Nordea

Annual report 2019

Gjensidige Bank Boligkreditt

Gjensidige Bank Boligkreditt AS is part of the Nordea Group. Nordea build strong and close relationships through our engagement with customers and society. Whenever people strive to reach their goals and realise their dreams, we are there to provide relevant financial solutions. We are one of the largest banks in the Nordic region and among the ten largest financial groups in Europe in terms of total market capitalisation with around 10 million customers. The Nordea share is listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm exchanges.

Read more about us on Nordea.com.

Contents

About the reporting
A web-based annual report is published on www.nordea.com/en/investor-relations/. The annual report will not be printed.

The Board's Report for Gjensidige Bank Boligkreditt AS

The business
Gjensidige Bank Boligkreditt AS (herein called the Company) is a wholly owned subsidiary of Gjensidige Bank ASA. The Company's registered business address is in Oslo. Gjensidige Bank ASA is a wholly owned subsidiary of Nordea Bank Abp. The sale of Gjensidige Bank ASA to Nordea Bank Abp was finalized on 1 March 2019.

The Company is licensed by the Financial Supervisory Authority of Norway to issue covered bonds. The objective is to provide residential mortgage loans, and to primarily finance the lending portfolio by issuing covered bonds. The Company only has residential mortgage loans purchased from Gjensidige Bank ASA.

By the end of 2019, the Company had issued covered bonds with a total face value of NOK 18,800.0m, divided between NOK 16,314.0m placed in the market and NOK 2,486.0m on the parent Company's balance sheet. The covered bonds have an average remaining maturity of approximately 2.0 years, rated AAA by Standard & Poor's.

At the end of 2019, the Company had 12,532 mortgages with an outstanding balance of NOK 21,864.7m. The loan portfolio is of high quality. The weighted loan-to-value ratio, indexed, was 48.6%.

The Company does not carry out any research and development (R&D) activities.

Comments on the annual accounts
Profit and loss account
The financial statements have been prepared in compliance with IFRS (International Financial Reporting Standards).

Pursuant to the requirements of Norwegian accounting legislation, the Board confirms the basis for the going concern assumption and that the annual accounts have been prepared on that basis.

Previous year's figures are shown in brackets.

In 2019, the Company made a profit after tax expense of NOK 76.6m (NOK 109.2m). The decrease was mainly driven by lower interest margin.

Net interest income for 2019 amounted to NOK 116.6m (NOK 167.1m).

Net commission income and other operating income amounted to NOK 3.2m (NOK negative 3.7m). The improvement is mainly driven due to cost related to repurchasing of own covered bond in 2018.

The net interest margin[1] was 0.49% (0.70%).

In 2019, operating expenses totalled NOK 17.3m (NOK 17.5m). Most of the expenses are related to Transfer and Servicing Agreement with Gjensidige Bank ASA.

The cost/income ratio 14.4% (10.7%).

Write-downs and losses
The Company uses the banking Group's guidelines for assessing and recognizing loan impairments, which are recognized in accordance with IFRS9 using an expected loss model. The loan losses where NOK 0.4m (NOK 0.3m). The balance of loss allowance amounted to NOK 1.6m (NOK 1.2m). At the end of 2019, the Company had five loans in default over 90 days.

From the Board's view, the credit risk and the provision levels are satisfactory.

[1] The net interest margin is calculated as net interest income as a percentage of average total assets, annualised.

Balance sheet

At the end of 2019, the Company had total assets amounting to NOK 22,623.5m (NOK 25,589.3m). The Company is mainly funded by covered bonds issued in the Norwegian market.

Lending

At the end of 2019, gross lending totalled NOK 21,864.7m (NOK 24,648.6m).

The entire lending portfolio has been acquired from Gjensidige Bank ASA. It consists of loans with variable interest rates. The average loan commitment was NOK 1.7m per loan at the end of 2019. The largest single exposure was NOK 9.0m and 15.8% of the lending portfolio consisted of loans with credit lines (fleksilån). Including the unutilised credit facilities, 22.7% of the lending portfolio consisted of loans with credit lines (fleksilån).

The loan portfolio had a weighted loan-to-value ratio, indexed, of 48.6% (51.2%) at the end of 2019. The value of the properties is updated quarterly by Eiendomsverdi AS.

Rating

Gjensidige Bank ASA and its subsidiary Gjensidige Bank Boligkreditt AS had a long-term and short-term counterparty credit rating of A+/A-1, outlook 'positive'. The covered bonds portfolio issued by Gjensidige Bank Boligkreditt AS had a long-term rating of AAA and the outlook 'positive'.

Gjensidige Bank Boligkreditt AS will hold the amount of overcollateralisation required to maintain the current rating for Gjensidige Bank Boligkreditt AS`s covered bond program.

Debt securities

Net issues of debt securities amounted to NOK 18,861.0m at the end of 2019, compared to NOK 19,986.5m at the end of 2018, a decrease of NOK 1,125.5m. The debt securities consist solely of covered bonds, with a total face value of NOK 18,800.0m. The Company did not issue covered bond in 2019, and NOK 1,095.0m was repaid.

As of 31 December 2019, the Company`s cover pool was over collateralised with 17.4%.

Liquidity

At the end of 2019, the Company had net liquid assets of NOK 678.2m, divided between NOK 513.9m in bank deposits, NOK 78.2m in covered bonds and NOK 86.2m in treasury bills.

The Company has a credit facility with Gjensidige Bank ASA that is sufficient at all times to cover the total repayment of the outstanding bonds that fall due within the next 12 months. In addition The Company has a long-term credit facility of NOK 1,000.0m and a short-term credit facility of up to NOK 6,000.0m. Unutilised credit facilities amounted to NOK 5,271.7m at the end of 2019.

The liquidity situation is considered to be good.

Capital adequacy and equity

At the end of 2019, the Company had a common equity Tier 1 capital ratio of 23.7% (20.2%). The total capital held by the Company was NOK 1,929.8m (NOK 1,853.1m). The capital includes net profit for 2019.

The Company's equity at the end of 2019 was NOK 1,930.0m (NOK 1,853.3m), representing 8.5% (7.2%) of total assets.

The Board evaluates the Company's equity and capital adequacy ratio to be satisfactory and sufficient in relation to operations.

Key risk and uncertainty factors

Financial risk

The Company's financial risk mainly comprises credit, liquidity and interest rate risk. Risks are monitored and reported regularly in accordance with the principles, strategies, limits and risk appetite statement adopted by the Board.

Credit risk

The Company's credit risk is the risk of losses arising as a result of customers or other counterparties failing to repay their debts or meet their contractual obligations when they fall due. The Board follows up the credit strategy through regular reports that focus on the development of the loan portfolio, including defaults, risk classification and LTV. The Company uses risk classification models to calculate the risk associated with its credit exposure.

All loans are purchased from Gjensidige Bank ASA in accordance with regulatory requirements in order to be included in the cover pool. In addition, there are other requirements to the quality of the loans regulated in the agreement between Gjensidige Bank ASA and Gjensidige Bank Boligkreditt AS.

The Company has mortgage loans to retail customers only. The value of the security is updated quarterly on the basis of estimates from Eiendomsverdi AS. At the end of 2019, the weighted, indexed loan-to-value ratio was 48.6%. There were five loans in default for over 90 days. Sensitivity analyses are performed regularly in which the consequences of a fall in the housing market are analysed. The Board has adopted minimum requirements for the cover pool.

Liquidity risk
Liquidity risk is the risk of the Company not being able to meet its debt obligations when they fall due and/or not being able to finance growth of its assets without incurring a substantial increase in costs. The Company's financial strategy documents set limits and guidelines for managing the liquidity risk, and the Board seeks to ensure low liquidity risk.

The Company manages its liquidity risk by issuing bonds with different maturities and hold a liquidity reserve in line with regulatory requirement. The Company holds a liquidity reserve portfolio of covered bond, treasury bills and bank deposits. In additional the Company has different credit facilities with Gjensidige Bank.

The Board has adopted contingency plans for managing a potential liquidity and capital crisis.

Market risk
Market risk is the risk of losses associated with movements in market prices, which, in this context, relate to positions and activities in the interest rate, currency, credit and stock markets.

The Company's financial strategy documents set limits and guidelines for managing market risk. Risk exposure and development are continuously monitored and reported to the Board. The Company has no exposure in equities and has no currency risk. The Company's interest rate risk and spread risk related to investments shall be low in relation to the core capital.

Interest rate risk refers to the risk of losses as a result of changes in the interest rate level. Risk limits are set to manage the interest rate risk by adjusting the fixed-interest rate period of investments and borrowing. In addition, derivatives are used for hedging purposes.

At the end of the year, the Company had interest rate swaps with a nominal value of NOK 1,450.0m. In the time interval over three months, the Company is exposed to a profit or loss effect of NOK 0.67m given a change in interest rates of one percentage point.

Spread risk refers to the risk of losses as a result of changes in credit margins. The Company limits the spread risk relating to assets by investing in high-quality securities with short maturity, whose value is less exposed to changes in the credit margins. The Company does not hedge the spread risk on its own bond issues.

The company has no exposure to equities and no currency risk.

Concentration risk
Concentration risk is the risk of losses due to the company having large parts of its lending tied to a single borrower or to limited geographic or business areas.

As of 31 December 2019, the portfolio is geographically diverse, with the greatest lending being in the most populous areas of the country. The largest exposure to a single borrower is approximately NOK 9.0m. The exposure related to the ten largest loans (limit) is approximately NOK 82.8m. The Company's liquidity reserves consist of bank deposits in the parent company, securities issued by the Norwegian government and Norwegian covered bonds (OMF).

Operational risk
Operational risk is the risk of losses resulting from inadequate or failing internal processes or systems, human error or external events.

Company activities that are outsourced to the bank are discussed at monthly risk meetings ('Operational Risk Reviews'). Operational incidents, the development of AML activities, internal control self-assessment (RCSA) results, fraud developments, IT security and customer complaints are important focus areas at these meetings. The CEO of Gjensidige Bank ASA and the CEO of Gjensidige Bank Boligkreditt AS attend these meetings together with key managers. In addition, quarterly internal control self-assessments (RCSA) are carried out to ensure that procedures and processes are adhered to in outsourced activities.

The outsourced activities are included in the bank's annual risk assessment process. The risk assessment is conducted in all business areas based on the bank's objectives and strategies for the plan period. The main risks and risk reduction measures are regularly reported to the Board.

The annual risk assessment has been conducted and reported to the Board.

The risk management function administrates and develops the banks methodology for operational risk management, including internal controls and incident management and monitors that control measures are implemented.

The Company has appointed an independent investigator that monitors the register of issued bonds. Regular reviews are conducted to assure that the register is booked correctly. Findings are reported to the Board and the Financial Supervisory Authority of Norway.

Compliance risk

Nordea defines compliance risk as the risk of failure to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates.

The primary governance principle in Nordea for internal control is the adherence to the three lines of defence model.

First line of defence (1st LoD) is represented by the Business Areas and Group Functions. All employees in the first line of defence have a role of understanding and adhering to prudent risk management and for compliance with external and Group Internal Rules as part of performing their tasks. All managers are fully responsible for the risks they assume and for compliance within their respective area of responsibility. Hence, they are responsible for ensuring that the appropriate organization, procedures and support systems are implemented to ensure a sufficient system of internal controls.

Group Risk and Compliance (GRC) represents Nordea's independent second line of defence (2nd LoD) function. GRC oversees the implementation of the financial and the non-financial risk policies and according to a risk-based approach, monitors and controls the Risk Management Framework including the Compliance Risk Framework and oversees that all risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported on. GRC is organized in divisions with individual risk type responsibility. The following divisions are part of GRC; Group Credit Risk Control, Group Market and Counterparty Credit Risk, Group Operational Risk, Balance Sheet Risk Controls, Risk Models, Group Compliance and GRC COO.

Group Compliance (GC) within GRC constitutes the compliance function and is responsible for developing and maintaining the risk management framework for managing compliance risk and for guiding the business in their implementation of the framework to ensure continuous adherence to the framework. GC is responsible for regular reporting to the Board and the CEO at least quarterly. GC reports on the status and development of Gjensidige Bank Boligredtt's compliance risks including information on major deficiencies along with consequence analyses of emerging risks and trends; status and key observations from monitoring activities and investigations; general updates on Financial Supervisory Authority interactions and impact; and preparations on regulatory change.

Group Internal Audit (GIA) represents the third line of defence (3rd LoD). GIA conducts risk-based and general audits and reviews that the Internal Governance arrangements, processes and mechanisms are sound and effective, implemented and consistently applied. GIA is also in charge of the independent review of the first two lines of defence including ensuring that the segregation of duties is defined and established between risk management (first line) and risk control (second line).

Internal control and risk management

The Company has appointed an independent investigator that monitors the register of issued bonds. Regular reviews are conducted to assure that the register is booked correctly. Findings are reported to the Board and the Financial Supervisory Authority of Norway.

Corporate social responsibility and environmental concerns
For information about Nordea and Nordea's subsidiaries sustainability work, see the Annual Report of Nordea Bank Abp and Nordea's Sustainability report available on https://www.nordea.com/en/sustainability/.

Corporate governance
Corporate governance is a priority for the Board. The board puts particular emphasis on the composition and structure of the company`s governing bodies and the responsibilities of the Board, as well as on communication, information, risk management and auditing. The Board of Gjensidige Bank Boligkreditt AS has approved ethical rules, and its employee has access to the company`s policies, guidelines, ethical rules, instructions and other information on the Nordea Group's intranet.

The Articles of Association, instructions and management and reporting systems establish clear roles and responsibilities within the company and vis-à-vis the Nordea Group.

