Boligkreditt

Annual Report 2017

Building Insight:
Clean heating – green electricity

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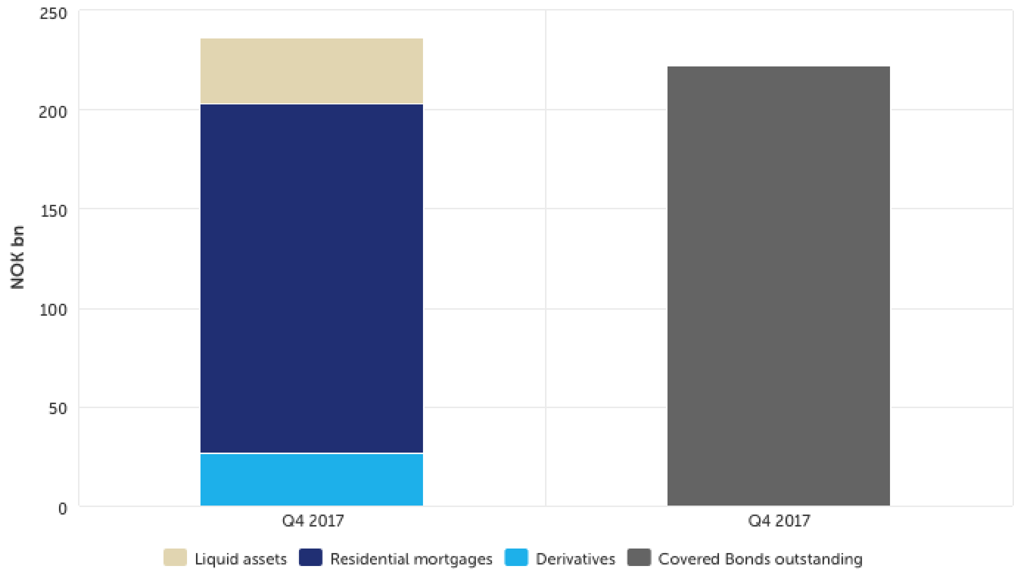
Statement of the Board of Directors

Cover pool and outstanding covered bonds

Boligkreditt's cover pool consists of residential mortgages and liquid, highly rated assets (substitute assets) as well as derivatives hedging liabilities in a foreign currency and/or at fixed rates. A change has taken place with regards to the reporting of overcollateralization at year-end 2017. The derivatives, which were previously presented with the bonds they hedge, are now part of the cover assets and repurchased own bonds are no longer netted with outstanding debt. This shift in presentation has reduced the calculated o/c percentage as reflected in these financial statements compared to previous quarters. The chart below illustrates the cover pool balances, and the resulting o/c is calculated to be 6.4 per cent[1].



Key figures overview

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Weighted Average Current LTV (%)	52,4 %	51,0 %	49,2 %	49,7 %	51,1 %
Weighted Average Original LTV (%)	59,8 %	59,9 %	59,8 %	59,6 %	59,4 %
Average Loan Balance (NOK)	1 386 865	1 374 953	1 349 074	1 340 039	1 322 732
Number of Mortgages in Pool	127 927	127 895	128 475	130 920	131 743
Pct. of non first-lien mortgages	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Overcollateralization	106,4 %	107,7 %	108,7 %	111,2 %	108,8 %

Key developments in 2017

SpareBank 1 Boligkreditt issued two EUR benchmark covered bonds in 2017 with maturities of 5 (January 2017) and 7 years (June 2017) for a total issuance of Euro 2 billion. The bonds were well received in the market. Norwegian krone

[1] See also note 26 in the 2017 annual accounts for further information.

issuance amounted to 8.2 billion kroner. An inaugural GBP covered bond issuance also took place, a £ 500 million, 5 year floating rate note. In early 2018 the Company issued an inaugural green covered bond in EUR (1 billion, 7 year maturity).

The residential lending volume has increased moderately as expected by approximately 1.8 per cent over 2017. Overall, lending growth in the four largest Alliance banks was 5.6 per cent for the first three quarters, mostly driven by mortgage lending to households as opposed to corporate and small/medium sized enterprise lending. The smaller growth rate of the cover pool is a reflection of the growth in deposits in the Company's owner banks, other alternative funding sources than covered bonds and the fact that one bank, SpareBank 1 SR-Bank has continued to withdraw mortgage loans from the cover pool at times when this is permitted (when previously issued covered bonds mature). The share of SR-Bank's loans in the cover pool fell to just below 8 per cent at the end of 2017, from above 13 per cent at the beginning of the year. Other than the slower growth in cover pool volume, there are no consequences of this development and no other Boligkreditt owner or originating Alliance bank is reducing its transferred mortgage volume.

In the market for the Company's bonds the credit spreads have generally contracted with the market. The two issuances referenced above were both issued at zero basis points above EUR mid-swap levels, while towards the end of the year spreads were trading in single digit negative territory.

Boligkreditt is well capitalized with a capital coverage ratio of 16.68 per cent (Pillar 1) measured against a total capital requirement of 15.5 per cent (including an expanded countercyclical capital buffer), while the add-on required Pillar 2 requirement is set at 0.8 per cent core capital. Total Tier 1 capital is 14.53 and core equity capital 12.95 per cent, the latter against a requirement for core capital (incl. Pillar 2) of 12.8 per cent. It is the Company's policy to maintain a capital ratio at or slightly above the regulatory requirement. Additional core capital is injected by the owner banks when required, while additional CET 1 and Tier 2 capital is issued in the Norwegian domestic market.

