



## ANNUAL REPORT 2019

# REPORT FROM THE BOARD OF DIRECTORS

## Helgeland Boligkreditt AS, Annual Report 2019

### General information

#### Enterprise

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

The company is licensed to operate as a mortgage company, issuing covered bonds. The cover pool is primarily made up of residential mortgages granted by Helgeland Sparebank.

Helgeland Sparebank provides services such as following up customers, management of loans, as well as a number of administrative services.

#### Accounting standards

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

#### Rating

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

#### Result

Gross profit was MNOK 63.6. This is MNOK 4.8 lower compared to 2018. Net interest rate has increased by MNOK 3.7. The company has higher lending volume and interest income on lending has increased by MNOK 47.9, while interest expenses on funding has increased by MNOK 44.3.

Increased activity capital has resulted in higher management fees and total operating costs were MNOK 11.6 and has increased by MNOK 13 compared to 2018. Net profit was MNOK 49.6 (52.7) which gives a return on equity of 8.3 (9.0) %.

The company is well capitalized with Core tier one Capital ratio of 17.5 (18.6) %.

#### Key figures per 31.12.19 (31.12.18)

- Net profit MNOK 49.6 (52.7)
- Net interest MNOK 81.6 (77.9)
- Operation costs MNOK 11.6 (10.3)
- Return on equity 8.3 (9.0) %
- CET1 capital ratio 17.5 (18.6) %
- Cover pool ratio of fullness 17 (19) %
- Indexed LTV 57 (56) %

#### Allocation of profit

The Board of Directors proposes that the profit for 2019 of MNOK 49.6 be given in dividend to Helgeland Sparebank. The size of the group contribution is considered justifiable based on the company's position.

#### Balance development

Combined assets in Helgeland Boligkreditt AS constituted MNOK 8 047 per 31.12.19. Of this, 95% of the assets are mortgages.

#### Cover pool

By the end of the quarter the mortgage company had mortgages of MNOK 7 600 (7 385). 77.5 (78.2) % of the mortgages are lent to customers in the Helgeland region. All the mortgages have floating interest rates, and 11 (11) % of the lending volume are flexi loans. The lending has increased by MNOK 215.

Loans qualified for the cover pool amounts to MNOK 7 512 (7 325). Loans in the cover pool meet the requirements of the Financial Institutions Act, and are secured by residential mortgages within 75 % of appraised value.

The lending portfolio is considered very good.

Helgeland Boligkreditt AS had substitute assets of MNOK 400 (414) as per 31.12.19 is fully included in the supplementary security. This is a bank deposit in the parent bank.

Statutory bill of MNOK 50 (25) is included in the LCR calculation.

#### Funding

The lending portfolio is funded by issuing covered bonds totalling MNOK 6 745 (6 498), as well as long term credit from Helgeland Sparebank. MNOK 80 of the covered bonds are in the parent company's ownership.

The company's debt in finance institutions amounts to MNOK 682 (709) by the end of the quarter. The debt is linked to credit lines in the parent bank.

The value of the cover pool is well above the volume of loans and there is good security in the portfolio. The OC level (in relation to outstanding bonds) was 17 (19) %.

#### Cash-flow

The cash flow statement shows how Helgeland Boligkreditt AS has received liquid funds and how these have been used. It has been prepared based on gross cash flows from operating, investing and financing activities. Credit in 2019 increased by MNOK 215. Liabilities to credit institutions decreased MNOK 27 and Covered Bonds increased MNOK 230. Total liquidity change is MNOK -14.4.

#### Risk conditions and capital ratio

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

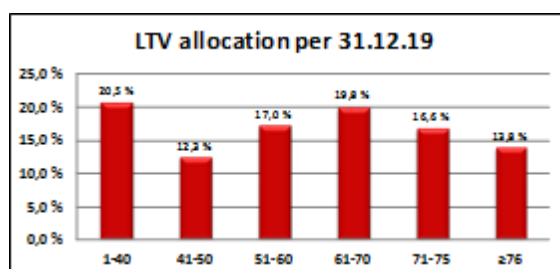
## REPORT FROM THE BOARD OF DIRECTORS

### Credit risk

The company's credit strategy is approved by the Board of Directors and determines the framework for management objectives and risk profile. The company had no individual write-downs or write-offs. Total write-downs of loans by IFRS 9 amount to MNOK 2.5, or 0.03% of gross lending.

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

The average LTV (Loan-to-value) ratio was per 31.12.19 57 (56) %. The diagram below shows the distribution of the LTVs for the mortgages in the cover pool.



### Liquidity risk

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

By the end of the year, the share of funding with maturity exceeding 1 year was 99.5 (96.5) %. This is well above the target figure of 70 %. Helgeland Boligkreditt AS has established committed credit lines in the parent bank that guarantees repayment of covered bonds maturing the next 12 months on a revolving basis. The company further seeks to reduce the liquidity risk associated with grater maturities by re-purchasing its own bonds. The company's liquidity risk is considered low.

### Market risk

The company has some exposures in stocks or securities, and only owns a treasury bill. Mainly, the funding carry floating interest rates, and one loan with fixed interest. There are no loans in foreign currency. Interest rate risk is within the company's governing framework.

### Operating risk

The transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreement includes

administration, customer care, IT-management, finance- and risk management.

### Capital ratio

The capital ratio per 31.12.19 was 17.5 (18.6) % and consists solely of MNOK 547.4 CET1 capital. The standard formula is used to calculate the capital requirements, and the basic indicator approach is used to calculate operating risk. The company's goal for CET 1 capital is 13.0 % and total capital ratio of over 16.5 %.

### Corporate responsibility

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

### Staff

Helgeland Boligkreditt AS has no employees. An agreement has been made with Helgeland Sparebank regarding the provision of services relating to loan servicing and administration of the company. Helgeland Boligkreditt AS is committed to gender equality. The Board has 4 members; 1 woman and 3 men.

### Prospects ahead

The interest rate changes in the parent bank in 2019 has increased the net interest in Helgeland Boligkreditt AS, but the funding interest rate has increased similarly and the effect has been neutral.

The market growth in the retail market in Helgeland continues to decrease and the main reason is high uncertainty around future interest, together with a low population growth in the region. The growth in the banks market of 4.3 % the last 12 months is down from 5.5 % in the same period last year.

The company's 12-month credit growth in the retail market is 2.9 %, which is significantly lower than the Helgeland growth. This is a result of lower growth in the parent bank and fewer transmissions. We expect moderate market growth ahead and consequently also moderate and healthy credit growth to the retail market in 2020.

The turnover of housing in Helgeland has trough 2019 been on the same level as the "normal year" 2017. When it comes to the price on sold housing, we find a price decrease in the 4th quarter; 2.7 % on apartments and 1.9 % on villas. The housing market in Helgeland, especially in Mosjøen and Mo I Rana, can be characterized as well functioning. The turnover speed has decreased some and is now between 35-60 days and the turnovers are approximately on value assessment. It is expected moderate price growth on housing in Helgeland in 2020. Unemployment remains low in Helgeland, with 1.9%. It is expected that the low level of unemployed will persist.

## REPORT FROM THE BOARD OF DIRECTORS

The Board considers the company to have a solid cover pool and that Helgeland Boligkreditt AS still will deliver stable results and be a good source for long term funding.

Mo i Rana, 25 February 2020

Hanne Nordgaard  
*Chairman*

Dag-Hugo Heimstad  
*Vice-Chairman*

Håkon Stanghelle

Sverre Klausen

Lena Båtstrand  
*General Manager*

## CORPORATE GOVERNANCE

### Corporate Governance

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

The company's policy is laid down in various governing documents for the activities of Helgeland Boligkreditt AS. These include the company's articles of association, strategy document, policy documents, budget, mandates and frameworks, descriptions of procedures, framework for governance and control, guidelines for systems and processes that focus on risk management and internal control in the company.

These documents are based on the Norwegian Code of Corporate Governance and the Committee of European Banking Supervisors' principles for overall governance and control.

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

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

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

The General Meeting shall consider:

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

A new Financial Institutions Act entered into force on 1 January 2016. The General Meeting adapted to the new act by, among other things, dissolving its Supervisory Board and Control Committee in March 2016.

The General Meeting also amended the company's Articles of Association to meet the new requirements of the new act.

### Operations

Helgeland Boligkreditt AS was established to be the bank's company for issuing covered bonds.

The mortgage company acquires residential mortgages which are secured within 75% of appraised property value. The mortgage loans are purchased from Helgeland Sparebank.

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

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

### Company capital

The company's equity consists of share capital, share premium reserve and retained earnings.

The company's goal for tier one capital adequacy is 13.0 %. Internal target requirements were last revised in accordance with CRD IV requirements in connection with the company's strategy process in 2018.

The statutory minimum requirement is 12.5 % from 31.12.19.

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

### Elections

The general meeting elects the Board of Directors.

### The Board's composition and independence

The Board of Directors consists of 4 permanent members and one alternate. One of the permanent members are women.