A detailed statement on how Nordea Bank Abp fulfils the recommendation and statutory accounting requirements for corporate governance reporting is provided in the Nordea Group's annual report. It is also available at https://www.nordea.com/en/about-nordea/corporate-governance/.

Governing bodies
The Board
The Board is composed of four members elected by the general assembly.

The Board supervises the management of the Company, and it shall ensure that its operations are organised in a satisfactory manner which includes ensuring that business administration and controls are in accordance with the risk level in the business.

The sale of Gjensidige Bank ASA to Nordea Bank Abp was finalized on 1 March 2019 and at the same time the Board was replaced with new members. See note 5.

External auditor
The external auditor performs the statutory audit and approves the annual financial statements and other financial information provided by the Company.

The general assembly has chosen PricewaterhouseCoopers AS as external auditor.

Internal auditor
The independent internal audit function monitors that the risk management and internal control systems function as intended. The audit function reports directly to the Board.

Working environment
The independent internal audit function monitors that the risk management and internal control systems function as intended. The audit function reports directly to the Board.

The Company participates in the government's inclusive workplace programme. It also encourages and promotes physical and cultural activities. The goal is to be a health-promoting workplace.

Gjensidige Bank Group has carefully monitored sickness absence in accordance with the rules for an inclusive workplace enterprise, and no negative circumstances have been identified that may be causing sickness absence. The HSE work is monitored through external audits and followed up internally by employees with special responsibility for HSE. All incidents that can represent a risk must be reported in the Groups nonconformity system.

The Company has one employee, who is based in the bank`s branch in Førde. The working environment is considered to be good. Gjensidige Bank ASA purchases the services of the CEO of Gjensidige Bank Boligkreditt AS, corresponding to 40% of a full-time position. The Company had no sick leave in 2019. There were no personal injuries, damage to property or accidents in the Company in 2019.

Gender equality and diversity
There are three men and one woman in the Board. The CEO is a man. The Board and management take a proactive approach to promoting equal opportunity in the Company. The Company follows the Group's guidelines and regulations concerning corporate social responsibility, including those relating to discrimination/diversity and ethics.

The natural environment
The Company's operations result in minimal pollution of the environment. Internal environmental measures focus on energy efficiency, reduced travel through in-

creased use of video conferences, and responsible waste management with extensive use of separation at source.

Outlook for 2020
After three interest rate hikes last year, we expect interest rates to be on hold in 2020. With more moderate economic growth ahead, the rate of increase in housing prices should also remain moderate in the years ahead and just about match income growth. Unemployment will remain stable at low levels while wage settlements will boost households' purchasing power.

Events after the balance sheet date
The Board is not aware of any events after the end of the financial year that have a material impact on the financial statements presented.

Allocation of profit
It is proposed to transfer the Company's profit before other comprehensive income of NOK 76.6m to other equity.

Gjensidige Bank Boligkreditt AS
Oslo, 13 February 2020

Børre Gundersen
Chairman

Anders Frank-Læssøe
Board member

Elen M. Stiksrud
Board member

Alex Madsen
Board member

Jan Kåre Raae
Chief Executive Officer

Income statement

NOKt	Note	2019	2018
Interest income etc, amortised cost	4	534,108	496,829
Interest income etc, fair value	4	454	1,697
Interest costs etc.	4	417,947	331,422
Net interest income		**116,615**	**167,104**
Fee and commission income		2,310	2,338
Net gains on financial instruments at fair value		-4	-6,928
Other operating income		917	917
Net commission income and other operating income		**3,223**	**-3,673**
Total income		**119,838**	**163,430**
Staff costs	5	2,299	2,739
Other operating expenses	5	15,007	14,781
Total operating expenses		**17,307**	**17,520**
Profit / (loss) before loan losses		**102,532**	**145,910**
Loan losses	6	380	291
Operating profit		**102,152**	**145,619**
Income tax expense	7	25,538	36,405
Net profit for the period		**76,614**	**109,215**
Gjensidige Bank Boligkreditt AS 's shareholders		76,614	109,215
Earnings per share, NOK (basic and diluted)		589.34	840.11

Statement of comprehensive income

NOKt	Note	2019	2018
Net profit for the period		**76,614**	**109,215**
Components of other comprehensive income			
Items that are not subsequently reclassified to profit or loss			
Items that may subsequently be reclassified to profit or loss			
Total components of other comprehensive income			
Total comprehensive income for the period		**76,614**	**109,215**

Balance sheet

NOKt	Note	31 Dec 2019	31 Dec 2018
Assets			
Loans to credit institutions	9	513,847	694,913
Loans to the public	6,10	21,863,116	24,647,400
Interest-bearing securities	11	164,376	139,898
Derivatives	12,24	40,629	66,303
Deferred tax assets	7	243	2,258
Other assets	8	41,261	38,532
Total assets		**22,623,472**	**25,589,304**
Liabilities and equity			
Deposits by credit institutions	13,21	1,728,317	3,636,007
Debt securities in issue	14.16	18,860,857	19,986,475
Derivatives	12,24	4,086	5,156
Current tax	7	23,523	38,559
Other liabilities	17	76,699	69,794
Deferred tax liabilities	7		
Total liabilities		**20,693,481**	**23,735,991**
Equity			
Share capital		221,000	221,000
Share premium		999,020	999,020
Other equity		709,970	633,294
Total equity		**1,929,990**	**1,853,314**
Total liabilities and equity		**22,623,472**	**25,589,304**
Number of shares at the end of the period		130,000	130,000

Gjensidige Bank Boligkreditt AS
Oslo, 13 February 2020

Børre Gundersen
Chairman

Anders Frank-Læssøe
Board member

Elen M. Stiksrud
Board member

Alex Madsen
Board member

Jan Kåre Raae
Chief Executive Officer

Statement of changes in equity

NOKt	Share capital	Share premium reserve	Total paid-in equity	Other equity	Total equity
Balance at 1 Jan 2019	**221,000**	**999,020**	**1,220,020**	**633,294**	**1,853,314**
Net profit for the period				76,614	76,614
Other comprehensive income, net of tax					
Total comprehensive income				**76,614**	**76,614**
Capital expansion					
Share-based payment transactions settled in equity				63	63
Balance at 31 Dec 2019	**221,000**	**999,020**	**1,220,020**	**709,970**	**1,929,990**

NOKt	Share capital	Share premium reserve	Total paid-in equity	Other equity	Total equity
Balance at 1 Jan 2018	**221,000**	**999,020**	**1,220,020**	**524,083**	**1,744,103**
Net profit for the period				109,215	109,215
Other comprehensive income, net of tax					
Total comprehensive income				**109,215**	**109,215**
Capital expansion					
Share-based payment transactions settled in equity				-4	-4
Balance at 31 Dec 2018	**221,000**	**999,020**	**1,220,020**	**633,294**	**1,853,314**

Cash flow statement

NOKt	2019	2018
Operating activities		
Net payment of loans to customers	2,784,051	-3,542,168
Payment of interest from customers	517,712	484,016
Net payment of interest from credit institutions etc.	13,839	10,913
Taxes paid	-38,559	-43,660
Net other commission income	3,227	3,255
Payment to operations	-19,256	-17,121
Net received/paid (-)upon purchase and sale of financial instruments and interest-bearing securities	-24,478	104
Net cash flow from operating activities	**3,236,538**	**-3,104,662**
Investment activities		
Net purchase of intangible assets and fixed assets		
Net cash flow from investing activities		
Financing activities		
Net receipts/payments on deposits from credit institutions	-1,908	374,171
Receipts of interest-bearing securities		4,500,000
Payment of interest-bearing securities	-2,873,000	-1,615,000
Interest payments on interest-bearing securities	-542,696	-264,126
Net cash flow from financing activities	**-3,417,604**	**2,995,046**
Cash flow for the period	**-181,066**	**-109,616**
Cash and cash equivalents		
Cash and cash equivalents at beginning of the period	694,913	804,529
Cash and cash equivalents at end of the period	513,847	694,913
Change	**-181,066**	**-109,616**
The following items are included in cash and cash equivalents:		
Loans to credit institutions	513,847	694,913
Total cash and cash equivalents	**513,847**	**694,913**

The statement of cash flows shows payments of cash and cash equivalents made and received throughout the year. The statement has been adjusted for items that do not initiate cash flows, such as provisions, depreciation and write-downs of loans and guarantees. Cash flows are classified as operating activities, investment activities or financing activities. The liquid assets are defined as cash and claims on central banks and loans to and claims on credit institutions.

Accounting policies

General
Gjensidige Bank Boligkreditt AS is wholly owned subsidiary of Gjensidige Bank ASA. The company's head office is located at Essendrops gate 7, Oslo, Norway. Gjensidige Bank ASA is a wholly owned subsidiary of Nordea Bank Abp. The sale of Gjensidige Bank ASA to Nordea Bank Abp was finalized on 1 March 2019.

The Company is licensed by the Financial Supervisory Authority of Norway and the object is to furnish and/or provide residential mortgage loans, and to primarily finance the lending portfolio by issuing covered bonds.

The financial statements per 31 December 2019 were approved by the Board on 13 February 2020.

All amounts in the accounts and notes are stated in thousands of Norwegian kroner (NOK) unless otherwise stated. The Company's presentation currency is NOK.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), as well as other Norwegian disclosure requirements laid down in legislation and regulations.

Changes in accounting policies
As a main rule, all income and expenses shall be shown in the income statement. The exception to this rule is the effect of changes to accounting principles. In the event of fundamental accounting reforms/changes in accounting policies, figures for previous years must be recalculated to allow comparison. If items in the financial statement are reclassified, comparative figures must be calculated for the previous periods and reported in the financial statements.

Changed accounting policies and presentation

The following changes in accounting policies and presentation were implemented by Gjensidige Bank Boligkreditt AS at 1 January 2019:

- **IFRS 16 Leases (2016)**

IFRS 9 was implemented at 1 January 2019. IFRS 16 requires all leases to be reported on a company's balance sheet as assets and liabilities. All leasing will be treated as finance leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. IFRS 16 is effective 1 January 2019.

Gjensidige Bank Boligkreditt AS does not have any lease agreements.

Based on our preliminary assessments and on the basis of current operations, other amendments to standards and interpretation statements will not have a material effect

Cash flow statement
Cash flows from operating activities are presented according to the direct method, which gives information about material classes and payments.

Principles for recognising income and expenses
Net interest income

Interest income and expenses are calculated and recognised based on the effective interest rate method. The calculation takes into account establishment fees and direct marginal transaction costs that are an integral part of the effective interest rate.

Interest is recognised through profit or loss using the internal rate of return method for balance sheet items that are measured at amortised cost statement.

Interest income is calculated by applying the effective interest rate to the gross carrying amount except for financial assets that are credit impaired. For those financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

Commission income and expenses

The way in which commission income from various customer services is recognised depends on the nature of the commission. Fees are recognised as income when the services are delivered, or a significant part of the service has been completed. Fees received for completed services are recognised as income in the period the services were performed. Commissions received as payment for various tasks are recognised as income once the service has been completed. Commission costs are transaction-based and are recognised in the period the services were received.

Other operating income

Other operating income that is not related to any of the other lines of income is generally recognised when the transaction has been completed.

Operating expenses

Operating expenses are accrued and expensed in the relevant accounting period.

Currency
The Company's presentation currency and functional currency is NOK.

Segments
Gjensidige Bank Boligkreditt AS has only one business segment: lending to private customers. This segmentation best reflects the way the business is run by the management.

Inclusion of non-financial assets in the balance sheet
Assets and liabilities are included in the Company's balance sheet when the Company obtains real control over rights to the assets or assumes real obligations. Assets are derecognised at the time the actual risk related to the assets has been transferred and the control of the rights to the assets has ended or expired.

Impairment of non-financial assets
The Company reviews the carrying value of assets and identifiable intangible assets annually or more frequently if occurrences or changes in assumptions take place that indicate that the carrying value is irrecoverable. Indicators that are assessed as significant by the company and that can trigger testing for impairment include:

- A significant drop in profitability in relation to past or expected future profitability
- Significant changes in the Company's use of assets or overall strategy for its activities
- A significant downturn in the industry or the economy

Previous impairment losses, except for goodwill, will be reversed if the assumptions relating to the impairments no longer apply. Impairment losses are only reversed to the extent that the new carrying value does not exceed what would have been the carrying value after depreciation at the time of the reversal if there had been no impairment.

Financial instruments
IFRS 9 introduces new requirements for the classification and measurement of financial instruments, including a new expected loss model for the recognition of impairment losses, and changed requirements for hedge accounting

Classification and measurement:

Financial assets:

- amortised cost
- fair value through profit or loss
- fair value through other comprehensive income

Financial assets will be classified either at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss, depending on how they are managed and whether contractual cash flow are solely payments of principal and interest (SPPI).

Financial assets with cash flow that are not solely payment of principle and interest (SPPI) are measured at fair value through profit and loss. Other financial assets are classified based on the business model. In order to assess the business model, the bank has divided its financial assets into portfolios based on how they are managed to achieve a particular business goal.

Financial liabilities:

- amortised cost
- fair value through profit or loss

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories for the basis form how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. In the below table "Classification and measurement of financial instruments under IFRS 9 " the classification of the financial instrument on the banks' balance sheet into different categories under IFRS 9 is presented.

For further information, see Note 24 Classification of financial instruments.

Amortised cost:

Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method.

Interest on assets and liabilities classified at amortised cost is re¬cognised in the items " Interest income etc, amortised cost" and " Interest costs etc." in the income statement. This category consists of mainly loans, deposits and liabilities opened for the issue of securities.

Financial assets and liabilities at fair value through profit or loss:

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, excluding transaction costs. Interest income is classified as interest in the income statement, all other changes in fair value are recognized in the income statement in the item "Net gains on financial instruments at fair value".

