**31.12.19**	**31.12.18**
866	1,020	External rating S&P AA-/A-1+	339	148
123	172	External rating S&P A+/A-1+	172	132
121	182	External rating S&P A/A-1	182	121
60	58	Nonrated	57	60
1,170	1,432	**Total**	750	461

Certificates and Bonds: Classification of issuers by sector

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
273	1,000	Public	1,050	300
2,078	2,610	Municipality	2,610	2,078
1,315	1,189	Mortgage	1,109	1,313
63	63	Bank	63	63
45	72	Other	72	45
3,774	4,934	**Total**	4,904	3,799

Certificates and Bonds: Classification of issuers by rating

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
2,416	2,684	AAA	2,733	2,441
1,250	2,115	AA-/AA/AA+	2,035	1,250
60	10	A+/A	10	60
43	87	BBB-/BBB/BBB+	88	43
5	38	BB-/BB/BB+	38	5
3,774	4,934	**Total**	4,904	3,799

NOTE 2.1.3 - Defaulted and doubtful commitments

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
305	289	Loans and guarantees in default	289	305
-115	-122	Write-downs, step 3	-122	-115
190	**167**	**Total net loans and guarantees in default**	**167**	**190**
333	242	Other doubtful loans and guarantees not in default	242	333
-190	-131	Write-downs, step 3	-131	-190
143	**114**	**Total net doubtful loans and guarantees not in default**	**114**	**143**
333	**281**	**Total net defaulted and doubtful commitments**	**281**	**333**
1.6%	1.5%	As a percentage of gross loans	1.1%	1.2%

Other doubtful are loans and guarantees that are not in default. Commitments where payment relief has been registered are not recognised under other doubtful commitments, unless they are considered to be doubtful. Doubtful loans and guarantees are defined under Alternative Performance Measures (APM).

At the year-end, the Bank had non-recoverable losses of NOK 43 million (NOK 38 million) where the claim is still valid against the debtor. Non-recoverable losses for monitoring primarily concern customers in the retail market where the Bank has identified a loss, even though the loan has not been surrendered/deleted. The amount is not been recognised in the balance sheet and is not expected to be redeemed.

NOTE 2.2 - Liquidity risk

Group and Parent bank

The Board has established a liquidity management strategy, which specifies the purpose, management objectives and risk tolerance for liquidity risk management. The main objective of this strategy is to ensure that the Group has adequate liquidity management which helps to ensure that the Group is able to meet its payment obligations.
The liquidity strategy is reviewed annually by the Board. Particular emphasis has been placed on liquidity risk and new regulatory requirements for liquidity management within banks, which are gradually being implemented in the liquidity management process.
Liquidity risk is reduced by spreading borrowing over various markets, lenders, instruments and maturities.
In the management of the Group’s liquidity risk, target requirements are used for liquidity indicator1, long-term funding ratio, deposit-to-loan ratio and requirements concerning liquidity buffer capital (LCR).
The Board of Directors has also stipulated that the proportion of long-term borrowing as a percentage of total borrowing must amount to at least 70%. As of 31 December 2019, the proportion of long-term funding was 97.3% (92.2%), which is well above the target requirement.
To limit the Group’s liquidity risk, the Bank has liquidity reserves in the form of cash, deposits in Norges Bank and other banks, liquid equity instruments, investments in money market funds, interest-bearing securities and unused drawing rights. Minimum requirements for liquidity buffer levels are stipulated in the Bank’s liquidity strategy. In recent years, the Group has gradually increased both the quality and level of its liquidity buffers. The HSB Group’s combined liquidity buffer capital is considered to be satisfactory.
The majority of the Group’s liquidity reserves in the form of interest-bearing securities are invested in covered bonds and treasury and municipal bonds. The total duration of the fixed income portfolio is 1.5 (2.0) years. The Group’s total liquidity reserves (cash, bank deposits and interest-bearing securities) amounted to NOK 5.7 billion (NOK 4.3 billion), or 16.8 % (13.2%) of the Group’s total assets.

The deposit-to-loan ratio is a key parameter for the monitoring of liquidity risk, i.e. the proportion of gross lending to customers that is covered through deposits from customers. The Board of Directors has established a minimum requirement for the deposit-to-loan ratio and this requirement was met throughout 2019.
Helgeland Boligkreditt is an important source of funding and provision of mortgages approved for transfer to the Bank's residential mortgage is afforded a high level of attention. At the end of 2019, the Group’s covered bonds amounted to NOK 6.7 billion (NOK 6.5 billion).

Helgeland Sparebank is rated by Moody's. The Bank’s rating is ‘A3’ with a ‘stable outlook’. Bonds issued by Helgeland Boligkreditt AS are rated at Aaa by Moody’s.

NOTE 2.2.1 - Liquidity risk, remaining maturity

Group **31.12.19**

	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total inc. interest
Liabilities to credit institutions	0	0	594	0	594
Deposits from customers and liabilities	19,073	125	0	0	19,198
Loans established through the issuing of securities	25	329	9,596	1,123	11,073
Subordinated loans/bonds	0	0	0	916	916
Financial derivatives, gross settlement (outflows)1)	17	39	147	28	231
Total outgoing payments	**19,115**	**493**	**10,337**	**2,067**	**32,012**
Loans to and receivables from credit institutions	744	0	0	0	744
Loans to and receivables from customers	2,636	47	2,108	25,784	30,575
Certificates and bonds	839	1,049	3,012	64	4,964
Total incoming payments	**4,219**	**1,096**	**5,120**	**25,848**	**36,283**
1) Financial derivatives, gross settlement (inflows)	13	43	91	27	174

Loan awards as of 31 December were insignificant relative to the loan portfolio and have therefore not been incorporated.

Group **31.12.18**

	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total inc. interest
Liabilities to credit institutions	0	0	265	0	265
Deposits from customers and liabilities	17,251	175	0	0	17,426
Loans established through the issuing of securities	54	865	10,186	711	11,816
Subordinated loans/bonds	0	0	0	892	892
Financial derivatives, gross settlement (outflows)1)	13	34	100	0	147
Total outgoing payments	**17,318**	**1,074**	**10,551**	**1,603**	**30,546**
Loans to and receivables from credit institutions	466	0	0	0	466
Loans to and receivables from customers	2,642	46	2,152	25,013	29,853
Certificates and bonds	297	971	2,414	118	3,800
Total incoming payments	**3,405**	**1,017**	**4,566**	**25,131**	**34,119**
1) Financial derivatives, gross settlement (inflows)		60	107		167

The Bank conducts stress tests for the Group and has adopted limits for risk tolerance.

Loan awards as of 31 December were insignificant relative to the loan portfolio and have therefore not been incorporated.

Parent bank

31.12.19	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total inc. interest
Liabilities to credit institutions	0	0	593	0	593
Deposits from customers and liabilities	19,508	125	0	0	19,633
Loans established through the issuing of securities	25	292	3,714	0	4,031
Subordinated loan	0	0	0	916	916
Financial derivatives, gross settlement (outflows)[1)]	15	34	119	0	168
Total outgoing payments	**19,548**	**451**	**4,426**	**916**	**25,341**
Loans to and receivables from credit institutions	744	0	699	0	1,443
Loans to and receivables from customers	2,636	40	1,122	19,186	22,984
Certificates and bonds	839	999	3,012	64	4,914
Total incoming payments	**4,219**	**1,039**	**4,833**	**19,250**	**29,341**
1) Financial derivatives, gross settlement (inflows)	13	36	64		113

Parent bank

31.12.18	0 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total inc. interest
Liabilities to credit institutions	0	0	265	0	265
Deposits from customers and liabilities	17,704	174	0	0	17,878
Loans established through the issuing of securities	0	620	4,598	0	5,218
Subordinated loan	0	0	0	892	892
Financial derivatives, gross settlement (outflows)[1)]	13	34	100	0	147
Total outgoing payments	**17,717**	**828**	**4,963**	**892**	**24,400**
Loans to and receivables from credit institutions	457	0	732	0	1,189
Loans to and receivables from customers	2,642	41	1,152	18,434	22,269
Certificates and bonds	272	971	2,414	118	3,775
Total incoming payments	**3,371**	**1,012**	**4,298**	**18,552**	**27,233**
1) Financial derivatives, gross settlement (inflows)		60	107		167

Unused drawing facilities

Parent bank				*Group*
31.12.17	**31.12.19**		**31.12.19**	**31.12.18**
		Assets:		
2,062	1,852	Unused drawing rights, customers	2,367	2,536
471	415	Guarantees	415	471
791	818	Unused drawing rights, Helgeland Boligkreditt AS		
3,324	**3,085**	**Total unused drawing**	**2,782**	**3,007**
		Liabilities:		
300	300	Short-term drawing facility, 1 year	300	300
300	**300**	**Total liabilities**	**300**	**300**
50	50	Surplus liquidity in Norges Bank	50	50
350	**350**	**Total liabilities, including surplus liquidity**	**350**	**350**

Guarantee liabilities are presented in Note 40.

Matches and mismatches between maturity and interest rate on assets and liabilities are very important for risk management. It is unusual for banks to have a perfect match, because business transactions are often uncertain and cover many different types. An unmatched position could potentially generate a profit, but may also increase the risk of loss. The maturity of assets and liabilities, and the ability to replace them at an acceptable cost, is an important factor in determining the Group’s liquidity and its exposure to interest rate changes.
The liquidity required in order to meet claims for settlement linked to guarantees and letters of credit is considerably less than the liability itself because the Group generally does not expect third parties to withdraw liquidity under the guarantee. The total outstanding contractual commitments to increase credits do not necessarily represent future claims for liquid assets, became many of these commitments will lapse or expire without being funded.

NOTE 2.3 - Market risk

Group and Parent bank

The Board has adopted a market risk strategy that sets out limits and overall targets for the Group's market risk tolerance, as well as limits regarding interest rate, credit spread and share price risk. This strategy is reviewed annually. The HSB Group has no active trading portfolios within interest, shares or foreign exchange.

Interest rate risk

Interest rate risk is steered towards the desired level through interest binding on interest-bearing securities and borrowing (certificates and bonds), and through the use of interest rate swap agreements (interest rate swaps) in order to reduce interest rate risk linked to fixed interest rate loans.

The Board has established a framework for the Group's overall interest rate risk, which is considered to be low.

The Bank has a relatively conservative strategy as regards investments in interest-bearing securities, with the primary aim of securing satisfactory liquidity reserves for the Bank.

Share risk

The Bank's positions in shares are mainly strategically motivated through investments in subsidiaries, associated companies, product companies and a local investment company.
The market risk linked to these share investments is considered to be moderate.

Sensitivity analysis for market risk

Interest-bearing securities - credit spread risk is the risk linked to the securities in the interest rate portfolio, the portfolio's duration and the issuers' creditworthiness. The Group's credit spread risk is calculated as the credit risk at the time of spreading with 100 basis points.

Shares – limits have been established for the Group's collective share risk calculated based on exposure, risk spreading and market liquidity. Risk exposure calculations are based on a general fall in the share value of 30%. In addition, there is mark-up for risk spreading and market liquidity.

The Bank expresses the market risk as risk-adjusted capital. Calculated market risk lies within fixed limits, and an overall framework for market risk is included as a capital requirement in the Group's ICAAP.
The Bank has a substantial stake in Helgeland Invest AS. This stake will be subject to fluctuations in value depending on the performance of underlying companies. The stake therefore causes the Bank to assume an owner risk.

Overall interest rate risk is maintained at the desired level through an overall assessment of interest-bearing balance sheet items, and the use interest rate swaps (3 months).
The Board has established a limit of NOK 20 million for overall interest rate risk on and off the balance sheet, as determined by the impact on earnings that a change in the interest rate level of 2 percentage points will give. Except for a short period of time, exposure remained within the limit in 2019.

Credit spread risk

The Bank assumes credit spread risk, primarily through the management of interest-bearing assets in the Bank's liquidity portfolio. The portfolio mainly consists of assets issued by Norwegian banks, mortgage companies, municipalities, governments and non-financial institutions. The credit spread risk lies within the Board's agreed limits.

Currency risk

The Group only has minor financial positions and cash flows in foreign currencies in the balance sheet. These items are not considered to be significant. Given that Helgeland Sparebank is not a foreign exchange bank in its own right, its foreign exchange loans are managed by a foreign exchange bank. Helgeland Sparebank has provided the necessary guarantees in favour of the foreign exchange bank.
The table below summarises the Group's foreign exchange risk through guarantee liabilities relating to foreign currency loans managed by the foreign exchange bank concerned
as of 31 December.

NOTE 2.3.1 - Guarantee liabilities for foreign currency loans

Parent bank				*Group*
31.12.19				**31.12.19**
Loan amount in currency	**Guarantee liabilities in NOK**		**Loan amount in currency**	**Guarantee liabilities in NOK**
5	47	Swiss franc	5	47
44	42	Swedish krona	44	42
	89	**Total guarantee liabilities in foreign exchange loans**		**89**

The Bank has a small portfolio of guaranteed foreign exchange loans; the equivalent value of which amounted to NOK 89 million as of 31 December 2019. The portfolio is distributed over a range of customers where there is collateral in property and/or deposits. The credit risk in this portfolio is considered to be low.

Parent bank				*Group*
31.12.18				**31.12.18**
Loan amount in currency	**Guarantee liabilities in**		**Loan amount in**	**Guarantee liabilities in NOK**
5	48	Swiss franc	5	48
44	43	Swedish krona	44	43
	91	**Total guarantee liabilities in foreign exchange loans**		**91**

NOTE 2.3.2 - Interest rate risk, remaining time to interest rate adjustment

							Group
							31.12.19
	Up to 1 month	**1 - 3 months**	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**	**Without interest rate change**	**Total**
Assets							
Cash and receivables, central banks	88	0	0	0	0	0	88
Loans to and receivables on credit, without agreed maturity	743	0	0	0	0	0	743
Loans to and receivables on credit, with agreed maturity	0	7	0	0	0	0	7
Net loans to and receivables from customers	0	25,812	0	1,508	0	0	27,320
Bonds and certificates	954	3,175	775	0	0	0	4,904
Other assets, not interest-bearing (inc. swaps)	0	0	0	0	0	1,006	1,006
Total assets	**1,785**	**28,994**	**775**	**1,508**	**0**	**1,006**	**34,068**
Liabilities and equity							
Liabilities to credit institutions with agreed maturity	0	554	0	0	0	0	554
Deposits from customers and liabilities without agreed maturity	0	17,287	0	0	0	0	17,287
Deposits from customers and liabilities with agreed maturity	0	1,095	577	0	0	0	1,672
Loans established through the issuing of securities	2,475	6,852	1,456	0	0	0	10,783
Other liabilities, not interest-bearing (inc. swaps)	0	0	0	0	0	207	207
Total liabilities	**2,475**	**25,788**	**2,033**	**0**	**0**	**207**	**30,503**
Net interest rate sensitivity gap	**-690**	**3,206**	**-1,258**	**1,508**	**0**	**799**	**3,565**

Cash flow and fair value of interest rate risk

Cash flow interest rate risk is defined as the risk of future cash flows linked to individual financial asset and liabilities items fluctuating due to changes in market interest rates. The fair value of the interest rate risk is defined as the risk of the value of a financial asset or liabilities item fluctuating due to changes in market interest rates. In the case of both cash flow and the fair value of the interest rate risk, Bank is exposed to the effects of fluctuations in market interest rate levels. Unexpected changes in market interest rates can trigger increases in interest margins, but they can also be reduced or result in losses. The Board has established a limit on the overall interest rate exposure that the Bank can assume. The Bank maintains interest rate risk at the desired level through fixing interest rates on investments and securities debt, as well as through the use of interest rate swaps.

Group

31.12.18

	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Without interest rate change	Total
Assets							
Cash and receivables, central banks	82	0	0	0	0	0	82
Loans to and receivables on credit, without agreed maturity	461	0	0	0	0	0	461
Loans to and receivables on credit, with agreed maturity	0	0	0	0	0	0	0
Net loans to and receivables from customers	0	26,408	0	1,206	0	0	27,614
Bonds and certificates	801	2,475	523	0	0	0	3,799
Other assets, not interest-bearing (inc. swaps)	0		0	0	0	1,013	1,013
Total assets	**1,344**	**28,883**	**523**	**1,206**	**0**	**1,013**	**32,969**
Liabilities and equity							
Liabilities to credit institutions without agreed maturity	0	2	0	0	0	0	2
Liabilities to credit institutions with agreed maturity	0	250	0	0	0	0	250
Deposits from customers and liabilities without agreed maturity	0	15,871	0	0	0	0	15,871
Deposits from customers and liabilities with agreed maturity	0	1,091	286	0	0	0	1,377
Loans established through the issuing of securities	1,901	8,288	1,817	0	0	0	12,007
Other liabilities, not interest-bearing (inc. swaps)	0	0	0	0	0	140	140
Total liabilities	**1,901**	**25,502**	**2,104**	**0**	**0**	**140**	**29,647**
Net interest rate sensitivity gap	**-557**	**3,381**	**-1,581**	**1,206**	**0**	**873**	**3,322**

Parent bank

31.12.19

	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Without interest rate change	Total
Assets							
Cash and receivables, central banks	88	0	0	0	0	0	88
Loans to and receivables on credit, without agreed maturity	1,425	0	0	0	0	0	1,425
Loans to and receivables on credit, with agreed maturity	0	7	0	0	0	0	7
Net loans to and receivables from customers	0	18,602	0	1,508	0	0	20,110
Bonds and certificates	954	3,206	775	0	0	0	4,935
Other assets, not interest-bearing (inc. swaps)	0	0	0	0	0	1,195	1,195
Total assets	**2,467**	**21,815**	**775**	**1,508**	**0**	**1,195**	**27,760**
Liabilities and equity							
Liabilities to credit institutions without agreed maturity	0	0	0	0	0	0	0
Liabilities to credit institutions with agreed maturity	0	553	0	0	0	0	553
Deposits from customers and liabilities without agreed maturity	0	17,719	0	0	0	0	17,719
Deposits from customers and liabilities with agreed maturity	0	1,095	577	0	0	0	1,672
Loans established through the issuing of securities	1,769	1,196	1,157	0	0	0	4,122
Other liabilities, not interest-bearing (inc. swaps)	0	0	0	0	0	200	200
Total liabilities	**1,769**	**20,563**	**1,734**	**0**	**0**	**200**	**24,266**
Net interest rate sensitivity gap	**698**	**1,252**	**-959**	**1,508**	**0**	**995**	**3,494**

							Parent bank 31.12.18
	Up to 1 month	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Without interest rate change	Total
Assets							
Cash and receivables, central banks	82	0	0	0	0	0	82
Loans to and receivables on credit, without agreed maturity	1,163	0	0	0	0	0	1,163
Loans to and receivables on credit, with agreed maturity	0	7	0	0	0	0	7
Net loans to and receivables from customers	0	19,081	0	1,208	0	0	20,289
Bonds and certificates	801	2,450	523	0	0	0	3,774
Other assets, not interest-bearing (inc. swaps)	0	0	0	0	0	1,539	1,539
Total assets	**2,046**	**21,538**	**523**	**1,208**	**0**	**1,539**	**26,854**
Liabilities and equity							
Liabilities to credit institutions without agreed maturity	0	0	0	0	0	0	0
Liabilities to credit institutions with agreed maturity	0	250	0	0	0	0	250
Deposits from customers and liabilities without agreed maturity	0	16,323	0	0	0	0	16,323
Deposits from customers and liabilities with agreed maturity	0	1,109	286	0	0	0	1,395
Loans established through the issuing of securities	900	2,792	1,817	0	0	0	5,509
Other liabilities, not interest-bearing (inc. swaps)	0	0	0	0	0	126	126
Total liabilities	900	20,474	2,103	0	0	126	23,603
Net interest rate sensitivity gap	**1,146**	**1,064**	**-1,580**	**1,208**	**0**	**1,413**	**3,251**

NOTE 3 - Sensitivity analysis regarding changes in market prices

		Group 31.12.19
	Effect on profit	Effect on equity
Interest +/- 2% points	15.2	0.09%
Total		

The Group’s total interest rate risk consists of all investments in interest-bearing financial instruments and interest rate risk linked to the bank portfolio. Exposure of the Group’s interest rate risk as of 31 December 2019 was NOK 20.2 million (NOK 13.1 million. The target requirement is for the Group’s overall interest rate risk concerning interest-bearing instruments to not exceed NOK 30 million. Limit for interest rate risk: interest rate exposure (parallel shift in the interest rate curve of 2%). The effect on equity is after tax.