Important criteria for the Board members and composition of the Board are qualifications, gender, capacity and independence.

In its activity plan the Board has assumed an annual evaluation of the independence of its members and the Board's overall competence.

The Board meets at least once every quarter and works according to a set schedule for the year. In addition to the elected members, the general manager also attends the Board meetings. The Board of Directors has overall responsibility for the administration of Helgeland Boligkreditt AS and to oversee the daily management and operations.

The Board's management responsibilities include responsibility for organizing the company in a proper manner, the responsibility to draw up plans and budgets for the company, for keeping itself informed about the company's financial position and the company's activities, asset management and accounts are subject to adequate controls.



## CORPORATE GOVERNANCE

The annual strategy process/rollover of the strategic plans is a priority. Overall goals and strategies are determined, and on the basis of those action plans and budgets are drawn up.

The general manager prepares matters to be considered by the board, together with the chairman.

### **Risk management and internal control**

Good risk and capital management is essential to the long-term value creation of Helgeland Boligkreditt AS.

Risk management is linked to four risk areas:

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

The choice of method for risk assessment should be based on the company's complexity and the scope of the various business areas.

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

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

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

The Internal auditor is participating in all board meetings.

### **Remuneration to the Board**

The General Meeting determines remuneration rates for the Board.

### **Management remuneration**

The company has no employees. An agreement has been made with Helgeland Sparebank regarding the provision of services related to management and operation of the company.

The company has no option- or bonus agreements.

### **Information and communication**

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

### **Auditor**

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

### **Investigator**

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

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## PROFIT AND LOSS ACCOUNT

### INCOME STATEMENT (amounts in NOK 1.000)

	Note	31.12.19	31.12.18
Interest receivable and similar income	4.23	238 646	190 718
Interest payable and similar costs	4.23	157 090	112 802
<b>Net interest- and credit commission income</b>		<b>81 556</b>	<b>77 916</b>
Commissions receivable and income from banking services		23	18
Commissions payable and costs relating to banking services		0	0
<b>Net commission income</b>		<b>23</b>	<b>18</b>
Gains/losses on financial assets available for sale	5	-4 969	651
Operating costs	6,22,23	11 644	10 314
Losses on loans, guarantees etc.	2	1 407	-124
<b>Operating profit</b>		<b>63 559</b>	<b>68 395</b>
<b>Result before tax</b>		<b>63 559</b>	<b>68 395</b>
Tax payable on ordinary result	7	13 949	15 726
<b>Result from ordinary operations after tax</b>		<b>49 610</b>	<b>52 669</b>
Yield per share in NOK	24	92	98
Diluted result per share in NOK	24	92	98
<b>Extended Income Statement</b>		<b>31.12.19</b>	<b>31.12.18</b>
<b>Result from ordinary operations after tax</b>		<b>49 610</b>	<b>52 669</b>
Net extended profit or loss items		0	0
<b>Total result for the period</b>		<b>49 610</b>	<b>52 669</b>



## BLANCE SHEET

BALANCE SHEET (amounts in NOK 1.000)

	Note	31.12.19	31.12.18
<b>ASSETS</b>			
Loans to and claims on credit institutions	2,9,10,17,23	399 994	414 457
Loans to and claims on customers	2,3,9,11,12,13,17	7 597 523	7 383 826
Certificates	2.9	49 896	24 957
Other assets			
<b>Total assets</b>		<b>8 047 413</b>	<b>7 823 240</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>			
Liabilities to credit institutions	2,9,17,23	682 159	708 965
Borrowings through the issuance of securities	2,9,14,15,17,23	6 744 816	6 497 568
Financial derivatives	2,14,17	7 428	
Other liabilities	8,14	15 160	15 978
<b>Total liabilities</b>		<b>7 449 563</b>	<b>7 222 511</b>
Paid-in equity	19,20,24	540 010	540 010
Accrued equity/retained earnings	19,20,23	57 840	60 719
<b>Total equity</b>		<b>597 850</b>	<b>600 729</b>
<b>Total liabilities and equity</b>		<b>8 047 413</b>	<b>7 823 240</b>

Mo i Rana, 25 February 2020

Hanne Nordgaard  
*Chairman*

Dag-Hugo Heimstad  
*Vice-Chairman*

Håkon Stanghelle

Sverre Klausen

Lena Båtstrand  
*General Manager*

## EQUITY

### CHANGE IN EQUITY DURING THE YEAR

	ECC capital	Premium fund	Fund unr. gains	Other equity	Total
Equity 01.01.19	540 000	10	-1	60 719	600 728
Paid out during the year				-52 669	-52 669
Allocated dividend				49 610	49 610
Value change securities			180		180
<b>Equity 31.12.19</b>	<b>540 000</b>	<b>10</b>	<b>179</b>	<b>57 660</b>	<b>597 850</b>

	ECC capital	Premium fund	Fund unr. gains	Other equity	Total
Equity 01.01.18	540 000	10	197	52 695	592 902
Paid out during the year				-48 871	-48 871
IFRS 9 implementation				4 226	4 226
Allocated dividend				52 669	52 669
Value change securities			-198		-198
<b>Equity 31.12.18</b>	<b>540 000</b>	<b>10</b>	<b>-198</b>	<b>60 720</b>	<b>600 729</b>

## NOTES TO THE ACCOUNTS

### CASH FLOW STATEMENT

	31.12.19	31.12.18
Change in lending to customers	-215 106	-750 688
Interest income lending to customers	235 854	188 416
Change deposits from customers	-26 806	-315 423
Interest cost deposit from customers	-15 751	-17 108
Change certificates and bonds	-25 000	25 012
Interest income certificates and bonds	0	0
Comission income	23	11
Payments relating to operations	-11 643	-10 313
Paid tax	-15 050	-11 608
Other cutoffs	4 142	-3 039
<b>A Net liquidity change from operating activities</b>	<b>-69 337</b>	<b>-894 740</b>
Long-term investments in shares	0	0
Income sale of long-term investments in shares	0	0
Dividend from long-term investments in shares	0	0
<b>B Liquidity change from financial activities</b>	<b>0</b>	<b>0</b>
New borrowing through issuance of securities	3 794 698	2 447 000
Repayments - issued securities	-3 546 874	-1 424 000
Interest payments borrowing through issuance of securities	-140 281	-95 694
New share capital	0	0
Dividend to share owners	-52 669	-48 871
<b>C Net liquidity change financing</b>	<b>54 874</b>	<b>878 435</b>
<b>A+B+C Net liquidity change in the period</b>	<b>-14 463</b>	<b>-16 305</b>
Liquid funds at the start of the period	414 457	430 762
Liquid funds at the end of the period	399 994	414 457
Liquid funds specified	14 463	16 305
<b>Balances with credit institutions without notice periods</b>	<b>399 994</b>	<b>414 457</b>

## NOTES TO THE ACCOUNTS

### NOTE 1. ACCOUNTING PRINCIPLES

#### General background

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

#### Presentation currency

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

#### Basis of preparation of financial statements

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

The annual accounts have been prepared on a going concern basis.

#### Presentation in the balance sheet and profit and loss account

##### Loans

Loans are recognised in the balance sheet depending on the counterparty, either as loans to and claims on credit institutions or as loans to customers

Interest income on loans is included in the line for "net interest income".

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

##### Liabilities to credit institutions

Liabilities to financial institutions are recognised as liabilities to credit institutions regardless of the measurement principle. Interest expense on the instruments is included in net interest income based on the internal rate of return method.

Other changes in value are included in "net gains on financial instruments at fair value".

#### Segment reporting

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

### Changes in accounting principles and information

#### *(a) New and amended standards adopted*

##### IFRS 16 Leases

The standard lays down that there is no longer a distinction between operational and financial leasing, because both types of agreements transfer the right of use of a specific asset from the landlord to the tenant for a specific period. For landlords, the regulations from IAS17 are mainly continued. The standard applies from 2019. The company has no leases and the standard has no effect.

#### *(b) New standards and interpretations not yet adopted*

##### IBOR reform

As a result of the IBOR reform, the IASB has issued relief related to IFRS 9 and hedge accounting. Where the company has agreements that may be affected by future selection of the reference rate, the probability requirements will be relaxed. The easing means that the cash flow in hedging objects and / or hedging instruments based on current reference interest rates is assumed to be unchanged, and that the hedge accounting is continued as before. Furthermore, as a result of the uncertainty associated with new reference interest rates, new note requirements that apply from 1.1.2020 will be added.

Helgeland Boligkreditt has only fair value hedging of securities debt in Norwegian kroner with fixed interest rates. The amendments to 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 exposures the company has today.

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

##### Financial instruments

Financial instruments are recognized in accordance to IFRS 9. IFRS 9 has a principle-based approach to whether financial assets should measure at amortized cost or at fair value. The measurement categories for financial assets in IFRS 9 consist of fair value with changes in value through profit or loss, fair value through change (OCI) and amortized cost.

Initial recognition of the asset determines the measurement of the financial asset. The business model for keeping the financial instruments will be crucial for choosing the category.