The banks liquidity portfolio, managed and reported at fair value, and derivatives are measured at fair value through profit and loss.

Impairment

Impairment provisions according to IFRS 9 are measured using an expected loss model. The impairment rules in IFRS 9 applies to financial assets measured at amortized cost and at fair value through other comprehensive income. In addition, loan commitments, financial guarantee contracts and lease receivables are within the scope of the standard. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses. If the credit risk has increased significantly from the initial recognition or if the asset is classified as impaired, the provision should equal lifetime expected credit losses.

1. Inputs, assumptions and techniques used for estimating impairment

1.1. Credit Scores and Risk Classes

The Company uses credit scores extensively in its credit assessment and monitoring process. Different credit scores are used for the different product groups in the Companys depending on the nature of the exposure and the type of borrower. Credit scoring models are validated to be predictive of the risk of default on an annual basis.The scores used for retail exposures are computed using application data declared by the customer, external bureau data, other external customer data and internal performance data (for example payment behavior).

The Company determines a credit risk class to each exposure based on credit scoring models and by applying experienced credit judgement. Credit risk classes are defined using historical data which are indicative of risk of default. Credit risk classes are defined and calibrated such that the risk of default occurring increases by increasing risk class.

Credit risk class is defined at initial recognition based on the score at initial recognition which in turn is based on the available information about the borrower. Thereafter the scores are generated and monitored for the customer on a regular basis. When the scores are generated periodically during the life of the exposure, based on the credit history, the score may change and this may result in an exposure being moved to a different credit risk class compared to the initial recognition.

The risk-classed are further grouped in Risk Groups: Low Risk, Medium Risk, High Risk, Unclassified and already Defaulted accounts based on defined ranges of Probability of Default.

1.2 Low credit risk accounts

A financial exposure is considered to be a low credit risk account, if the financial exposure has a low risk of default and the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. In addition, adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Financial exposure are not considered to have low credit risk simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk.

The Company considers accounts to be in low risk, if they have not met the definition of Significant Increase in Credit Risk as defined in section 1.3 below, or Impairment as defined in section 1.4 below. In addition, accounts that are in the Low Risk Group on the reporting date, these are considered to be Low Credit Risk accounts.

For accounts that are determined to be low credit risk at the time of reporting an Expected Credit Loss (ECL) over the next 12 months is estimated by the Company. The computation of 12-month ECLs is described in the section below.

1.3 Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience, credit assessment and includes forward-looking information.

For the Company’s exposures, the historical analysis shows that default patterns are not concentrated at a specific point during the expected life of the financial instrument. Given this, changes in the risk of a default occurring over the next 12 months have been considered as approximation of the changes in the lifetime risk of a default occurring.

The Company uses a “point in time” process where the internal evaluation reflects an assessment of the borrower’s current condition and/or most likely future condition over the next 12 months horizon from the assessment period. As such, the internal evaluation changes as the borrower’s condition changes over the course of the credit/business cycle.

Significant increase in credit risk is determined for an exposure by comparing the estimated 12 months probability of default (PD) at the reporting date with the estimated 12 months PD at the time of initial recognition of the exposure. Accounts that are classified as low risk at the reporting date are excluded from this determination. If the risk class at reporting date is observed to have increased by more than a predetermined level compared to initial recognition, the exposure is classified as having a significant increase in credit risk.

The criteria for determining whether credit risk has increased significantly includes a "rebuttable presumption" i.e. a backstop based on delinquency. If the exposure is 30days to 89days past due at the reporting date, irrespective of the risk class or migration of risk, the exposure is classified as having significant increase in credit risk.

In addition, the Company may determine that an exposure has undergone a significant increase in credit risk based on qualitative indicators which may be indicative of increase in risk. For example based a individual assessment of a delinquent customer in the collections process the exposure may be classified as impaired. In such cases, an individual measurement of impairment is done based on the Companys best estimate of the present value of the cash flows that is expected to be received, including from the repossession and sale of any assets if available. In estimating these cash flows, bank makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral.

An engagement migrates to a lower stage when the terms of the original migration are no longer present.

1.3.1 Modified contractual assets and restructured assets

In limited cases, the Company may also change the terms of the loan to customers in financial difficulties (referred to as "restructuring" or "forbearance activities") to assist willing customer to repay and minimize the risk of default. Under the Company's policy, loan restructuring is granted on a selective basis if the debtor is currently unable to pay or if there is a high risk of default. In such cases, the Company assesses if there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, reducing the interest rate or changing the timing of interest or principal payments or other amendments to the terms of loan (but not including increase of the outstanding exposure) to make it possible for the customer to pay.

For financial assets modified as part of the Company's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

1.3.2 Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of Expected Credit Loss. The Company uses the analysis published by Norges Bank which establishes which macroeconomic factors drives the increase of problem loans in banks. Based on this analysis, the Company has taken PD to be impacted by increase in unemployment and increase in the interest rate levels.

The Company applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Company for strategic planning and budgeting.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31.12.2019 for the years 2020 to 2022.

	2020	2021	2022
Unemployment rate			
Alternative A	3.3%	3.3%	3.3%
Base case	3.7%	3.7%	3.7%
Alternative B	5.7%	5.7%	5.7%
Household Lending Rates			
Alternative A	3.1%	3.1%	3.2%
Base case	3.4%	3.4%	3.5%
Alternative B	5.1%	5.1%	5.3%
Housing prices			
Alternative A	2.0%	2.4%	2.4%
Base case	1.8%	2.2%	2.2%
Alternative B	0.9%	1.1%	1.1%

Predicted relationships between the key indicators and default and loss rates are based on the analysis published by Norges Bank: http://www.norges-bank.no/Publisert/Signerte-publikasjoner/Penger-og-Kreditt/Penger-og-Kreditt-12007/Faktorer-bak-bankenes-problemlan/

Based on this analysis, the bank has taken PD to be impacted by increase in unemployment and increase in the interest rate levels. An increase of 1 percentage point in unemployment is assumed to give a 11% in PD. Increase in general interest rate will increase customers payments on both loans with the bank and with other banks. An increase of 1 percentage point in interest level is assumed to give a 7% increase in PD. These increases are applied to the PD at a portfolio level.

1.4 Impairment
Definition of impairment
The Company considers a financial asset to be in default when one or more events that have a negative impact on the financial asset's estimated future cash flows have taken place. Indications that a financial asset is impaired include observable data on the following events:

- The Company becomes aware of significant financial difficulty of the borrower (bankruptcy/ Legal debt settlement).
- Breach of contract, such as default or overdue payments as described below.
- The Company for economic or contractual reasons relating to the borrower's financial difficulty, grants to the borrower a change in term that would not otherwise have been considered (for example a restructuring of the loan).
- It becomes probable that the borrower will enter bankruptcy or other financial reorganization (initiation of Legal Debt Settlement / Bankruptcy)
- When an active market for the financial asset disappears due to financial difficulties

In addition, the Company has established a "rebuttable presumption" (backstop) that default does not occur later than when a financial asset is 90 days past due.

Credit lines are also considered as being past due once the customer has breached an advised limit.

All exposures meeting the above requirement of default are classified as impaired.

An engagement migrates to a lower stage when the terms of the original migration are no longer present.

1.5 Measurement of Expected Credit Loss (ECL).
The key inputs into the measurement of ECL are the Probability of default (PD), Exposure at default (EAD) and Loss given default (LGD). These parameters are derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a given point in time, calculated based on statistical scoring models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For lending commitments, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

LGD is the size of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral and historical recovery costs of any related collateral. LGDs are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

For accounts that are determined to be low credit risk at the time of reporting an Expected Credit Loss (ECL) over the next 12 months is estimated. 12-month ECLs is defined as a portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date.

For undrawn credit lines, bank estimates the 12-month ECLs based on its expectations of the portion of the loan commitment that will be drawn down within 12 months of the reporting date.

To estimate the 12 months ECL, the Company uses the historical data to see the performance of customers in low credit risk and derives the probability of default that results from all possible events over the 12 months from observation. Using historical data, the Company also estimates the Exposure at Default within 12 months of the observation dates for these accounts. To this the Company applies its historically observed net present value of cash flows using an effective interest rate for that group of accounts. The ECL is computed as the multiple of the PD, EAD and LGD thus derived.

For all exposures that meet the criteria of significant increase in credit risk or are classified as impaired on the reporting date, the Company computes a loss allowance ECL) over the lifetime of the loan. This is equal to the ECLs that result from all possible default events over the expected life of a financial instrument. In order to estimate the lifetime ECL, the Company estimates the risk of a default occurring on the financial instrument during its expected life.

The ECL is estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between:

- The contractual cash flows that are due to an entity under the contractual terms and
- The cash flows that the Company expects to receive from the impaired asset

When estimating lifetime ECLs for undrawn credit line, the Company:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment
- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down.

1.6 Derecognition and write-off

The Company considers an asset to be derecognised if:

- The contractual rights to the cash flows from the financial assets expire (example the loan reaches its end of term and is fully paid off, or the loan is prepaid by the customer).
- The financial asset is transferred and the transfer qualifies for derecognition (example, sale of an asset or group of assets).
- When the Company has no reasonable expectation of recovering the financial asset in entirety or in part.

The last criteria includes a write-off event when the Company determines that it has no reasonable expectation of cash flows from the customer.

Financial instruments

Hedge accounting

The Bank Group enters into hedging transactions to manage interest rate risk on fixed rate borrowings. These transactions are recognised as fair value hedges. Fair value hedges are used when derivatives hedge changes in the fair value of recognised assets or liabilities with a specific risk. Derivatives are recognised in the income statement. Changes in the value of the hedged item, attributable to the hedged risk, adjust the carrying amount of the asset and are recognised in the income statement.

The Company has chosen to continue to apply hedge accounting in accordance with IAS 39. The new requirement in IFRS 9 would not have resulted in any change to the accounts.

The use of hedge accounting requires that the hedge is effective. A hedge is regarded as highly effective if, at inception and throughout the hedge period, it can be expected that changes in the fair value of the hedged item essentially offset changes in the fair value of the hedged instrument. The effectiveness of the hedge is measured at the individual level. At inception, the hedging effectiveness is measured on the basis of an interest rate shock at the individual instrument level. When assessing the hedge effectiveness retrospectively, the fair value of the hedged instrument is measured and compared with the change in fair value of the hedged item. The result must be within the range of 80-125%.

Financial derivatives

The trading of financial derivatives is subject to strict limitations. All derivatives are measured at fair value on the contract date. Subsequent measurement is done at fair value with changes in value being recognised as they occur. The fair value of derivatives is measured based on listed prices whenever possible. When listed prices are not available, the Company estimates fair value based on valuation models that use observable market data.

Derivatives that do not meet the criteria for hedge accounting are treated as financial instruments held for trading. The fair value of such derivatives is classified as either an asset or a liability with changes in fair value through profit or loss.

Accounting provisions

A provision is made when the Company has a legal or implicit liability as a result of a past event, and it is probable that this will lead to a payment or transfer of other assets to cover the liability.

Pensions

The Company is required to have an occupational pension plan pursuant to the Norwegian Act relating to Mandatory Occupational Pensions. The Company's pension plans meet the requirements of the Act.

The Company has a defined contribution plan.

Deductible grants to defined contribution plans are recognised as employee expenses in the income statement when accrued.

Variable remuneration programs

Nordea Executive Incentive Program (EIP) reward performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long-term result is to be considered when determining the targets. EIP shall be paid in the form of cash over a five- year period. EIP shall not exceed annual fixed salary. The changes, including social expenses, are recognized in the income statement under staff costs.

Share-based payments
As at 31 December 2019, Gjensidige Bank Group has no share-based payment scheme.

As at 31 December 2018, Gjensidige Bank Group had, as part of Gjensidige Group, the following share-based payment arrangements as described below.

Gjensidige implemented amendments to IFRS 2 at 1 January 2018, and there was one implementation effect. The tax liability as at 31 December 2017 amounting to NOK 0.1 million was reclassified from liability to equity as at 1 January 2018.

Gjensidige has a share saving program for employees and a share-based remuneration scheme for senior executives. The share savings program is an arrangement with settlement in shares, while the remuneration scheme is an arrangement with settlement in both shares and cash.

The share-based payment arrangements are measured at fair value at the time of allocation. Fair value is accrued over the period during which employees acquire the right to receive the shares. Share-based payment arrangements which are recovered immediately are recognised as expenses at the time of allocation. Vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised shall be based on the number of equity instruments that eventually vest. Non-vesting conditions and possible market conditions are reflected in the measurement of fair value, and no adjustment of the amount charged as expenses is done upon failing to meet such conditions.

The cost of share-based transactions with employees is recognised as an expense over the average recovery period. For arrangements that are settled in shares, the value of the allocated shares in the period is recognised as a salary expense in the income statement with a corresponding increase in other paid-in equity. For arrangements settled in cash, the value of the options granted is recognised as a salary expense in the income statement with a corresponding increase in other paid-in equity. This applies to Gjensidige's obligation to withhold an amount for the employees' tax liability and transfer this amount in cash to the tax authorities on behalf of the employee. Employers' social security costs are calculated based on the fair value of the shares on each balance sheet date. The amount is recognised in the income statement over the expected vesting period and accrued according to IAS 37.

Share-based payment arrangements settled by one of the shareholders in the ultimate mother company is also recognised as a share-based payment transaction with settlement in equity.

If the entity is obliged to withhold an amount for an employee's tax obligation associated with a share-based payment, and transfer that amount in cash to the tax authority on the employee's behalf, then the entity shall account for that obligation as an equity-settled share-based payment transaction. The tax obligation will be accounted for as an equity-settled share-based payment transaction instead of cash-settled share-based payment transaction.

See note 29 for a further description of Gjensidige's share-based payment arrangements.