		Group 31.12.18
	Effect on profit	Effect on equity
Interest +/- 2% points	9.9	0.06%
Total	**9.9**	**0.06%**

NOTE 4 - Segment information

Parent bank 31.12.19					*Group* 31.12.19			
Retail Market	**Corporate Market**	**Unallocated**	**Total**		**Retail Market**	**Corporate Market**	**Unallocated**	**Total**
203	299	23	525	Net interest income	294	301	7	602
20	11	69	100	Net commission income	20	11	69	100
		95	95	Total income and net income from fin. invest.			39	39
69	40	177	286	Operating expenses	72	43	177	292
1	63		64	Losses on loans	2	63		65
153	**207**	**10**	**370**	**Net income before tax**	**240**	**206**	**-62**	**384**
11,367	8,743		20,110	Loans to customers	18,773	8,882		27,655
-21	-311		-332	Write-downs	-23	-311		-334
		7,982	7,982	Other assets			6,747	6,747
11,346	**8,432**	**7,982**	**27,760**	**Total assets per segment**	**18,750**	**8,571**	**6,747**	**34,068**
10,306	9,085		19,391	Deposits from and liabilities to customers	10,306	8,653		18,959
	4		4	Write-downs		4		4
		8,365	8,365	Other liabilities and equity			15,105	15,105
10,306	**9,089**	**8,365**	**27,760**	**Total liabilities and equity per segment**	**10,306**	**8,657**	**15,105**	**34,068**

Parent bank 31.12.18					*Group* 31.12.18			
Retail Market	**Corporate Market**	**Unallocated**	**Total**		**Retail Market**	**Corporate Market**	**Unallocated**	**Total**
201	273	16	490	Net interest income	291	275	0	566
28	12	50	90	Net commission income	28	12	50	90
0	0	112	112	Total income and net income from financial investments	0	0	65	65
66	36	177	279	Operating expenses	69	36	182	287
-1	250	0	249	Losses on loans	-1	250	0	249
164	**-1**	**1**	**164**	**Net income before tax**	**251**	**1**	**-67**	**185**
11,405	9,264	0	20,669	Loans to customers	18,649	9,346	0	27,995
-18	-362	0	-380	Write-downs	-18	-363	0	-381
0	0	6,565	6,565	Other assets	0	0	5,355	5,355
11,387	**8,902**	**6,565**	**26,854**	**Total assets per segment**	**18,631**	**8,983**	**5,355**	**32,969**
9,867	7,851		17,718	Deposits from and liabilities to customers	9,867	7,381	0	17,248
	5		5	Write-downs	0	5	0	5
		9,131	9,131	Other liabilities and equity	0	0	15,716	15,716
9,867	**7,856**	**9,131**	**26,854**	**Total liabilities and equity per segment**	**9,867**	**7,386**	**15,716**	**32,969**

The Group has defined its geographical area as a single segment - Helgeland. The Group's exposure to credit risk is mainly concentrated on this area. Helgeland is the home region of the Parent bank, which is also the Group's operating company.
The Group has also divided the banking operations into two segments: the Retail Market and the Corporate Market. Income and expenses not directly allocated to these segments are presented as unallocated.

NOTE 5 - Net interest and credit commission income

Parent bank				*Group*
2018	**2019**		**2019**	**2018**
		Interest from financial instruments at amortised cost		
23	25	Interest on receivables from credit institutions	9	9
404	450	Interest on loans to customers	999	868
427	**475**	**Total interest from financial instruments at amortised cost**	**1,008**	**877**
		Interest from financial instruments at fair value via the income statement		
25	35	Interest on loans to customers (fixed-rate loans)	35	25
55	78	Interest on certificates and bonds	78	55
80	**113**	**Total interest from financial instruments at fair value via the income account**	**113**	**80**
		Interest from financial instruments at fair value via other comprehensive income		
281	316	Interest on loans to customers (loans that can be transferred to the mortgage company)	0	0
281	**316**	**Total interest from financial instruments at fair value via other comprehensive income**	**0**	**0**
788	**904**	**Total interest income and other similar income**	**1,121**	**957**
		Interest expenses and other similar costs:		
178	240	Deposits from customers at amortised cost	240	178
3	3	Deposits from customers at fair value	3	3
5	6	Interest on deposits and loans from credit institutions	6	5
55	60	Debt securities at amortised cost	196	148
45	56	Debt securities at fair value	58	45
12	15	Deposit guarantee/emergency fund.	16	12
298	**380**	**Total interest expenses and other similar costs**	**519**	**391**

NOTE 5.1 - Interest on certain balance sheet items (average interest rate in %)

Parent bank				*Group*
31.12.18	**31.12.19**	**Average interest rate**	**31.12.19**	**31.12.18**
		Assets		
1.5%	1.9%	Loans to and receivables from credit institutions	1.4%	1.3%
3.6%	3.9%	Loans to customers	3.7%	3.3%
1.5%	1.8%	Certificates and bonds	1.8%	1.5%
		Liabilities		
1.8%	2.3%	Liabilities to credit institutions	2.3%	1.9%
1.0%	1.3%	Deposits from customers	1.3%	1.0%
1.8%	2.2%	Securities liabilities	2.1%	1.6%

NOTE 5.2 - Average volume of certain balance sheet items

Parent bank				*Group*
31.12.18	**31.12.19**	**Average volume**	**31.12.19**	**31.12.18**
		Assets		
1,550	1,323	Loans to and receivables from credit institutions	665	463
20,229	20,305	Loans to customers	27,910	27,467
3,640	4,240	Certificates and bonds	4,271	3,679
		Liabilities		
275	289	Liabilities to credit institutions	289	253
17,446	18,567	Deposits from customers	18,165	17,072
5,282	4,651	Securities liabilities	11,434	11,809

NOTE 6 - Commission income and income from banking services

Parent bank				*Group*
2018	**2019**		**2019**	**2018**
8	8	Guarantee provisions *	8	8
60	74	Fee income, payment mediation	74	60
32	32	Fee income insurance (non-life, life, savings and pension)	32	32
100	**114**	**Total commission income and income from banking services**	**114**	**100**

*) Guarantee commission made available to customers upon completion of construction contracts.

NOTE 7 - Commission expenses and costs attributable to banking services

Parent bank				*Group*
2018	**2019**		**2019**	**2018**
10	14	Payment mediation services	14	10
10	**14**	**Total commission costs and costs attributable to banking services**	**14**	**10**
90	**100**	**Net commission income**	**100**	**90**

NOTE 8 - Net income from financial assets and liabilities

Parent bank				*Group*
2018	**2019**		**2019**	**2018**
-9	-1	Unrealised fall in value of interest-bearing securities	-2	-9
1	4	Realised gain on interest-bearing securities	4	1
-1	-6	Realised loss on interest-bearing securities	-5	-1
-6	-6	Unrealised impairment of shares	-6	-2
0	1	Realised gain on shares	1	0
56	70	Share dividends	16	6
50	20	Share in earnings from Helgeland Invest	20	50
0	1	Share in earnings from REDE	1	0
5	2	Unrealised change in value, fixed-rate loans at fair value and associated swaps	2	5
-2	2	Unrealised change in value, hedging instruments and associated swaps	3	-2
94	**87**	**Total net income from financial instruments**	**34**	**48**

NOTE 9 - Other operating income

Parent bank			*Group*	
2018	**2019**		**2019**	**2018**
0	0	Operating income, real property	5	6
8	9	Operating income (including management fees, mortgage company)	0	0
10	0	Gains on sale of real property and movables	0	10
18	**9**	**Total other operating income**	**5**	**16**

NOTE 10 - Operating expenses

Parent bank			*Group*	
2018	**2019**		**2019**	**2018**
134	138	Salaries and National Insurance costs (Note 11)	138	135
58	65	IT costs	65	58
13	11	Marketing	11	13
12	14	Depreciation	19	18
4	4	Operating expenses, real property	4	4
30	30	Purchased services	32	30
28	24	Other operating expenses (Note 14)	24	28
279	**286**	**Total ordinary operating costs**	**293**	**286**

NOTE 11 - Salaries and National Insurance costs

Parent bank			*Group*	
2018	**2019**		**2019**	**2018**
95	97	Salaries and fees	97	97
22	23	Employer's National Insurance contributions	23	22
14	14	Pension costs, defined benefit plans (Note 12)	14	14
3	4	Other personnel costs	4	3
134	**138**	**Total salaries and National Insurance costs**	**138**	**135**
150	148	Number of employees, full-time equivalents as of 31 December	148	150
149	149	Average number of employees, full-time equivalents	149	149

NOTE 12 - Pension costs and pension liabilities

Group and Parent bank

Helgeland Sparebank is required to have an occupational pension scheme and the Bank fulfils the applicable requirements set out in the relevant legislation. None of the subsidiaries have pension schemes or employees. The pension schemes include:

Defined benefit scheme invested in a life insurance company

All of the Bank's employees (who according to pension legislation could be transferred from defined benefit pension plan) were transferred to a defined contribution pension with effect from 1 March 2016.

Those who remain in the defined benefit plan are members who cannot be transferred under the applicable rules.

The scheme covers 0 (0) employees, as well as 13 (15) people who are receiving an ongoing pension from the scheme. The pension scheme entitles employees to future pension disbursements of 66% of their salary upon retirement, subject to a maximum of 12 National Insurance basic amounts (G).

Defined contribution scheme

With effect from 1 March 2016, all employees (who could be transferred) were transferred to a defined contribution scheme. Contributions to the scheme amount to 7% for salaries between 0-7.1G and 25.1% for salaries between 7.1G and 12G. The pension scheme also includes a disability pension.

The defined contribution scheme now includes 148 (154) active and 10 (6) disabled persons.

Contractual pension

The Bank and the finance industry in general have entered into an agreement concerning a contractual pension (AFP). (No one who is still a member of the old scheme has been capitalised.

Senior executive scheme

See Note 28.4.

NOTE 12.1 - Liabilities and expenses concerning pension schemes

Parent bank				*Group*
31.12.19				**31.12.19**
Expense	**Liability**		**Liability**	**Expense**
0	24	Defined benefit scheme	24	0
13	0	Defined contribution scheme	0	13
2	0	Contractual pension	0	2
15	**24**	**Total liabilities and expenses concerning pension schemes**	**24**	**15**

Parent bank				*Group*
31.12.18				**31.12.18**
Expense	**Liability**		**Liability**	**Expense**
1	22	Defined benefit scheme	22	1
11	0	Defined contribution scheme	0	11
2	0	Contractual pension	0	2
14	**22**	**Total liabilities and expenses concerning pension schemes**	**22**	**14**

NOTE 12.2 - Risks associated with changes in economic assumptions

The company is exposed to the following risks through the defined benefit pension schemes:

Investment volatility
Pension obligations are calculated using a discount interest rate determined on the basis of bond interest rates. If investment of the pension schemes' assets produces a lower return than the bond rate, a deficit is created.

Change in the bond interest rate
A reduction in bond interest rates will increase the obligations in the pension schemes. This will be partly offset by an increase in the return on bond investments.

Life expectancy
The payment liability applies for the remaining life of the scheme's members. An increase in life expectancy will lead to an increase in the liability relating to the scheme. This is particularly important in the case of the Norwegian scheme, where inflation adjustments result in greater sensitivity to changes in life expectancy.

Invested pension funds
In the case of schemes organised through pension insurance companies, the company ensures that the pension investments are managed within an "Asset Liability Matching (ALM) framework", which has been developed to ensure that long-term investments are coincident with the liabilities in the pension schemes. Within the ALM framework, the company's aim is to match long-term investments with the liabilities as they mature in the respective currencies. The company actively monitors how maturities and the anticipated returns match pension disbursements as they mature. The company has not altered its routines linked to the monitoring of risk from previous periods. The investments are well-diversified, so that losses in an individual investment will not have a significant effect on the schemes' overall pension assets.

Parent bank and Group

Investment of funds, %

	31.12.19	**31.12.18**
Shares	12.7 %	12.7 %
Bonds	44.9 %	32.9 %
Money market, etc.	31.2 %	6.9 %
Property	11.2 %	9.9 %

The value-adjusted return as of 31 December 2019 was 4.2% (1.8%).

The sensitivity in the calculations of pension costs and the pension liability in the event of a change in a weighted assumption

Parent bank and Group

			31.12.19
Pension expenses	**Discount interest rate**	**Pay increase**	**Adjustment of accrued National Insurance pension**
Basic assumptions	1.80 %	2.25 %	2.00 %
Pension expense (gross) with the basic assumptions	0	0	0.0 %
Increase by 1 percentage point	15.49 %	0	0.0 %
Reduction by 1 percentage point	19.79 %	0	0.0 %
(not for pension adjustment; pension adjustment is reduced to 0%)			

Only disabled pensioners remain in the scheme, and thus any change in salaries and the basic amount (G) will not affect a change in the liability.

The above sensitivity analysis is based on a change in one of the assumptions, assuming that all other assumptions remain constant. This is unlikely to happen in practice, and changes in some of the assumptions may co-vary. The sensitivity calculation was performed using the same method as that used for the actuarial calculation of the pension obligation in the balance sheet.

Parent bank and Group

			31.12.19
Gross pension obligation (PBO)	**Discount interest rate**	**Pay increase**	**Adjusted of accrued pension in the National Insurance scheme**
Basic assumptions	1.80 %	2.25 %	2.00 %
PBO with the basic assumptions	0	0	0.0 %
Increase by 1 percentage point	-9.60 %	0	0.0 %
Reduction by 1 percentage point	11.05 %	0	0.0 %
			2.00 %
(not for pension adjustment; pension adjustment is reduced to 0%)			

Parent bank and Group

			31.12.18
Pension expenses	**Discount interest rate**	**Pay increase**	**Adjustment of accrued National Insurance pension**
Basic assumptions	2.60 %	2.75 %	2.50 %
Pension expense (gross) with the basic assumptions	0.0 %	0.0 %	0.0 %
Increase by 1 percentage point	13.5 %	0.0 %	0.0 %
Reduction by 1 percentage point	-23.8 %	0.0 %	0. 0%
(not for pension adjustment; pension adjustment is reduced to 0%)			

Parent bank and Group

			31.12.18
Gross pension obligation (PBO)	**Discount interest rate**	**Pay increase**	**Adjustment of accrued National Insurance pension**
Basic assumptions	2.40 %	2.75 %	2.50 %
PBO with the basic assumptions	0.0 %	0.0 %	0.0 %
Increase by 1 percentage point	-18.0 %	0.0 %	0.0 %
Reduction by 1 percentage point	23.8 %	0.0 %	0.0 %
(not for pension adjustment; pension adjustment is reduced to 0%)			

NOTE 12.3 - Economic assumptions

Parent bank				*Group*
2018	**2019**	**Assumptions**	**2019**	**2018**
2.60 %	1.80 %	Discount interest rate	1.80 %	2.60 %
2.60 %	1.80 %	Return on pension funds	1.80 %	2.60 %
2.75 %	2.25 %	Long-term pay growth	2.25 %	2.75 %
2.50 %	2.00 %	Adjustment of ongoing pensions	2.00 %	2.50 %
2.50 %	2.00 %	Adjustment of the National Insurance basic amount	2.00 %	2.50 %
19.10 %	19.10 %	Employer's National Insurance contributions (inc. tax) - rate	19.10 %	19.10 %
50.00 %	0.00 %	Employees wishing to utilise contractual pension (AFP)	0.00 %	50.00 %
1.20 %	0.00 %	Annual percent retirement for working	0.00 %	1.20 %
61 years	62 years	Average age	62 years	61 years

Economic assumptions used for calculating pension costs and liabilities for defined benefit scheme

In accordance with IAS 19, the discount interest rate for pension obligations will be set to the interest rate on corporate bonds with high creditworthiness, or to the government bond interest rate if there is no deep market for corporate bonds with high creditworthiness. The Norwegian market for covered bonds is considered to be such that it can be used as a basis in the calculation of the discount interest rate.

NOTE 12.4 - Pension obligation, defined benefit scheme

Parent bank										*Group*
31.12 2015	**31.12 2016**	**31.12 2017**	**31.12 2018**	**31.12 2019**		**31.12 2019**	**31.12 2018**	**31.12 2017**	**31.12 2016**	**31.12 2015**
					Change in pension obligation:					
268	273	39	30	30	Obligation at start of year	30	30	39	273	268
9	2	1	0	0	Service cost	0	0	1	2	9
6	2	0	1	1	Interest expense on pension liabilities	1	1	0	2	6
0	0	1	0	0	New agreements, contractual pension	0	0	1	0	0
-8	-231	-6	0	1	Actuarial losses/gains	1	0	-6	-231	-8
-6	-7	-1	-1	-1	Pension disbursements	-1	-1	-1	-7	-6
269	**39**	**34**	**31**	**31**	**Defined benefit obligation at end of year**	**31**	**31**	**34**	**39**	**269**
					Change in plan assets:					
165	177	17	11	11	Plan assets at start of year	11	11	17	177	165
4	1	0	0	0	Return on pension funds	0	0	0	1	4
1	-161	-6	0	-1	Actuarial losses/gains	-1	0	-6	-161	1
-2	1	1	0	0	Administration expenses	0	0	1	1	-2
16	6	0	0	0	Contributions	0	0	0	6	16
-6	-7	-1	0	0	Pension disbursements	0	0	-1	-7	-6
178	**17**	**11**	**11**	**11**	**Plan assets at end of year**	**11**	**11**	**11**	**17**	**178**
					Reconciliation - capitalised pension obligation					
269	**39**	**34**	**31**	**31**	**Obligation at end of period**	**31**	**31**	**34**	**39**	**269**
178	**17**	**11**	**12**	**11**	**Plan assets at end of year**	**11**	**12**	**11**	**17**	**178**
-91	**-22**	**-23**	**-19**	**-21**	**Net pension obligation**	**-21**	**-19**	**-23**	**-22**	**-91**
-13	**-2**	**-3**	**-3**	**-3**	Employer’s contributions of net pension obligation	**-3**	**-3**	**-3**	**-2**	**-13**
-104	**-24**	**-26**	**-22**	**-24**	**Net pension obligation, including employer’s contributions**	**-24**	**-22**	**-26**	**-24**	**-104**
0	0	0	0	0	Unrecognised effect of estimate variances	0	0	0	0	0
0	0	0	0	0	Estimate variances, employer’s contributions	0	0	0	0	0
-104	**-24**	**-26**	**-22**	**-24**	**Balance sheet liabilities (inc. employer’s contributions)**	**-24**	**-22**	**-26**	**-24**	**-104**

NOTE 12.5 - Estimate variances, defined benefit scheme

Parent bank				*Group*
2018	**2019**		**2019**	**2018**
-1	-3	+ Actuarial loss/(gain) on defined benefit obligation from economic assumptions	-3	-1
-1	-3	- Estimate variances incorporated into OCI	-3	-1
0	**0**	**Estimate variance at end of year**	**0**	**0**

NOTE 13 - Net pension expense, defined benefit scheme, defined contribution scheme and contractual pension

Parent bank			*Group*	
2018	**2019**		**2019**	**2018**
13	13	= Pension accrual	13	13
1	2	+ Employer's contributions	2	1
14	**15**	**Net pension expense**	**15**	**14**

NOTE 14 - Other operating costs

Parent bank			*Group*	
2018	**2019**	**Specification of other operating costs**	**2019**	**2018**
13	2	Rent	2	13
1	1	Value transportation	1	1
4	4	Travel expenses	4	4
2	1	Fees, external auditor (Note 15)	1	2
8	15	Other operating expenses	15	8
28	**24**	**Total operating expenses**	**24**	**28**

NOTE 15 - Audit fees and costs for assistance from external auditor

Parent bank			*Group*	
2018	**2019**	**Audit expenses**	**2019**	**2018**
0.5	0.8	Statutory audit	1.0	0.6
1.4	0.4	Other services, attestation and assistance project	0.5	1.5
1.9	**1.2**	**Total audit**	**1.5**	**2.1**

PricewaterhouseCoopers AS is the Group's appointed auditor.