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

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

## NOTES TO THE ACCOUNTS

Derivatives used in connection with hedge accounting are measured according to the principles of hedge accounting.

Note 2.1.1 shows loans and write-downs in accordance with IFRS 9.

### Financial instruments at amortized cost

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

Assets and liabilities:

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

### Lending to customers

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

### Potential exposure

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

### Write-downs on loans

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

The bank has developed a model in collaboration with several other banks. The model contains macro-scenarios according to IFRS 9 (3 scenarios).

All account commitments are entered into one of the three "steps" in the loss model, based on their risk change since granting (change in credit risk). For a description of the

individual "steps", see explanations below. All commitments that do not already have objective evidence of loss at the time of recognition are placed at the time of recognition in step 1, and are later moved to step 2; in cases where there has been a significant increase in credit risk, or step 3; in cases where there is objective evidence of loss.

### Step 1: 12 months expected loss

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

### Step 2: Expected loss of life.

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

The following events are always considered to have resulted in a significant increase in credit risk:

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

### Step 3: Expected loss of life

In step 3 of the loss model, assets that have had significant increase in credit risk since initial recognition and where there is objective evidence of loss at the reporting date. Expected loss for assets in step 3 is calculated over the remaining maturity of the asset. Interest income is calculated on the assets' net book value.

The company has defined that there is objective evidence of loss in a commitment in which bankruptcy, piecework proceedings have been opened or individually assessed provisions have been made

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

The same model is used for the group, parent bank and wholly-owned mortgage companies, but with different data definition when it comes to initial recognition. For the

## NOTES TO THE ACCOUNTS

group and the parent bank, the accounts grant date must be used, while for the mortgage company the score is used at the transfer date.

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

### Securities with floating interest rates

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

### **Financial instruments at fair value through profit or loss**

Assets:

- Certificates, bonds (interest-bearing securities)

### Certificates and bonds

Certificates are classified at fair value. The liquidity reserve is defined as investments that are not part of a trading portfolio, but which are transferable and can be sold freely if needed.

### Financial instruments hedging

Assets and liabilities:

- Fixed rate debt securities
- Derivatives hedging

The company uses hedge accounting when it comes to fixed rate debt securities. The hedge covers the interest rate risk in the bonds. Changes in value are recognized in the income statement under net gains / losses on financial instruments. Upon early redemption or repurchase of issued bonds, any gain / loss on net gain / loss on financial instruments is recorded. The Group has a policy of securing all exposure to fixed-income securities. The hedging instruments secure the total amount and have maturity, volume and fixed interest rate corresponding to the individual fixed rate salary. The floating leg of the hedging instrument has been agreed with NIBOR for 3 months. IFRS 9 simplifies the requirements for hedge accounting by linking hedging efficiency more closely with risk management activities, and thus provides greater scope for assessment. There must be an economic relationship between the hedging instrument and the hedged item, and the effect of credit risk must not dominate value changes in the hedging relationship. The bank tests the efficiency of the hedge in accordance with the requirements of IFRS 9. Inefficiency in hedging, defined as the difference between the value adjustment of hedging instruments and the value adjustment of the hedged risk, is recognized in the income statement as it arises. For securities debt with a fixed interest rate, normal value hedging is used. The fair value of the derivatives used in hedging relationships is shown in note 2.2.2

### **Interest income and interest cost**

Interest income is recognized using the effective interest method. This entails ongoing income recognition of nominal interest rates plus the amortization of establishment fees less direct establishment costs. Income recognition of interest according to the effective interest method is used for both balance sheet items at amortized cost. Interest income for financial assets in step 1 and step 2 is calculated using the effective interest method on the gross value of the financial asset, while interest income for financial assets in step 3 is calculated based on the amortized cost of the financial asset.

### **Commission income and expenses**

Commission income and expenses are generally accrued as a service is rendered, and the company is entitled to payment in accordance with IFRS 15. Fees related to interest-bearing instruments are not recognized as commissions, but are included in the calculation of effective interest and are recognized in the income statement accordingly.

### **Provisions**

A provision is recognized when the company has a current obligation (legal or presumed) as a result of events that have occurred, there is a likelihood of a financial settlement resulting from the liability and the amount of the amount can be reliably calculated in accordance with IFRS 15. Provisions are reviewed at each balance sheet date and the level reflects the best estimate of the obligation.

### **Tax**

Deferred tax is calculated on all temporary differences between accounts-related and tax-related balance sheet values according to the currently applicable tax rate at the end of the period (the liabilities method). Tax-increasing temporary differences include a deferred tax liability, and tax-reducing, temporary differences, together with any loss to be carried forward, include a possible deferred tax benefit. Deferred tax benefit is shown in the balance sheet when it is likely that in the future there will be taxable income against which the deferred tax benefit can be used.

The tax cost in the profit and loss account comprises both the period's payable tax and any change in deferred tax. The change in deferred tax reflects future payable taxes which are incurred as a result of the operations during the year.

### **Share capital**

Provision for dividends and group contributions are classified as equity capital in the period until the dividend is decided by the company's supervisory board.

Provisions are not included in the calculation of capital adequacy. When the dividend or group contribution is decided by the General Assembly, it will be removed from the equity capital and classified as short-term liability until payment is made.

## **NOTES TO THE ACCOUNTS**

### **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.

### **Cash and cash equivalents**

Cash and cash equivalents are consist of cash, bank deposits, other short-term highly liquid investments with maturities of three months or less and company overdrafts.

### **Comparability**

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



## NOTES TO THE ACCOUNTS

### NOTE 2 CAPITAL MANAGEMENT AND RISK CONDITIONS

#### Risk and capital management

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

Risk categories and definitions:

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

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

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

The Main Agreement and the Transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreements include administration, customer care, IT-management, finance- and risk management.

The company has no currency exposure.

#### NOTE 2.1 CREDIT RISK

Overall, the credit risk of the company is characterized low; average LTV per 31.12.19 was 57 % (56 %).

#### NOTE 2.1.1 CREDIT EXPOSURE

Balance items	31.12.19	31.12.18
Loans to and claims on credit institutions	399 994	414 457
Loans to and claims on customers	7 600 068	7 384 962
<b>Lending to and claims on customers, to amortized cost</b>	<b>8 000 062</b>	<b>7 799 419</b>
Lending to customers at fair value	0	0
<b>Lending to and claims on customers, at fair value</b>	<b>0</b>	<b>0</b>
Potential exposure to credit lines	515 312	474 048
<b>Total credit exposure, balance items</b>	<b>515 312</b>	<b>474 048</b>
Unallocated credit limit	3 000 000	3 000 000
<b>Total credit exposure, off-balance sheet</b>	<b>3 515 312</b>	<b>3 474 048</b>
<b>Total credit exposure</b>	<b>11 515 374</b>	<b>11 273 467</b>

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

## NOTES TO THE ACCOUNTS

### NOTE 2.1.2 COMMITMENTS AND LOSSES AND RISK CLASSES

<b>31.12.19</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>		
	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
<b>Gross lending</b>					
<b>Gross lending pr. 01.01.19</b>	<b>7 098 140</b>	<b>286 822</b>	<b>0</b>	<b>0</b>	<b>7 384 962</b>
New loans / credits / guarantees	2 228 683	150 475	0	0	2 379 158
Transfers from step 1 to step 2	-294 186	286 109	0	0	-8 077
Transfers from step 1 to step 3	0	0	0	0	0
Transfers from step 2 to step 3	0	0	0	0	0
	0	0	0	0	
Transfers from step 3 to step 2	0	0	0	0	0
Transfers from step 3 to step 3	0	0	0	0	0
Transfers from step 2 to step 1	94 395	-98 176	0	0	-3 782
Reduced portfolio	-1 819 675	-108 299	0	0	-1 927 973
	0	0	0	0	0
Other adjustments	-222 188	-2 031	0	0	-224 220
<b>Gross lending pr. 31.12.19</b>	<b>7 085 168</b>	<b>514 900</b>	<b>0</b>	<b>0</b>	<b>7 600 068</b>
Unused drafts, guarantees etc.	510 825	4 494	-	-	515 319

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

<b>31.12.18</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>		
	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
<b>Gross lending</b>					
<b>Gross lending pr. 01.01.18</b>	<b>6 390 501</b>	<b>242 278</b>	<b>1 497</b>	<b>0</b>	<b>6 634 275</b>
New loans / credits / guarantees	2 959 408	76 848	0	0	3 036 256
Transfers from step 1 to step 2	-153 397	148 700	0	0	-4 697
Transfers from step 1 to step 3	0	0	0	0	0
Transfers from step 2 to step 3	0	0	0	0	0
	0	0	0	0	
Transfers from step 3 to step 2	0	0	0	0	0
Transfers from step 3 to step 1	0	0	0	0	0
Transfers from step 2 to step 1	94 040	-101 519	0	0	-7 479
Reduced portfolio	-1 983 267	-77 935	-1 497	0	-2 062 699
	0	0	0	0	0
Other adjustments	-209 145	-1 550	0	0	-210 695
<b>Gross lending pr. 31.12.18</b>	<b>7 098 140</b>	<b>286 822</b>	<b>0</b>	<b>0</b>	<b>7 384 962</b>
Unused drafts, guarantees etc.	471 326	6 562	-	-	477 888