Taxation
The tax expense comprises tax payable and deferred tax. The income tax is recognised as an expense or income and, with the exception of income tax on transactions that are recognised directly in equity, is included in the income statement as a tax expense.

Payable tax is based on the Company's taxable income and is calculated in accordance with Norwegian tax regulations and tax rates.

Deferred tax assets and liabilities are recognised by applying the balance method to all temporary differences that arise between the tax and accounting values of assets and liabilities. Deferred tax assets are calculated on unused loss carryforwards and unused tax credits. The tax asset is only recognised to the extent that it is probable that future taxable profits can be used to offset temporary differences, unused tax loss carryforwards and unused tax credits. The carrying values of deferred tax assets and deferred tax are subject to regular review. Deferred tax is calculated on temporary differences and untaxed provisions. Deferred tax assets and deferred tax liabilities are not discounted.

Assets and liabilities are measured at the current tax rate in the period when the asset is realised or the liability is settled, based on the tax rate on the balance sheet date. Payable tax assets and tax liabilities, as well as deferred tax assets and tax liabilities, are offset if legally possible.

1. Equity

Share capital
Gjensidige Bank Boligkreditt AS is a wholly owned subsidiary of Gjensidige Bank ASA. Gjensidige Bank ASA is a wholly owned subsidiary of Nordea Bank Abp. Share capital for Gjensidige Bank Boligkreditt AS as per 31 December 2019 was NOK 221.0 million divided on 130,000 shares at 1,700 per share. As per 31. December 2018 share capital was NOK 221.0 million divided on 130.000 at 1,700 per share.

Share premium
Payments in excess of the nominal value per share are allocated to share premium.

Other equity
Other earned equity consists of this year's and previous year's retained earnings.

2. Critical accounting estimates and judgements

General
The preparation of the financial statements under IFRS and the application of the adopted accounting policies require the management to make assessments, prepare estimates and apply assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and the associated assumptions are based on historic experience and other factors that are assessed as being justifiable based on the underlying conditions. The actual figures may deviate from these estimates. The estimates and the associated assumptions are reviewed regularly. Changes in accounting estimates are recognised in the period the estimates are revised if the change only affects this period, or both in the period the estimates change and in future periods if the changes affect both existing and future periods.

Gjensidige Bank Boligkreditt AS's accounting principles, in which assessments, estimates and assumptions may significantly diverge from the actual results, are discussed below.

Write-downs and losses
Impairment provisions according to IFRS 9 are measured using an expected loss model. The impairment rules in IFRS 9 applies to financial assets measured at amortized cost and at fair value through other comprehensive income. In addition, loan commitments, financial guarantee contracts and lease receivables are within the scope of the standard. The measurement of the provision for expected credit losses on financial assets depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased significantly, the provision should equal 12-month expected credit losses. If the credit risk has increased significantly from the initial recognition or if the asset is classified as impaired, the provision should equal lifetime expected credit losses.

The write-down equals the difference between the outstanding balance of the loan and the net present value of estimated future cash flows, discounted by the financial asset's original effective interest rate (i.e. the effective interest rate calculated initially or subsequently agreed with the customer). Objective evidence means evidence of occurrences indicating that the loan is impaired. This can be information about bankruptcy or defaults.

A final write-off (loss) is recognised when it is evident that the loan will not be repaid and there is no collateral left to cover the loan. In such instances, any corresponding provision (write-down) will be reversed.

In certain instances, where there is a lacks data or sufficient information, the Company uses judgment based on credit experience in the assessment of expected credit loss. This includes, but is not limited to the following:

- For some portfolios, where there is not enough data or history to develop internal scoring models, the credit score information purchased from external credit reference agencies are used.
- In determining PDs, portfolio which are limited in size or have limited data, the estimate of expectation of default rates are computed as simple ratios based on historical observations at a total portfolio level rather than probabilities of default at a granular level.
- Expected life time of loan is determined by analysing historical performance in months on groups of loans taken from the initially recognition point to the time the cumulative bad rates flatten, i.e. none or limited loans turn bad incrementally. In cases, where portfolios have not reached sufficient number of months after initial recognition, historical performance of similar loan are taken.
- In determining LGD for portfolios which are limited in size, have limited data or historical performance

data, the Company utilizes information of similar portfolio if possible or judgment.
• As the Company has relatively limited history, despite best efforts, the determination of the impact of changes in macro-economic variables on the bank's defaults rates was not possible and hence the Company has utilized analysis published by Norges Bank which establishes the macroeconomic factors that drives the increase of problem loans in banks.
• In the Company's analysis it was seen that using the historical performance data, changes in risk levels between origination and reporting date did not conclusively indicate a significant increase in credit risk. As such the Company judgmentally uses increase by greater than 2 risk classes compared to initial recognition, as the definition of significant increase in credit risk.

For further information, see note 25 Risk and risk management on write-downs and losses.

Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market (such as unlisted shares) is determined using valuation methods. These valuation methods are primarily based on the market conditions on the balance sheet date. These valuation methods are based primarily on the market conditions at the reporting date.

• Bonds are valued based on prices collected from Nordic Bond Pricing.
• Unlisted derivatives, including interest rate and foreign exchange instruments, are valued theoretically based on observable market data. Money market rates, swap rates, exchange rates and volatilities that form the basis for valuations are supplied by Bloomberg and Oslo Stock Exchange.

For further information, see Note 19 Fair value of financial instruments.

Amortised cost method
Market prices are used to price loans and receivables from credit institutions and loans to customers. The value of loans that have been written down is determined by discounting future cash -flows using the internal rate of return based on market conditions for equivalent loans that have not been written down.

For further information, see Note 17 Fair value of financial instruments.

3. Segment information

Gjensidige Bank Boligkreditt AS only has one business segment: lending to private customers. The segment consists of loans to private customers, and the entire loan portfolio is purchased from Gjensidige Bank ASA. The Company's full accounts therefore fall entirely under the 'Retail market' segment.

The Company does not engage in activities outside Norway. Customers with foreign domicile are classified as part of the Norwegian operations. All revenues and the Company's profit are related to the business in Norway.

4. Net interest income

NOKt	2019	2018
Interest income etc, amortised cost		
Loans to credit institutions	12,992	10,467
Loans to the public	521,116	486,362
Total interest income etc, amortised cost	**534,108**	**496,829**
Interest income etc, fair value		
Interest-bearing securities	454	1,697
Total interest income etc, fair value	**454**	**1,697**
Interest costs etc		
Deposits from/ debt to credit institutions		147
Issued securities	371,990	277,321
Other interest expenses	45,958	53,953
Total interest costs etc	**417,947**	**331,422**
Net interest income	**116,615**	**167,104**

5. Operating expenses

NOKt	2019	2018
Wages, salaries etc.	1,775	2,134
Pension costs	184	193
Employer's National Insurance contributions	338	412
Other staff-related costs	2	
Total staff costs	**2,299**	**2,739**
IT expenses	435	433
Consultancy fees	11,742	11,824
Other operating expenses	2,830	2,524
Total other expenses	**15,007**	**14,781**
Ordinary depreciation		
Total operating expenses	**17,307**	**17,520**
Auditor's fee (incl. VAT)		
Statutory audit	120	58
Other assurance services	64	95
Other non-assurance services		61
Total payments to auditor	**184**	**213**
Number of employees	1	1
Average numbres of employees	1	1

5. Operating expenses (cont.)

Salary and other benefits to management and governing bodies in 2019

NOKt Name and position	Fixed salary/ fee	Earned variable salary	Other benefits	Rights earned in the finan-cial year according to pension plan	Loans	Interest rate	The current Re-payment schedule
Senior executives							
Jan Kåre Raae, CEO	1,200	797	22	185			
The Board							
Børre Steen Gundersen, Chairman (1.3-31.12)							
Anders Frank-Læssøe (1.3-31.12)							
Elen Margrethe Stiksrud (1.3-31.12)							
Alex Madsen (1.3-31.12)							
Jørgen Ringdal, Chairman (1.1-28.2)							
Erik Ranberg[1] (1.1-28.2)							
Sirianne Haaje Nes (1.1-28.2)							
Solbjørg Lie (1.1-28.2)	32						
Total for senior executives and the Board	**1,232**	**797**	**22**	**185**			

Salary and other benefits to management and governing bodies in 2018

NOKt Name and position	Fixed salary/ fee	Earned varia-ble salary	Calc. value of total benefits other than cash	Rights earned in the finan-cial year according to pension plan	Annual vesting share based payment	Number of shares assigned, not re-deemed	Number of shares re-leased	Number of shares out-stan-ding	Number of shares held	Loans	Interest rate	The current Re-payment schedule
Senior executives												
Jan Kåre Raae, CEO	1,155	132	21	193	269	849	929	1,820	1,729			
The Board												
Jørgen Ringdal, Chair									24,322			
Erik Ranberg[1]									10,497	811	2.80%	20.8.2033
										281	1.97%	28.11.2026
Sirianne Haaje Nes									3,997			
Solbjørg Lie	75											
Total for senior executives and the Board	**1,230**	**132**	**21**	**193**	**269**	**849**	**929**	**1,820**	**40,545**	**1,092**		
General assembly												
Helge Leiro Baastad									38,447			

[1] Loan in parent company Gjensidige Bank ASA.

Share-based payment / allocation in 2018 relates to Share-based pay scheme in the Gjensidige group.

5. Operating expenses (cont.)

Remuneration policies
The Company has established a remuneration scheme that applies to all employees. The Company is covered by the Nordea Group's guidelines for remuneration scheme. The remuneration schemes are disclosed in more detail in the Nordea Group's annual report. The bank is also subject to the rules on remuneration schemes in the Financial Undertakings Regulations.

The Groups policy shall support the bank to attract, develop and retain motivated, competent and performance-oriented employees. Ensure that employees are offered a competitive and marked aligned total reward offering. The policy shall support sustainable results and the long-term interest of the shareholders and ensure that remunerations is aligned with efficient risk management, the groups purpose and values and regulations. Remuneration to employees shall not encourage excessive risk-taking or counteract the Groups long-term interest. An upper limit for variable remuneration applies.

The determination of which functions of the company that shall be defined as employees with tasks of crucial importance for the company's risk exposure, both qualitative criteria related to the role and quantitative criteria related to the level of remuneration is to be taken into account.

Decision-making process
The Board of Gjensidige Bank Boligkreditt AS serves as the Company's remuneration Committee.

It is primarily responsible for:

- The Board's annual statement on Gjensidige Boligkreditt AS's remuneration policy
- The annual evaluation of matters concerning salary and other remuneration to the CEO
- Guidelines for salary and other remuneration to executive personnel
- Statement of salary and other remuneration to executive personnel, including:
  o Guidelines for determining salary and other remuneration for the coming fiscal year
  o Statement of the remuneration policy that has taken place during the previous financial year, including how the guidelines for the remuneration of employees have been implemented
  o Statement of impact on the company and owners of implementation / changes in incentive schemes relating to shares
- Other important personnel matters relating to executive personnel
- Board's handling of completed HR processes, including talent and successor development and strategic staffing control

Guidelines for the upcoming financial year

Remuneration of the CEO
The CEO's salary and other benefits are stipulated by the Board on the basis of an overall assessment that takes into account Nordeas's remuneration scheme and market salary for corresponding positions.

The fixed salary is reviewed annually and determined on the basis of developments in society in general and in the financial sector in particular. The CEO takes part in Nordea Executive Incentive Program (EIP). EIP reward performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long-term result is to be considered when determining the targets. EIP shall be paid in the form of cash over a five- year period. EIP shall not exceed annual fixed salary.

The CEO's retirement age is 70 years, and the CEO is a member of the Company's defined contribution pension plan. There is no severance pay arrangement for the CEO.

6. Write-downs and losses on loans

NOKt	31 Dec 2019	31 Dec 2018
Loan losses for the period		
+/- Change in group write-downs for the period	380	291
Write-downs and losses for the period	**380**	**291**
Loss allowance		
Loss allowance at the start of the period	1,210	919
+/- Change in loss allowance for the period	380	291
Loss allowance at the end of the period	**1,589**	**1,210**
Defaulted loans		
Gross default over 90 days	5,034	2,591

Credit quality by risk group

31 Dec 2019 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	21,596,394		5,461	21,601,855
Medium	5,886	89,148		95,034
High	7,833	140,608	13,916	162,356
Not classified	449			449
Impaired and written down			5,034	5,034
Adjustment	-23			-23
Total	**21,610,538**	**229,756**	**24,411**	**21,864,705**
Loss allowance	480	114	995	1,589
Total net	**21,610,058**	**229,642**	**23,415**	**21,863,116**

31 Dec 2018 NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Loans to and claims on customers				
Low	23,002,837		6,398	23,009,234
Medium	8,589	69,997	2,514	81,100
High	4,580	62,234	5,838	72,652
Not classified	1,442,685	40,641	-3,978	1,479,349
Impaired and written down			6,274	6,274
Total	**24,458,691**	**172,872**	**17,047**	**24,648,610**
Loss allowance	880	85	245	1,210
Total net	**24,457,811**	**172,787**	**16,802**	**24,647,400**

6. Write-downs and losses on loans (cont.)

Loans to and claims on customers by past due status

	31 Dec 2019		31 Dec 2018	
NOKt	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
0-29 days	21,849,171	1,415	24,643,421	1,153
30-59 days	6,682	71	1	
60-89 days	3,817	24	2,596	17
90+ days	5,034	79	2,591	40
Total	**21,864,705**	**1,589**	**24,648,610**	**1,210**

The following tables reconcile the opening and closing balances for accumulated loan loss allowance on financial Instruments.