NOTE 16 - Write-downs on commitments

Parent bank			*Group*	
2018	**2019**	**Write-downs**	**2019**	**2018**
-2	-4	Change in write-downs in step 1 during the period	-4	-2
8	7	Change in write-downs in step 2 during the period	8	8
229	-51	Change in write-downs in step 3 during the period	-51	229
16	109	Non-recoverable losses during the period	109	16
-2	3	Recoveries from non-recoverable losses during previous periods	3	-2
249	**64**	**Recognised write-downs on commitments**	**65**	**249**

NOTE 17 - Tax cost

Parent bank				*Group*
2018	**2019**	**Tax for the year**	**2019**	**2018**
15	61	Tax payable	74	30
5	0	Change in deferred tax adjusted directly against equity	0	6
0	2	Over-/under-allocated in previous years	2	0
0	3	Change in deferred tax (Note 29)	3	0
20	**66**	**Tax cost for the year**	**79**	**36**

		Specification of accounting result before tax and taxable income for the year		
164	370	Accounting pre-tax profit	383	185
-117	-125	Permanent differences	-125	-117
0	0	Use of previous losses carried forward	0	0
1	13	Change in temporary differences (Note 29)	12	1
48	**258**	**Taxable income**	**270**	**69**

		Reconciliation tax		
164	370	Accounting pre-tax profit	383	185
		Tax calculated using the enterprise's weighted average tax rate		
		Tax calculated using the enterprise's weighted average tax rate		
41	91	Tax calculated using the enterprise's weighted average tax rate	96	46
		Tax effect of:		
-26	-34	Tax-free income	-24	-16
6	7	Non-deductible expenses	7	6
20	**66**	**Tax cost in the income statement**	**79**	**36**

NOTE 17.1 - Leases

Parent bank		*Group*
31.12.19		**31.12.19**
	Assets	
45.6	Usufruct as of 1 January 2019	18.8
-11.6	Depreciation	-5.0
34.0	Usufruct carried forward [1]	13.8
	Liabilities	
45.6	Liability as of 1 January 2019	18.8
-12.2	Reduction in liability	-5.2
0.9	Interest	0.4
34.3	**Liability carried forward [2]**	**14.0**

Usufruct and liability are capitalised under: 1) Other assets, 2) Other liabilities

IFRS 16 Leases

The standard presupposes that there is no longer a distinction between operational and financial leasing, because both types of agreement transfer the right of use to a specific asset from the lessor to the lessee for a specific period. For lessors, the regulations of IAS 17 are largely continued. The standard applies with effect from 1 January 2019. The standard has the effect that leases (mainly office premises) are included in the balance sheet. The effects on the Group's profits for 2019 amount to an accounting depreciation of NOK 5.0 million and interest costs of NOK 0.4 million. The liability has also been reduced by NOK 5.2 million.

NOTE 18 - Earnings per equity capital certificate

Parent bank				*Group*
2018	**2019**	**Earnings per equity certificate**	**2019**	**2018**
144	304	Profit from ordinary operations after tax	305	149
-12	-13	Interest, subordinated bonds	-13	-12
132	291	Profit (exc. interest on subordinated bonds)	292	137
76.3	76.4	Equity certificate holders' share as of 1 January	76.4	76.3
101	222	Equity certificate holders' share of earnings in NOK million	223	105
4.8	**10.7**	**Earnings per equity certificate, in NOK**	**10.7**	**5.0**
4.8	10.7	Diluted earnings per equity certificate, in NOK	10.7	5.0

NOTE 19 - Cash and receivables in central banks

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
32	38	Cash reserve	38	32
50	50	Deposits at Norges Bank	50	50
82	**88**	**Total cash and receivables in central banks**	**88**	**82**

See Note 2.1.2

NOTE 20 - Loans to and receivables in credit institutions

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
461	750	Loans to and receivables in credit institutions*	750	461
709	682	Credit, Helgeland Boligkreditt AS**	0	0
1,170	**1,432**	**Total loans to and receivables in credit institutions**	**750**	**461**

*) Loans to and receivables in credit institutions are entirely subject to floating rates of interest. See also Note 2.1.2

**) Helgeland Boligkreditt AS is a wholly owned subsidiary of Helgeland Sparebank

NOTE 21 - Loans to and receivables in customers

Parent bank				*Group*
31.12.18	**31.12.19**	**Loans by receivable type, nominal principal**	**31.12.19**	**31.12.18**
1,234	927	Overdraft and working capital facilities	927	1,234
1,429	1,351	Flexible loans	2,208	2,270
272	359	Building loans	359	272
5,911	6,050	Instalment loans	22,606	22,973
1,206	1,506	Loans to and receivables from customers	1,506	1,206
10,579	9,869	Mortgages at fair value		
20,631	20,062	Loans to customers	27,606	27,955
-81	-79	Steps 1 and 2 / (collective write-downs)	-79	-80
-299	-254	Step 3 / (individual write-downs)	-256	-299
-2		Accrued interest and Adjustment to fair value		-2
20,249	19,729	Loans to customers after write-downs	27,271	27,574
40	49	Accrued interest and amortisation	49	40
20,289	**19,778**	**Net loans to and receivables from customers**	**27,320**	**27,614**

Information on collateral

The Bank uses collateral to reduce risk depending on the market and the type of transaction concerned. Collateral can, for example, take the form of physical security or collateral, guarantees, deposits or set-off agreements. Physical collateral will normally be secured and can consist of housing, buildings or inventories. The valuation of collateral is based on the going concern assumption. Account is taken of factors that could affect the value of the collateral, write-downs or easements. Hedged items in the private market mainly consist of property. The Bank uses fixed reduction rates ranging from 20 to 50% based on the types of collateral. A statement is presented below of collateral coverage distributed broken down according to loans within the Retail Market and Corporate Market, including accrued interest.

Parent bank **31.12.19**						*Group* **31.12.19**
Corporate Market	**Retail Market**	**Total loans**	**Collateral coverage in percent**	**Total loans**	**Corporate Market**	**Retail Market**
670	167	837	Less than 40 %	849	670	179
190	113	303	40 % - 60 %	317	190	127
1,483	355	1,838	60 % - 80 %	1,899	1,490	409
2,318	4,028	6,346	80 % - 100 %	8,283	2,364	5,919
2,069	6,655	8,724	100 % - 120 %	14,242	2,179	12,063
1,997	17	2,014	Over – 120 %	2,016	1,997	19
8,727	**11,335**	**20,062**	**Total loans**	**27,606**	**8,890**	**18,716**

Parent bank 31.12.18						*Group* 31.12.18
Corporate Market	Retail Market	Total loans	Collateral coverage in percent	Total loans	Corporate Market	Retail Market
740	359	1,099	Less than 40 %	1,143	742	401
364	149	513	40 % - 60 %	533	365	168
1,633	438	2,071	60 % - 80 %	2,162	1,635	527
2,382	3,936	6,318	80 % - 100 %	8,320	2,429	5,891
2,069	6,481	8,550	100 % - 120 %	13,714	2,159	11,555
2,074	6	2,080	Over – 120 %	2,083	2,074	9
9,262	**11,369**	**20,631**	**Total loans**	**27,955**	**9,404**	**18,551**

NOTE 21.1 - Geographical distribution of gross lending

Parent bank			*Group*	
31.12.19	% share		31.12.19	% share
16,857	83.8	Helgeland	22,689	82
3,219	16.0	Rest of Norway	4,920	17.8
34	0.2	International	46	0.2
20,110	**100**	**Total**	**27,655**	**100**

Geographical distribution of gross lending

Parent bank			*Group*	
31.12.18	% share		31.12.18	% share
17,377	84.1	Helgeland	23,093	82.5
3,270	15.8	Rest of Norway	4,861	17.4
22	0.1	International	41	0.1
20,669	**100**	**Total**	**27,995**	**100**

NOTE 21.2 - Distribution of loans between the Retail Market and Corporate Market

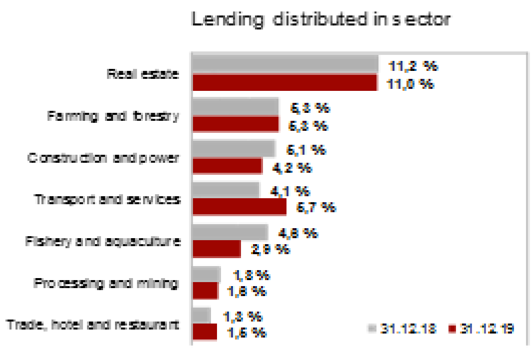
Parent bank 31.12.19				*Group* 31.12.19
Retail market	Corporate market		Retail market	Corporate market
16	911	Overdraft and working capital facilities	16	911
1,310	41	Flexible loans	2,145	63
107	252	Building loans	107	251
9,934	7,539	Repayment loans and flexible loans	16,505	7,657
11,367	**8,743**	**Gross lending to customers**	**18,773**	**8,882**

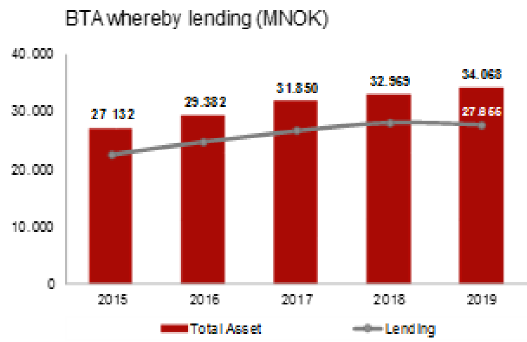
Parent bank 31.12.18				*Group* 31.12.18
Retail market	Corporate market		Retail market	Corporate market
19	1,245	Overdraft and working capital facilities	19	1,245
1,399	31	Flexible loans	2,241	31
83	188	Building loans	83	188
9,904	7,800	Repayment loans and flexible loans	16,306	7,882
11,405	**9,264**	**Gross lending to customers**	**18,649**	**9,346**

NOTE 21.3 - Loans, guarantees and losses by industry

The level of losses in the retail banking market remains low and at a level corresponding to the average for the sector. Procedures have been implemented for debt collection and follow-up. Based on empirical data, sector-related figures and local market conditions, the Bank has forecast an expected loss in the retail market portfolio of 0.07 - 0.1%.

There is a strong focus and regular reviews are carried out throughout the organisation concerning the quality of credit work and on improving understanding good governance and control. To manage and monitor risks in the corporate market portfolio, ongoing assessments are carried out concerning customer relationships, solvency, collateral in connection with borrowing and trends in defaults, along with reviews by the Bank's credit committee. To monitor risk development in the retail market portfolio, quarterly analyses of credit ratings are carried out for new loans and the overall portfolio.
The close monitoring of key corporate market customers, monitoring of developments in equity and risk both in the portfolio and for larger individual commitments have remained priority focus areas for the Bank.
Write-downs on loans were expensed in 2019 in the amount of NOK 65 million, or 0.19% of total assets. Normalised lending losses are expected going forward. Based on historical evidence, a thorough knowledge of the Group's lending and local market conditions, the Bank's forecast for credit losses expected over a five-year period is 0.20-0.5% of gross lending within the corporate lending portfolio.
When pricing commitments, a strong emphasis is placed on the ability of customers to service their debt. There will therefore normally be a correlation between the risk classification and the pricing of loans.





<u>Gross lending as of 31 December 2019</u>
Of the gross lending of NOK 27.7 (28.0) billion, NOK 8.9 (9.3) billion comprises lending to corporate customers. The graph above shows the distribution of these loans by sector. NOK 18.8 billion (NOK 18.6 billion) consists of loans to retail customers, mainly well-secured mortgages. NOK 1.5 billion. (1.5 billion) comprises loans to agricultural customers (traditionally a low-risk segment). Of gross lending, 82.0% (82.5%) was loaned to customers in Helgeland. Of gross lending, 26.4% (27.5%) was transferred to Helgeland Boligkreditt AS. see Note 21.6.

NOTE 21.4 - Commitments and losses by industry

Group

31.12.19

Lending at amortised cost and fair value

	Gross lending		**Loss provisions**				**Net lending**
	Amortised cost	Fair value (FVOCI)	Step 1	Step 2	Step 3	Fair value via the income statement	Total
Municipalities and municipal enterprises	57	0	0	0	0	0	57
Insurance and finance	1	0	0	0	0	0	1
Agriculture and forestry	1,431	0	-1	-7	-9	17	1,431
Fisheries and aquaculture	799	0	0	0	0	0	799
Mining and industry	429	0	0	0	-9	0	419
Construction, engineering and power	1,148	0	-2	-18	-111	15	1,031
Trade, hotel, restaurants	414	0	0	-2	-1	0	411
Transport and services	1,548	0	-3	-5	-51	9	1,498
Property, property development	2,995	0	-3	-30	-59	19	2,924
Corporate market	8,823	0	-10	-62	-240	59	8,570
Retail market	17,326	0	-2	-7	-14	1,447	18,751
Total	**26,149**	**0**	**-13**	**-69**	**-253**	**1,506**	**27,320**
Expected losses, unused credit and guarantees, RM			0	0			
Expected losses, unused credit and guarantees, CM			-1	-2			

Off balance sheet items, see Note 2.1.1

Group

31.12.18

Lending at amortised cost and fair value

	Gross lending		**Loss provisions**				**Net lending**
	Amortised cost	Fair value (FVOCI)	Step 1	Step 2	Step 3	Fair value via the income statement	Total
Municipalities and municipal enterprises	0	0	0	0	0	0	0
Insurance and finance	5	0	0	0	0	0	5
Agriculture and forestry	1,458	0	-1	-5	-10	17	1,460
Fisheries and aquaculture	1,292	0	-1	-1	0	0	1,289
Mining and industry	509	0	0	-2	0	0	507
Construction, engineering and power	1,414	0	-5	-27	-100	9	1,291
Trade, hotel, restaurants	357	0	-1	-1	0	0	355
Transport and services	1,130	0	-1	-6	-66	22	1,079
Property, property development	3,115	0	-5	-14	-116	18	2,998
Corporate market	9,281	0	-15	-56	-292	65	8,983
Retail market	17,507	0	-1	-5	-12	1,141	18,631
Total	**26,789**	**0**	**-16**	**-61**	**-304**	**1,206**	**27,614**
Expected losses, unused credit and guarantees, RM			0	0	0		
Expected losses, unused credit and guarantees, CM			-2	-3	0		

Off balance sheet items, see Note 2.1.1

Parent bank

31.12.19

Lending at amortised cost and fair value (via other comprehensive income) FVOCI

	Gross lending		**Loss provisions**				**Net lending**
	Amortised cost	Fair value (FVOCI)	Step 1	Step 2	Step 3	Fair value via the income statement	Total
Municipalities and municipal enterprises	57	0	0	0	0	0	57
Insurance and finance	1	0	0	0	0	0	1
Agriculture and forestry	1,278	132	-1	-7	-9	17	1,410
Fisheries and aquaculture	778	15	0	0	0	0	792
Mining and industry	411	12	0	0	-9	0	413
Construction, engineering and power	1,098	28	-2	-18	-110	15	1,009
Trade, hotel, restaurants	392	15	0	-2	-1	0	403
Transport and services	1,375	95	-3	-5	-51	9	1,420
Property, property development	2,839	159	-5	-29	-60	19	2,925
Corporate market	8,229	454	-12	-61	-240	59	8,430
Retail market	505	9,415	-1	-5	-15	1,447	11,346
Total	**8,734**	**9,869**	**-13**	**-67**	**-253**	**1,506**	**19,778**
Expected losses, unused credit and guarantees, RM			0	0			
Expected losses, unused credit and guarantees, CM			-1	-2			

Off balance sheet items, see Note 2.1.1

Parent bank

31.12.18

Lending at amortised cost and fair value (via other comprehensive income) FVOCI

	Gross lending		**Loss provisions**				**Net lending**
	Amortised cost	Fair value (FVOCI)	Step 1	Step 2	Step 3	Fair value via the income statement	Total
Municipalities and municipal enterprises	0	0	0	0	0	0	0
Insurance and finance	5	0	0	0	0	0	5
Agriculture and forestry	1,287	153	-1	-5	-10	17	1,442
Fisheries and aquaculture	1,272	14	-1	-1	0	0	1,283
Mining and industry	493	12	0	-2	0	0	503
Construction, engineering and power	1,348	48	-5	-27	-100	9	1,273
Trade, hotel, restaurants	340	10	-1	-1	0	0	348
Transport and services	942	117	-1	-6	-66	22	1,008
Property, property development	3,008	149	-5	-14	-116	18	3,040
Corporate market	8,694	504	-15	-56	-292	65	8,901
Retail market	187	10,075	-1	-5	-12	1,141	11,387
Total	**8,881**	**10,579**	**-16**	**-60**	**-304**	**1,206**	**20,289**
Expected losses, unused credit and guarantees, RM			0	0	0		
Expected losses, unused credit and guarantees, CM			-2	-3	0		

Off balance sheet items, see Note 2.1.1

NOTE 21.5 - Mortgages transferred to Helgeland Boligkreditt AS (recognised in the consolidated financial statements)

Helgeland Boligkreditt AS is the Bank's wholly owned mortgage company.

Loans which are transferred are fully secured mortgages within the mortgage value of 75%. Loans are transferred from the Parent bank’s balance sheet over to the mortgage company and are recognised in the Group in their entirety. 27.5% (26.3%) of gross lending or 40.6% (39.6) of loans to retail customers have been transferred to Helgeland Boligkreditt.

Parent bank			*Group*	
31.12.19				**31.12.19**
Book value	**Fair value**		**Book value**	**Fair value**
0	0	Flexible loans, amortised cost	857	857
0	0	Instalment loans, amortised cost 1)	6,743	6,743
0	**0**	**Total mortgages transferred to Helgeland Boligkreditt AS**	**7,600**	**7,600**

1) Approximately equal to fair value

Parent bank			*Group*	
31.12.18				**31.12.18**
Book value	**Fair value**		**Book value**	**Fair value**
0	0	Flexible loans, amortised cost	842	842
0	0	Instalment loans, amortised cost 1)	6,543	6,543
0	**0**	**Total mortgages transferred to Helgeland Boligkreditt AS**	**7,385**	**7,385**

1) Approximately equal to fair value

NOTE 21.6 - Remaining term to maturity, Helgeland Boligkreditt AS

Group
31.12.19

	0-3 months	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Liabilities to credit institutions	0	0	698	0	698
Borrowings through the issuing of securities	0	37	5,833	1,022	6,892
Financial derivatives, gross settlement (outflows)1	2	5	28	28	63
Total outgoing payments	**2**	**42**	**6,559**	**1,050**	**7,653**
Loans to and receivables from credit institutions	0	402	0	0	402
Loans to and receivables from customers	0	7	1,021	6,831	7,859
Certificates and bonds	50	0	0	0	50
Total incoming payments	**50**	**409**	**1,021**	**6,831**	**8,311**
1) Financial derivatives, gross settlement (inflows)	0	7	21	27	

	0-3 months	**3 months to 1 year**	**1 - 5 years**	**Over 5 years**	**Total**
Liabilities to credit institutions	0	0	726	0	726
Borrowings through the issuing of securities	54	508	5,584	812	6,959
Total outgoing payments	**54**	**508**	**6,310**	**812**	**7,685**
Loans to and receivables from credit institutions	0	417	0	0	417
Loans to and receivables from customers	0	6	911	6,579	7,585
Certificates and bonds	25	0	0	0	25
Total incoming payments	**25**	**423**	**911**	**6,579**	**8,027**
Net	29	85	1,627	-5,767	-326

NOTE 22.1 - Financial instruments by category

Group **31.12.19**

	Amortised cost	Assets valued at fair value via the income statement	Derivatives used for hedging	Total
Cash and receivables, central banks	88	0	0	88
Loans to and receivables from credit institutions	750	0	0	750
Loans to and receivables from customers	25,814	1,506	0	27,320
Certificates, bonds and shares	0	5,283	0	5,283
Financial derivatives	0	0	15	15
Total assets	**26,652**	**6,789**	**15**	**33,456**

	Other financial liabilities at amortised cost	Liabilities at fair value via the income statement	Derivatives used for hedging	Total
Liabilities to credit institutions with agreed maturity	554	0	0	554
Deposits from and liabilities to customers	18,959	0	0	18,959
Liabilities established through the issuing of securities	7,948	0	0	7,948
Liabilities established through the issuing of securities, hedging	2,386	0	0	2,386
Subordinated loan capital	452	0	0	452
Financial derivatives	0	25	0	25
Total liabilities	**30,299**	**25**	**0**	**30,324**

Group **31.12.18**

	Amortised cost	Assets valued at fair value via the income statement	Derivatives used for hedging	Total
Cash and receivables, central banks	82	0	0	82
Loans to and receivables from credit institutions	461	0	0	461
Loans to and receivables from customers	26,408	1,206	0	27,614
Certificates, bonds and shares	0	4,157	0	4,157
Financial derivatives	0	0	54	54
Total assets	**26,951**	**5,363**	**54**	**32,368**

	Other financial liabilities at amortised cost	Liabilities at fair value via the income statement	Derivatives used for hedging	Total
Liabilities to credit institutions with agreed maturity	252	0	0	252
Deposits from and liabilities to customers	17,248	0	0	17,248
Liabilities established through the issuing of securities	9,186	0	0	9,186
Liabilities established through the issuing of securities, hedging	2,370	0	0	2,370
Subordinated loan capital	451	0	0	451
Financial derivatives	0	22	0	22
Total liabilities	**29,507**	**22**	**0**	**29,529**

Parent bank

31.12.19

	Amortised cost	Loans at fair value via OCI	Assets valued at fair value via the income statement	Derivatives used for hedging	Total
Cash and receivables, central banks	88	0	0	0	88
Loans to and receivables from credit institutions	1,432	0	0	0	1,432
Loans to and receivables from customers	8,403	9,869	1,506	0	19,778
Certificates, bonds and shares	0	0	0	5,314	5,314
Financial derivatives	0	0	0	16	16
Total assets	**9,923**	**9,869**	**1,506**	**5,330**	**26,628**

	Other financial liabilities at amortised cost	Liabilities at fair value via the income statement	Derivatives used for hedging	Total
Liabilities to credit institutions with agreed maturity	553	0	0	553
Deposits from and liabilities to customers	19,391	0	0	19,391
Liabilities established through the issuing of securities	1,577	0	0	1,577
Liabilities established through the issuing of securities, hedging	2,092	0	0	2,092
Subordinated loan capital	452	0	0	452
Financial derivatives	0	18	0	18
Total liabilities	**24,065**	**18**	**0**	**24,083**

Changes in the fair value of loans classified as FVOCI which are recognised via OCI are insignificant (less than NOK 1 million).