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

## NOTES TO THE ACCOUNTS

	Step 1	Step 2	Step 3		
31.12.19	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
<b>Tapsavsetninger</b>					
<b>Loss deduction pr. 01.01.19</b>	<b>421</b>	<b>715</b>	<b>0</b>	<b>0</b>	<b>1 136</b>
New loans / credits / guarantees	82	584	0	0	666
Transfers from step 1 to step 2	-36	1 004	0	0	968
Transfers from step 1 to step 3	0	0	0	0	0
Transfers from step 2 to step 3	0	0	0	0	0
Transfers from step 3 to step 2	0	0	0	0	0
Transfers from step 3 to step 1	0	0	0	0	0
Transfers from step 2 to step 1	13	-243	0	0	-230
Reduced portfolio	-52	57	0	0	5
Other adjustments	-39	38	0	0	-1
<b>Loss deduction pr. 31.12.19</b>	<b>389</b>	<b>2 156</b>	<b>0</b>	<b>0</b>	<b>2 545</b>

	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	Expected loss over the instruments life time	Total
<b>31.12.18</b>					
<b>Tapsavsetninger</b>					
<b>Loss deduction pr. 01.01.18</b>	<b>456</b>	<b>762</b>	<b>82</b>	<b>0</b>	<b>1 300</b>
New loans / credits / guarantees	170	225	0	0	395
Transfers from step 1 to step 2	-16	278	0	0	262
Transfers from step 1 to step 3	0	0	0	0	0
Transfers from step 2 to step 3	0	0	0	0	0
Transfers from step 3 to step 2	0	0	0	0	0
Transfers from step 3 to step 1	0	0	0	0	0
Transfers from step 2 to step 1	9	-240	0	0	-232
Reduced portfolio	-173	-194	-82	0	-450
Other adjustments	-24	-115	0	0	-139
<b>Loss deduction pr. 31.12.18</b>	<b>421</b>	<b>716</b>	<b>0</b>	<b>0</b>	<b>1 136</b>

## NOTES TO THE ACCOUNTS

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

See description Note 1 accounting principles

#### Prerequisites in the calculation model

If an engagement is «significantly worsened», it is decided by comparing the probability of default (PD) at the time of grant with PD at the time of calculation.

Assessment of significant deterioration is based on both a relative increase in PD and the absolute change. The level is set so that both the relative change is significant and that the level itself is not insignificant compared to what is considered low risk. In addition, it is envisaged that if there is a major absolute change, it should in any case be regarded as significantly worse.

An engagement that at the time of calculation has a PD higher than 0.75 % and at the same time has either twice as high PD, or has received a PD which is at least 5 %-points higher, is considered to be significantly worse.

Periodically expected losses are calculated as the product of probability of default (PD), exposure in the event of default (EAD) and loss given default (LGD), and shall be unbiased. The PD-model has been in use and validated by the bank since 2009, while the LGD model has been developed from 2017.

The bank's PD-model gives PD (probability of default), at customer level, one year ahead. The PD-model gives the likelihood that the customer will default and will default on all their commitments. The customer's PD can therefore be used at the account level. The bank (The company) has not developed models to calculate lifetime PD. The bank therefore uses models that calculate the probability of default in the next 12 months (12 months PD). The bank (The company) has carried out 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 decreasing. The variation in DR is considered to be at such a level that 12 months PD is a reasonable substitute for lifetime PD. The bank has relatively little data, and there is thus some uncertainty associated with the analyses.

There have been minor adjustments in the calculation model during the reporting period, this has not produced any significant effect.

#### Sensitivity assessment of key assumptions

The model is most sensitive to the parameters LGD and PD. These have a sensitivity of up to 35% when changing the parameters for both PM and BM. Consequently, a 10% change in LGD / PD would represent a change in the provisioning loss of up to 3.5%. By changing the variables on individual segments, PM or BM, there is a sensitivity of around 20%. When calculating sensitivity, individual write-downs are deducted. High sensitivity indicates that the result of the model is particularly affected by changes in these. Parameters with high sensitivity are therefore closely followed for inputs and model validation.

#### Scenarios

The data base contains historical data on the observed probability of default (PD) and loss given default (LGD).

This will form the basis for validation of model LGD when the data basis is sufficient. Three different scenarios, affecting projected LGD and PD, have been developed based on historical data and macro variables.

The validity of all scenarios is that they apply from the calculation date, that is, we are in the first scenario period at the time of calculation. This is done so that the scenarios will have an effect on the entire calculation, also steps 1 and 3.

#### Description of scenarios

The Background for determining the scenarios is an overall assessment of several macro variables and other factors of effects on the total level of PD which is the basis for any adjustments of scenarios. There are 3 scenarios defined:

Realistic scenario is a macroeconomic scenario that represents expected future economic growth over the next 5 years. Realistic scenario is a scenario comparable to the ICAAP scenario Base case and is weighted 60 %.

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

Pessimistic scenario is a macroeconomic scenario that represents a downturn with weak economic growth. Pessimistic scenario could represent a downturn based on a 25-year cycle, but that will be a good deal milder than the credit crisis in the early 1990s. In year 5, the scenario converges towards an equilibrium with realistic scenario and is weighted 20 %.

## NOTES TO THE ACCOUNTS

### Realistic scenario

Global economy: Stable and moderate global economic growth is expected over the next 5 years.

National economy: Stable growth is expected in the Norwegian economy over the next 5 years.

Regional economy: The regional economic growth over the next 5 years is expected to be on par with the rest of the country.

### Optimistic scenario

Global economy: Positive development and strong economic growth are expected over the next 5 years.

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

Regional economy: The regional economic growth is expected to be on par with the rest of the country.

### Pessimistic scenario

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

National economy: Oil prices are falling and, together with weak economic development among our most important trading partners, this will lead to weak development and growth in the Norwegian economy.

Regional economy: The regional economic growth is expected to be on par with the rest of the country.

<b>31.12.19</b>			
<b>Effect of Macro Scenarios on Calculated Loss</b>	<b>Loss provisions on loans in steps 1 and 2</b>	<b>Base</b>	<b>Effect of Scenarios</b>
Loss provisions under IFRS 9	2 545	2 209	336

<b>31.12.18</b>			
<b>Effect of Macro Scenarios on Calculated Loss</b>	<b>Loss provisions on loans in steps 1 and 2</b>	<b>Base</b>	<b>Effect of Scenarios</b>
Loss provisions under IFRS 9	1 137	998	140

### **Risk classifications loans**

Risk classification is an integral part of the Group's administrative system. The system permits risk development in the Company's loan portfolio to be monitored. The risk classification model used for both retail and corporate customers has been developed in cooperation with a number of other banks. The classification system has been adopted for the entire customer base from 31.05.09. Retail customers are awarded a Probability of Default (PD)/score based on payment reminders, overdrawn ratio of loans/deposits etc. The loan portfolio is classified monthly and customers are awarded a score from A to K, where A is the lowest risk and K the highest risk. Retail customers are also subject to an application score in connection with new loan applications. The actual change in risk allocations from 2016 is marginal.

Risk classification is based on economics only - collateral is not taken into account.

<b>Lending by risk class</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>31.12.19</b>
Low risk	6 490 278	0	0	6 490 278
Medium risk	586 262	350 360	0	936 622
High risk	8 628	164 540	0	173 168
<b>Total lending</b>	<b>7 085 168</b>	<b>514 900</b>	<b>0</b>	<b>7 600 068</b>

<b>Lending by risk class</b>	<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>31.12.18</b>
Low risk	6 334 666	0	0	6 334 666
Medium risk	744 568	238 404	0	982 972
High risk	18 906	48 418	0	67 324
<b>Total lending</b>	<b>7 098 140</b>	<b>286 822</b>	<b>0</b>	<b>7 384 962</b>

## NOTES TO THE ACCOUNTS

<b>Secured; LTV distribution</b>	<b>31.12.19</b>	<b>31.12.18</b>
1-40	20.5 %	21.5 %
41-50	12.3 %	11.1 %
51-60	17.0 %	15.7 %
61-70	19.8 %	23.9 %
71-75	16.6 %	19.3 %
>76	13.8 %	8.4 %
<b>Total LTV</b>	<b>57 %</b>	<b>56 %</b>

### Credit institutions

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

### **Loans and receivables from credit institutions by external rating**

	<b>31.12.19</b>	<b>31.12.18</b>
Rating Moodys A3	399 994	414 457
<b>Total</b>	<b>399 994</b>	<b>414 457</b>

### **Certificates: classification of issuers by sector**

	<b>31.12.19</b>	<b>31.12.18</b>
State	49 896	24 957
<b>Total</b>	<b>49 896</b>	<b>24 957</b>

### **Certificates: classification of issuers by rating**

	<b>31.12.19</b>	<b>31.12.18</b>
AAA	49 896	24 957
<b>Total</b>	<b>49 896</b>	<b>24 957</b>

## NOTES TO THE ACCOUNTS

### NOTE 2.1.3 DOUBTFUL LOANS AND COMMITMENTS

<b>Defaulted commitments</b>	<b>31.12.19</b>	<b>31.12.18</b>
Gross defaulted commitments over 90 days	0	0
Individual write-downs of defaulted loans	0	0
<b>Net defaulted commitments</b>	<b>0</b>	<b>0</b>

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

<b>Overdrawn - number of days</b>	<b>31.12.19</b>	<b>31.12.18</b>
1-29 days	0	0
30-59 days	6 988	2 691
60-89 days	0	0
> 90 days	0	0
<b>Total disordered loans without impairments</b>	<b>6 988</b>	<b>2 691</b>

### NOTE 2.2 MARKET RISK

Helgeland Boligkreditt AS is through its operations exposed to interest rate risk.