Reconciling items includes the following:
-Changes in allowance due to the origination of new financial instruments during the period.
-Changes in allowance due to the derecognition of financial instruments during the period.
-Transfers between stages due to changes in credit risk. This includes the difference in loan loss allowance balance from one period to another.
-Changes in balance with no transfer between stages are related to financial instruments that did not move between stages but had changes in balances and hence resulting in changes in loan loss allowance.

Balances shown are loan loss allowance balances as of end of period except for "financial assets that have been de-recognised" which are as of the beginning of period.

Loss allowance

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total balance sheet allowance
Loss allowance as at 1 Jan 2019	**880**	**85**	**245**	**1,210**
Transfer to stage 1	10	-10		
Transfer to stage 2	-42	48	-6	
Transfer to stage 3	-897		897	
New Finanicial assets originated during the period	68	4		71
Financial assets that have been derecognised	-266	-54	-72	-391
Changes in balance with no transfer between stages	727	41	-69	699
Loss allowance as at 31 Dec 2019	**480**	**114**	**995**	**1,589**

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total balance sheet allowance
Loss allowance as at 1 Jan2018	**551**	**96**	**272**	**919**
Transfer to stage 1	36	-43	-120	-126
Transfer to stage 2	-2	60		58
Transfer to stage 3	-1		181	180
New Finanicial assets originated during the period	352	17	22	392
Financial assets that have been derecognised	-100	-44	-108	-252
Changes in balance with no transfer between stages	44	-2	-3	39
Loss allowance as at 31 Dec 2018	**880**	**85**	**245**	**1,210**

6. Write-downs and losses on loans (cont.)

Loss allowance

NOKt	31 Dec 2019	31 Dec 2018
Stage 1	480	880
Stage 2	114	85
Stage 3	995	245
Total	**1,589**	**1,210**
Stage 1	30.2%	72.7%
Stage 2	7.2%	7.0%
Stage 3	62.6%	20.3%
Total	**100.0%**	**100.0%**

The following tables reconcile the opening and closing balances on gross carrying amount.

Reconciling items includes the following:
- Transfers between stages due to changes in credit risk.
- Changes due to the origination of new financial instruments during the period.
- Changes due to the derecognition of loans during the period, including down-payment of loans, write-offs and sale of assets.

Balances shown are as of end of period except for “financial assets that have been derecognised” which are as of beginning of period and "down-payments" which are computed as the difference of the beginning of period and closing period balances.

Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2019	**24,458,691**	**172,872**	**17,047**	**24,648,610**
Transfer to stage 1	63,640	-59,966	-3,674	
Transfer to stage 2	-154,805	155,713	-908	
Transfer to stage 3	-20,675		20,675	
New financial assets originated	3,835,077	28,219		3,863,296
Financial assets that have been derecognised	-7,122,651	-74,292	-7,373	-7,204,317
Change in balances due to payments	-987,731	-2,647	-1,356	-991,734
Other Changes	1,538,993	9,857		1,548,850
Gross carrying amount as at 31 Dec 2019	**21,610,538**	**229,756**	**24,411**	**21,864,705**
Loss allowance as at 31 Dec 2019	480	114	995	1,589

6. Write-downs and losses on loans (cont.)

Loans to and claims on customers

NOKt	Stage 1 12-month ECL	Stage 2 lifetime ECL	Stage 3 lifetime ECL	Total
Gross carrying amount as at 1 Jan 2018	**20,606,899**	**482,985**	**15,643**	**21,105,527**
Transfer to stage 1	218,340	-212,089	-6,251	
Transfer to stage 2	-57,832	57,832		
Transfer to stage 3	-5,882	-6,139	12,021	
New financial assets originated	9,877,904	55,751	771	9,934,426
Financial assets that have been derecognised, including down payments	-5,335,484	-191,420	-4,655	-5,531,560
Change in balances due to payments	-845,253	-14,049	-482	-859,783
Other changes				
Gross carrying amount as at 31 Dec 2018	**24,458,691**	**172,872**	**17,047**	**24,648,610**
Loss allowance as at 31 Dec 2018	880	85	245	1,210

NOKt	31 Dec 2019	31 Dec 2018
Stage 1	21,610,538	24,458,691
Stage 2	229,756	172,872
Stage 3	24,411	17,047
Total	**21,864,705**	**24,648,610**
Stage 1	98.8%	99.2%
Stage 2	1.1%	0.7%
Stage 3	0.1%	0.1%
Total	**100.0%**	**100.0%**

7. Tax expense

NOKt	2019	2018
Tax payable	23,523	38,559
Change in deferred tax/tax assets	2,015	-2,154
Other adjustments to previous years		
Tax expense	**25,538**	**36,405**
Reconciliation of tax expense		
Profit/ (loss) before tax expense	102,152	145,619
Expected tax at nominal tax rate of 25%	25,538	36,405
Other adjustments to previous years		
Tax expense	**25,538**	**36,405**
The average effective tax rate	25%	25%
Deferred tax assets / (Deferred tax liabilities)		
Deferred tax assets arising from temporary differences		
- Current assets	10	14
- Financial instruments	234	2,245
Deferred tax assets / (Deferred tax liabilities)	**243**	**2,258**
Net changes in deferred tax assets/ deferred tax through profit or loss are as follows:		
Current assets	4	6
Financial instruments	2,011	-2,160
Total	**2,015**	**-2,154**

Deferred tax assets resulting from loss carryforwards are only recognised to the extent that it is probable that they will be realised. Deferred tax assets and deferred tax are offset and the net amount is entered when this is permitted by legislation and the amounts relate to the same tax authority.

8. Other assets

NOKt	31 Dec 2019	31 Dec 2018
Earned income not yet received	41,198	38,107
Advance payments	63	424
Total	**41,261**	**38,532**

9. Loans to and receivables from credit institutions

NOKt	31 Dec 2019	31 Dec 2018
Loans and receivables without an agreed term to maturity, amortised cost	513,719	694,837
Loans and receivables with an agreed term to maturity, amortised cost	128	76
Total loans and receivables to credit institutions, amortised cost	**513,847**	**694,913**

10. Analysis of loans

NOKt	31 Dec 2019	31 Dec 2018
Loans to customers, amortised cost	21,864,705	24,648,610
Total gross loans to customers	**21,864,705**	**24,648,610**
Loss allowance		
Loss allowance (see note 6)	1,589	1,210
Loans to and receivables from customers	**21,863,116**	**24,647,400**
Loans by sector and industry		
Private individuals	21,864,705	24,648,610
Total	**21,864,705**	**24,648,610**

Loans by region based on customers residential address:

	31 Dec 2019		31 Dec 2018	
NOKt	**Loans**	**Per cent**	**Loans**	**Per cent**
Oslo	5,199,630	23.78%	5,842,563	23.70%
Akershus	4,703,843	21.51%	4,959,782	20.12%
Eastern Norway	4,144,975	18.96%	4,680,596	18.99%
Southern Norway	387,881	1.77%	472,073	1.92%
Western Norway	4,089,867	18.71%	4,799,030	19.47%
Central Norway	2,140,131	9.79%	2,609,800	10.59%
Northern Norway, Svalbard	1,132,512	5.18%	1,218,798	4.94%
Abroad	65,866	0.30%	65,966	0.27%
Total gross loans by geographical area	**21,864,705**	**100.00%**	**24,648,610**	**100.00%**

Gjensidige Bank Boligkreditt AS has no guarantees to customers

11. Interest-bearing securities

NOKt	31 Dec 2019	31 Dec 2018
Short-term government bonds	85,945	61,551
Covered bonds	78,448	78,658
Exchange rate adjustment	-17	-310
Total	**164,376**	**139,898**
Stock exchange listed securities	164,376	139,898
Unlisted securities		
Total	**164,376**	**139,898**

12. Financial derivatives

Financial derivatives are linked to underlying amounts which are not carried on the balance sheet. In order to quantify the volume of derivatives, reference is made to gross nominal volume and the like.

For interest derivatives, an asset position implies a positive change in value if interest rates are reduced . An asset position in a currency derivative generates a positive change in value if the exchange rate against the NOK sees an increase.

NOKt 31 Dec 2019	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	1,450,000	40,629	4,086
Currency swaps			
Total	**1,450,000**	**40,629**	**4,086**

NOKt 31 Dec 2018	Gross nominal volume	Carrying amount assets	Carrying amount liabilities
Interest rate swaps	1,450,000	66,303	5,156
Currency swaps			
Total	**1,450,000**	**66,303**	**5,156**

13. Liabilities to credit institutions

NOKt	31 Dec 2019	31 Dec 2018
Debt without an agreed term to maturity, amortised cost		
Debt with an agreed term to maturity, at amortised cost	1,728,317	3,636,007
Total debt to credit institutions, amortised cost	**1,728,317**	**3,636,007**

14. Liabilities opened for the issue of securities

NOKt ISIN Number	Currency	Rate	Due	Ext.due	Face value 31 Dec 2019
NO0010680283	NOK	Floating	3.3.2020	3.3.2021	2,850,000
NO0010687429	NOK	Fixed	11.9.2020	13.9.2021	850,000
NO0010727738	NOK	Floating	12.5.2021	12.5.2022	5,000,000
N00010770852	NOK	Floating	20.5.2022	20.5.2023	5,000,000
NO0010789266	NOK	Floating	23.5.2023	23.5.2024	4,500,000
NO0010678766	NOK	Fixed	8.5.2025	8.5.2026	600,000
Total debt incurred through the issue of securities					**18,800,000**

NOKt ISIN Number	Currency	Rate	Due	Ext.due	Face value 31 Dec 2018
NO0010662737	NOK	Floating	6.5.2019	6.5.2020	1,095,000
NO0010680283	NOK	Floating	3.3.2020	3.3.2021	2,850,000
NO0010687429	NOK	Fixed	11.9.2020	13.9.2021	850,000
NO0010727738	NOK	Floating	12.5.2021	12.5.2022	5,000,000
N00010770852	NOK	Floating	20.5.2022	20.5.2023	5,000,000
NO0010789266	NOK	Floating	23.5.2023	23.5.2024	4,500,000
NO0010678766	NOK	Fixed	8.5.2025	8.5.2026	600,000
Total debt incurred through the issue of securities					**19,895,000**

Standard contract terms (loan terms) apply to the signed loan agreements, with requirements for overcollateralization of 110%. Gjensidige Bank Boligkreditt AS met all existing terms and conditions in 2019.

15. Liabilities from financing activitites

			Non cash flow		
NOKt	**1 Jan 2019**	**Cash flow**	**Exchange rate changes**	**Other changes**	**31 Dec 2019**
Deposits by credit institutions	3,636,007	-1,908		-1,905,782	1,728,317
Debt securities in issue	19,986,475	-3,415,696		2,290,078	18,860,857
Total liabilities from financing activities	**23,622,482**	**-3,417,604**		**384,296**	**20,589,174**

			Non cash flow		
NOKt	**1 Jan 2018**	**Cash flow**	**Exchange rate changes**	**Other changes**	**31 Dec 2018**
Deposits by credit institutions	3,261,835	374,171			3,636,007
Liabilities opened for the issue of securities	17,076,000	2,620,874		289,600	19,986,475
Total liabilities from financing activities	**20,337,836**	**2,995,046**		**289,600**	**23,622,482**

16. Hedge accounting

The Company's criteria for classifying a derivative as a hedging instrument are as follows:

1. When entering into a hedge, the correlation between the hedging instrument and the hedged item is documented. In addition, the hedge's goal and strategy is documented.
2. The hedge is expected to be highly effective by offsetting changes in fair value of an identified object.
3. The effectiveness of the hedge can be reliably measured.
4. There is adequate documentation when entering into a hedge that, among other things, shows that the hedging is effective.
5. The hedge is evaluated regularly and has proven to be effective during the accounting period, i.e. within the range 80-125%.

Fair value hedges

The Company uses fair value hedges to manage its interest rate risk. Hedging is performed to hedge against fluctuations in the value of issued fixed rate bonds due to changes in interest rates. Interest rate swaps designated as hedging instruments are measured at fair value and changes in fair value are recognised in the income statement. For the hedged item, the fixed rate bond, a change in fair value attributable to the hedged risk is accounted for as an addition to or deduction from the carrying value in the balance sheet and in the income statement.

If the hedge ceases, changes made to the carrying value of the hedged item are amortised over the remaining life using the effective interest method, if the hedging instrument is a financial instrument recognised using the effective interest method.

Fair value interest rate risk

To hedge exposure to changes in the fair value of financial instruments with a fixed interest rate the Company uses interest rate swaps.
The fair value of derivatives included in the fair value hedge are as follows:

NOKt	31 Dec 2019	31 Dec 2018
Hedge instrument:		
Interest rate swap	36,543	61,148
Interest rate swap nominal value	**1,450,000**	**1,450,000**
Interest rate swap		
Fixed rate bond issued	**-36,415**	**-55,966**
Fixed rate bond issued nominal value	**1,450,000**	**1,450,000**

Gain/(loss) on fair value hedges

Gain/ (loss) on hedging instruments and hedged items designated in fair value hedges are as follows:

NOKt	31 Dec 2019	31 Dec 2018
Hedging instrument:		
Interest rate swap	-19,635	-28,111
Hedge item:		
Bond debt	19,551	28,109
Total	**-84**	**-2**

Gain (loss) is shown in the income statement under "Net gains on financial instruments at fair value"

Hedge effectiveness

The hedge is evaluated regularly and has proven to be effective for the accounting period , i.e. within the range 80-125%

Per cent	31 Dec 2019	31 Dec 2018
Hedge effectiveness - prospektiv	100-101%	102-113%
Hedge effectiveness - retrospektiv	100-102%	98-100%

Fixed leg of the interest rate swap is 100% mached to the fixed rate covered bobnd bond cash flow. Ineficiency is caused by changes in value of the floating leg of the interest rate swap.