Parent bank

31.12.18

	Amortised cost	Loans at fair value via OCI	Assets valued at fair value via the income statement	Derivatives used for hedging	Total
Cash and receivables, central banks	82		0	0	82
Loans to and receivables from credit institutions	1,170		0	0	1,170
Loans to and receivables from customers	8,504	10,579	1,206	0	20,289
Certificates, bonds and shares	0		4,132	0	4,132
Financial derivatives	0		0	54	54
Total assets	**9,756**	**10,579**	**5,338**	**54**	**25,727**

	Other financial liabilities at amortised cost	Liabilities at fair value via the income statement	Derivatives used for hedging	Total
Liabilities to credit institutions with agreed maturity	250	0	0	250
Deposits from and liabilities to customers	17,718	0	0	17,718
Liabilities established through the issuing of securities	2,688	0	0	2,688
Liabilities established through the issuing of securities, hedging	2,370	0	0	2,370
Subordinated loan capital	451	0	0	451
Financial derivatives	0	22	0	22
Total liabilities	**23,477**	**22**	**0**	**23,499**

NOTE 22.2 - Debt securities, value hedging

Fixed-rate debt securities are normally secured by value hedging. When a hedge is established, the Bank documents the relationship between the hedging instruments and the hedged items. The Bank also documents its assessment of whether the derivatives being used are effective in counteracting changes in value related to hedging risk in the hedged items. Such assessments are documented both upon establishment of the hedge and on an ongoing basis during the hedging period. The Bank hedges interest rate risk at individual level. Risks relating to changes in credit spread are not hedged. Changes in value linked to changes in the NIBOR rate are recognised and result in ongoing adjustment of the book value of the hedged fixed-rate loans. The book value of debt securities, including interest, is NOK 2,386 (2,370). The net recognised gain linked to the hedging instruments and hedged items linked to the hedged risk amounted to NOK 3 million in 2019 and NOK -2 million in 2018. See Note 35.1.

	Group	
Inefficiency hedging over the income statement	**31.12.19**	**31.12.18**
Value change related to hedging objects	31	60
Value change related to the hedging instrument	-28	-62
Net inefficiency over the income statement	3	-2

Parent bank / *Group*

31.12.19						**31.12.19**
Nominal	**Fair value**		**At fair value via the income statement**	**Nominal**	**Fair value**	
value	**assets**	**liabilities**		**value**	**assets**	**liabilities**
2,162	0	18	Interest rate agreement fixed rate loans hedging	2,462	0	25
2,162	**0**	**18**	**Total financial derivatives hedging**	**2,462**	0	**25**

Parent bank / *Group*

31.12.18						**31.12.18**
Nominal	**Fair value**		**At fair value via the income statement**	**Nominal**	**Fair value**	
value	**assets**	**liabilities**		**value**	**assets**	**liabilities**
2,325	0	22	Interest rate agreement fixed rate loans hedging	2,325	0	22
2,325	**0**	**22**	**Total financial derivatives hedging**	**2,325**	0	**22**

Reference	Hedging object	Contract amount	Settlement date	Interest in %	Currency	Acc. value change from hedging	Accounting line
1	Fixed rate loan	162	2020	2,30 %	NOK	-6	Debt through the issuance of securities
2	Fixed rate loan	500	2021	2,00 %	NOK	-10	Debt through the issuance of securities
3	Fixed rate loan	500	2023	2,10 %	NOK	-17	Debt through the issuance of securities
4	Fixed rate loan	500	2024	2,50 %	NOK	-3	Debt through the issuance of securities
5	Fixed rate loan	500	2022	2,20 %	NOK	-10	Debt through the issuance of securities
6	Fixed rate loan	300	2029	2,22 %	NOK	-6	Debt through the issuance of securities

Reference	Hedging object	Contract amount	Settlement date	Interest in %	Currency	Acc. value change from hedging	Accounting line
1	Renteswap, fixed	162	2020	2,30 %	NOK	5	Financial derivatives
1	Renteswap, float	-162	2020	2,91 %	NOK	2	Financial derivatives
2	Renteswap, fixed	500	2021	2,00 %	NOK	6	Financial derivatives
2	Renteswap, float	-500	2021	2,77 %	NOK	4	Financial derivatives
3	Renteswap, fixed	500	2023	2,10 %	NOK	13	Financial derivatives
3	Renteswap, float	-500	2023	2,57 %	NOK	4	Financial derivatives
4	Renteswap, fixed	500	2024	2,50 %	NOK	-12	Financial derivatives
4	Renteswap, float	-500	2024	2,55 %	NOK	15	Financial derivatives
5	Renteswap, fixed	500	2022	2,20 %	NOK	0	Financial derivatives
5	Renteswap, float	-500	2022	2,55 %	NOK	10	Financial derivatives
6	Renteswap, fixed	300	2029	2,22 %	NOK	-6	Financial derivatives
6	Renteswap, float	-300	2029	2,31 %	NOK	13	Financial derivatives

NOTE 22.3 - Assessment of fair value of financial instruments according to level

The table shows financial instruments at fair value according to the valuation method (IFRS13). The changes require the presentation of fair value measurements per level, with the following subdivisions into levels. The various levels are defined as follows:

- Level 1 - Listed price in an active market for an identical asset or liability
- Level 2 – Valuation based on observable factors, either directly (price) or indirectly (derived from prices), other than the listed price (used in level 1) for the asset or liability
- Level 3 - Valuation based on factors not obtained from observable markets (non-observable assumptions)

The fair value of financial instruments that are traded on an active market is based on the market price at the end of the reporting period. A market is considered to be active if the markets rates are readily and regularly available from a stock exchange, trader, broker, business group, pricing service or regulatory authority, and the prices represent actual and regularly occurring arm's length market transactions. The market price used for financial assets is the current bid price, while for financial liabilities the current offer price is used. These instruments are included in level 1.
The fair value of financial instruments that are not traded on an active market is determined by using valuation methods. These valuation methods maximise the use of observable data where such data is available, and are based as little as possible on the Group's own estimates. If all the significant data required to determine the fair value of an instrument comprise observable data, the instrument are included in level 2.
Unlisted shares and fixed-rate loans are classified under level 3. In the case of the valuation of shares where there is no active market, known sales values are based on the latest issue price. For securities without sales, the value is determined on the basis of available accounting information or similar. Fixed-rate loans are valued at fair value (see also the description of valuation in Note 1).
Swap fixed-rate loans totalled NOK 1,514 million as of 31 December 2019, and NOK 1,005 million as of 31 December 2018. Net interest rate risk in the event of a parallel change in interest rates of 1% point for fixed-rate loans and derivatives fixed-rate loans amounted to NOK 10 million as of 31 December 2019 and NOK 2.5 million as of 31 December 2018.
No transfers took place between levels 1 and 2 during 2019.

Assets and liabilities at fair value

Parent bank **31.12.19**				*Group* **31.12.19**		
Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
			Assets			
			Financial assets at fair value via the income statement			
0	0	1,506	Loans to and receivables from customers at fair value	0	0	1,506
0	4,935	379	Certificates, bonds and shares at fair value	0	4,905	379
			Financial assets at fair value via other comprehensive income			
0	0	9,869	Mortgages (from 1 January 2018)	0	0	0
0	16	0	Financial derivatives, hedging	0	16	0
0	**4,951**	**11,754**	**Total assets**	**0**	**4,921**	**1,885**
			Liabilities			
			Financial liabilities at fair value via the income statement			
0	18	0	Financial derivatives	0	18	0
0	**18**	**0**	**Total liabilities**	**0**	**18**	**0**

Shares	**Lending**	**Total**	**Change in the instruments classified under level 3**	**Shares**	**Lending**	**Total**
358	11,785	12,143	Balance brought forward	358	1,206	1,564
-1	-2,264	-2,265	Instalments and loans redeemed	-1	-223	-224
21	1,823	1,844	New loans	21	492	513
0	31	31	Change in value		31	31
379	**11,375**	**11,754**	**Financial instruments valued according to level 3**	**379**	**1,506**	**1,885**

Assets and liabilities at fair value

Parent bank 31.12.18				*Group* 31.12.18		
Level 1	**Level 2**	**Level 3**		**Level 1**	**Level 2**	**Level 3**
			Assets			
			Financial assets at fair value via the income statement			
0	0	1,206	Loans to and receivables from customers at fair value	0	0	1,206
0	3,774	358	Certificates, bonds and shares at fair value	0	3,799	358
			Financial assets at fair value via other comprehensive income			
0	0	10,579	Mortgages (from 1 January 2018)	0	0	0
0	54	0	Financial derivatives, hedging	0	54	0
0	**3,828**	**12,143**	**Total assets**	**0**	**3,853**	**1,564**
			Liabilities			
			Financial liabilities at fair value via the income statement			
0	22	0	Financial derivatives	0	22	0
0	**22**	**0**	**Total liabilities**	**0**	**22**	**0**

Shares	**Lending**	**Total**	**Change in the instruments classified under level 3**	**Shares**	**Lending**	**Total**
322	10,318	10,640	Balance brought forward	322	934	1,256
0	-526	-526	Instalments and loans redeemed	0	-348	-348
42	1,995	2,037	New loans	42	600	642
-6	-2	-8	Change in value	-6	20	14
358	**11,785**	**12,143**	**Financial instruments valued according to level 3**	**358**	**1,206**	**1,564**

NOTE 22.4 - Fair value of financial instruments

Parent bank **31.12.18**		**31.12.19**			*Group* **31.12.19**		**31.12.18**	
Fair value	**Balance sheet value**	**Fair value**	**Balance sheet value**	**Fair value of financial instruments**	**Balance sheet value**	**Fair value**	**Balance sheet value**	**Fair value**
				Assets				
82	82	88	88	Cash and receivables, central banks	88	88	82	82
1,170	1,170	1,432	1,432	Loans to and receivables from credit institutions	750	750	461	461
11,785	11,785	11,375	11,375	Loans to customers at fair value 3)	1,506	1,506	1,206	1,206
8,504	8,504	8,403	8,403	Loans to customers at amortised cost 1)	25,814	25,814	26,408	26,408
54	54	16	16	Financial derivatives	15	15	54	54
4,132	4,132	5,314	5,314	Certificates, bonds and shares available for sale	5,283	5,283	4,157	4,157
25,727	**25,727**	**26,628**	**26,628**	**Total**	**33,456**	**33,456**	**32,368**	**32,368**
				Liabilities				
250	250	553	553	Liabilities to credit institutions at amortised cost	554	554	252	252
171	171	122	122	Deposits from and liabilities to customers at fair value	122	122	171	171
17,547	17,547	19,269	19,269	Deposits from and liabilities to customers at amortised cost	18,837	18,837	17,077	17,077
2,315	2,370	2,070	2,092	Debt securities, hedging 2)	2,386	2,370	2,370	2,315
2,695	2,688	1,595	1,577	Covered bonds, amortised cost (FRN) 2)	7,948	7,956	9,186	9,218
451	451	452	452	Subordinated loan	452	452	451	451
22	22	18	18	Financial derivatives	25	25	22	22
23,451	**23,499**	**24,079**	**24,083**	**Total**	**30,324**	**30,316**	**29,529**	**29,506**

1) The carrying amount for loans to customers at amortised cost approximates to fair value.

2) The fair value of debt securities and subordinated loans is calculated from a theoretical market value based on interest rate and spread curves.

3) Mortgages in Parent Bank are recognised at fair value.

NOTE 23 - Financial derivatives

General description - currency and interest rate agreements

Interest rate swaps: agreement to swap interest rate conditions for an agreed amount over an agreed period.

Interest swap agreements and currency swap agreements: agreements to swap currency and interest rate conditions over a pre-agreed period for an agreed amount.

Helgeland Sparebank enters into hedging transactions with reputable Norwegian and foreign banks in order to reduce the Bank's own risk. Derivative transactions are linked to ordinary banking operations and are carried out to reduce the risk associated with the Bank's debt securities in the financial markets and to identify and reduce risk relating to customer-oriented activity. Only debt securities relating to the Bank's borrowing activities are defined as '"fair value hedges". The Bank does not use cash flow hedging.

The Bank's Board has established limits for maximum risk on the Bank's interest rate positions. Procedures have been established to ensure that the specified positions are held.

The agreements entered into by the Bank are interest rate-related financial derivatives. These are interest rate swaps linked to fixed-rate debt securities, loans and bank deposits with a share yield. The reason for using interest rate swap agreements is that a positive or negative change in the value of the underlying item will largely be offset by an opposing change in the value of the interest rate swap.

Financial derivatives

Parent bank						*Group*
31.12.19						**31.12.19**
Nominal value	**Fair value assets**	**liabilities**	**At fair value via the income statement**	**Nominal value**	**Fair value assets**	**liabilities**
1,260	16	0	Interest rate swaps – fixed interest rate loans	1,260	16	0
75	0	0	Interest rate swaps – bank deposits with share yield	75	0	0
1,335	**16**	**0**	**Total financial derivatives at fair value via the income statement**	**1,335**	**16**	**0**
2,200	0	18	Interest rate swaps – fixed-rate debt securities hedging	2,625	0	25
2,200	**0**	**18**	**Total financial derivatives, hedging**	**2,625**	**0**	**25**

Financial derivatives

Parent bank						*Group*
31.12.18						**31.12.18**
Nominal value	**Fair value assets**	**liabilities**	**At fair value via the income statement**	**Nominal value**	**Fair value assets**	**liabilities**
1,005	0	21	Interest rate swaps – fixed interest rate loans	1,005	0	21
75	0	1	Interest rate swaps – bank deposits with share yield	75	0	1
1,080	**0**	**22**	**Total financial derivatives at fair value via the income statement**	**1,080**	**0**	**22**
2,325	54	0	Interest rate swaps – debt securities hedging	2,325	54	0
2,325	**54**	**0**	**Total financial derivatives, hedging**	**2,325**	**54**	**0**

NOTE 23.1 - Net presentation of financial assets and liabilities

Instruments of relevance to the management of interest rate risk will primarily be interest rate swaps (interest rate swap agreements). Transactions involving derivatives can be carried out with different counterparties. In order to differentiate the counterparty structure, selected major banks/brokerage houses which account for the majority of the turnover in interest-related products in the market are used. The Bank has the opportunity to offset balances. Amounts are not offset in the balance sheet because the transactions are not usually settled on a net basis.

					Group
					31.12.19
	Gross financial assets	**Financial assets recognised net**	**Net financial assets in the balance sheet**	**Financial instruments**	**Net present.**
Derivatives as assets	16	0	16	-16	0
Derivatives as liabilities	25	0	25	-16	9

					Group
					31.12.18
	Gross financial assets	**Financial assets recognised net**	**Net financial assets in the balance sheet**	**Financial instruments**	**Net present.**
Derivatives as assets	54	0	54	-22	32
Derivatives as liabilities	22	0	22	22	0

NOTE 24 - Certificates, bonds and shares

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
3,766	4,924	Certificates and bonds	4,894	3,791
8	10	Accrued interest on securities	10	8
358	379	Shares, unit trust certificates and equity capital certificates	379	358
4,132	**5.313**	**Total certificates, bonds 1-2)**	**5,283**	**4,157**

1) The figures represent the maximum credit exposure.
2) The Group's policy of prudence in the securities market will be continued, and changes in the value of financial investments are expected to reflect this. The fixed income portfolio amounts to 14.4% (12.1) % of bank assets.

NOTE 24.1 - Certificates and bonds

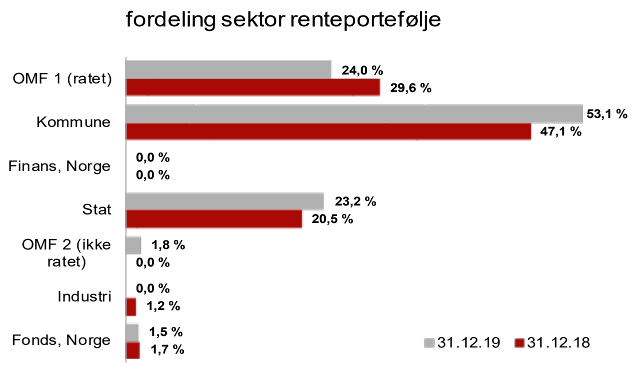
The Bank's portfolio of certificates and bonds are valued at fair value. All changes in value are recognised via other comprehensive income.
Insofar as there is an active market for the securities concerned, observable market prices are used to determine fair value.

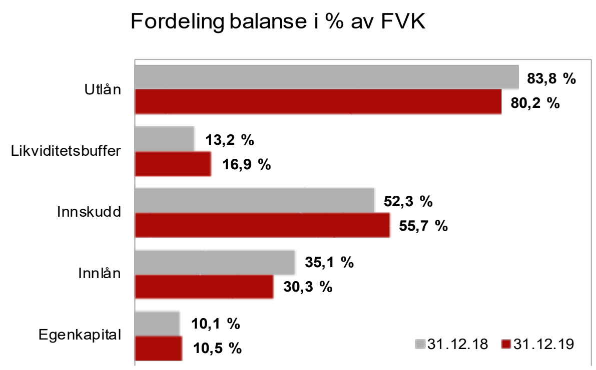
Parent bank			*Group*	
31.12.19				**31.12.19**
Nominal value	**Fair value**		**Nominal value**	**Fair value**
0	0	Bonds issued by the public sector	0	0
1,265	1,262	Certificates	1,315	1,312
3,627	3,661	Other bearer bonds	3,547	3,580
0	12	Accrued interest on securities	0	12
4,892	**4,935**	**Total certificates and bonds**	**4,942**	**4,904**

Parent bank				*Group*
31.12.18				**31.12.18**
Nominal value	**Fair value**		**Nominal value**	**Fair value**
0	0	Bonds issued by the public sector	0	0
575	571	Certificates	600	596
3,227	3,195	Other bearer bonds	3,227	3,195
0	8	Accrued interest on securities	0	8
3,802	**3,774**	**Total certificates and bonds**	**3,827**	**3,799**

Helgeland Sparebank purchased bonds from Helgeland Boligkreditt AS with a nominal value of NOK 80 million (NOK 0 million). These have been used as collateral for swap agreements with Norges Bank.

The Bank has adopted a cautious strategy with regard to securities, with specified parameters including minimum requirements regarding ratings for both Norwegian and foreign securities. The framework and authorisations are revised annually and are approved by the Bank's Board. The Group's portfolio of certificates and bonds is classified as a current asset in its entirety. The purpose of the certificate and bond portfolio is to ensure that the Group has liquidity reserves at its disposal. The Bank's securities portfolio is deemed not to be a trading portfolio.
Shown below is the securities portfolio, broken down according to rating class and sector, both of which lie within the Group’s internal targets.





NOTE 25 - Shares, unit trust certificates and equity capital certificates

Parent bank and Group

		31.12.19		31.12.18
	Nominal value	**Book value**	**Nominal value**	**Book value**
Shares – not listed	224	379	214	358
Total shares	**224**	**379**	**214**	**358**

Unrealised changes in value in the portfolio are recognised via the income statement under net income from financial instruments.

NOTE 25.1 - Additions/disposals of shares, unit trust certificates and equity capital certificates

Parent bank and Group

	31.12.19	**31.12.18**
Portfolio as of 1 January, Helgeland Sparebank	358	322
Additions	20	23
Disposals	0	0
Adjustment to fair value	1	13
Portfolio as of 31 December	**379**	**358**

NOTE 26 - Investments in subsidiaries

						Parent bank
					31.12.19	**31.12.18**
	Share capital	**Number of shares**	**Equity stake**	**Registered office**	**Book value**	**Book value**
ANS Bankbygg Mo	49	5,591	97.9 %	Mo i Rana	46	46
Helgeland Boligkreditt AS	540	540	100 %	Mo i Rana	540	540
AS Sparebankbygg	0.1	100	100 %	Sandnessjøen	1	1
Helgland Spb.eiend.selskap AS	0.1	100	100 %	Mosjøen	0.4	0.4
Helgeland Utviklingsselskap AS	0.5	500	100 %	Mosjøen	0	6
Strendene Utviklingsselskap AS	0.03	300	100 %	Sandnessjøen	15	0
Storgata 73 AS	0.1	140	53 %	Brønnøysund	1	1
Carrying amount as of 31 December					**604**	**595**

Non-controlling interests in ANS Bankbygg (2.5%) and Storgt. 73 (47%) are shown as a separate line in the financial statements.