The Board sets limits for interest rate risk and the positions are monitored continuously. The prepared reports showing exposure are reported monthly to the finance committee of the parent bank and to the CEO, and quarterly to the Board of Directors.

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

Interest rate risk at 31.12.19 is MNOK -1.0 (MNOK -1.5) and is well within the company's target of < MNOK 10 with 1 % parallel shift in the interest rate curve.

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

#### NOTE 2.2.1 REMAINING TIME TO INTEREST RATE ADJUSTMENT

<b>Interest rate risk- remaining periods until next interest rate re-fix</b>							<b>31.12.19</b>
	<b>Up to 1 mth.</b>	<b>From 1-3 mnt</b>	<b>From 3 mnt</b>	<b>From 1-5 years</b>	<b>Over 5 years</b>	<b>No int.rate change</b>	<b>Total</b>
<b>ASSETS</b>							
Loans to and claims on credit inst with no a/maturity		399 994					399 994
Net loans to and claims on customers		7 597 523					7 597 523
Securities available for sale		49 896					49 896
Other non-int-bearing assets							0
<b>Total assets</b>	<b>0</b>	<b>8 047 413</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8 047 413</b>
<b>Liabilities and EQ. CAP</b>							
Liabilities to credit inst. With no agreed maturity				682 159			682 159
Borrowings through the issuance of securities	706 237	5 744 199	294 380				6 744 816
Other non-int-bearing liabilities						22 588	22 588
<b>Total liabilities</b>	<b>706 237</b>	<b>5 744 199</b>	<b>294 380</b>	<b>682 159</b>	<b>0</b>	<b>22 588</b>	<b>7 449 563</b>
<b>Net int rate sensitivity gap</b>	<b>-706 237</b>	<b>2 303 214</b>	<b>-294 380</b>	<b>-682 159</b>	<b>0</b>	<b>-22 588</b>	<b>597 850</b>



## NOTES TO THE ACCOUNTS

Interest rate risk- remaining periods until next interest rate re-fix							31.12.18
	Up to 1 mth.	From 1-3 mnt	From 3 mnt	From 1-5 years	Over 5 years	No int.rate change	Total
<b>ASSETS</b>							
Loans to and claims on credit inst with no a/maturity		414 457					414 457
Net loans to and claims on customers		7 383 826					7 383 826
Securities available for sale		24 957					24 957
Other non-int-bearing assets							0
<b>Total assets</b>	<b>0</b>	<b>7 823 240</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7 823 240</b>
<b>Liabilities and EQ. CAP</b>							
Liabilities to credit inst. With no agreed maturity				708 965			708 965
Borrowings through the issuance of securities	1 000 666	5 496 901					6 497 567
Other non-int-bearing liabilities						15 978	15 978
<b>Total liabilities</b>	<b>1 000 666</b>	<b>5 496 901</b>	<b>0</b>	<b>708 965</b>	<b>0</b>	<b>15 978</b>	<b>7 222 510</b>
<b>Net int rate sensitivity gap</b>	<b>-1 000 666</b>	<b>2 326 339</b>	<b>0</b>	<b>-708 965</b>	<b>0</b>	<b>-15 978</b>	<b>600 730</b>

### NOTE 2.2.2 FINANCIAL DERIVATIVES

Hedging are used for fixed-rate securities debt. When entering into the hedging relationship, the relationship between the hedging instruments and the hedging objects is documented. Helgeland Boligkreditt also documents its assessment of whether the derivatives used are very effective in offsetting the changes in fair value related to hedging risk in the hedged items. Such assessments are documented both on entering into the hedging relationship and on an ongoing basis during the hedging period. Interest rate risk is hedged at an individual level. Changes in credit spread are not part of hedged risk. Changes in value related to changes in NIBOR are recognized in the income statement and adjust the book value of the secured fixed rate loans on an ongoing basis. The book value of securities debt hedging, including interest, amounts to NOK 299 (0) million. Net gains and losses related to hedging instruments and hedged items related to hedged risk were NOK 1.7 (0) million.

Inefficiency hedging over the income statement	31.12.19	31.12.18
Value change related to hedging objects	5 647	0
Value change related to the hedging instrument	-7 370	0
<b>Net inefficiency over the income statement</b>	<b>-1 723</b>	<b>0</b>

31.12.19			
Real value over the income statement	Contract Total	Assets	Real value Debt
Interest swap agreements fixed rate loans hedging	300 000	0	7 428
<b>Total financial derivatives hedging</b>	<b>300 000</b>	<b>0</b>	<b>7 428</b>

The hedging instruments are recorded in the balance under financial derivatives

31.12.18			
Real value over the income statement	Contract Total	Assets	Real value Debt
Interest swap agreements fixed rate loans hedging	0	0	0
<b>Total financial derivatives hedging</b>	<b>0</b>	<b>0</b>	<b>0</b>

Reference	Hedging object	Contract amount	Settlement date	Interest in %	Currency	Acc. value change from hedging	Accounting line
6	Fixed rate loan	300	2029	2.22	NOK	5 647	Debt through the issuance of securities

Reference	Hedging object	Contract amount	Settlement date	Interest in %	Currency	Acc. value change from hedging	Accounting line
6	Renteswap, fixed	300	2029	2.22	NOK	6 437	Financial derivatives
6	Renteswap, float	-300	2029	2.31	NOK	-13 807	Financial derivatives

No installments are paid on the instruments.

### NOTE 2.3 LIQUIDITY RISK

## NOTES TO THE ACCOUNTS

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

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

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

Overall, Helgeland Boligkreditt AS's liquidity situation per 31.12.19 is considered good. Long-term funding with maturities over one year is 99.5 % (95.5 %).

## NOTES TO THE ACCOUNTS

### NOTE 2.3.1 LIQUIDITY RISK, MATURITY

Funding risk. Remaining periods	31.12.19				
	0-3 months	3-12 months	1-5 years	Over 5 years	Totalt
Liabilities to credit institutions	0	0	697 910	0	697 910
Borrowings through the issuance of securities	0	37 344	5 833 028	1 021 552	6 891 924
Financial derivatives gross settlement (outflows)	1 733	5 198	27 720	27 720	62 371
<b>Total payments</b>	<b>1 733</b>	<b>37 344</b>	<b>6 530 938</b>	<b>1 021 552</b>	<b>7 589 834</b>
Loans to and claims on customers	0	402 293	0	0	402 293
Certificates, bonds and shares available for sale	-	7 160	1 021 511	6 831 968	7 860 639
1) Financial derivatives gross settlement (inflows)	49 896	49 896	0	0	99 792
<b>Total payments</b>	<b>49 896</b>	<b>459 349</b>	<b>1 021 511</b>	<b>6 831 968</b>	<b>8 362 724</b>

Funding risk. Remaining periods	31.12.18				
	0-3 months	3-12 months	1-3 years	Over 5 years	Totalt
Liabilities to credit institutions			726 073		726 073
Borrowings through the issuance of securities	53 852	245 018	5 588 510	711 207	6 598 587
<b>Total payments</b>	<b>53 852</b>	<b>245 018</b>	<b>6 314 583</b>	<b>711 207</b>	<b>7 324 660</b>
Loans to and claims on credit institutions		416 759			416 759
Loans to and claims on customers	202	5 724	999 953	6 579 056	7 584 935
Certificates and bonds	24 957				24 957
<b>Total payments</b>	<b>25 159</b>	<b>422 483</b>	<b>999 953</b>	<b>6 579 056</b>	<b>8 026 651</b>
Net	28 693	-177 465	5 314 630	-5 867 849	-701 991

Gross settlement (interest payments are included)

The company has an operating credit (with maturity > one year) of NOK 1 500 million as of 31.12.19, the vacant limit was NOK 817 million. In addition, the company has a revolving credit facility (with maturity > one year) that will cover payment obligations in the security pool for a rolling 12-month period. This credit facility shall cover payment obligations in the Cover Pool for a rolling 12-months period, and is entirely unused.

Treasure bill is valued at fair value.