17. Provisions and other liabilities

NOKt	31 Dec 2019	31 Dec 2018
Accounts payable		
Liabilities to public authorities	128	179
Accrued personnel cost	206	141
Other accrued expenses and deferred income	76,364	69,475
Total other liabilities	**76,699**	**69,794**

18. Off-balance sheet commitments and contingent liabilities

NOKt	31 Dec 2019	31 Dec 2018
Unused credit facilities	1,972,755	1,963,344
Total contingent liabilities	**1,972,755**	**1,963,344**

Unused credit facilities include approved and unused credit limits on home equity lines of credit. The Company has not received pledges of or pledged assets as security.

19. Fair value of financial instruments

Method used to calculate the fair value of financial instruments
Financial instruments measured at fair value (incl. financial instruments available for sale).

Fair value

Financial assets and liabilities measured at fair value are carried at the amount each asset/liability can be settled for in an orderly transaction between market participants on the measurement date. Different valuation techniques and methods are used to estimate fair value, depending on the type of financial instruments and the extent to which they are traded in active markets. Instruments are classified in their entirety in one of three valuation levels in a hierarchy on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Prices quoted in active markets are considered to be the best estimate of an asset/liability's fair value. When quoted prices in active markets are not available, the fair value of financial assets/ liabilities will preferably be estimated on the basis of valuation techniques based on observable market data . When neither quoted prices in active markets nor observable market data are available, the fair value of financial assets/liabilities is estimated based on valuation techniques that are based on non-observable market data. For assets and liabilities for which amortised cost and fair value are virtually identical, book values and the fair value are presented with identical amounts.

Quoted prices in active markets

Quoted prices in active markets are considered the best estimate of an asset/liability's fair value. A financial asset/liability is considered valued based on quoted prices in active markets if fair value is estimated based on easily and regularly available prices and these prices represent actual and regularly occurring transactions at arm's length principle. Financial assets/liabilities valued based on quoted prices in active markets are classified as level one in the valuation hierarchy.

Valuation based on observable market data

When quoted prices in active markets are not available, the fair value of financial assets/ liabilities is preferably estimated on the basis of valuation techniques based on observable market data. A financial asset/liability is considered valued based on observable market data if fair value is estimated with reference to prices that are not quoted, but are observable either directly (as prices) or indirectly (derived from prices). Financial assets/liabilities valued based on observable market data are classified as level two in the valuation hierarchy.

Valuation based on non-observable market data

When neither quoted prices in active markets nor observable market data is available, the fair value of financial assets/liabilities is estimated based on valuation techniques which are based on non-observable market data. A financial asset/liability is considered valued based on non-observable market data if fair value is estimated without being based on quoted prices in active markets or observable market data. Financial assets/liabilities valued based on non-observable market data are classified as level three in the valuation hierarchy.

Sensitivity financial assets level three

The sensitivity analysis for financial assets that are valued on the basis of non-observable market data shows the effect on profits of realistic and plausible market outcomes. General market downturns or a worsening of the outlook can affect expectations of future cash flows or the applied multiples, which in turn will lead to a reduction in value. A fall in value of ten 10% is deemed to be a realistic and plausible market outcome for shares and similar interests, as well as bonds and other securities with a fixed return that are included in level three of the valuation hierarchy.

19. Fair value of financial instruments (cont.)

Financial instruments measured at amortised cost

Market prices are used to price loans and receivables from credit institutions and loans to customers. The value of loans that have been written down is determined by discounting future cash -flows using the internal rate of return based on market conditions for equivalent loans that have not been written down. Fair value is considered to be the carrying amount for loans and receivables measured at amortised cost. No allowance has been made for any changes in credit risk over and above the changes in estimated future cash flows for loans that have been written down.

The fair value of short-term liabilities to credit institutions is estimated as being their amortised cost. Long-term liabilities to credit institutions are measured at fair value based on the equivalent interest rate the bank pays on its own bonds. Debt securities measured at amortised cost are valued in the same way as debt securities measured at fair value, cf. note 1.

19. Fair value of financial instruments (cont.)

NOKt	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Classification of financial instruments				
Net loans to and receivables from credit institutions				
Loans to and receivables from credit institutions, amortised cost	513,847	513,847	694,913	694,913
Loans to and receivables from credit institutions	**513,847**	**513,847**	**694,913**	**694,913**
Bonds and other fixed-income securities				
Certificates and bonds, fair value	164,376	164,376	139,898	139,898
Total bonds and other fixed-income securities	**164,376**	**164,376**	**139,898**	**139,898**
Net loans to customers				
Loans to and receivables from customers, amortised cost	21,864,705	21,864,705	24,648,610	24,648,610
Total loans before loss allowance	**21,864,705**	**21,864,705**	**24,648,610**	**24,648,610**
- Loss allowance	1,589	1,589	1,210	1,210
Total net loans to customers	**21,863,116**	**21,863,116**	**24,647,400**	**24,647,400**
Other assets				
Derivatives, fair value	40,629	40,629	66,303	66,303
Other financial assets, amortised cost	41,198	41,198	38,107	38,107
Total other financial assets	**81,827**	**81,827**	**104,411**	**104,411**
Total financial assets	**22,623,166**	**22,623,166**	**25,586,622**	**25,586,622**
Classification of financial liabilities				
Liabilities to credit institutions				
Loans and deposits from credit institutions, amortised cost	1,728,317	1,728,317	3,636,007	3,636,007
Total liabilities to credit institutions	**1,728,317**	**1,728,317**	**3,636,007**	**3,636,007**
Debt Securities				
Commercial paper and bonds, amortised cost	17,374,234	17,480,237	18,475,317	18,584,378
Liability incurred through the issue of securities, fair value hedge	1,486,623	1,500,114	1,511,158	1,524,224
Total debt securities	**18,860,857**	**18,980,351**	**19,986,475**	**20,108,602**
Other financial liabilities				
Derivatives, fair value	4,086	4,086	5,156	5,156
Other financial liabilities, amortised cost	71,663	71,663	61,388	61,388
Total other financial liabilities	**75,749**	**75,749**	**66,544**	**66,544**
Total financial liabilities	**20,664,923**	**20,784,416**	**23,689,025**	**23,811,152**

19. Fair value of financial instruments (cont.)

		31 Dec 2019		
NOKt	**Level 1**	**Level 2**	**Level 3**	**Total**
Interest-bearing securities, fair value	86,200	78,177		164,376
Derivatives, fair value		40,629		40,629
Total assets measured at fair value	**86,200**	**118,805**		**205,005**
Derivatives, fair value		4,086		4,086
Total liabilities measured at fair value		**4,086**		**4,086**
Liability incurred through the issue of securities, amortised cost		17,480,237		17,480,237
Total liabilities measured at amortised cost		**17,480,237**		**17,480,237**
Liability incurred through the issue of securities, fair value hedge		1,500,114		1,500,114
Total liabilities included in fair value hedge		**1,500,114**		**1,500,114**

		31 Dec 2018		
NOKt	**Level 1**	**Level 2**	**Level 3**	**Total**
Loans to and receivables from customers, fair value				
Interest-bearing securities, fair value	61,596	78,302		139,898
Derivatives, fair value		66,303		66,303
Total assets measured at fair value	**61,596**	**144,606**		**206,202**
Derivatives, fair value		5,156		5,156
Total liabilities measured at fair value		**5,156**		**5,156**
Liability incurred through the issue of securities, amortised cost		18,584,378		18,584,378
Total liabilities measured at amortised cost		**18,584,378**		**18,584,378**
Liability incurred through the issue of securities, fair value hedge		1,524,224		1,524,224
Total liabilities included in fair value hedge		**1,559,334**		**1,559,334**

There were no major moves between levels 1 and 2 in 2019.

If any transfers are made between levels of the fair value hierarchy, they are recognised at the end of the reporting period during which the change has occurred.

20 Cover pool

NOKt	31 Dec 2019 Nominal value	31 Dec 2019 Market value	31 Dec 2018 Nominal value	31 Dec 2018 Market value
Assets				
Loans to the public	21,864,705	21,864,705	24,648,610	24,648,610
- whereof pool of eligible loans	21,830,675	21,830,675	24,606,705	24,606,705
Supplementary assets and derivatives:	424,182	460,544	608,972	665,008
- whereof CIRS				
- whereof IRS		36,362		55,997
Total cover pool	**22,254,857**	**22,291,219**	**25,215,677**	**25,271,713**
Debt securities in issue (net outstanding amount)	18,800,000	18,980,351	19,895,000	20,108,602
Over-collateralization calculated on net outstanding covered bonds	18.4%	17.4%	26.7%	25.7%
Debt securities in issue (issued amount)	18,800,000	18,980,351	19,895,000	20,108,602
Over-collateralization calculated on issued covered bonds [1]	18.4%	17.4%	26.7%	25.7%

[1] without deduction for holdings of own bonds

21. Related parties

Gjensidige Bank ASA is a directly owned subsidiary of Nordea Bank Abp. Gjensidige Bank Boligkreditt AS is a wholly owned subsidiary of Gjensidige Bank ASA. All transactions and agreements with related parties are carried out in accordance with the arm's length principle.

Gjensidige Bank Boligkreditt AS purchases services such as customer support and loan management, as well as day-to-day management and administrative services, from Gjensidige Bank ASA.

Gjensidige Bank Boligkreditt AS has access to strong credit facilities with Gjensidige Bank ASA. This ensure that the Company can pay interest and principal to the covered bonds owners, and finance the transferring of loans and the cover pool.

Further information about the credit agreements:
a) long-term credit facility of up to NOK 1,000.0 million. Expiry date 31 December 2021.
b) short-term credit facility of up to NOK 6,000.0 million. Expiry date 30 November 2020.
c) Credit facility agreement that enables Gjensidige Bank Boligkreditt AS to borrow money in order to repay its outstanding bond debt. The credit facility shall be sufficient to cover the total repayment of the outstanding bonds over the next 12 months. As of 31 December 2019, the credit limit of the agreement was NOK 3,700.0 million.

NOK 6,473.8 million in loans to and claims on customers was transferred from Gjensidige Bank ASA to Gjensidige Bank Boligkreditt AS in 2019.

Transactions with the Board and the Supervisory Board are not included, see note 5.

The list below shows the transactions with related parties that are recognised in the income statement

	2019		2018
NOKt	Gjensidige Bank ASA	Nordea Bank Abp	Gjensidige Bank ASA
Net interest income	65,169	14,575	-54,347
Other operating income	11,510		917
Andre driftskostnader	32,198		-11,612

The list below shows assets / liabilities with / to related parties

	31 Dec 2019		31 Dec 2018
NOKt	Gjensidige Bank ASA	Nordea Bank Abp	Gjensidige Bank ASA
Deposit	513,246	601	694,837
Loans to credit institutions	1,736,594		3,651,742
Interest-bearing securities	2,495,854	317,604	710,265

The sale of Gjensidige Bank ASA to Nordea Bank Abp was finalized on 1 March 2019. The list shows transactions for the period 1.1.2019-28.2.2019

Transactions between Gjensidige Bank ASA and other legal entities or branches in the Nordea Group are performed according to market based principles in conformity with OECD requirements on transfer pricing.

22. Events after the balance sheet day

No significant events have occurred after the balance sheet date.

23. Capital adequacy

NOKt	31 Dec 2019	31 Dec 2018
Share capital and share premium	1,220,020	1,220,020
Other equity	709,970	633,294
Equity	**1,929,990**	**1,853,314**
Deductions		
Goodwill and other intangible assets		
Value adjustments due to the requirements for prudent valuation	-209	-211
Common equity Tier 1 capital	**1,929,781**	**1,853,103**
Net primary capital	**1,929,781**	**1,853,103**
Minimum requirement for equity and subordinated debt		
Credit risk		
Of which:		
Central government or central banks	49	
Institutions	11,229	13,410
Mass market positions	2,074	3,107
Positions secured by mortgage	611,427	688,972
Overdue positions	800	211
Covered bonds	627	630
Other positions	5	486
Total minimum requirement credit risk	**626,210**	**706,815**
Operational risk	22,755	22,555
CVA-risk	2,632	5,936
Minimum requirement for net primary capital	**651,596**	**735,307**
Basis of calculation of balance sheet items not included in trading portfolio	**7,794,530**	**8,810,890**
Basis of calculation of off-balance sheet items not included in trading portfolio	**33,089**	**24,302**
Risk-weighted assets (calculation basis for capital adequacy ratio)	**8,144,954**	**9,191,333**
Buffer requirements		
Systemic risk buffer	244,349	275,740
Conservation buffer	203,624	229,783
Countercyclical buffer	203,624	183,827
Total buffer requirement for common equity Tier 1 capital	**651,596**	**689,350**
Pillar 2 requirement 1.7% for common equity Tier 1 capital set by The Financial Supervisory Authority of Norway (1.5% in 2018)	**138,464**	**137,870**
Available Core Tier 1 capital net minimum requirement	**773,198**	**612,273**
Capital adequacy		
Capital adequacy ratio	23.7 %	20.2%
Tier 1 capital ratio	23.7 %	20.2%
Common equity Tier 1 capital ratio	23.7 %	20.2%
Leverage ratio	8.4 %	7.2%

For credit risk the standard method is used, while basis method is used for oparational risk. The Financial Supervisory Authority of Norway has end of Q4 2019 set a Pillar 2 requirement on additional 1.7% of risk-weighted assets for Gjensidige Bank Group, covered by Common equity Tier 1 capital. Total regulatory requirement for common equity Tier 1 capital is 14.2% and 17.7% for primary capital as of year end 2019.