NOTE 26.1 - Specification of changes in subsidiaries

		Parent bank
	31.12.19	**31.12.18**
Carrying amount as of 1 January	595	595
Additions/disposals	15	0
Write-down	-6	0
Carrying amount as of 31 December	**604**	**595**

NOTE 26.2 - Shares in subsidiaries

							Parent bank
							31.12.19
	Equity stake	**Current assets**	**Fixed assets**	**Current liabilities**	**Non-current liabilities**	**Equity**	**Book value**
ANS Bankbygg Mo	97.9 %	21	27	0	0	47	46
Helgeland Boligkreditt AS	100 %	8,047	0	721	6,728	598	540
AS Sparebankbygg	100 %	2	9	0	10	1	1
Helgland Spb.eiend.selskap AS	100 %	4	17	0	13	7	0.4
Helgeland Utviklingsselskap AS	100 %	2	3	0	1	5	0
Strendene Utviklingsselskap AS	100 %	0	41	0	30	11	15
Storgata 73 AS	53 %	2	5	1	1	5	1

	Equity stake	**Income**	**Costs**	**Profit**
ANS Bankbygg Mo	97.9 %	7	6	1
Helgeland Boligkreditt AS	100 %	82	32	50
AS Sparebankbygg	100 %	2	2	0
Helgland Spb.eiend.selskap AS	100 %	3	2	1
Helgeland Utviklingsselskap AS	100 %	0	1	-1
Strendene Utviklingsselskap AS	100 %	1	-3	-2
Storgata 73 AS	53 %	1	0	1

Parent bank

31.12.18

	Equity stake	Current assets	Fixed assets	Current liabilities	Non-current liabilities	Equity	Book value
ANS Bankbygg Mo	97 %	17	31	0	0	48	46
Helgeland Boligkreditt AS	100 %	7,823	0	570	6,652	601	540
AS Sparebankbygg	100 %	2	10	0	11	1	1
Helgland Spb.eiend.selskap AS	100 %	3	18	0	14	7	0.4
Helgeland Utviklingsselskap AS	100 %	7	3	1	3	6	6
Strendene Utviklingsselskap AS	100 %	51	0	21	30	-1	0
Storgata 73 AS	53 %	2	5	1	2	5	0

	Equity stake	Income	Costs	Profit
ANS Bankbygg Mo	97 %	7	7	0
Helgeland Boligkreditt AS	100 %	78	25	53
AS Sparebankbygg	100 %	2	2	0
Helgland Spb.eiend.selskap AS	100 %	3	2	1
Helgeland Utviklingsselskap AS	100 %	1	3	-2
Strendene Utviklingsselskap AS	100 %	1	-2	-1
Storgata 73 AS	53 %	1	0	1

NOTE 27 - Associated companies

Helgeland Invest AS

Helgeland Sparebank’s stake in Helgeland Invest AS (HI) is strategic in nature. The aim of this investment is based on the premise that access to capital and expertise contributes to the development of a local business market.

Helgeland Sparebank owns 48.3% of Helgeland Invest (HI). The Bank considers the company to be an associated company (significant influence but not control). The Bank’s assessment is primarily based on its actual stake of <50% and the fact that there is considered to be a real opportunity to establish a sufficient majority amongst the other shareholders to vote against the Bank's interests.

The Bank is currently represented on the board of Helgeland Invest AS by the Corporate Market Director of Helgeland Sparebank.

Furthermore, it is emphasised that the Bank has not been involved in any decisions concerning the portfolio investments in the company.

The Bank does not consider Helgeland Invest AS to be an investment company. The company's procedures for monitoring the investment portfolio, especially documentation for evaluation and measurement of earnings in the portfolio, do not satisfy the requirements under IFRS 10.

The Bank reworks HI’s financial statements so that the accounts of all associated companies in HI are reworked in accordance with IFRS and are measured using the equity method. Other investments are recognised at fair value. The Bank consolidates HI’s reworked financial statements in the Parent bank and the Group using the equity method. The Bank finalises its accounts early, partly on the basis of preliminary forecasts for HI.

Parent bank and Group

31.12.19

Balance 100% stake		Current assets	Fixed assets	Current liabilities	Non-current liabilities	Equity
Helgeland Invest AS		118	636	0	0	754
REDE Eiendomsmegling AS		77	25	63	1	38
Total		**195**	**661**	**63**	**1**	**792**
Helgeland Invest AS	48.3 %	57	307	30	0	364
REDE AS (inc. added value)	40.0 %	31	10	25	0	15
Total		**88**	**317**	**56**	**1**	**379**

Parent bank and Group

Balance 100% stake		Current assets	Fixed assets	Short term debt	Non-current liabilities	Equity
						31.12.18
Helgeland Invest AS		118	643	0	0	761
REDE Eiendomsmegling AS		40	31	34	1	36
Total		**158**	**674**	**34**	**1**	**797**
Helgeland Invest AS	48.3 %	57	311	0	0	368
REDE AS (inc. added value)	40.0 %	16	12	14	0	14
Total		**73**	**323**	**14**	**1**	**382**

NOTE 27.1 - Specification of changes in associated companies

Parent bank and Group

Change in the Bank's stake in Helgeland Invest AS	31.12.19	31.12.18
Carrying amount as of 1 January	367	328
Adjusted value	0	0
Dividends	-24	-10
Profit share	20	50
Carrying amount as of 31 December	**364**	**367**

Parent bank and Group

Change in the Bank's stake in REDE	31.12.19	31.12.18
Carrying amount as of 1 January	14	14
Dividends	0	0
Profit share	1	0
Added value/goodwill	0	0
Carrying amount as of 31 December	**15**	**14**
Total carrying amount, associated companies	**379**	**382**

NOTE 27.2 - Specification of additions/disposals in associated companies

Parent bank and Group

Profit 100%		Revenue	Financial costs	Other income	Operating expense	Net profit
						31.12.19
Helgeland Invest AS		47	0	0	6	41
REDE Eiendomsmegling AS		42	0	1	39	3
Total		**89**	**0**	**0**	**45**	**44**
Helgeland Invest AS	48 %	23	0	0	3	20
REDE Eiendomsmegling AS	40 %	17	0	0	16	1
Total		**40**	**0**	**0**	**18**	**21**

Parent bank and Group

Profit 100%		Revenue	Financial costs	Other income	Operating expense	Net profit
						31.12.18
Helgeland Invest AS		108	0	0	4	104
Eiendomsmegleren Helgeland (REDE)		23	1	0	22	0
Total		**131**	**1**	**0**	**26**	**104**
Helgeland Invest AS	48 %	52	0	0	2	50
Eiendomsmegleren Helgeland (REDE)	40 %	9	0	0	9	0
Total		**62**	**0**	**0**	**11**	**50**

NOTE 27.3 - Intra-Group balances and transactions between the Bank and associated companies

Parent bank			*Group*	
31.12.18	**31.12.19**	**Intra-Group balances**	**31.12.19**	**31.12.18**
		Receivables		
1	0	Loans to associated companies	0	1
1	**0**	**Total net receivables**	**0**	**1**
		Liabilities		
160	207	Deposits from associated companies	207	160
160	**207**	**Total liabilities**	**207**	**160**
		Transactions		
1	0	Total interest income from associated companies	0	1
2	3	Total interest expenses from associated companies	3	2
10	24	Total dividends from associated companies	24	10

NOTE 27.4 - Strategic investments, not treated as associates

The Bank has strategic holdings in insurance company Frende Holding AS (7.9%), the securities company Norne Securities AS (7.5%) and leasing company Brage Finans AS (8.6%) as well as Balder Betaling AS (6.2%), which has a 10.5% stake in Vipps. These companies are not consolidated in the accounts or treated as associated companies.

NOTE 28 - Related parties

Helgeland Sparebank defines its subsidiaries and associated companies as related parties. Transactions between the Parent bank, Group companies and associated companies are executed in accordance with ordinary commercial terms and principles. The information is disclosed in accordance with IAS 24 for "Disclosure of related parties". Transactions with senior executives and elected representatives are presented in a note to the annual accounts. (Associated companies, see Note 27.2)

NOTE 28.1 - Intra-Group eliminations/transactions

	Group and Parent bank	
	31.12.19	**31.12.18**
Income statement		
Interest from interest and credit commission income from subsidiaries	19	19
Dividends received/group contributions	54	49
Interest on subsidiaries' deposits	3	2
Rent expenses	10	10
Management fees	8	8
Balance Sheet		
Loans to subsidiaries	737	768
Covered bonds	80	0
Deposits from subsidiaries	431	450
Receivables concerning dividends	50	53

Significant transactions with related parties as of 31 December 2019

Helgeland Boligkreditt AS (stake 100 %)

Transferred loans as of 31 December 2019 amount to a total of NOK 7,600 (7,385) million. Covered bonds in the mortgage company amount to NOK 6,745 million (NOK 6,497 million), of which NOK 80 million (NOK 0 million) has been acquired by Helgeland Sparebank. Of the credit line of NOK 1.5 billion, NOK 682 million had been used as of 31 December 2019. The company also has an overdraft facility of NOK 1,500 million (with a maturity of more than one year) granted by Helgeland Sparebank. The overdraft facility is intended to cover payment obligations in the collateral base over a rolling 12-month period, and is completely unused. The agreements have been established according to the arm's length principle. The effects of the facilities are eliminated in the consolidated accounts.

The effects of the facilities are eliminated in the consolidated accounts. HSB received dividends of NOK 52.7 million in 2019.

Ans Bankbygg (stake 97.9 %)

The Bank leases premises from ANS Bankbygg and paid NOK 4.6 million during 2019. The Bank also paid NOK 1.5 million in shared expenses.
The Bank received a dividend of NOK 0.9 million.

Helgeland Invest AS (stake 48.3 %)

Note 27 provides supplementary information on the accounting effects of the Bank's stake in Helgeland Invest AS.

NOTE 28.2 - Loans to elected representatives and employees

Parent bank			*Group*	
31.12.18	**31.12.19**	**(amounts in NOK million)**	**31.12.19**	**31.12.18**
231	242	Employees	310	314
15	22	Board of Directors	38	33
17	18	Supervisory Board	25	26
263	**282**	**Total loans to elected representatives and employees**	**373**	**373**

The interest rate applied to loans to employees was lower than the rate applicable to customers for 2019. This loan benefit amounts to NOK 3.5 million (NOK 4.0 million) calculated on the basis of the maximum loan amount.

NOTE 28.3 - Senior executives

Parent bank					*Group*	
31.12.19						**31.12.19**
Loans	**Remuneration**	**Pension cost**	**(amounts in NOK thousand)**	**Pension cost**	**Remuneration**	**Loans**
			Management group:			
2,006	2,365	197	Hanne Nordgaard, CEO	197	2,365	3,906
0	1,496	183	Bjørn-Tore Brønlund, Corporate Market Director	183	1,496	0
10,350	1,577	182	Dag-Hugo Heimstad, Retail Market Director	182	1,577	11,151
0	1,212	199	Ranveig Kråkstad, Chief Accounting Officer	199	1,212	0
683	1,382	187	Sverre Klausen, Chief Financial Officer	187	1,382	2,439
1,070	1,162	191	Anne Ekroll, Risk Management Director	191	1,162	2,088
4,000	1,108	149	Øyvind Karlsen, Business Management Director	149	1,108	6,011

The CEO and members of the management group are defined as senior executives.

Amongst other things, the remuneration includes a company car and compensation when transferring from the defined benefit pension scheme to the defined-contribution pension scheme.

Parent bank					*Group*	
31.12.18						**31.12.18**
Loans	**Remuneration**	**Pension cost**	**(amounts in NOK thousand)**	**Pension cost**	**Remuneration**	**Loans**
			Management group:			
1,900	2,192	196	Hanne Nordgaard, CEO	196	2,192	1,900
276	1,455	183	Bjørn-Tore Brønlund, Corporate Market Director	183	1,455	273
2,783	1,556	182	Dag-Hugo Heimstad, Retail Market Director	182	1,556	3,683
0	1,178	200	Ranveig Kråkstad, Chief Accounting Officer	200	1,178	0
795	1,330	189	Sverre Klausen, Chief Financial Officer	189	1,330	2,216
0	1,070	168	Anne Ekroll, Risk Management Director	168	1,070	1,135
4,000	1,078	145	Øyvind Karlsen, Business Management Director	145	1,078	6,103

NOTE 28.4 - Statement concerning determination of salary and other remuneration

The statement was adopted by the Board of Helgeland Sparebank on 27 February 2020 and presented to the Supervisory Board on 26 March 2020.

The CEO's salary is determined by the Bank's Board, while the salaries of the management team are determined by the CEO. Reference is made to note 28.3 of the annual accounts regarding salary and remuneration to senior executives. Remuneration takes place in the form of fixed salary, benefits in kind and the pension scheme.

Guidelines for remuneration during the 2020 financial year

<u>Salary</u>

Managerial salaries in Helgeland Sparebank must be competitive, make the Bank attractive as an employer and promote value creation for the Bank.

Managerial salaries are determined in relation to the fulfilment of the Bank's managerial requirements and core values, and on the basis of salary levels in the region and the sector as a whole.

The Bank has defined senior executives as follows:

- Chief Executive Officer
- Rest of the management group

Benefits in kind

The nature and value of benefits in kind must be on a par with what is normal for managers in our sector. The senior executives have an agreement concerning a mobile telephone, newspaper, internet subscription and home PC. The CEO, Retail Market Director and Corporate Market Director have a company car available to them.

Pension schemes

The Bank has a defined contribution scheme, which also covers senior executives.
The CEO follows the Bank’s current pension schemes at all times.

Bonuses, option agreements and severance payments

As of 31 December 2019, the Bank has no pre-established option, bonus or severance payment schemes other than the pension schemes.

Report on senior executive pay policy for the 2019 financial year

The Bank's management salary policy for 2019 was implemented in accordance with the general principles set out above under guidelines for remuneration.

NOTE 28.5 - Remuneration paid to the Board

Parent bank				*Group*
31.12.19				**31.12.19**
Loans	**Remuneration**	**(amounts in NOK thousand)**	**Remuneration**	**Loans**
		Board:		
0	86	Chairman of the Board Ove Brattbakk (to 27 March 2019)	86	0
11,000	222	Chair of the Board Stein Andre Herigstad-Olsen (from 27 March 2019)	222	11,000
3,429	205	Bjørn Audun Risøy	205	7,694
0	27	Inga Marie Lund (to 27 March 2019)	27	4,403
0	48	Eva Monica Hestvik (to 27 March 2019)	48	3,300
7,000	122	Siw Moxness (from 27 March 2019)	122	7,000
0	82	Tone Helen Hauge (from 27 March 2019)	82	0
0	110	Nils Terje Furunes	110	0
396	110	Marianne Terese Steinmo	110	4,365
0	40	Linda Brennbakk - First deputy	40	0
0	0	Kurt Jessen Johansson - Second deputy	0	0
2,849	115	Birgitte Lorentzen – Employee representative	115	2,849
2,200	110	Geir Pedersen - Employee representative	110	3,895
0	5	Bente Johansen - Personal deputy member for B. Lorentzen	5	800
3,015	5	Sten-Ove Lisø - Personal deputy member for Geir Pedersen (to 27 March 2019)	5	3,015
0		Lena Båtstrand - Personal deputy member for G. Pedersen (27 March - 10 Apr. 2019)	0	1,470
0		Tom Værnes - Personal deputy member for G.Pedersen (11 April - 17 Sept. 2019)	0	0
1,525	10	Håvard Digermul - Personal deputy member for G. Pedersen (18 Sept. - 31 Dec.2019)	10	1,525

Parent bank				*Group*
31.12.18				**31.12.18**
Loans	**Remuneration**	**(amounts in NOK thousand)**	**Remuneration**	**Loans**
		Board:		
0	304	Chair of the Board Ove Brattbakk	304	0
11,005	56	Vice Chairman of the Board Stein Andre Herigstad-Olsen (from Mar.18)	56	11,005
3,605	169	Bjørn Audun Risøy (Vice Chair of the Board from 22 March 2018)	169	7,870
0	108	Inga Marie Lund	108	4,403
0	172	Eva Monica Hestvik	172	3,300
0	108	Nils Terje Furunes	108	0
406	108	Marianne Terese Steinmo	108	4,469
0	49	Linda Brennbakk - First deputy	49	0
0	5	Kurt Jessen Johansson - Second deputy	5	2,000
2,928	110	Birgitte Lorentzen – Employee representative	110	2,928
2,200	108	Geir Pedersen - Employee representative	108	3,527
0	5	Bente Johansen - Personal deputy member for B. Lorentzen	5	800
3,086	10	Sten-Ove Lisø - Personal deputy member for Geir Pedersen	10	3,086

NOTE 28.6 - Supervisory Board

Parent bank 31.12.19				Group 31.12.19
Loans	**Remuneration**	**(amounts in NOK thousand)**	**Remuneration**	**Loans**
		Chair of the Supervisory Board		
0	40	Per Gunnar Hjorthen	40	0
		Depositor-elected		
4,052	10	Marianne Myrnes Steinrud	10	4,052
0	5	Ingvar Møllersen	5	151
1,278	5	Wenche Drevland to 27 March 2019	5	3,602
1,500	0	Kjell Idar Juvik from 27 March 2019	0	1,500
4,430	5	Marit Thrana	5	4,430
0	5	Helge Stanghelle	5	0
710	5	Sten Oddvar Solhaug	5	710
0	10	John Luktvassmo to 27 March 2019	10	0
2,100	5	Reidun Breirem from 27 March 2019	5	2,100
3,000	5	Tone Helen Jakobsen	5	3,000
0	5	Torill Beate Risøy	5	0
		Equity capital certificate holders		
0	0	Brynjar Forbergskog	0	0
0	35	Øyvin Trønsdal	35	1,146
0	0	Toril Mevold	0	1,300
800	0	Inger Lise Strøm	0	3,204
0	18	Anne Påsche Jakobsen	18	0
0	5	Lars Martin Lunde	5	0
0	0	Per Gunnar Hjorthen	0	0
0	5	Frank Høyen	5	0
0	0	Maria Olaisen	0	0
0	0	Åsmund Skår	0	0
		Employees		
2,200	18	Nils Sagrabb	18	3,484
2,500	5	Einar Eliassen	5	2,500
0	5	Karianne Kristensen	5	1,850
1,976	3	Sten Åge Rørmark to 27 March 2019	3	1,976
3,015	3	Sten Ove Lisø from 27 March 2019	3	3,015
1,016	2	Morten Myran to 27 March 2019	2	1,916
211	3	Steinar Johansen from 27 March 2019	3	1,659
1,257	5	Tore Stamnes	5	1,963

Parent bank 31.12.18				Group 31.12.18
Loans	**Remuneration**	**(amounts in NOK thousand)**	**Remuneration**	**Loans**
		Chair of the Supervisory Board		
0	40	Per Gunnar Hjorthen	40	0
		Depositor-elected		
4,052	8	Marianne Myrnes Steinrud	8	4,052
0	5	Ingvar Møllersen	5	198
1,324	5	Wenche Drevland	5	4,713
0	0	Geir Hogne Bonsaksen to 21 March 2018	0	0
3,525	3	Marit Thrana from 22 March 2018	3	3,525
0	5	Helge Stanghelle	5	0
671	5	Sten Oddvar Solhaug	5	671
0	8	John Luktvassmo	8	0
4,214	0	Tone Helen Jakobsen	0	4,214
0	5	Torill Beate Risøy	5	0
		Equity capital certificate holders		
0	0	Brynjar Forbergskog	0	0
852	29	Øyvin Trønsdal	29	1,984
1,312	5	Toril Mevold	5	3,241
880	0	Inger Lise Strøm	0	3,303
0	13	Anne Påsche Jakobsen	13	0
0	0	Lars Martin Lunde	0	0
0	0	Per Gunnar Hjorthen	0	0
0	5	Frank Høyen	5	0
0	0	Maria Olaisen	0	0
0	0	Åsmund Skår	0	0
		Employees		
2,200	5	Nils Sagrabb	5	3,000
2,500	5	Einar Eliassen	5	2,500
0	5	Karianne Kristensen	5	1,850
1,751	5	Sten Åge Rørmark	5	1,751
1,016	5	Morten Myran	5	1,916
1,257	5	Tore Stamnes	5	1,987

NOTE 29 - Deferred tax asset

Parent bank				*Group*
31.12.18	**31.12.19**	**Temporary differences:**	**31.12.19**	**31.12.18**
		Positive temporary differences		
21	31	Other temporary differences	31	21
21	**31**	**Total positive temporary differences**	**31**	**21**
5	8	Deferred tax	8	5
		Negative temporary differences		
-3	9	Impairment losses on interest-bearing securities	9	-3
15	-4	Fixed assets	12	30
22	24	Pension liabilities	24	22
30	33	Other differences	33	30
64	**62**	**Total negative temporary differences**	**77**	**79**
0	0	Loss carried forward	0	0
64	**62**	**Total negative temporary differences**	**77**	**79**
16	15	Deferred tax asset	19	20
11	8	Net deferred tax asset	12	15

Dividends from the Parent bank to equity certificate holders have no influence on the Group's payable tax or deferred tax.
Deferred tax/tax asset is calculated on the basis of the temporary differences which exist at the end of the financial year between accounting and fiscal values using the debt method. Deferred tax is shown in the accounts on a net basis when the Group has a legal right to offset deferred tax asset against deferred tax in the balance sheet.