## NOTES TO THE ACCOUNTS

### NOTE 3. SEGMENT

The company operates at one strategic business area only.

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

	31.12.19	31.12.18
Retail market	7 436 349	7 244 445
Corporate market	163 719	140 517
<b>Total</b>	<b>7 600 068</b>	<b>7 384 962</b>
Collective write-downs	-2 545	-1 136
<b>Total</b>	<b>7 597 523</b>	<b>7 383 826</b>
<b>Geographical exposure within the loan portfolio</b>	<b>31.12.19</b>	<b>31.12.18</b>
Helgeland	5 887 560	5 775 821
Areas other than Helgeland	1 700 385	1 590 532
International 1)	12 123	18 609
<b>Total</b>	<b>7 600 068</b>	<b>7 384 962</b>

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

### NOTE 4. NET INTEREST INCOME

<b>Specifications of income:</b>	<b>31.12.19</b>	<b>31.12.18</b>
Interest income of lending to and claims on credit institutions	2 792	2 302
Interest income of lending to and claims on customers	235 854	188 416
<b>Total interest income</b>	<b>238 646</b>	<b>190 718</b>
Interest expense on liabilities to credit institutions	15 751	17 108
Interest expense on issued securities	140 281	95 694
Other interest expenses	0	0
<b>Total interest expenses</b>	<b>156 032</b>	<b>112 802</b>
<b>Net interest income</b>	<b>82 614</b>	<b>77 916</b>

### NOTE 5. NET CHANGE IN VALUE OF FINANCIAL INSTRUMENTS

<b>Specification of costs</b>	<b>31.12.19</b>	<b>31.12.18</b>
Unrealized change securities	-4 969	651
<b>Total value financial instruments</b>	<b>-4 969</b>	<b>651</b>

## NOTES TO THE ACCOUNTS

### NOTE 6. OPERATING COSTS

<b>Specification of costs:</b>	<b>31.12.19</b>	<b>31.12.18</b>
Management fee and wage general manager (note 23)	8 200	7 548
Other administration costs	33	33
<b>Total wages and administration costs</b>	<b>8 233</b>	<b>7 581</b>
Other operating costs	3 411	2 733
<b>Total operating costs</b>	<b>11 644</b>	<b>10 314</b>
<b>Number of FTEs</b>	<b>0</b>	<b>0</b>

<b>Specification of costs auditing</b>	<b>31.12.19</b>	<b>31.12.18</b>
Audit fees	165	82
Other services and certifications	128	100
<b>Total costs auditing</b>	<b>293</b>	<b>182</b>

### NOTE 7. TAX

	<b>31.12.19</b>	<b>31.12.18</b>
<b>Tax for the year:</b>		
Tax payable	14 933	14 823
Insufficient provision previous year	10	
Change in deferred tax (note 8)	-994	903
<b>Tax cost for the year</b>	<b>13 949</b>	<b>15 726</b>

<b>Breakdown between accounts-related result before tax and the year's income liable to tax</b>		
Accounts-related result before tax	63 559	68 394
Permanent differences	4	4
Change in temporary differences (note 8)	4 314	-3 949
<b>Income subject to tax</b>	<b>67 877</b>	<b>64 449</b>

## NOTES TO THE ACCOUNTS

### NOTE 8. DEFERRED TAXES

<b>Deferred tax / Deferred tax benefit</b>	<b>31.12.19</b>	<b>31.12.18</b>
<b>Positive temporary differences:</b>		
Value change financial derivatives	-7 370	
<b>Total positive temporary differences</b>	<b>-7 370</b>	<b>0</b>
<b>Negative temporary differences</b>		
Hedging/market value adjustment certificates	6 568	27
Change in value of cover bonds at amortized cost	969	4 453
<b>Total negative temporary differences</b>	<b>7 537</b>	<b>4 480</b>
Losses carried forward	0	0
<b>Total negative temporary differences</b>	<b>167</b>	<b>4 480</b>
Deferred tax asset		
Deferred tax	37	1 030
<b>Reconciliation of tax</b>	<b>31.12.19</b>	<b>31.12.18</b>
Accounting profit before tax	63 559	68 394
Tax calculated at the entity's weighted average tax	13 983	15 731
Tax effect of:		
Tax-free income		1
Effect change tax rate deferred tax		-5
Adjustment from previous year	-34	
<b>Taxes in the income statement</b>	<b>13 949</b>	<b>15 726</b>

## NOTES TO THE ACCOUNTS

### NOTE 9. CLASSIFICATION OF FINANCIAL INSTRUMENTS

#### Classification of financial instruments

	<b>31.12.19</b>
	<b>Amortized cost</b>
Loans to and claims on credit institutions *)	399 994
Loans to and claims on customers	7 597 523
Certificates	49 896
<b>Total assets</b>	<b>8 047 413</b>
	<b>Other fin. obligations</b>
Liabilities to credit institutions *)	682 159
Borrowings through the issuance of securities	6 744 816
<b>Total liabilities</b>	<b>7 426 975</b>

\*) Entirely related to Helgeland Sparebank

#### Classification of financial instruments

	<b>31.12.18</b>
	<b>Amortized cost</b>
Loans to and claims on credit institutions *)	414 457
Loans to and claims on customers	7 383 826
Certificates	24 957
<b>Total assets</b>	<b>7 823 240</b>
	<b>Other fin. obligations</b>
Liabilities to credit institutions *)	708 965
Borrowings through the issuance of securities	6 497 568
<b>Total liabilities</b>	<b>7 206 533</b>

\*) Entirely related to Helgeland Sparebank

### NOTE 10. LOANS TO AND CLAIMS ON CREDIT INSTITUTIONS

	<b>31.12.19</b>	<b>31.12.18</b>
Liabilities to credit institutions without agreed maturity	399 994	414 457
<b>Total loans to and liabilities to credit institutions</b>	<b>399 994</b>	<b>414 457</b>
<b>Geographic areas</b>	<b>31.12.19</b>	<b>%</b>
<b>Total Helgeland</b>	399 994	100 %

Applies in its entirety bank deposits in Helgeland Sparebank.



## NOTES TO THE ACCOUNTS

### NOTE 11. LOANS AND AMORTIZATION

<b>Lending</b>	<b>31.12.19</b>	<b>31.12.18</b>
<b>Gross lending to customers</b>	<b>7 600 068</b>	<b>7 384 962</b>
Individual write-downs on lending	0	0
<b>Lending to customers after individual write-downs</b>	<b>7 600 068</b>	<b>7 384 962</b>
Collective write-downs	2 545	1 136
<b>Lending to and claims on customers, to amortized cost</b>	<b>7 597 523</b>	<b>7 383 826</b>

### NOTE 12. DISTRIBUTION LOANS

	<b>31.12.19</b>	<b>31.12.18</b>
Loans secured by residential property	7 585 872	7 374 970
Accrued interest	11 651	8 856
<b>Total</b>	<b>7 597 523</b>	<b>7 383 826</b>

31.12.19	Lending to amortized cost and fair value (OCI)							
	Gross lending		Expected loss			Gross lending	Gross lending	Net lending
	Amortized cost	Step 1	Step 2	Step 3	Fair value (FVOCI)	Fair value (FVOCI)		Total
Total corporate market	163 719	0	-31	-254	0	0		163 434
Total retail market	7 436 349	0	-358	-1 902	0	0		7 434 089
<b>Total</b>	<b>7 600 068</b>	<b>0</b>	<b>-389</b>	<b>-2 156</b>	<b>0</b>	<b>0</b>		<b>7 597 523</b>
Expected loss off balance RM		-8	-3	0	0			
Expected loss off balance CM		-1	0	0	0			

31.12.18	Lending to amortized cost and fair value (OCI)							
	Gross lending		Expected loss			Gross lending	Gross lending	Net lending
	Amortized cost	Step 1	Step 2	Step 3	Fair value (FVOCI)	Fair value (FVOCI)		Total
Total corporate market	140 517	-27	-110	0	0	0		140 380
Total retail market	7 244 447	-394	-607	0	0	0		7 243 447
<b>Total</b>	<b>7 384 962</b>	<b>-421</b>	<b>-716</b>	<b>0</b>			<b>0</b>	<b>7 383 826</b>
Expected loss off balance RM		-8	-5	-				
Expected loss off balance CM		-1	0	-				

## NOTES TO THE ACCOUNTS

### NOTE 13. WARRANTIES AND LIABILITIES

The company has no such obligations.

### NOTE 14. LIABILITIES

	31.12.19	31.12.18
Loans and deposits at credit institutions with agreed maturity*)	682 159	708 965
<b>Liabilities to credit institutions</b>	<b>682 159</b>	<b>708 965</b>
Bond debt	6 744 816	6 497 568
Financial derivatives	7 428	
<b>Liabilities securities</b>	<b>6 752 244</b>	<b>6 497 568</b>
Tax liabilities	14 933	14 813
Deferred tax	37	1 030
Other liabilities	190	135
<b>Total other liabilities</b>	<b>15 160</b>	<b>15 978</b>
<b>Total liabilities</b>	<b>7 449 563</b>	<b>7 222 511</b>

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

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

Liabilities through issuance of securities are valued at amortized cost.