24. Classification of financial instruments

NOKt Balance 31 Dec 2019	Financial instruments measured at fair value through profit or loss	Financial assets and liabilities at amorti-sed cost	Financial deriva-tives as hedging instru-ments	Non-financial assets and liabilities	Total
Assets					
Loans to and claims on credit institutions		513,847			513,847
Loans to and claims on customers		21,863,116			21,863,116
Certificates, bonds and other interest-bearing securities	164,376				164,376
Deferred tax assets				243	243
Derivatives			40,629		40,629
Other assets		41,198		63	41,261
Total assets	**164,376**	**22,418,161**	**40,629**	**306**	**22,623,472**
Liabilities and equity					
Liabilities to credit institutions		1,728,317			1,728,317
Liabilities opened for the issue of securities		18,860,857			18,860,857
Derivatives			4,086		4,086
Other liabilities		71,663		28,558	100,221
Total liabilities		**20,660,837**	**4,086**	**28,558**	**20,693,481**
Total equity				**1,929,990**	**1,929,990**
Total liabilities and equity		**20,660,837**	**4,086**	**1,958,549**	**22,623,472**

NOKt Balance 31 Dec 2018	Financial instruments measured at fair value through profit or loss	Financial assets and liabilities at amorti-sed cost	Financial deriva-tives as hedging instru-ments	Non-financial assets and liabilities	Total
Assets					
Loans to and claims on credit institutions		694,913			694,913
Loans to and claims on customers		24,647,400			24,647,400
Certificates, bonds and other interest-bearing securities	139,898				139,898
Deferred tax assets				2,258	2,258
Derivatives			66,303		66,303
Other assets		38,107		424	38,532
Total assets	**139,898**	**25,380,420**	**66,303**	**2,683**	**25,589,304**
Liabilities and equity					
Liabilities to credit institutions		3,636,007			3,636,007
Liabilities opened for the issue of securities		19,986,475			19,986,475
Derivatives			5,156		5,156
Other liabilities		61,388		46,966	108,353
Total liabilities		**23,683,870**	**5,156**	**46,966**	**23,735,991**
Total equity				**1,853,314**	**1,853,314**
Total liabilities and equity		**23,683,870**	**5,156**	**1,900,279**	**25,589,304**

25. Risk and risk management

Gjensidige Bank Boligkreditt AS is exposed mainly to credit risk, market risk, liquidity risk and operational risk, where credit risk is the largest risk. The Board emphasises that the Company should have low risk, and limits have been established for all types of risks.

Capital adequacy regulations

The capital regulations are built on three pillars:

- Pillar 1 Minimum capital requirements
- Pillar 2 ICAAP process for evaluation of the bank's total capital requirements
- Pillar 3 Requirements for the public disclosure of financial information

Pillar 1: The Company uses the standard method for reporting credit risk and the basic indicator approach for reporting operational risk.

Pillar 2: Gjensidige Bank ASA prepares the ICAAP document for the Gjensidige Bank Group. The ICAAP document is approved by the Board in the bank. Guidelines for ICAAP are approved by the Board. The document is prepared with broad involvement of management and specialists in the bank, as well the Board. The Board in Gjensidige Bank Boligkreditt AS is also involved as part of this process. The Board in Gjensidige Bank Boligkreditt AS has defined guidelines for common equity Tier 1 capital ratio, Tier 1 capital ratio and Capital adequacy ratio. These guidelines as in line with the requirements for Gjensidige Bank ASA and Gjensidige Bank Group, approved by the Board.

Pillar 3: Gjensidige Bank ASA has defined guidelines for the public disclosure of information, and they have been adopted by the Board. The Pillar 3 document is presented together with the annual report.

Credit risk

Credit risk refers to the risk the Company faces in the event of a borrower’s failure to repay a loan or credit or to meet their contractual obligations.

The Company’s credit risk originates from residential mortgages to consumers in Norway. The Company is also exposed to credit risk through placements within the liquidity reserve. Risk exposure and development are continuously monitored and reported to the Board.

All loans are purchased from Gjensidige Bank ASA in accordance with regulatory requirements. At the time of purchase, the individual loans are required to be within 75% of the approved value of the collateral. The value of the property is used as collateral for mortgage loans and this is updated quarterly. The value is set using estimates from Eiendomsverdi AS. Gjensidige Bank ASA provides loans to customers based on credit scores, combined with an individual assessment of their ability to repay the loan.

Credit risk liquidity portfolio by counterparty:

NOKt	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2019
Loans to and claims on credit institutions			513,847			513,847
State and government guaranteed bonds	86,200					86,200
Covered bonds	78,177					78,177
Total	**164,376**		**513,847**			**678,223**

Credit risk derivatives by counterparty:

NOKt	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2019
Other			36,543			36,543
Total			**36,543**			**36,543**

25. Risk and risk management (cont.)

Credit risk liquidity portfolio by counterparty:

NOKt	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2018
Loans to and claims on credit institutions			694,913			694,913
State and government guaranteed bonds	61,596					61,596
Covered bonds	78,302					78,302
Total	**139,898**		**694,913**			**834,811**

Credit risk derivatives by counterparty:

NOKt	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	Unrated	31.12.2018
Other			61,147			61,147
Total			**61,147**			**61,147**

The table below shows the lending portfolio and provisions as of 31 December 2019 and 31 December 2018. segmented by the risk groups:

31.12.2019 NOK million	Gross lending	Guarantees	Total off-balance commitments	Individual Provisions	Other exposure	Maximum credit exposure
Low	21,602		1,969			23,571
Medium	95		2			97
High	162		2			164
Not classified						
Impaired and written down	5					5
Total	**21,865**		**1,973**			**23,837**
Loss allowance	2					2
Total net	**21,863**		**1,973**			**23,836**

31.12.2018 NOK million	Gross lending	Guarantees	Total off-balance commitments	Individual Provisions	Other exposures	Maximum credit exposure
Low	24,449		1,960			26,408
Medium	83		1			84
High	112		2			114
Not classified	3		1			4
Impaired and written down	1					1
Total	**24,649**		**1,963**			**26,612**
Loss allowance	1					1
Total net	**24,647**		**1,963**			**26,611**

The handling of individual loan customers and the administration of loans are managed by Gjensidige Bank ASA in accordance with the SLA. The weighted loan to value ratio, indexed was 48.6% for the portfolio. Approximately 74% of the loan portfolio is within 60% of collateral value.

As of 31 December 2019, the Company's gross lending was NOK 21,864.7m and five loans were in default over 90 days. The loan portfolio is mainly secured by residences in Eastern Norway. The largest single exposure was NOK 9.0m. Development of the loan portfolio is monitored through monthly credit risk reports with the focus on LTV, the development of property prices, geographical distribution, credit scores and delinquency.

The Company uses application score models and behaviour score models set by the bank. The models predict the probability of default for decisions related to top-ups, collections, group write-downs and other portfolio management decisions. With the help of these score models, the lending portfolios in the bank are grouped into risk classes, starting from the lowest risk to the worst risk, based on their probability of default. They are then further grouped into three main risk groups: Low risk, Medium risk and High risk.

The portfolio risk is considered to be low.

In order to limit credit risk relating to the liquidity reserve, the Company has placements with solid counterparties and limits exposure to each of them. The liquidity reserve consists of bank placements with Gjensidige Bank ASA, treasury bills and covered bonds.

The Company's maximum credit exposure related to lending is NOK 23,835.9m.

Market risk

Market risk is the risk of losses associated with movements in market prices, which, in this context, relates to positions and activities in the interest rate-, currency-, credit- and stock markets. The Company's financial strategy sets limits and guidelines for managing the market risk.

Risk exposure and development are continuously monitored and reported to the Board. The Company has no exposure to equities and no currency risk. The Company's exposure to interest rate risk shall be kept low, and the spread risk kept moderate in relation to the core capital.

Interest rate risk refers to the risk of a loss as a result of changes in the interest rate level. Risk arises from the Company's assets and liabilities having different remaining fixed interest periods. The Company manages interest rate risk by adapting the interest terms for assets and liabilities. In addition, derivatives are used for hedging. Interest rate risk exposure is measured in 'milli-years' (MY), which are assets and liabilities with fixed interest in NOK millions multiplied by the remaining fixed interest period. Net cumulative interest rate risk exposure over three months shall not exceed plus / minus 400 MY. Net interest rate risk exposure shall, within each time interval be within plus / minus 300 MY. However, for the interval three to 12 months, exposure within plus 500 MY and minus 300 MY is permitted. In the interval below three months the interest rate risk exposure shall not exceed plus / minus 2 000. When the limit over three months is fully utilised, the loss for the Company in the event of a one percentage point change in the yield curve will be NOK 5 million.

As of 31 December 2019, the Company has a positive interest rate exposure over 3 months of 67 MY.

Spread risk refers to the risk of a loss as a result of changes in credit spreads. The Company limits the spread risk on assets by investing in high quality securities with short maturity, where the value is expected to be less exposed to changes in the credit spread. The Company does not hedge the spread risk on its own bond issues.

31 Dec 2019			Loan-to-value, secured loans	31 Dec 2018		
Distribution as percentage	**Gross carrying amounts**	**Unused credit lines**	**Nokt**	**Distribution as percentage**	**Gross carrying amounts**	**Unused credit lines**
21.07%	4,606,565	439,775	0% - 40%	17.57%	4,331,451	411,961
41.61%	9,097,541	838,897	40% - 60%	35.33%	8,709,402	811,816
35.62%	7,787,510	657,886	60% - 80%	43.35%	10,685,789	706,058
1.19%	260,412	19,629	80% - 90%	3.06%	753,164	16,961
0.22%	49,039	6,937	90% - 100%	0.20%	50,505	5,965
0.29%	63,639	8,143	>100%	0.48%	118,298	10,136
100.00%	**21,864,705**	**1,971,267**	**Home Loans**	**100.00%**	**24,648,610**	**1,962,896**

Concentration risk

Concentration risk is the risk of losses due to the Company having large parts of its lending tied to a single borrower or to limited geographic or business areas.

As of 31 December 2019, the portfolio is geographically diverse, with the greatest lending in the most populous areas of the country. The largest exposure is about NOK 9.0m. The exposure related to the ten largest loans (limit) is about NOK 82.8m. The Company's liquidity reserves consist of bank deposits in parent company, securities issued by the Norwegian government and Norwegian covered bonds (OMF).

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet all its financial obligations on their due date, or be unable to finance assets, including desired growth, without a significant increase in financing costs. The Company's finance strategy set by the Board provides guidelines and limits for managing the Company's liquidity risk both inside and outside the company's cover pool. The Company shall have low liquidity risk.

The Company manages its liquidity risk by having a liquid securities portfolio and credit facilities in Gjensidige Bank ASA. It also matches the maturities of its assets and liabilities. The credit facility in Gjensidige Bank ASA shall be sufficient at all times to cover the total repayment of the outstanding bonds in the next 12 months. The Company had a long-term credit facility of up to NOK 1,000.0m, as well as short-term vendor financing of up to NOK 6,000.0m. Unutilised credit facilities amounted to NOK 5,271.7m at the end of the year.

Operational risk

Operational risk refers to the risk of a loss resulting from human errors, external events or fraud, deficiencies and/or inadequacies in the Company's internal systems, procedures or processes and compliance and reputational risk.

Services such as customer support and loan management, as well as day-to-day management and administrative services, are provided by Gjensidige Bank ASA, Gjensidige Forsikring ASA and Nordea Bank Apb. The agreement is regulated by an SLA that sets requirements for quality and timely deliveries. In Mars 2019 the Bank converted to Nordea's operational risk management system "NORMS" for the assessment and management of undesirable incidents.

Company activities that are outsourced to the bank are also covered at monthly operational risk meetings ('Operational Risk Reviews'). Operational incidents, the development of AML activities, internal control self-assessment (RSCA) results, fraud development, IT / security and customer complaints are important focus areas at these meetings. The CEO of Gjensidige Bank ASA and CEO of Gjensidige Bank Boligkreditt AS attend these meetings together with key managers. In addition, quarterly internal control self-assessments (RCSA) are carried out to ensure that procedures and processes are followed for outsourced activities.

The annual risk assessment of Gjensidige Bank Boligkreditt AS is conducted by the CEO. The output of the risk assessment is reported to the Board.

The Company has appointed an independent investigator that monitors the register of issued bonds as required by the Financial Institutions Act. Regular reviews are conducted to ensure that the register is booked correctly. Findings are reported to the Financial Supervisory Authority.

26. Credit risk

Credit exposure for loans

Mortgage customers are assessed in relation to their willingness and ability to repay their loans. Their ability to service the loans is calculated and the customers are risk assessed at the time of application. The loan to value ratio for customers in Gjensidige Bank Boligkreditt AS is less than 75% at the time of transfer from Gjensidige Bank ASA.

The loans are secured through mortgages on residential property. The collateral is considered to be good and the portfolio has a low credit risk.

Commitments by customer groups

31.12.2019 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Average size of loans	Gross non-performing loans	Individual impairment	Net non-performing loans
Private individuals	21,864,705		1,972,755	23,837,460	1,745	5,034		5,034
Total	**21,864,705**		**1,972,755**	**23,837,460**	**1,745**	**5,034**		**5,034**
- Loss allowance	1,589			1,589				
+ other changes in value								
Total loans and receivables to/from customers	**21,863,116**		**1,972,755**	**23,835,871**	**1,745**	**5,034**		**5,034**

Loans by geographical area based on the collateral address

31.12.2019 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
Eastern Norway	14,142,134		1,152,564	15,294,698			
Western Norway	4,077,452		488,460	4,565,911			
Central Norway	2,113,442		192,063	2,305,505	2,674		2,674
Northern Norway	1,124,689		80,511	1,205,200	869		869
Southern Norway	406,989		59,157	466,147	1,491		1,491
Abroad							
Total	**21,864,705**		**1,972,755**	**23,837,460**	**5,034**		**5,034**

Total commitments by remaining maturity

31.12.2019 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
1 month							
1-3 months	87		-9	78			
3-12 months	2,883		46	2,929			
1-5 years	188,986		249	189,235			
More than 5 years	21,672,749		1,972,469	23,645,218	5,034		5,034
Total	**21,864,705**		**1,972,755**	**23,837,460**	**5,034**		**5,034**

26. Credit risk (cont.)

Age analysis of loans that are due

31.12.2019 NOKt	Loans and receivables to/ from customers	Guarantees	Accrued interest	Total commitments
Default 1 - 29 days	218,067		640	218,707
Default 30 - 59 days	6,682		35	6,717
Default 60 - 89 days	3,817		33	3,850
Default 90+ days	5,034		78	5,112
Total	**233,600**		**786**	**234,386**
Overdue loans over 90 days by geographical area				
Eastern Norway				
Western Norway	2,674		28	2,702
Central Norway	869		26	895
Northern Norway	1,491		24	1,516
Total	**5,034**		**78**	**5,112**

Only non-performing loans are classified by geographical area in this overview. Commitments are deemed to be in default when credit is overdrawn for more than 90 days and the amount is at least NOK 1,000.