NOTE 30 - Tangible fixed assets

Parent bank						*Group*
31.12.19						**31.12.19**
Total	**Machinery, equipment, fixtures and vehicles**	**Buildings and other real property**		**Buildings and other real property**	**Machinery, equipment, fixtures and vehicles**	**Total**
261	203	58	Acquisition cost as of 1 January 2019	200	203	403
50	50	0	Additions	40	50	90
31	31	0	Disposals	0	31	31
280	**222**	**58**	**Acquisition cost as of 31 December 2019**	**240**	**222**	**462**
191	138	53	Accumulated depreciation and write-downs as of 1 January 2019	124	146	270
14	14	0	Depreciation for the year	0	19	19
0	0	0	Disposals, accumulated depreciation and write-downs	0	0	0
205	**152**	**53**	**Accumulated depreciation and write-downs as of 31 December 2019**	**124**	**165**	**289**
75	**70**	**5**	**Book value as of 31 December 2019**	**116**	**57**	**173**
	10-33%	3-4%	Percentage rates for ordinary depreciation	3-4%	10-33%	
	3-10 years	30 years	Useful life *)	30 years	3-10 years	

*) The useful life of each fixed asset is assumed.

Parent bank 31.12.18 Total	Machinery, equipment, fixtures and vehicles	Buildings and other real property		Buildings and other real property	Machinery, equipment, fixtures and vehicles	*Group* 31.12.18 Total
285	225	60	Acquisition cost as of 1 January 2018	202	231	433
16	16	0	Additions	0	16	16
40	38	2	Disposals	2	44	40
261	**203**	**58**	**Acquisition cost as of 31 December 2018**	**200**	**203**	**403**
219	165	54	Accumulated depreciation and write-downs as of 1 January 2018	125	167	292
12	12	0	Depreciation for the year	0	18	18
40	39	1	Disposals, accumulated depreciation and write-downs	1	39	40
192	**138**	**53**	**Accumulated depreciation and write-downs as of 31 December 2018**	**124**	**146**	**270**
69	**65**	**4**	**Book value as of 31 December 2018**	**76**	**57**	**133**
	10-33%	3-4%	Percentage rates for ordinary depreciation	3-4%	10-33%	
	3-10 years	30 years	Useful life *)	30 years	3-10 years	

*) The useful life of each fixed asset is assumed.

NOTE 31 - Other assets

Parent bank 31.12.18	31.12.19		*Group* 31.12.19	31.12.18
4	6	Sundry suspense accounts	7	4
40	34	Receivables from property/Usufruct leases	14	0
5	6	Prepaid costs	7	6
21	20	Repossessed property	20	61
70	**66**	**Total other assets**	**48**	**71**

NOTE 32 - Foreign currency

Group and Parent bank

The Group has no significant holdings of foreign currency available via ATMs. The Group has no transactions in foreign currency of any significance, but has pledged guarantees for foreign currency loans managed by the currency bank on behalf of Helgeland Sparebank. See Note 2.3.1 Foreign exchange risk.

NOTE 33 - Liabilities to credit institutions

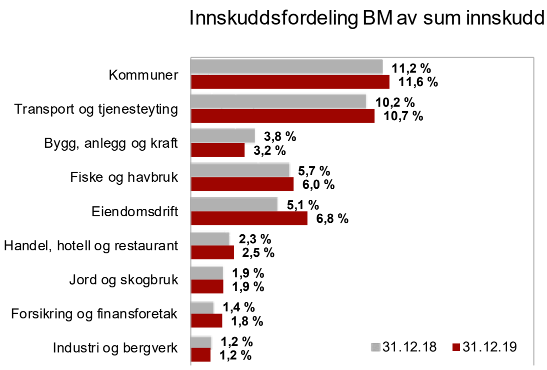
Parent bank 31.12.18	31.12.19		*Group* 31.12.19	31.12.18
0	3	Liabilities to credit institutions without agreed maturity	4	2
250	550	Other long-term loans	550	250
250	**553**	**Total liabilities to credit institutions**	**554**	**252**

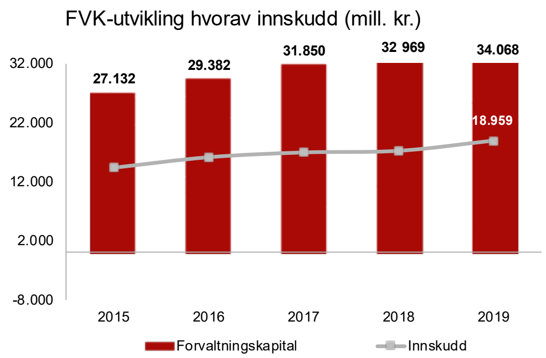
NOTE 34 - Deposits from customers

NOTE 34.1 - Deposits from customers by sector/industry

Parent bank								*Group*
%	**31.12.18**	**%**	**31.12.19**	**Deposits by sector/industry**	**31.12.19**	**%**	**31.12.18**	**%**
3.7 %	649	3.9 %	749	Insurance and finance	721	3.8 %	235	1.4 %
10.9 %	1,925	11.3 %	2,192	Municipalities and municipal enterprises	2,192	11.6 %	1,925	11.2 %
1.9 %	328	1.9 %	361	Agriculture and forestry	361	1.9 %	328	1.9 %
5.6 %	991	5.9 %	1,138	Fisheries and aquaculture	1,138	6.0 %	991	5.7 %
1.2 %	215	1.1 %	221	Mining and industry	221	1.2 %	215	1.2 %
3.7 %	649	3.1 %	599	Construction, engineering and power	599	3.2 %	649	3.8 %
2.2 %	398	2.4 %	474	Trade, hotel, restaurants	474	2.5 %	398	2.3 %
9.9 %	1,762	10.5 %	2,028	Transport and services	2,028	10.7 %	1,762	10.2 %
5.3 %	934	6.8 %	1,323	Property, property development	919	4.8 %	878	5.1 %
44.3 %	7,851	46.9 %	9,085	Total corporate market	8,653	45.6 %	7,381	42.8 %
55.7 %	9,867	53.1 %	10,306	Retail market	10,306	54.4 %	9,867	57.2 %
100.0 %	**17,718**	**100.0 %**	**19,391**	**Total**	**18,959**	**100 %**	**17,248**	**100 %**

The Act relating to security arrangements for banks and public administration, etc. by financial institutions requires all savings banks to be a member of the Norwegian Banks' Guarantee Fund. The fund is obliged to cover losses suffered by a depositor on deposits in a member institution of up to NOK 2 million of the collective deposit, just below 60% of total deposit volume.





<u>Deposits from customers as of 31 December 2019</u>

Deposits from customers amount to NOK 19.0 billion (NOK 17.2 billion, of which NOK 8.7 billion (NOK 7.3 billion) has been loaned to corporate customers. The graph above shows the distribution by sector, with growth in the municipal and aquaculture sectors. The share of retail market deposits amounts to 54.4% (57.2%). Of the deposits, 89.0% (89.7%) consist of deposits from customers in Helgeland.

NOTE 34.2 - Geographical distribution of deposits from customers

Parent bank			*Group*	
31.12.19	**% share**		**31.12.19**	**% share**
			16,867	
17,187	88.6%	Helgeland	1,951	89.0%
2,062	10.6%	Rest of Norway	1,955	10.3%
142	0.7%	International	137	0.7%
19,391	**100.0%**	**Total**	**18,959**	**100.0%**

Parent bank				*Group*
31.12.18	**% share**		**31.12.18**	**% share**
15,947	90.0%	Helgeland	15,447	89.7%
1,632	9.2%	Rest of Norway	1,632	9.5%
139	0.8%	International	139	0.8%
17,718	**100.0%**	**Total**	**17,248**	**100.0%**

NOTE 34.3 - Deposits from customers by deposit form

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
6,625	7,151	Ordinary conditions without notice of termination or agreed maturity	7,119	6,607
9,716	10,568	Special conditions for customer deposits without agreed maturities	10,168	9,264
1,206	1,550	Special conditions for customer deposits with agreed maturity	1,550	1,206
171	122	Liquid deposits from customers with agreed maturity	122	171
17,718	**19,391**	**Total deposits from and liabilities to customers**	**18,959**	**17,248**

NOTE 35 - Liabilities established through the issuing of securities

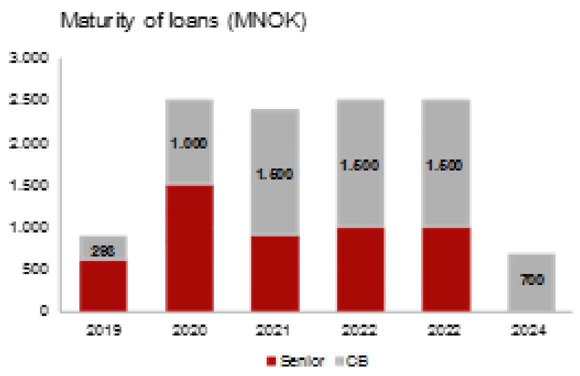
Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
5,551	3,814	Bond loans	10,499	12,409
-493	-145	Own bonds	-165	-853
5,058	**3,669**	**Total liabilities established through the issuing of securities**	**10,334**	**11,556**

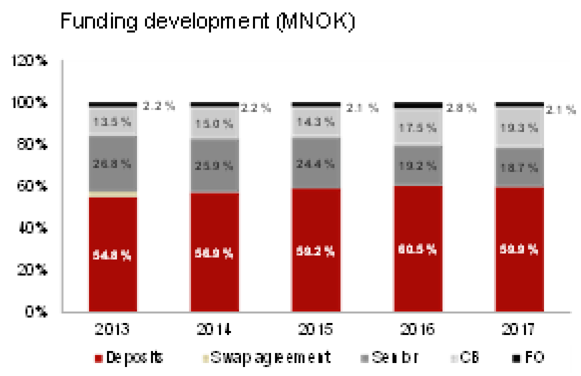
All securities debt is in NOK.

NOTE 35.1- Specification of bond loans

				Group **31.12.19**
	Maturity	**Securities debt**	**Own portfolio**	**Net nominal**
Bond loans, fixed-rate	2020	162		162
Bond loans, FRN	2020	204	73	131
Bond loans, fixed-rate	2021	500	92	408
Bond loans, FRN	2021	3,000		3,000
Bond loans, fixed-rate	2022	500		500
Bond loans, FRN	2022	2,205		2,205
Bond loans, fixed-rate	2023	500		500
Bond loans, FRN	2023	1,500		1,500
Bond loans, fixed-rate	2024	500		500
Bond loans, FRN	2024	500		500
Bond loans, FRN	2025	620		620 6300
Bond loans, FRN	2029	300		300
Total bond loans		**10,491**	**165**	**10,326**

				Group
				31.12.18
	Maturity	**Securities debt**	**Own portfolio**	**Net nominal**
Bond loans, fixed-rate	2019	500	175	325
Bond loans, FRN	2019	1,053	476	577
Bond loans, fixed-rate	2020	500	0	500
Bond loans, FRN	2020	2,000	0	2,000
Bond loans, fixed-rate	2021	500	0	500
Bond loans, FRN	2021	2,000	100	1,900
Bond loans, fixed-rate	2022	500	0	500
Bond loans, FRN	2022	2,000	0	2,000
Bond loans, fixed-rate	2023	500	0	500
Bond loans, FRN	2023	2,000	0	2,000
Bond loans, FRN	2024	800	100	700
Total bond loans		**12,353**	**851**	**11,502**





Financing
Liquidity risk is reduced by spreading securities debt across different markets, funding sources, instruments and maturities. The Group's share of long-term funding as of 31 December 2019 was 97.3% (92.2%).

Covered bonds are included in the Group's debt securities in the amount of NOK 6.7 billion (NOK 6.5 billion). The loan-to-value ratio of the collateral base is 57 % (56%). Deposits are an important source of funding and the Group has a good deposit-to-loan ratio.

Specification of bond loans

				Parent bank
				31.12.19
	Maturity	**Securities debt**	**Own portfolio**	**Net nominal**
Bond loans, fixed-rate	2020	162		162
Bond loans, FRN	2020	148	53	95
Bond loans, fixed-rate	2021	500	92	408
Bond loans, FRN	2021	500		500
Bond loans, fixed-rate	2022	500		500
Bond loans, FRN	2022	500		500
Bond loans, fixed-rate	2023	500		500
Bond loans, FRN	2023	500		500
Bond loans, fixed-rate	2024	500		500
Total bond loans		**3,810**	**145**	**3,665**

Parent bank

				31.12.18
	Maturity	**Securities debt**	**Own portfolio**	**Net nominal**
Bond loans, fixed-rate	2019	500	175	325
Bond loans, FRN	2019	500	216	284
Bond loans, fixed-rate	2020	500	0	500
Bond loans, FRN	2020	1,000	0	1,000
Bond loans, fixed-rate	2021	500	0	500
Bond loans, FRN	2021	500	100	400
Bond loans, fixed-rate	2022	500	0	500
Bond loans, FRN	2022	500	0	500
Bond loans, fixed-rate	2023	500	0	500
Bond loans, FRN	2023	500	0	500
Total bond loans		**5,500**	**491**	**5,009**

Parent Bank				**Group**
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
5,009	3,665	Bond loans	10,325	11,502
25	-24	Value adjustment	-32	21
24	28	Accrued interest	41	33
5,058	**3,669**	**Total securities debt**	**10,334**	**11,556**

Change in total debt securities	31.12.18	Issued	Matured/redeemed	Other changes	Group 1.12.19
Bond loans, nominal value	11,502	6,308	-7,455	-30	10,325
Value adjustment	21			-53	-32
Accrued interest	33			8	41
Total	**11,556**				**10,334**

hange in debt securities at amortised cost	31.12.18	Issued	Matured/redeemed	Other changes	Group 31.12.19
Bonds, amortised cost, nominal value	9,173	4,825	-6,041	-30	7,927
Accrued interest	13			8	21
Total	**9,186**				**7,948**

Change in debt securities hedging	31.12.18	Issued	Matured/redeemed	Other changes	Group 1.12.19
Bond loans, nominal value	2,329	1,532	-1,463		2,398
Value adjustment	21			-53	-32
Accrued interest	20				20
Total	**2,370**				**2,386**

Change in total debt securities	31.12.17	Issued	Matured/redeemed	Other changes	Group 1.12.18
Bond loans, nominal value	10,724	5,390	-4,673	52	11,502
Value adjustment	82	0		-59	21
Accrued interest	45	0		-5	33
Total	**10,851**	**5,390**	**-4,673**	**-12**	**11,556**

Change in debt securities at amortised cost	31.12.17	Issued	Matured/redeemed	Other changes	Group 31.12.18
Bonds, amortised cost, nominal value	8,070	4,863	-3,820	60	9,173
Accrued interest	8	0		-5	13
Total	**8,078**	**4,863**	**-3,820**	**63**	**9,186**

Change in debt securities hedging	31.12.17	Issued	Matured/redeemed	Other changes	Group /parent bank 31.12.18
Bond loans, hedging, nominal value	2,664	527	-853	-9	2,329
Value adjustment	80	0		-59	21
Accrued interest	30	0		-10	20
Total	**2,773**	**527**	**-853**	**-78**	**2,370**

Change in debt securities, amortised	31.12.18	Issued	Matured/redeemed	Other changes	Parent Bank 31.12.19
Bonds, amortised cost, nominal value	2,684	1,328	-2,444		1,568
Accrued interest	4			4	8
Total	**2,688**				**1,577**

Change in debt liabilities, hedging	31.12.18	Issued	Matured/redeemed	Other changes	Parent Bank 31.12.19
Bonds, amortised cost, nominal value	2,325	1,235	-1,463		2,097
Value adjustments	25			-49	-24
Accrued interest	20			4	20
Total	**2,370**				**2,092**

Change in debt securities, amortised	31.12.17	Issued	Matured/redeemed	Other changes	Parent Bank 31.12.18
Bonds, amortised cost, nominal value	2,599	2,416	-2,356	25	2,684
Accrued interest	3			1	4
Total	**2,602**	**2,4516**	**-2,356**	**26**	**2,688**

Change in subordinate loans	31.12.18	Issued	Matured/redeemed	Other changes	Parent Bank 31.12.19
Bonds, amortised cost, nominal value	450				450
	-1				-1
Accrued interest	2				2
Total	**452**				**452**

NOTE 36 - Other liabilities

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
35	29	Other current liabilities	20	35
16	64	Tax payable	70	30
51	**93**	**Total other liabilities**	**90**	**65**
17	17	Accrued holiday pay and employer's National Insurance contributions	17	17
9	46	Other accrued costs	45	9
26	**63**	**Total accrued costs and prepaid income**	**62**	**26**
22	24	Net pension liabilities (Note 12)	23	22
5	4	Provision for loss on unused credit, granted not discounted loans and guarantees	4	5
27	**28**	**Total accrued liabilities**	**27**	**27**
104	**184**	**Total other liabilities**	**179**	**118**

NOTE 36.1 - Unused drawing rights facilities

	Group and Parent bank	
	31.12.19	**31.12.18**
Short-term drawing facility, 1 year	300	300
Total unused drawing rights facilities	**300**	**300**

The Group's total liquidity reserves are deemed to be satisfactory.

In addition, the Group has:	**31.12.19**	**31.12.18**
Surplus liquidity at Norges Bank as of 31 December	50	50

Bonds at floating interest rates; interest rates are fixed in advance for three months at a time and charged to interest costs. The Bank's bonds are repaid at maturity; the loans may be repaid earlier if the agreements concerned permit and the Bank so wishes. None of the Group's senior bonds are secured.. The Group did not default on borrowed funds during the financial year. This applies to the principal, payment of interest and/or redemption amounts.

Pledged assets

An overview of the Group's pledged assets is presented in Note 41.

Binding agreements to acquire real property, plant and equipment

The Group has not entered into any significant binding agreements to acquire property, plant or equipment.

Ongoing legal disputes

The Bank has ongoing legal dispute concerning a repossessed property; it is not expected that this will materially affect the result. The Group is otherwise not involved in any legal disputes that are considered to be of any significance as regards the Group's solvency or profitability.

NOTE 37 - Subordinated loan capital and subordinated bonds

Parent bank

Instrument	Year of establishment	Nominal value	Interest rate	Redemption right	Maturity	31.12.19	Group /Parent bank 31.12.18
Subordinated loan	2018	NOK 300 million	3-mth. Nibor +140bp	call 11.04.2023	11.04.2028	300	300
Subordinated loan	2018	NOK 150 million	3-mth. Nibor +152bp	call 06.09.2023	06.09.2028	150	150
Subordinated bonds	2016	NOK 300 million	3-mth. Nibor +440bp	call 01.12.2021	01.12.2099	300	300
						750	750

NOTE 38 - Capital adequacy

Parent bank			*Group*	
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
208	209	Equity certificate capital	209	208
971	971	Share premium reserve	971	971
-2	-1	Own equity certificates	-1	-2
299	299	Subordinated bonds	299	299
1,476	**1,478**	**Total paid-in capital**	**1,478**	**1,476**
558	590	Primary capital	590	558
440	439	Reserve for unrealised gains	439	440
33	53	Gift fund	53	33
710	822	Cohesion fund	822	710
33	112	Dividend provision	112	33
0	0	Other equity	69	70
1,774	**2,017**	**Total retained earnings**	**2,085**	**1,844**
3,250	**3,494**	**Total equity capital**	**3,563**	**3,320**
-299	-299	Hybrid capital (subordinated bonds)	-299	-299
-74	-90	Holdings in financial institutions inc. Brage finans	-84	-68
-102	-195	Other (dividends, gifts, other deductions)	-194	-102
2,776	**2,910**	**Total core tier 1 capital**	**2,987**	**2,851**
-16	-17	Holdings in financial institutions	-16	-14
0	0	Other	0	0
299	299	Hybrid capital (subordinated bonds)	299	299
3,059	**3,192**	**Total tier 1 capital3**	**3,271**	**3,136**
451	452	Subordinated loan capital	452	451
0	0	Holdings in financial institutions	0	0
0	0	Other	0	0
451	**452**	**Total supplementary capital**	**452**	**451**
3,510	**3,644**	**Total net subordinated capital**	**3,723**	**3,587**
16,950	16,201	Weighted asset calculation basis	17,893	18,310
16.37 %	17.97 %	Core tier 1 capital ratio in %	16.69 %	15.57 %
18.04 %	19.71 %	Tier 1 capital ratio	18.28 %	17.13 %
20.71 %	22.50 %	Tier 2 capital ratio	20.81 %	19.59 %

	Total core tier 1 capital, including cooperating group	3,087	2,923
	Total tier 1 capital, including cooperating group	3,400	3,232
	Total net subordinated capital, including cooperating group	3,872	3,700
	Total calculation basis, including cooperating group	18,729	19,174
	Capital adequacy, including cooperating group		
	Core tier 1 capital ratio after proportionate consolidation in %	16.48 %	15.25 %
	Tier 1 capital ratio after proportionate consolidation in %	18.16 %	16.86 %
	Tier 2 capital ratio following proportionate consolidation in %	20.68 %	19.30 %

With effect from 31 December 2019, the statutory minimum requirement for the core tier 1 capital ratio is 12.5%. The Bank has a Pillar 2 supplement of 2.2%. The Group's capital requirement including Pillar 2 supplement thus amounts to 14.7%.