#### Covered bonds:

ISIN code	Currency	Par value	Own hold.		Interest	Admission	Maturity	Soft call	31.12.19
NO0010709355	NOK	30 000	20 000	Floating	3mnd. Nibor+0,40	2014	2020	2021	15 003
NO0010724065	NOK	500 000		Floating	3mnd. Nibor+0,30	2014	2021	2022	499 680
NO0010740673	NOK	26 000		Floating	3 mnd.Nibor+0,49	2015	2020	2021	26 020
NO0010764897	NOK	500 000		Floating	3 mnd.Nibor+0,86	2016	2021	2022	500 160
NO0010769920	NOK	500 000		Floating	3 mnd.Nibor+0,78	2016	2021	2022	500 271
NO0010782774	NOK	205 000		Floating	3 mnd.Nibor+0,52	2017	2022	2023	205 154
NO0010785843	NOK	500 000		Floating	3 mnd.Nibor+0,64	2017	2022	2023	500 371
NO0010804008	NOK	500 000		Floating	3 mnd.Nibor+0,45	2017	2021	2022	499 803
NO0010810278	NOK	500 000		Floating	3 mnd.Nibor+0,41	2017	2021	2022	499 967
NO0010819568	NOK	500 000		Floating	3 mnd.Nibor+0,40	2018	2022	2023	499 601
NO0010826415	NOK	500 000		Floating	3 mnd.Nibor+0,47	2018	2022	2023	499 609
NO0010831290	NOK	500 000		Floating	3 mnd.Nibor+0,42	2018	2023	2024	498 980
NO0010839434	NOK	500 000		Floating	3 mnd.Nibor+0,55	2018	2023	2024	499 920
NO0010847080	NOK	500 000		Floating	3 mnd.Nibor+0,48	2019	2024	2025	500 866
NO0010859986	NOK	500 000		Floating	3 mnd.Nibor+0,40	2019	2025	2026	500 047
NO0010865652	NOK	200 000		Floating	3 mnd.Nibor+0,43	2019	2025	2026	199 894
NO0010867864	NOK	300 000		fixed	2.22 %	2019	2029	2030	299 470
<b>Total listed covered bonds</b>									<b>6 744 816</b>

All loans have soft call one year before maturity.

ISIN code	Currency	Par value	Own hold.		Interest	Admission	Maturity	Soft call	31.12.18
NO0010686710	NOK	53 000		Floating	3mnd. Nibor+0,50	2013	2019	2020	53 048
NO0010709355	NOK	500 000		Floating	3mnd. Nibor+0,40	2014	2020	2021	500 467
NO0010724065	NOK	500 000		Floating	3mnd. Nibor+0,30	2014	2021	2022	500 162
NO0010748601	NOK	500 000	260 000	Floating	3 mnd.Nibor+0,78	2015	2019	2020	240 656
NO0010740673	NOK	500 000		Floating	3 mnd.Nibor+0,49	2015	2020	2021	500 657
NO0010764897	NOK	500 000		Floating	3 mnd.Nibor+0,86	2016	2021	2022	500 632
NO0010769920	NOK	500 000		Floating	3 mnd.Nibor+0,78	2016	2021	2022	501 686
NO0010782774	NOK	500 000		Floating	3 mnd.Nibor+0,52	2017	2022	2023	500 228
NO0010804008	NOK	500 000		Floating	3 mnd.Nibor+0,45	2017	2021	2022	500 444
NO0010810278	NOK	500 000		Floating	3 mnd.Nibor+0,41	2017	2021	2022	500 443
NO0010785843	NOK	500 000		Floating	3 mnd.Nibor+0,64	2017	2022	2023	500 486
NO0010819568	NOK	500 000		Floating	3 mnd.Nibor+0,40	2018	2022	2023	498 468
NO0010826415	NOK	500 000		Floating	3 mnd.Nibor+0,47	2018	2022	2023	500 746
NO0010831290	NOK	500 000		Floating	3 mnd.Nibor+0,42	2018	2023	2024	500 414
NO0010839434	NOK	300 000	100 000	Floating	3 mnd.Nibor+ 0,55	2018	2023	2024	199 030
<b>Total listed covered bonds</b>									<b>6 497 567</b>

All loans have soft call one year before maturity.

## NOTES TO THE ACCOUNTS

	31.12.2019	31.12.2018
<b>Total listed bonds</b>	<b>6 744 816</b>	<b>6 497 567</b>
Loans secured by property	7 511 850	7 325 150
Claims that constitutes cover pool (inc. Interests)	399 994	414 457
<b>Total cover pool</b>	<b>7 911 844</b>	<b>7 739 607</b>
Cover pool capacity utilization	1 167 028	1 242 040
Cover pool capacity utilization %	17 %	19 %
Cover pool capacity utilization %, own share covered bonds added	17 %	13 %

The composition of the cover pool is defined in the Financial Undertakings Act § 11-8.

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

### NOTE 16. COVER POOL CAPACITY UTILIZATION

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

LTV (loan to value) per 31.12.19 was 57 (56) %

### NOTE 17. BALANCE SHEET DIVIDED IN SHORT AND LONG TERM

	31.12.19	31.12.18
<b>ASSETS</b>		
Loans to and claims on credit institutions	399 994	414 457
Loans to and claims on customers	7 160	5 926
Certificates	49 896	24 957
<b>Total short term assets</b>	<b>457 050</b>	<b>445 340</b>
Loans to and claims on customers	7 590 363	7 377 899
<b>Total long term assets</b>	<b>7 590 363</b>	<b>7 377 899</b>
<b>Total Assets</b>	<b>8 047 413</b>	<b>7 823 239</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>		
Other liabilities	15 160	15 978
Borrow ings through the issuance of securities	706 237	554 551
<b>Total short term liabilities</b>	<b>721 397</b>	<b>570 529</b>
Liabilities to credit institutions	682 159	708 965
Borrow ings through the issuance of securities	6 038 579	5 943 017
Financial derivatives	7 428	0
<b>Total long term liabilities</b>	<b>6 728 166</b>	<b>6 651 982</b>
<b>Total liabilities</b>	<b>7 449 563</b>	<b>7 222 511</b>
Paid-in equity capital	540 010	540 010
Accrued equity capital/retained earnings	57 840	60 718
<b>Total equity capital</b>	<b>597 850</b>	<b>600 728</b>
<b>Total liabilities and equity capital</b>	<b>8 047 413</b>	<b>7 823 239</b>

## NOTES TO THE ACCOUNTS

### NOTE 18. SUBORDINATED LOANS

The company has no subordinated loans per 31.12.19 or 31.12.18.

### NOTE 19. CAPITAL ADEQUACY

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

	31.12.19	31.12.18
<b>Total paid-in capital</b>	<b>540 010</b>	<b>540 010</b>
<b>Total accrued equity capital/retained earnings</b>	<b>57 839</b>	<b>60 719</b>
Additional		
Deduction	-50 469	-52 667
<b>Total core capital</b>	<b>547 380</b>	<b>548 062</b>
<b>Total net supplementary capital</b>	<b>0</b>	<b>0</b>
<b>Total net equity and related capital</b>	<b>547 380</b>	<b>548 062</b>
Weighted asset calculation basis	3 129 578	2 954 987
Capital adequacy ratio	17.49 %	18.55 %
Of which core capital accounted for	17.49 %	18.55 %

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

### NOTE 20. CAPITAL ADEQUACY REGULATIONS BASEL II

	31.12.19	31.12.18
States and central banks		
Local and regional authorities (including municipalities)		
Publicly owned enterprises		
Institutions	79 999	82 891
Enterprises		
Mass market loans		
Loans secured by real property	2 829 548	2 726 072
Loans overdue	73 232	15 387
Other loans and commitments		233
<b>Capital requirement credit risk</b>	<b>2 982 779</b>	<b>2 824 583</b>
Capital requirement operational risk	143 534	130 404
Deduction/addition from capital requirement	3 265	0
<b>Total capital requirement</b>	<b>3 129 578</b>	<b>2 954 987</b>

### NOTE 21. SHARE CAPITAL

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

## NOTES TO THE ACCOUNTS

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

	Payments	2019 Loans
General manager, Lena Båtstrand	0	1 470
<b>Total remuneration for management</b>	<b>0</b>	<b>0</b>
Chairman of the board, Hanne Nordgaard	0	1 900
Dag Hugo Gangmark Heimstad	0	801
Håkon Stanghelle	25	0
Sverre Klausen	0	1 756
<b>Total boards of Directors</b>	<b>25</b>	<b>4 457</b>
<b>Total</b>	<b>25</b>	<b>4 457</b>

1) The general manager is hired from Helgeland Sparebank and her salary is paid from there. It's paid NOK 233.000 to the parent bank for the general manager's services.