Credit risk by customer groups

31.12.2019 NOKt	Total loans with impairment	Total commitments	Total value changes	Total impairment	Total value changes over income statement
Private individuals	5,112	23,837,460			
Total	**5,112**	**23,837,460**			

Commitments by customer groups

31.12.2018 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Average size of loans	Gross non-performing loans	Individual impairment	Net non-performing loans
Private individuals	24,648,610		1,963,344	26,611,953	2,016	2,591		2,591
Total	**24,648,610**		**1,963,344**	**26,611,953**	**2,016**	**2,591**		**2,591**
- Loss allowance	1,210			1,210				
+ other changes in value								
Total loans and receivables to/from customers	**24,647,400**		**1,963,344**	**26,610,743**	**2,016**	**2,591**		**2,591**

Loans by geographical area based on the collateral address

31.12.2018 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
Eastern Norway	15,577,507		1,121,625	16,699,132			
Western Norway	4,809,787		492,152	5,301,939	2,591		2,591
Central Norway	2,582,623		210,949	2,793,572			
Northern Norway	1,183,672		81,367	1,265,039			
Southern Norway	495,020		57,251	552,271			
Abroad							
Total	**24,648,610**		**1,963,344**	**26,611,953**	**2,591**		**2,591**

26. Credit risk (cont.)

Total commitments by remaining maturity

31.12.2018 NOKt	Loans and receivables to/from customers	Guarantees	Unused credit facilities	Total commitments	Gross non-performing loans	Individual impairment	Net non-performing loans
1 month							
1-3 months	1,103		12	1,115			
3-12 months	1,973		26	1,999			
1-5 years	192,945		-8	192,938			
More than 5 years	24,452,589		1,963,313	26,415,902	2,591		2,591
Total	**24,648,610**		**1,963,344**	**26,611,953**	**2,591**		**2,591**

Age analysis of loans that are due

31.12.2018 NOKt	Loans and receivables to/ from customers	Guarantees	Accrued interest	Total commitments
Default 1 - 29 days	155,560		131	155,691
Default 30 - 59 days	**1**			1
Default 60 - 89 days	**2,596**		19	2,615
Default 90+ days	**2,591**		41	2,632
Total	**160,748**		**191**	**160,939**
Overdue loans over 90 days by geographical area				
Eastern Norway				
Western Norway	2,591		41	2,632
Central Norway				
Northern Norway				
Total	**2,591**		**41**	**2,632**

Only non-performing loans are classified by geographical area in this overview. Commitments are deemed to be in default when credit is overdrawn for more than 90 days and the amount is at least NOK 1,000.

Credit risk by customer groups

31.12.2018 NOKt	Total loans with impairment	Total commitments	Total value changes	Total impairment	Total value changes over income statement
Private individuals	2,632	26,611,953			
Total	**2,632**	**26,611,953**			

27. Liquidity risk

As of 31 December 2019, the Company had net liquid assets of NOK 678.2m, divided between NOK 513.9m in bank deposits, NOK 78.4m in covered bonds and NOK 85.9m in treasury bills.

In addition the Company has credit facility agreements with the parent company.

31.12.2019 NOKt	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No fixed maturity	Total
Loans to and claims on credit institutions	513,847						513,847
Loans to and claims on customers	(23)	229,401	1,145,326	5,381,688	19,868,452	3,442,986	30,067,830
Certificates, bonds and other interest-bearing securities	125	322	140,696	25,246			166,389
Other financial assets	41,198					40,629	81,827
Derivatives – gross inflows			52,625	86,400	21,600		160,625
Total financial assets	**555,147**	**229,723**	**1,338,647**	**5,493,334**	**19,890,052**	**3,483,615**	**30,990,518**
Liabilities to credit institutions	3,131	6,262	755,719	1,022,800			1,787,913
Liabilities opened for the issue of securities		2,953,660	1,161,746	15,105,232	621,600		19,842,238
Unused credit facilities	1,972,755						1,972,755
Derivatives – gross outflows		9,094	21,844	60,833	7,542		99,313
Total financial liabilities	**1,975,886**	**2,969,016**	**1,939,309**	**16,188,865**	**629,142**		**23,702,219**

31.12.2018 NOKt	1 month	1-3 months	3-12 months	1-5 years	More than 5 years	No fixed maturity	Total
Loans to and claims on credit institutions	694,913						694,913
Loans to and claims on customers	35,872	71,584	329,398	1,936,228	28,172,828	3,600,864	34,146,774
Certificates, bonds and other interest-bearing securities		374	140,592				140,966
Other financial assets	38,107					66,303	104,410
Derivatives – gross inflows			52,625	117,425	43,200		213,250
Total financial assets	**768,892**	**71,958**	**522,615**	**2,053,653**	**28,216,028**	**3,667,167**	**35,300,313**
Liabilities to credit institutions	4,838	9,677	1,678,247	2,034,000			3,726,762
Liabilities opened for the issue of securities		80,004	1,374,607	18,956,406	643,200		21,054,217
Unused credit facilities	1,963,344						1,963,344
Derivatives – gross outflows		6,752	20,382	56,357	17,232		100,723
Total financial liabilities	**1,968,182**	**96,433**	**3,073,237**	**21,046,763**	**660,432**		**26,845,046**

The figure includes interest. The current interest rate at the end of the year is used to calculate the interest costs.

28. Sensitivity analysis

A change in the market risk that occurs within one year will affect the result and equity as shown below based on the balance sheet at 31 December 2019.

Effect on income statement / equity

2019	**Interest**	
NOKt	**-1.5%**	**1.5%**
Asset swap	-42,739	42,739
Loans to and receivables from credit institutions	-5,781	5,781
Loans to and receivables from customers	-217,596	217,596
Interest-bearing securities	-1,422	1,422
Liabilities to credit institutions	19,444	-19,444
Liabilities opened for the issue of securities (variable interest)	170,789	-170,789
Liabilities opened for the issue of securities (fixed interest)	42,739	-42,739
Total	**-34,566**	**34,566**

2018	**Interest**	
NOKt	**-1.5%**	**1.5%**
Asset swap	-59,214	59,214
Loans to and receivables from credit institutions	-7,818	7,818
Loans to and receivables from customers	-245,301	245,301
Interest-bearing securities	-1,211	1,211
Liabilities to credit institutions	40,905	-40,905
Liabilities opened for the issue of securities (variable interest)	181,568	-181,568
Liabilities opened for the issue of securities (fixed interest)	59,214	-59,214
Total	**-31,856**	**31,856**

This note shows the effect over a 12 month period of an immediate parallel change in interest rates of + 1.5% and - 1.5%.

29. Equity-based remuneration

Description of the share-based payment scheme
As at 31 December 2019, Gjensidige Bank Group has no share-based payment scheme.

As at 31 December 2018, Gjensidige Bank Group had, as part of Gjensidige Group, the following share-based payment arrangements:

Share-based remuneration for executive personnel with settlement in equity and cash (remuneration scheme)
As described in the Board's statement on salaries and other remuneration in Note 5, half of the variable remuneration should be given in form of shares in Gjensidige Forsikring ASA, one third of which can be sold in each of the following three years. Of this, rather on the big side 50% is distributed as equity and only just 50% is distributed as cash in order to pay tax liabilities (net of tax settlement).

The fair value at the grant date is measured based on the market price. The amount is recognised as payroll expenses at grant date with a corresponding increase in other paid-in equity, both for the part that is settled in equity and for the part that is settled in cash to cover the tax obligations. No specific company-related or market-related entitlement criteria apply to the shares, but the Company may carry out a reassessment if subsequent results and development suggest that the bonus was based on incorrect assumptions. The expected allocation is set to 100%. No adjustment is made to the value of the cash-settled share based on the share price at the reporting date. The number of shares is adjusted for dividend paid.

Equity-settled share savings program for employees
Gjensidige has established a share savings programme for employees of the Group with the exception of employees of Gjensidige Baltic. All employees are given an opportunity to save an annual amount of up to NOK 75,000. Saving take the form of fixed deductions from salary that is used to buy shares four times a year. The employees are offered a discount in the form of a contribution of 20%, limited upwards to NOK 3,000 kroner per year, which corresponds to the maximum tax-exempt discount. Employees will receive one bonus share for every four shares they have owned for more than two years, provided that they are still employed by the Company or have become retired. No other vesting conditions exists in this arrangement.

The fair value at grant date is based on the market price. The discount is recognised as payroll expenses at the time of allocation with a corresponding increase in other paid-in equity. The value of the bonus shares is recognised as payroll expenses over the vesting period, which is two years, with a corresponding increase in other paid-in equity.

Fair value measurement
The fair value of the shares allocated through the share-based payment for executive personnel and the cash to cover the tax obligations is calculated on the basis of the share price at grant date. The amount is recognised immediately.

Fair value of the bonus shares allocated through the share savings program is calculated on the basis of the share price at grant date, taking into account the likelihood of the employee still being employed after two years and that he/she has not sold his/her shares during the same two-year period. The amount is recognised during the vesting period which is two years.

The following assumptions were used in the calculation of fair value at the time of calculation

	Remuneration scheme		Share savings programme	
	2019	2018	2019	2018
Weighted average share price (NOK)	142.00	149.10	142.00	130.55
Expected turnover	N/A	N/A	N/A	10%
Expected sale	N/A	N/A	N/A	5%
Lock-in period (years)	3	3	N/A	2
Expected dividend (NOK per share)[1]	9.56	4.50	N/A	4.50

[1]The expected return is based on the Group's actual profit/loss after tax expense as of the third quarter, grossed up to a full year, plus the maximum distribution of dividend corresponding to 70% of the profit after tax expense. This was carried out as a technical calculation because the Company's forecast for the fourth quarter result was not available at the time the calculations were carried out.

29. Equity-based remuneration (cont.)

Personnel expenses

NOKt	31 Dec 2 019	31 Dec 2018
Share-based remuneration	1	68
Share savings programme for employees	71	10
Total	**72**	**78**

Share savings programme	Number of bonus shares 2019	Number of bonus shares 2018
Outstanding 1 Jan	139	114
Granted during the period	6	74
Movement to (from) during the period		
Released	-50	-49
Cancelled during the period		
Forfeited during the period	-95	
Exercised during the period		
Expired during the period		
Outstanding 31 Dec	**0**	**139**
Exercisable 31 Dec	**0**	**0**
Average remaining life on outstanding bonus shares	0,00	1.02
Weighted average fair value of allocated bonus shares	126.05	115.89
Weighted average share price of bonus shares exercised during the period	142.00	130.55

The weighted average exercise price will always be 0, since the scheme comprises bonus shares and not options.

Remuneration scheme	Number of shares 2019	Number of cash-settled shares 2019	Number of shares 2018	Number of cash-settled shares 2018
Outstanding 1 Jan	962	858	953	861
Granted during the period	494	432	453	396
Forfeited during the period				
Cancelled during the period				
Exercised during the period	-486	-438	-487	-442
Expired during the period				
Modification dividend during the period	40	42	43	43
Outstanding 31 Dec	**1,010**	**894**	**962**	**858**
Exercisable 31 Dec				
Average remaining life	**0.71**	**0.71**	**0.71**	**0.71**

	2019	2018
Weighted average fair value of allocated shares[2]	143.00	149.10
Weighted average share price of bonus shares exercised during the period	143.00	147.91
The value of shares granted that are to be cash-settled	184.24	135.20

[2]The fair value is calculated based on the market value of the share at the time of allocation.

Declaration from the Board and CEO

The Board and the CEO have today discussed and approved the annual report and financial statements for Gjensidige Bank Boligkreditt AS for the calendar year 2019 and as of 31 December 2019 (Annual Report 2019).

We declare that, to the best of our knowledge, the financial statements for 2019 have been prepared in accordance with IFRS as adopted by the EU, and in accordance with additional requirements set out in the Accounting Act, and taking into account the limitations of accounting regulations for banks, credit institutions and financing companies. The accounting data provide a true and fair picture of the company's assets, liabilities, financial position and results as a whole, and the annual report gives a true picture of important events in the accounting period and their impact on the financial statements, related material transactions and the most important risks and uncertainties faced by the company in the next accounting period.

Gjensidige Bank Boligkreditt AS
Oslo, 13 February 2020

Børre Gundersen
Chairman

Anders Frank-Læssøe
Board member

Elen M. Stiksrud
Board member

Alex Madsen
Board member

Jan Kåre Raae
Chief Executive Officer

To the General Meeting of Gjensidige Bank Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Independent Auditor's Report - Gjensidige Bank Boligkreditt AS

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Independent Auditor's Report - Gjensidige Bank Boligkreditt AS

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.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 13 February 2020
PricewaterhouseCoopers AS

Erik Andersen
State Authorised Public Accountant

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