Helgeland Sparebank has adopted the standard method for calculating credit risk and the basic method for calculating operational risk.

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
0	0	States and central banks	0	0
240	410	Local and regional authorities	410	240
393	452	Institutions	310	172
1,696	1,588	Enterprises	1,588	1,696
1,067	985	Mass market commitments	1,058	1,022
9,605	8,484	Loans secured through real property	11,313	12,331
530	770	Commitments overdue	843	545
763	804	Covered bonds	122	114
0	0	Units in mutual funds	0	0
1,213	1,237	Equity capital positions	633	630
155	156	Other commitments	257	220
15,662	**14,886**	**Calculation basis, credit risk**	**16,533**	**16,970**
1,268	1,308	Calculation basis, operational risk	1,349	1,320
20	8	Deductions/additions to the calculation basis	11	20
16,950	**16,201**	**Total calculation basis**	**17,893**	**18,310**

NOTE 38.1 - Capital management

Group

The Bank's Board has adopted a capital plan for 2019 – 2023, where fulfilment of the capital requirements of CRD IV is pivotal. The Board has established new capital targets, where the aim is a core tier 1 capital ratio (Group) of at least 16.0% and a tier 2 capital ratio of over 19.5%.

NOTE 39 - Equity capital certificates

NOTE 39.1 - Distribution of equity capital certificates according to number of certificates

Parent bank

31.12.19

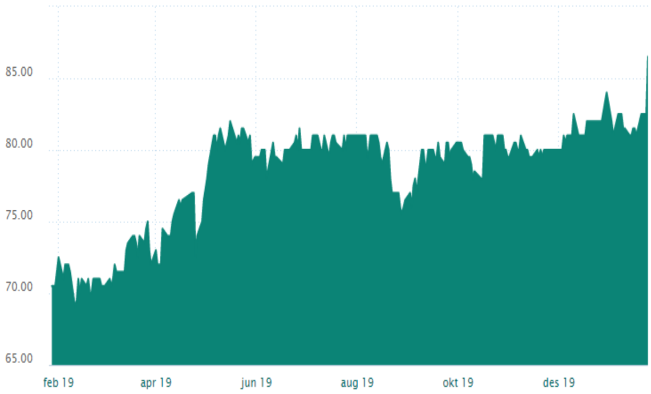
	Equity capital certificate holders		**Equity capital certificates**	
Breakdown by number of equity capital certificates	**Quantity**	**Share %**	**Quantity**	**Share %**
1 – 1,000	1,668	72.0 %	522,803	2.5 %
1,001 –10,000	538	23.2 %	1,675,850	8.0 %
10,001 – 50,000	78	3.4 %	1,656,985	7.9 %
50,001 – 100,000	12	0.5 %	879,720	4.2 %
> 100,001	20	0.9 %	16,136,069	77.3 %
Total	**2,316**	**100.0 %**	**20,871,427**	**100.0 %**

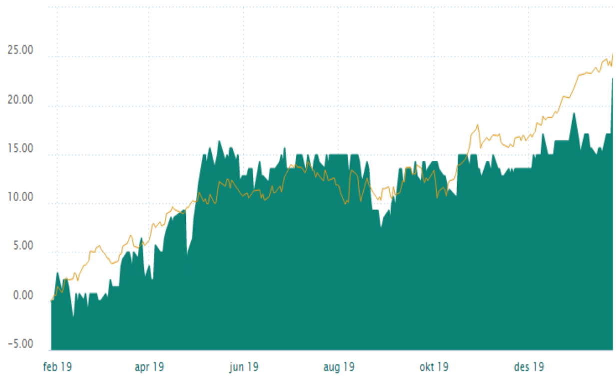
				Parent bank
				31.12.18
	Equity capital certificate holders		**Equity capital certificates**	
Breakdown by number of equity capital certificates	**Quantity**	**Share %**	**Quantity**	**Share %**
1 – 1,000	1,634	74.5 %	495,412	2.4 %
1,001 – 10,000	465	21.2 %	1,450,780	7.0 %
10,001 – 50,000	61	2.8 %	1,329,948	6.4 %
50,001 – 100,000	14	0.6 %	1,018,035	4.9 %
100,001 – 500,000	20	0.9 %	16,577,252	79.4 %
Total	**2,194**	**100.0 %**	**20,871,427**	**100.0 %**

Trading in Helgeland Sparebank's equity capital certificates

The price per equity certificate as of 31 December 2019 was NOK 84.0 (69.8). Graph showing the price trend for Helgeland Sparebank and the financial sector on Oslo Stock Exchange.

Sparebankstiftelsen Helgeland is the largest owner, with 35.0% of the equity capital certificates in HELG.





Market-making agreement

Helgeland Sparebank has entered into a market-making agreement relating to trading in the Bank's equity capital certificates. The purpose of this agreement is to secure liquidity and even out supply and demand, and to contribute to the marketing of the equity capital certificates. The agreement also means that, wherever possible, the difference between buying and selling prices will be kept to a maximum of four percentage points, rounded up or down to the nearest amount. The difference may nevertheless be kept smaller if the market interest should warrant it. The pricing should at all times reflect the market's assessment of the Bank's equity capital certificate.

Returns and dividend policy

It is a priory area to practise sound management of our equity, *inter alia* by practising an ownership policy which helps to create better liquidity in the equity capital certificates. The Bank wishes to maintain an open dialogue with equity capital certificate holders and other market operators. It is our belief that providing accurate and relevant information at the right time creates confidence and predictability and contributes to the correct pricing of Helgeland Sparebank's equity capital certificate. In any event that involves an obligation on the Bank's part to provide information, a report will be sent to Oslo Stock Exchange and then posted on the Bank's website. The Bank has been listed on the stock exchange since 2000 and has complied with the requirements for reporting and information that the stock exchange requires of listed companies. The Bank's ticker is HELG.

The Board has recommended a dividend ratio of 50% (41%). The ownership ratio was 76.1% as of 31 December 2019 and 76.4% as of 31 December 2018.

NOTE 39.2 - Equity certificate capital

Parent bank

In accordance with the Bank's dividend policy, up to half of the equity capital's share of the profit may be paid out as dividends, and correspondingly to up to half of the primary capital's share of the profit may be paid out as gifts or transferred to one or more foundations. The remainder of the profit will be transferred to the cohesion fund and the primary capital fund. The Bank has a strategy of having a long-term and predictable dividend policy.

Equity certificate capital amounts to NOK 208 million (NOK 208 million) and is divided between approximately 2,316 owners. Note 39.3 presents an overview of the 20 largest holders of equity capital certificates.

NOTE 39.3 - The 20 largest owners

Parent bank

31.12.19

	Quantity	% share		Quantity	% share
Sparebankstiftelsen Helgeland	7,315,020	35.0 %	Catilina Invest AS	314,046	1.5 %
Pareto AS	1,949,392	9.3 %	VPF Nordea Avkastning	240,370	1.2 %
VPF Nordea Norge	1,407,987	6.7 %	VPF Nordea Kapital	238,245	1.1 %
VPF Eika egenkapital	825,339	4.0 %	AF Kapital Management	181,749	0.9 %
Bergen kommunale pensjon	550,000	2.6 %	Melum Mølle AS	177,000	0.8 %
Merrill Lynch Prof	532,995	2.6 %	Vigner Olaisen AS	144,653	0.7 %
U.S Bank National Association	507,173	2.4 %	DNB Markets Aksjehandel/analyse	140,000	0.7 %
Lamholmen Invest AS	464,491	2.2 %	Melesio Capital AS	137,188	0.7 %
MP Pensjon PK	389,203	1.9 %	VFP Nordea Norge Pluss	123,527	0.6 %
Helgeland Kraft AS	377,691	1.8 %	Steffen Nervik	120,000	0.6 %
Total 10 largest owners	**14,319,291**	**68.6 %**	**Total 20 largest owners**	**16,136,069**	**77.3 %**

As of 31 December 2019, the Bank has issued a total of 20,871,427 equity capital certificates at a nominal value of NOK. 10. The weighted average in 2019 was 20,871,427.

Parent bank

31.12.18

	Quantity	% share		Quantity	% share
Sparebankstiftelsen Helgeland	7,315,020	35.0 %	Catilina Invest AS	256,046	1.2 %
Pareto AS	1,949,392	9.3 %	Landkreditt utbytte	250,000	1.2 %
VPF Nordea Norge	1,407,987	6.7 %	VPF Nordea	244,270	1.2 %
Merrill Lynch Prof.	1,140,092	5.5 %	VPF Nordea Kapital	238,245	1.1 %
VPF Eika egenkapital	593,823	2.8 %	AF Kapital Managment	181,749	0.9 %
Pope Asset Managment BNY	559,313	2.7 %	Melum Mølle AS	177,000	0.8 %
Bergen kommunale pensjon	475,000	2.3 %	Vigner Olaisen AS	144,653	0.7 %
MP Pensjon PK	462,203	2.2 %	Melesio Capital AS	137,188	0.7 %
Lamholmen Invest AS	447,353	2.1 %	Steffen Nervik	115,000	0.6 %
Helgeland Kraft AS	377,691	1.8 %	Verdipapirfondet NOR	105,227	0.5 %
Total 10 largest owners	**14,727,874**	**70.6 %**	**Total 20 largest owners**	**16,577,252**	**77.4 %**

As of 31 December 2018, the Bank has issued a total of 20,871,427 equity certificates at a nominal value of NOK. 10. The weighted average in 2018 was 20,871,427.

NOTE 39.4 - Equity capital certificates owned by the Bank's elected representatives

Group and Parent bank

			31.12.19
Name/Company	**Post**		**Number of own**
Høyen, Frank	Supervisory Board	E	1,619
		E	
Trønsdal, Øyvin	Supervisory Board		1,645
Hjorthen, Per Gunnar	Supervisory Board	E	9,505
Lunde, Lars Martin	Supervisory Board	E	0
Jakobsen, Anne Påsche	Supervisory Board	E	0
Strøm, Inger Lise	Supervisory Board	E	0
Mevold, Toril	Supervisory Board	E	0
Forbergskog, Brynjar	Supervisory Board	E	0
Olaisen, Maria	Supervisory Board	E	0
Skår, Åsmund	Supervisory Board	E	600
Solhaug, Sten Oddvar	Supervisory Board	I	0
Risøy, Toril Beate	Supervisory Board	I	976
Stanghelle, Helge	Supervisory Board	I	214
Steinrud, Marianne Myrnes	Supervisory Board	I	0
Jakobsen, Tone Helen	Supervisory Board	I	0
Møllersen, Ingvar Johan	Supervisory Board	I	362
Thrana, Marit	Supervisory Board	I	0
Eliassen, Einar	Supervisory Board	A	907
Sagrabb, Nils	Supervisory Board	A	644
Kristensen, Karianne	Supervisory Board	A	974
Stamnes, Tore	Supervisory Board	A	2,860
Stein Andre Herigstad-Olsen	Chairman of the Board	S	610
Risøy, Bjørn Audun	Vice Chairman of the Board	S	0
Furunes, Nils Terje	Board member	S	5,709
Steinmo, Marianne Terese	Board member	S	0
Siw Moxness	Board member	S	245
Tone Helen Hauge	Board member	S	0
Lorentzen, Birgitte	Board member	SA	659
Pedersen, Geir	Board member	SA	785
Nordgaard, Hanne	CEO Director	L	3,534
Klausen, Sverre	Financial Management Director	L	1,214
Brønlund, Bjørn Tore	Corporate Market Director	L	2,245
Heimstad, Dag Hugo	Retail Market Director	L	1,325
Kråkstad, Ranveig	Accounting Director	L	725
Karlsen, Øyvind	Business Development Director	L	2,615
Ekroll, Anne	Risk Management Director	L	1,915

E = Equity certificate holders
L = Senior executive
I = Depositor-elected
S = Board member
A = Employee-elected

Name/Company	Post		31.12.18 Number of own
Høyen, Frank	Supervisory Board	E	1,619
Trønsdal, Øyvin	Supervisory Board	E	1,645
Hjorthen, Per Gunnar	Supervisory Board	E	9,505
Lunde, Lars Martin	Supervisory Board	E	0
Jakobsen, Anne Påsche	Supervisory Board	E	0
Strøm, Inger Lise	Supervisory Board	E	0
Mevold, Toril	Supervisory Board	E	0
Forbergskog, Brynjar	Supervisory Board	E	0
Olaisen, Maria	Supervisory Board	E	0
Skår, Åsmund	Supervisory Board	E	600
Drevland, Wenche	Supervisory Board	I	99
Luktvasslimo, John	Supervisory Board	I	422
Solhaug, Sten Oddvar	Supervisory Board	I	0
Risøy, Toril Beate	Supervisory Board	I	976
Stanghelle, Helge	Supervisory Board	I	214
Steinrud, Marianne Myrnes	Supervisory Board	I	0
Jakobsen, Tone Helen	Supervisory Board	I	0
Møllersen, Ingvar Johan	Supervisory Board	I	362
Thrana, Marit	Supervisory Board	I	0
Eliassen, Einar	Supervisory Board	A	812
Sagrabb, Nils	Supervisory Board	A	453
Kristensen, Karianne	Supervisory Board	A	783
Stamnes, Tore	Supervisory Board	A	2,669
Rørmark, Sten Åge	Supervisory Board	A	769
Myran, Morten	Supervisory Board	A	1,454
Brattbakk, Ove	Chairman of the Board	S	7,552
Risøy, Bjørn Audun	Vice Chairman of the Board	S	0
Lund, Inga Marie	Board member	S	200
Hestvik, Eva Monica	Board member	S	1,230
Furunes, Nils Terje	Board member	S	5,709
Steinmo, Marianne Terese	Board member	S	0
Lorentzen, Birgitte	Board member	SA	468
Pedersen, Geir	Board member	SA	594
Nordgaard, Hanne	CEO Director	L	2,643
Klausen, Sverre	Financial Management Director	L	1,023
Brønlund, Bjørn Tore	Corporate Market Director	L	1,504
Heimstad, Dag Hugo	Retail Market Director	L	1,134
Kråkstad, Ranveig	Accounting Director	L	534
Karlsen, Øyvind	Business Development Director	L	2,424
Ekroll, Anne	Risk Management Director	L	1,724

E = Equity certificate holders
R = Represents equity certificate holders
L = Senior executive
I = Depositor-elected
S = Board member
A = Employee-elected

NOTE 39.5 - Dividends

Basis for calculating dividends	Parent bank 31.12.19	31.12.18
Equity in the balance sheet (not reworked)	3,494	3,251
Subordinated bonds	-299	-299
Deduction (reserve for unrealised gains/dividend provision/provision for foundation)	-565	-479
Total adjusted equity	**2,630**	**2,473**
Equity certificate capital	209	209
Share premium reserve	971	971
Cohesion fund	822	710
Total	**2,002**	**1,890**
Equity certificate percentage as of 1 January	76.4	76.3
Weighted average	76.4	76.3
Equity certificate percentage as of 31 December	76.1	76.4
Calculation of dividend:		
The Parent bank's profit for the year	304	144
Interest on subordinated bonds	-13	-12
Transferred to reserve for unrealised gains	3	-25
Dividend basis	**294**	**107**
Dividend in NOK million	112	33
Cohesion fund, NOK	112	48
Dividend per equity capital certificate in NOK, Parent bank	10.73	3.90
Of which cash dividends in NOK	5.35	1.60
Of which to cohesion fund in NOK	5.35	2.30

NOTE 39.6 - Key figures, equity capital certificates

Parent bank 31.12.18	31.12.19		*Group* 31.12.19	31.12.18
69.5	84.0	Stock exchange price	84.0	69.5
14.4	8.0	P/E (stock exchange price as of 31 December divided by profit per equity capital certificate)	7.9	13.9
0.6	0.7	P/B (stock exchange price as of 31 Dec. divided by book value of equity per equity capital certificate)	0.7	0.6
76.4	76.1	Equity capital certificate ratio as of 31 December	76.1	76.4
108	116	Equity per equity capital certificate, in NOK	119	110
4.8	10.7	Earnings per equity capital certificate, in NOK	10.7	5.0

NOTE 40 - Guarantee liabilities by guarantee type

Parent bank 31.12.18	31.12.19		*Group* 31.12.19	31.12.18
197	172	Payment guarantees	172	197
159	129	Contract guarantees	129	159
90	89	Loan guarantees	89	90
25	25	Other guarantee liabilities	25	25
471	**415**	**Total guarantee liabilities ***	**415**	**471**

*) Adjustment to fair value is not included in the balance sheet, as the change in value is insignificant.

The amounts of NOK 16.0 million (2019) and NOK 12.0 million (2018) were deposited in the deposit guarantee fund and the crisis fund.

NOTE 41 - Assets pledged as collateral

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
545	525	Bonds pledged as collateral security for D-loan from Norges Bank	525	545
545	**525**	**Total assets pledged as collateral**	**525**	**545**

NOTE 42 - Events after the balance sheet date

Group and Parent bank

There have been no significant events since the balance sheet date which have affect the accounts. It is proposed to distribute a cash dividend of NOK 112 million (NOK 33 million) of the profit for the year to equity capital certificate holders in Helgeland Sparebank. Furthermore, it is proposed to transfer NOK 35 million (NOK 10 million) to the gift fund/gift foundation. The proposal had not been adopted as of the balance sheet date (31 December) and the items are therefore not recognised as debt, but are included in equity.

NOTE 43 - Balance sheet divided into short- and long-term items

Parent bank				*Group*
31.12.18	**31.12.19**		**31.12.19**	**31.12.18**
		Assets		
82	88	Cash and receivables, central banks	88	82
1,170	1,432	Loans to and receivables from credit institutions	750	461
2,683	2,687	Loans to and receivables from customers	2,612	3,530
1,243	1,838	Certificates, bonds and shares	1,888	1,268
71	66	Other assets	48	71
5,249	**6,111**	**Total current assets**	**5,387**	**5.412**
17,605	17,091	Loans to and receivables from customers	24,707	24,084
54	16	Financial derivatives	15	54
2,889	3,476	Certificates, bonds and shares	3,395	2,889
382	379	Investments in associated companies	379	382
595	604	Investments in subsidiaries	0	0
11	8	Deferred tax asset	12	15
69	75	Fixed assets held for sale	173	133
21,604	**21,649**	**Total current assets**	**28,681**	**27,557**
26,854	**27,760**	**Total assets**	**34,068**	**32,969**
		Liabilities and equity		
0	0	Liabilities to credit institutions	0	2
17,544	19,269	Deposits from and liabilities to customers	18,837	17,077
620	317	Liabilities established through the issuing of securities	346	914
104	184	Other liabilities	179	118
18,268	**19,770**	**Total current liabilities**	**19,362**	**18,111**
250	553	Liabilities to credit institutions	554	250
174	122	Fixed-rate deposits	122	171
4,889	3,803	Liabilities established through the issuing of securities	10,440	11,093
22	18	Financial derivatives	25	22
5,335	**4,496**	**Total non-current liabilities**	**11,141**	**11,536**
23,603	**24,266**	**Total liabilities**	**30,503**	**29,647**
1,888	2,001	Total equity share capital	2,001	1,888
591	643	Total primary capital	643	591
772	850	Total other equity	919	841
3,251	**3,494**	**Total equity**	**3,563**	**3,320**
		Non-controlling interests	2	2
26,854	**27,760**	**Total liabilities and equity**	**34,068**	**32,969**

Helgeland Sparebank - Statement from the Boards of Directors and the CEO

We confirm that, to the best of our knowledge, the financial statements for the period 1 January to 31 December 2019 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole.