### NOTE 23. TRANSACTIONS WITH RELATED PARTIES

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

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

All loans in the balance sheet of Helgeland Boligkreditt AS are transferred from Helgeland Sparebank. These loans are well secured mortgages within a loan to value of 75% or less. From the transfer date, revenues and repayments are recorded in the mortgage company. The parent bank administers the loans and a separate transfer and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank is entered into. The transfer and service agreement regulates the transfer of loans qualifying as collateral for the issuance of Covered bonds. Helgeland Boligkreditt AS pays management fees to the bank per 2019 there were transferred loans totaling MNOK 7 600. The acquisition is based on market conditions.

Under the Main Agreement Helgeland Boligkreditt AS purchases services from the parent bank, including administration, banking, distribution, customer service, IT-services, financial and liquidity management. For these services Helgeland Boligkreditt AS pays an annual management fee based on the lending volume MNOK 8.2 (7.6), in addition to payment for hired staff.

Helgeland Sparebank has by the end of 2019 invested MNOK 80 (0) in Covered Bonds issued by Helgeland Boligkreditt AS. (See note 2.3.1 credit facilities from the parent bank).

#### Group contribution

Allocated group contribution in 2018 of MNOK 52.7 was paid in 2019 to Helgeland Sparebank. In allocation of profits per 31.12.19 MNOK 49.6 is allocated as group contribution to the parent bank.

<b>Intragroup transactions</b>	<b>31.12.19</b>	<b>31.12.18</b>
<b>Profit and loss account</b>		
Interest income and similar income	2 792	2 302
Interest expense and similar expense	15 751	17 108
Dividend	52 669	48 871
Management fee	8 200	7 548
<b>Balance sheet</b>		
Lending and claims on credit institutions	399 994	414 457
Liabilities to credit institutions	682 159	708 965
Liabilities from issue of securities	80 000	0

### NOTE 24. RESULT PER SHARE

	<b>31.12.19</b>	<b>31.12.18</b>
Profit this year	49 610	52 669
Number of shares	540 000	540 000
Average number of shares	540 000	540 000
Profit per share in NOK	92	98
Diluted profit per share in NOK	92	98

## NOTES TO THE ACCOUNTS

### NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

The company is not aware of any post balance sheet events that will affect the financial statements.

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

### NOTE 26. RESULT IN PERCENT OF AVERAGE TOTAL ASSETS

	31.12.19	31.12.18
Interest receivable and similar income	2.97 %	2.57 %
Interest payable and similar costs	1.95 %	1.52 %
<b>Net interest- and credit commission income</b>	<b>1.01 %</b>	<b>1.05 %</b>
Commissions receivable and income from banking services	0.00 %	0.00 %
Commissions payable and costs relating to banking services	0.00 %	0.00 %
<b>Net commission income</b>	<b>0.00 %</b>	<b>0.00 %</b>
Net value change and gains/loss on financial investments	-0.06 %	0.14 %
Operating costs	0.14 %	0.00 %
<b>Operating profit</b>	<b>0.81 %</b>	<b>0.91 %</b>
Losses on loans, guarantees etc.	0.02 %	0.00 %
<b>Profit before tax</b>	<b>0.79 %</b>	<b>0.92 %</b>
Tax payable on ordinary result	0.17 %	0.21 %
<b>Result from ordinary operations after tax</b>	<b>0.62 %</b>	<b>0.71 %</b>

## NOTES TO THE ACCOUNTS

### STATEMENT UNDER THE SECURITIES TRADING ACT § 5-6

We confirm to the best of our knowledge that the financial statements for the period 1 January to 31 December 2019 have been prepared in accordance with the applicable accounting standards, and that the information in the financial statements give true and fair view of the company's assets, liabilities, financial positions and result. We also declare that the annual report gives a fair review of the development, performance and position of the company, together with a description of the principal risks and uncertainties facing the company.

Mo i Rana, 25. February 2020

Hanne Nordgaard  
*Chairman*

Dag-Hugo Heimstad  
*Vice-Chairman*

Håkon Stanghelle

Sverre Klausen

Lena Båtstrand  
*General Manager*



## OTHER KEY FIGURES

	31.12.19	31.12.18
<b>Profit &amp; Loss Account</b>		
Gross profit	49 610	52 669
Net interest as a % of average assets	1.01 %	1.05 %
Operation cost as a % of income	14.3 %	13.2 %
Net profit as a % of average assets	0.62 %	0.71 %
<b>Balance sheet</b>		
Gross lending	7 600 068	7 384 962
Collective write-downs as a % of lending	0.03 %	0.02 %
12 months growth in customer lending	2.90 %	11.30 %
Total assets	8 047 413	7 823 240
Average total assets	8 037 543	7 434 347
<b>Solidity</b>		
Rate of return on equity capital	8.3 %	9.0 %
Core tier one Capital	547 380	548 062
Core tier one Capital ratio	17.5 %	18.6 %
Leveral Ratio	6.6 %	6.8 %
<b>Information on lending portfolio</b>		
Surplus value of cover pool	1 167 028	1 242 039
Surplus value of cover pool (%)	17 %	19 %
Indexed LTV	57 %	56 %
Propotion of variable-rate loans	100 %	100 %
Propotion of flexible mortgages*)	11.0 %	11.0 %
Average loan value	1 133	1 138
Number of loans	6 687	6 486
Remaining maturity - weighted average (year)	20.5	22.3
Seasoning - weighted average (year)	2.8	2.5

## NOTES TO THE ACCOUNTS

### Elected representatives and senior management in Helgeland Boligkreditt AS

#### The General Meeting:

Helgeland Sparebank through its CEO, Hanne Nordgaard

#### General Manager

Lena Båtstrand

#### Board of Directors:

Hanne Nordgaard, Chairman

Dag Hugo Heimstad, Vice Chairman

Ranveig Kråkstad

Helge Stanghelle

### Contact information

#### Helgeland Sparebank

Address: PO Box 68, N-8601 Mo i Rana

Organization no.: 937 904 029

[www.hsb.no](http://www.hsb.no)

#### Helgeland Boligkreditt AS

Organization no.: 993 359 696

[www.hsb.no](http://www.hsb.no)

#### Investor Relations

Sverre Klausen, CFO, telephone +47 75 12 82 22

Tore Stamnes, Head of Treasury, telephone +47 75 11 90 91

#### Other sources:

#### Annual reports:

Helgeland Boligkreditt AS is part of the Helgeland Sparebank group. Annual reports are available under investor relations information at [www.hsb.no](http://www.hsb.no)

#### Interim reports

Quarterly reports are available at [www.hsb.no](http://www.hsb.no)



To the General Meeting of Helgeland Boligkreditt AS

## *Independent Auditor's Report*

### *Report on the Audit of the Financial Statements*

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#### *Opinion*

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

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

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#### *Basis for Opinion*

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

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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 mortgage company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new key audit matters. Loans to customers carries the same characteristics and risks this year and has consequently been our focus area during the 2019 audit.

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Loans to customers</i>	
Loans given by the mortgage company to private individuals amounts to NOK 7.6 bn secured by real estate, and the company has issued covered bonds. Processes and controls have been implemented to ensure	In order to comply with the requirements in the regulations applicable to covered bonds, the mortgage company has established controls in the process of granting and transferring loans. These controls ensure that the mortgage company reviews the applications for



that the company complies with the requirements concerning real estate collateral, which applies when issuing covered bonds.

The value of the collateral, at any given time, shall be above 75 % of the loan.

Historically, the mortgage company has realized limited losses on loans. Because compliance and the implemented processes are of fundamental importance to the mortgage company's operations and historically limited losses; our attention has been focused toward this subject.

loans and associated documentation. The process includes formal controls and segregation of duties, implemented in order to ensure that the process will be carried out prior to granting or transferring the loans from the parent company to the mortgage company. We have reviewed the company's processes in this regard.

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 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.

The company's processes entail ensuring that the realisable value of the underlying real estate collateral is calculated using external appraisals or internal evaluations. For us to evaluate whether the realisable value was within the 75% requirement we have reviewed appraisals relevant to the transferred loans.

Our audit was conducted by obtaining documentation and examining whether the process was carried out appropriately and timely. This included reviewing the underlying documentation the company had collected and assessing whether the documentation supported the company's conclusion concerning their compliance with

the requirements in relevant legislation and regulations.

Any deviations uncovered in our testing were considered immaterial. Our testing substantiated that the company's internal controls have been executed in accordance with their policies, and that they are compliant with relevant legislation.

Note 2, 3, 9, 11, 12 and 17 in the company's financial statements are relevant to describing the company's loans to customers. We have reviewed the information given in notes to the financial statement regarding this subject and found that the information provided was sufficient and appropriate.

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### *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.

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

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

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

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### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

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

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

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



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

## *Report on Other Legal and Regulatory Requirements*

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### *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.

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### *Opinion on Registration and Documentation*

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

Mo i Rana, 25 February 2020  
**PricewaterhouseCoopers AS**

Silja Eriksen  
State Authorised Public Accountant

*Note: This translation from Norwegian has been prepared for information purposes only.*