We also confirm that the management report presents a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risks and uncertainties facing the entity and the Group.

Mo i Rana, 27 February 2020.

Stein Andre Herigstad-Olsen
Chair

Bjørn Audun Risøy
Vice Chair

Marianne Terese Steinmo

Siw Moxness

Nils Terje Furunes

Tone Helen Hauge

Birgitte Lorentzen
Employee representative

Geir Pedersen
Employee representative

Hanne Nordgaard
Chief Executive Officer

Net income as a percentage of average total assets

Parent bank								*Group*
2016	**2017**	**2018**	**2019**		**2019**	**2018**	**2017**	**2016**
3.12	2.99	2.94	3.29	Interest income and other similar income	3.29	2.95	3.00	3.14
1.22	1.10	1.11	1.38	Interest expenses and other similar costs	1.52	1.21	1.17	1.30
1.90	**1.90**	**1.83**	**1.90**	**Net interest and credit commission income [2]**	**1.77**	**1.74**	**1.83**	**1.84**
0.39	0.37	0.37	0.41	Commission income and income from banking services	0.33	0.31	0.31	0.34
0.04	0.04	0.04	0.05	Commission expenses and costs attributable to banking services	0.04	0.03	0.04	0.04
0.35	**0.33**	**0.34**	**0.36**	**Net commission income**	**0.30**	**0.28**	**0.28**	**0.30**
0.43	0.25	0.35	0.32	Net income from financial instruments	0.10	0.15	0.11	0.26
0.02	0.03	0.07	0.03	Other operating income	0.01	0.05	0.02	0.02
0.30	0.00	0.00	0.00	Income from conversion to defined contribution pension	0.00	0.00	0.00	0.26
1.03	1.04	1.04	1.04	Operating expenses	0.86	0.88	0.89	0.96
0.14	0.25	0.93	0.23	Losses on loans, guarantees, etc.	0.19	0.77	0.21	0.13
1.83	**1.22**	**0.61**	**1.35**	**Net income before tax**	**1.13**	**0.57**	**1.13**	**1.60**
0.37	0.23	0.07	0.24	Tax payable on ordinary result	0.23	0.11	0.24	0.36
1.46	**0.99**	**0.54**	**1.11**	**Profit for the year after tax**	**0.90**	**0.46**	**0.89**	**1.24**

Other key figures

Parent bank								*Group*
2016	**2017**	**2018**	**2019**	(figures in NOK million and %)	**2019**	**2018**	**2017**	**2016**
25,371	26,749	26,854	27,760	Total assets as of 31 December[8]	34,068	32,969	31,850	29,383
24,576	25,962	26,830	27,507	Average total assets[10]	34,033	32,443	30,852	28,324
19,169	20,012	20,669	20,110	Gross lending[4]	27,655	27,995	26,611	24,748
86.0 %	87.1 %	85.7 %	96.4 %	Deposit-to-loan ratio as a percentage of gross lending[5]	68.5 %	61.6 %	63.8 %	65.4 %
58.6 %	55.8 %	55.2 %	56.5 %	Loans to retail market customers	67.9 %	66.6 %	66.4 %	67.6 %
4.8 %	4.4 %	3.3 %	-2.7 %	Growth in gross lending[6]	-1.2 %	5.2 %	7.5 %	9.8 %
12.6 %	5.7 %	1.7 %	9.4 %	Growth in customer deposits [7]	9.9 %	1.6 %	4.9 %	12.2 %
16.9 %	16.6 %	16.4 %	18.0 %	Core tier 1 capital ratio [21]	16.5 %	15.3 %	15.8 %	16.1 %
19.8 %	18.4 %	18.0 %	19.7 %	Tier 1 capital ratio [21]	18.2 %	16.9 %	17.4 %	18.7 %
21.7 %	20.2 %	20.7 %	22.5 %	Capital adequacy [21]	20.7 %	19.3 %	19.1 %	20.5 %
9.8 %	9.1 %	8.9 %	9.0 %	Leverage ratio[22]	9.4 %	9.2 %	9.3 %	10.1 %
12.5 %	12.1 %	12.1 %	12.6 %	Equity ratio[8]	10.5 %	10.1 %	10.3 %	10.9 %
13.5 %	8.2 %	4.4 %	9.0 %	Return on equity[1]	8.9 %	4.6 %	8.6 %	13.0 %
1.5 %	1.0 %	0.5 %	1.1 %	Return on assets	0.9 %	0.5 %	0.9 %	1.2 %
81.0	88	69.5	84	Stock exchange price, NOK per equity capital certificate	84	69.5	88	81
5.9	7.4	14.4	8.0	P/E [19]	7.9	13.9	6.9	6.0
0.8	0.8	0.6	0.7	P/B [20]	0.7	0.6	0.8	0.8
76.5	76.3	76.4	76.1	Ownership ratio as of 31 December[18]	76.1	76.4	76.3	76.5
100	107	108	116	Equity per equity capital certificate [17]	119	110	109	101
13.8	8.9	4.8	10.7	Earnings per equity capital certificate, in NOK [16]	10.7	5.0	9.5	13.5
13.8	8.9	4.8	10.7	Comprehensive income per equity capital certificate, in NOK	10.7	5.0	9.5	13.5
3.75	4.00	1.60	5.35	Cash dividend, in NOK				
7.20	4.21	2.30	5.35	Allocated to cohesion fund				
1.0	1.0	1.0	1.0	Costs as a percentage of average total assets	0.9	0.9	0.9	1.0
38.2	41.4	40.3	39.7	Costs as a percentage of income[3]	39.5	39.7	39.9	39.6
152	148	150	148	Number of full-time equivalents[10]	148	150	148	152
				As percentage of gross loans:				
0.5	0.7	1.5	1.4	Gross commitments in default[13]	1.0	1.1	0.5	0.4
0.4	0.6	0.9	0.8	Net default	0.6	0.7	0.4	0.3
0.6	0.8	1.9	1.2	Total write-downs[15]	0.9	1.4	0.6	0.5
0.2	0.3	1.2	0.3	Losses on commitments[12]	0.2	0.9	0.2	0.1

Calculations

Parent bank								*Group*
2016	**2017**	**2018**	**2019**	(figures in NOK million and %)	**2019**	**2018**	**2017**	**2016**
				Operating costs, adjusted for non-recurring effects				
253	269	279	286	Operating costs	293	286	275	271
-74	0	0	0	Non-recurring effect of pension conversion	0	0	0	-74
179	**269**	**279**	**286**	**Operating costs, adjusted for non-recurring effects**	**293**	**286**	**275**	**197**
0.73 %	1.39 %	1.04 %	1.04 %	Operating exp. as a perc. of liab. NAV, adj. for non-recurring effects	0.86 %	0.88 %	1.19 %	0.70 %
27.0 %	41.4 %	40.3 %	39.7 %	Operating costs as a perc.of inc. adjusted for non-recurring effects	39.5 %	39.7 %	39.9 %	28.8 %
359	256	144	304	Profit	305	149	273	350
-11	-14	-12	-13	Interest paid, subordinated bonds	-13	-12	-14	-11
348	242	132	291	Profit inc. interest, subordinated bonds	292	137	259	339
-74	0	0	0	Non-recurring effect, pension conversion	0	0	0	-74
274	242	132	291	Result, exc. pension conversion and inc. int. on subordinated bonds	292	137	259	265
2.662	3,132	3,285	3,389	Average equity	3,431	3,268	3,171	2,698
-243	-333	-299	-299	Average subordinated bonds classed as equity	-299	-299	-333	-243
2,419	2,799	2,986	3,090	Average equity exc. subordinated bonds classified as equity	3,132	2,969	2,838	2,455
13.5 %	8.2 %	4.4 %	9,0 %	Return on equity	8.9 %	4.6 %	8.6 %	13.0 %
11.3 %	8.6 %	4.4 %	9.4 %	Return on eq., adj. for non-recurring eff. and int., sub.bonds	9.3 %	4.6 %	9.1 %	9.8 %
274	242	132	291	Profit	292	137	259	265
24,576	25,962	26,860	27,507	Average NAV	34,033	32,443	30,852	28,324
1.5 %	1.0 %	0.5 %	1.1 %	Return on assets	0.9 %	0.5 %	0.9 %	1.2 %
1.1 %	0.9 %	0.5 %	1.1 %	Return on assets, adj. for non-recurring eff., pens. and sub.bonds	0.9 %	0.4 %	0.8 %	0.9 %
3,039	3,020	3,058	3,192	Tier 1 capital	3,271	3,136	3,068	3,080
30,865	33,228	34,500	35,548	Unweighted calculation basis	34,964	33,997	32,842	30,484
9.8 %	9.1 %	8.9 %	9.0 %	Leverage ratio	9.4 %	9.2 %	9.3 %	10.1 %

Alternative Performance Measures (APM)

In both the Board's report and accounting presentations, Helgeland Sparebank uses alternative performance measures (APM) for the purpose of giving a true and fair view of the Bank's financial development and position to ensure that information is accurate. Key figures that are regulated in IFRS or other legislation are not defined as APM. The same applies to non-financial information. APMs that are presented as part of the accounting part of the reports are essentially exempt from the APM guidelines, but are included in the overview below insofar as they are not defined in the financial statements. The reason for presenting adjusted results is to bring out the underlying operation in a better way and is not intended to replace ordinary reporting.

Definitions of key figures:

1) **Return on equity.** Reason for use: This key figure indicates the return on the Group's equity. The key figure reflects the Group's ability to convert the capital into profitable operations. Definition: Return on equity (comprehensive income after tax) is calculated by dividing the profit/loss for the period for the financial year by the average equity for the past year. In the case of information on return on equity for more than one period, the profit for the period is annualised.
2) **Net interest.** Reason for use: Net interest income is a commonly used key figure within the banking/finance sector and reflects the Bank's net interest income as a percentage of average total assets. Definition: Net interest income is the difference between gross interest income and interest expenses – net interest income in the summary of financial results. Net interest income is annualised in the interim reports.
3) **Expense ratio.** Reason for use: The expense ratio is a commonly used key figure in the banking/finance sector. The key figure reflects how effectively the Bank/Group is operating. Definition: The expense ratio reflects the ability of the Bank/Group to convert its operating costs into revenue generation. The expense ratio is calculated by dividing total operating costs by total income.
4) **Gross lending, Group (including transfers to the mortgage company).** Reason for use: The Bank wholly owns Helgeland Boligkreditt and the key figure reflects the Bank's total lending volume. Definition: Lending volume including amount transferred from the mortgage company.
5) **Deposit-to-loan ratio.** Reason for use: Deposit-to-loan ratio is a commonly used key figure in the banking/finance sector. The key figure indicates the proportion of the Bank's lending activities that are financed by deposits from customers. Definition: The deposit-to-loan ratio reflects the Bank's ability to finance lending to customers through deposits from customers. The deposit-to-loan ratio is calculated by dividing total deposits from customers by gross lending, excluding transfers to the Parent bank's credit companies but including transfers to the Group's credit companies.
6) **Lending growth last 12 months.** Reason for use: Lending growth over the last 12 months is a normal key figure in banking/finance. The key figure reflects the activity and growth of the Bank's lending activities. The Group includes transfers from the mortgage company, growth in the parent bank excl. volume of the mortgage company. Definition: Lending growth is calculated from the corresponding period last year to this year. The Group includes the volume of the mortgage company, while the parent bank is excl. volume of the mortgage company.

7) **Deposit growth, last 12 months.** Reason for use: Growth in deposits over the last 12 months is a commonly used key figure in the banking/finance sector. The key figure reflects the activity and growth of the Bank's deposit operations. Definition: Deposit growth over the last 12 months reflects the growth in deposits on the balance sheet from the corresponding period last year to the current year.

8) **Total assets.** Reason for use: The key figure reflects the Bank's total assets. Definition: Total assets on the balance sheet.

9) **Growth in total assets, last 12 months.** Reason for use: The key figure reflects the growth in the Bank's total assets, including transfers to the Group's credit companies and excluding volumes transferred to the Parent bank's credit companies. Definition: Growth in assets on the balance sheet are calculated from the corresponding period last year to the present year.

10) **Average total assets.** Reason for use: Several key figures are calculated using average total assets. Definition: Weighted average of total assets throughout the year.

11) **Equity excluding hybrid capital.** Reason for use: This key figure reflects a portion of the Bank's capital which belongs to the owners, excluding hybrid capital (subordinated bonds). Definition: The difference between the Bank's equity (retained earnings and paid-in equity) and the Bank's hybrid capital (subordinated bonds).

12) **Loss ratio, loans**. Reason for use: This key figure reflects a loss recognised as a function of gross lending as of the balance sheet date. Definition: Loss provisions for loans and guarantees for the period divided by gross lending as a percentage. In the case of information concerning the loss ratio concerning loans for periods of less than a full financial year, the loss expense recognised in the income statement is annualised.

13) **Defaulted commitments.** Reason for use: This key figure indicates the proportion of the Bank's gross lending which is in default. Definition: Defaulted commitments (over 90 days) on loans and guarantees during the period where the amount exceeds NOK. 1,000.

14) **Doubtful commitments.** Reason for use: This key figure indicates the proportion of the Bank's gross lending which is doubtful. Definition: Gross doubtful loans for the period (Loans with objective evidence of loss, but which are not in default).

15) **Net defaulted and doubtful commitments as a percentage of gross lending.** Reason for use: This key figure indicates the Bank's net defaulted and doubtful commitments amount expressed as a proportion of gross lending. Definition: Net defaulted and doubtful commitments are gross non-performing and doubtful commitments, less write-downs on these loans, divided by gross lending.

16) **Earnings per equity capital certificate.** Reason for use: This key figure provides information on earnings per equity capital certificate. Definition: The equity capital certificate holders' share of earnings is calculated as the net income before other income statement items relative to the average number of equity capital certificates during the period.

17) **Book equity per equity capital certificate.** Reason for use: This key figure provides information on the value of the book equity per equity capital certificate. Definition: Equity certificate holders' share of equity divided by the number of equity certificates.

18) **Equity capital certificate ratio.** Reason for use: Basis for calculating dividends. Definition: Equity capital certificate holders' share of equity, e.g. subordinated bonds

19) **P/E.** Reason for use: This key figure provides information on earnings per equity certificate. Definition: Share price at end of period divided by profit (annualised) per equity certificate.

20) **P/B**. Reason for use: The key figure provides information on price per equity capital certificate. Definition: Share price at end of period divided by book equity per equity capital certificate.

21) **Capital adequacy.** Reason for use: Statutory requirement regarding capital adequacy. Includes cooperating group. Definition: Subordinated capital divided by weighted balance and off balance sheet items.

22) **Unweighted tier 1 capital ratio.** Reason for use: Commonly used key figure in the banking/finance sector. Gives a more comparable figure for capital, regardless of the method used to calculate capital adequacy. Definition: Tier 1 capital divided by capitalised items and non-capitalised items calculated without risk weighting.

Members of the Supervisory Board:

Chair: Hjorthen, Per Gunnar
Vice chair: Steinrud, Marianne Myrnes

Elected by depositors:
Steinrud, Marianne Myrnes
Møllersen, Ingvar
Breirem Reidun
Juvik, Kjell Idar
Thrana, Marit
Stanghelle, Helge
Solhaug, Sten Oddvar
Jakobsen, Tone Helen
Risøy, Torill Beate

Elected by equity capital certificate holders:
Forbergskog, Brynjar
Trønsdal, Øyvin
Mevold, Toril
Strøm, Inger-Lise
Jakobsen, Anne Påsche
Lunde, Lars Martin
Hjorthen, Per Gunnar
Høyen, Frank
Olaisen, Maria
Skår, Åsmund

Elected by employees:
Sagrabb, Nils
Johansen,Steinar
Kristensen, Karianne
Eliassen, Einar
Lisø Sten Ove
Stamnes Tore

Board members:
Chair: Sten Andre Herigstad-Olsen
Vice chair: Risøy, Bjørn Audun

Other board members:
Furunes, Nils Terje
Tone Helen Hauge
SiwMoxness
Steinmo, Marianne Terese
Lorentzen, Birgitte
Pedersen, Geir

Principal administration and key persons:
Nordgaard, Hanne CEO
Klausen, Sverre, Chief Financial Officer
Heimstad, Dag-Hugo, Retail Market Director
Kråkstad, Ranveig, Chief Accounting Officer
Brønlund, Bjørn-Tore, Corporate Market Director
Ekroll, Anne, Risk Management Director
Karlsen, Øyvind, Business Management Director

To the Supervisory Board of Helgeland Sparebank

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Helgeland Sparebank, which comprise:

- The financial statements of the parent company Helgeland Sparebank (the Company), which comprise the balance sheet as at 31 December 2019, the income statement, change in equity and cash flow statement for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies, and
- The consolidated financial statements of Helgeland Sparebank and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, change in equity and cash flow statement for the year then ended, and notes to the annual accounts, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the 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 and the Group 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.

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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 Banks business activities for the bank are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new key audit matters. Impairment of loans to customers carries the same characteristics and risks this year and has consequently been in our focus for the 2019 audit.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans to customers Loans and guarantees constitute a considerable amount of the assets on the bank's balance sheet. When considering impairments, the bank applies a model-based framework with components that require management to exercise judgement. The framework is complex and comprise large amounts of data and discretionary parameters. Our audit focused on the valuation of loans because of the impact the impairment assessment has on the balance sheet, as well as the fact that the use of judgement has a potential impact on net income for the period. In addition, there is an inherent risk of misstatements due to the complexity and amount of data in the model. IFRS 9 has an effective date for annual periods beginning on or after 1 January 2018. Whereas the previous model recognized impairments when incurred credit losses were identified, the new model used in the impairment assessment reflects the bank's expected credit loss. Using models when calculating expected credit loss involve the use of judgement. We have given special attention to: • Classification of the loan portfolio by risk and segment • Identification of loans where there	In our audit of expected loss allowance, we evaluated and tested the design and effectiveness of controls for quality assurance relating to the applied assumptions and models used in the calculations. Furthermore, we tested the input used in the model-based calculation of allowances as well as the individually calculated allowances. We have obtained a detailed understanding of the process and tested the relevant controls that are implemented in order to safeguard: • Calculations and the applied method; • That the applied model is designed according to the framework, and working as planned; • The reliability and accuracy of the data used in the model. Our controls testing gave no indication of material misstatements in the model, or deviations from IFRS 9. Our work comprises testing of the company's IT systems relevant for financial reporting. The company uses service organizations to operate their core IT systems. In order to evaluate the design and effectiveness of established controls at the service organizations, as well as testing controls established to ensure the integrity of the IT systems relevant for financial reporting, we have utilized the service organizations external auditors. In relation to the work performed the auditors have issued reports that include, among other things, comprehensive testing of whether calculations done in the core systems are aligned with expectations (interest calculations and amortization). Furthermore, the testing includes the

has been a significant increase in credit risk

- How the loans are categorized in different stages
- Parameters, including default rate, down payment factors, and scenarios

The bank's loan portfolio primarily consists of loans to private customers and the SMB segment, and the models developed should estimate the loss allowance for each of these segments.

In the case of loans where there is objective evidence of impairment, an individual allowance for credit loss is recognized. This assessment also requires management's use of judgement.

integrity of the data, changes made to the systems as well as access to the systems.

In order for us to use the information from the reports issued by the service organizations in our audit work, we have evaluated the auditors competence and objectivity. We have also reviewed the reports issued and evaluated any deviations and corrective actions. Furthermore we have tested access controls in the company's IT-systems, and segregation of duties where considered necessary in relation to our specific audit procedures.

Our evaluations and tests substantiate that we can assume that the data processed in the core-system as well as the calculations undertaken in the core-system, are reliable. This was considered a necessary foundation for our audit.

Concerning loans with objective evidence of impairment, and consequently where impairment is calculated for the specific loan, we tested a selection of loans. Realisable value is calculated by using external appraisals or internal evaluations. In order to assess the realisable value, we reviewed the appraisals and evaluated the relevance and reasonableness of important assumptions used in the appraisals, as well as the method applied in the calculations. As for the internal evaluations, we interviewed management and employees in the credit department, and challenged the relevance and reasonableness of important assumptions, and of the method applied in the calculation of the impairment. In addition, we tested the appropriateness of the classification within the model, and evaluated the reasonableness of the total allowance for credit losses. Misstatements identified in our testing were considered immaterial.

Note 2.1, 16, 21.3, 21.4 and 22 in the financial statements are relevant as to the description of the bank's credit loss model, and how the company calculates allowance for credit losses in accordance with IFRS 9. We have read the notes and found that the information provided was sufficient and appropriate.

Other information

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

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's and the Group'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 Group 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 or the Group'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 and the Group'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 and the Group to cease to continue as a going concern.

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Mo i Rana, 27 February 2020
PricewaterhouseCoopers AS

Silja Eriksen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.