SpareBank 1 Boligkreditt has a negative result for 2017 as a whole at 239 million kroner pre-tax. This is entirely due to the change in basis swap valuation adjustments, an accounting requirement, which does not impact cash flows and earnings, and reverse to zero over time (at the final swap maturity). The pre-tax change in the basis swap valuation adjustment was 389 million kroner. Generally, when basis swap spreads narrow compared to the level originally entered into, there is a charge for the valuation adjustment and vice versa. The portfolio of all basis swaps are shown as a 190 million kroner liability in the accounts at year-end 2017. Basis swaps are used to hedge currency risk in bonds issued in other currencies than NOK. Dividends are calculated and paid to the owner banks by adding back a charge, or deducting a gain, which arises from this non-cash accounting charge.

During the third quarter the Company decided to discontinue the rating process with Fitch Ratings. The rationale for this was both to reduce costs and increase operational efficiency. Fitch affirmed the AAA rating (stable outlook) for the covered bonds at the time of the ratings withdrawal.

Nature and development of the Company's business

SpareBank 1 Boligkreditt AS is a credit institution licensed by the Norwegian Financial Supervisory Authority (Finanstilsynet) and is operated according to the legislation for covered bond issuers in Norway which is included in the law regarding financial enterprises ("Finansforetaksloven") chapter 11, section II and the detailed regulations thereof.

The purpose of the Company is to provide funding for the owners by buying residential mortgage loans with a loan-to-value ("LTV") of up to 75 per cent and financing these primarily through the issuance of covered bonds. The Company which is based in Stavanger, is owned by banks which are members of the SpareBank 1 Alliance. A comprehensive agreement is signed with each of the banks in the SpareBank 1 Alliance which are selling mortgages to the Company regarding the purchasing process and the obligations which the banks owe the Company and its mortgage customers ("Transfer and Servicing Agreement", "TSA"). The Company's operating model is to pay out to the parent banks who sell mortgages to the Company the margin earned during the course of the year (commissions to the parent banks). These commissions are, similar to interest expense, deducted in the financial accounts to calculate net income.

The Company's issuances of covered bonds mainly take place under the EUR 25,000,000,000 Global Medium Term Covered Note Programme (GMTCN Programme). This Programme was updated on June 6, 2017 and is available on the Company's home page: https://spabol.sparebank1.no.

One or more credit ratings from international rating agencies are important in order to be able to issue covered bonds. The Company have procured the services of Moody's Ratings Service to evaluate the credit quality of the issuances under the GMTCN Programme. The bond ratings are Aaa from Moody's.

Annual accounts

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

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

The total balance sheet at year-end 2017 amounts to 262 (252) billion kroner. The increase is largely due to bond issues ahead of maturities in 2018, with proceeds held as liquid assets until repayment dates according to the Issuers liquidity risk management policies. The Company had in 2017 net interest income of 426 (411) million kroner, deducting also commissions paid to the parent banks to arrive at net interest income. The cost of operations for the year was 34.4 (35.3) million kroner including depreciation and amortization. No additional amounts have been charged as loan loss provisions (write offs) in 2017 beyond the approximately 8 million kroner which has been reserved from previous years. No actual loan losses have occurred since the Company commenced operations. This produces an operating result of negative 239 million kroner (negative 146) before tax. The operating result includes a loss due to basis swap valuation adjustments of approximately 389 million kroner. Basis swap valuation adjustments are non-cash, temporary effects which are reversed over time until maturity of the swaps.

Lending to customers amounted to 178 (174) billion kroner as of 31.12.17. Even though some mortgage loans have been sold back to the Company's parent banks during the year as a part of normal operations, there has been an expected though moderate increase of mortgage loans during the year. The Company's own liquid assets as of 31.12.17 were approximately 34 (26) billion kroner. Liquid assets are cash and highly rated, highly liquid bonds which are held as a function of upcoming bond maturities up to 12 months ahead in time.

Risk aspects

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

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

Market risk is defined as the risk of losses due to changes in market rates, i.e. interest rates, exchange rates and the prices of financial instruments. At the end of the year SpareBank 1 Boligkreditt AS had issued bonds for approximately 135 billion kroner in EUR, 18 billion kroner in USD, 5.5 billion in GBP and 0.3 billion kroner in Swedish kroner, at exchange rates at year-end. However, all borrowing and investments with a fixed rate and all borrowing and investments in a foreign currency, have been hedged by financial currency- and/or interest rate swap agreements or through natural hedges. The collective cash flow therefore matches borrowings in Norwegian kroner with floating rate conditions (NIBOR 3 months). The Company receives collateral from its counterparties in derivative agreements according to certain criteria.

SpareBank 1 Boligkreditt AS owns deposits, bills and bonds at year-end for a total of NOK 57.3 (50.6) billion kroner, whereof 23.6 (24.3) billion kroner is collateral received from counterparties in derivatives transactions, and are thus reserved for the return of such collateral. The bonds held are mainly Nordic covered bonds and German supra sovereign and agencies (German agencies guaranteed by the German government) with a triple-A rating from Fitch, Moody's or S&P. Deposits are placed in banks with a minimum rating of at least A/A2.

The Company had as of 31.12.2017 only moderate interest rate risk and immaterial amounts of currency risk.

Liquidity risk is defined as the risk that the Company is not able to meet its obligations at maturity or to be able to finance the purchase of loans at normal terms and conditions. Liquidity risk is managed based upon a liquidity strategy approved by the Board. According to the strategy, SpareBank 1 Boligkreditt AS shall maintain a material liquidity reserve with a minimum size of covering all maturities within 6 months and 50 per cent of all maturities between 6 and 12 months. Additionally the Company shall at any point in time be able to meet its interest payments, including derivatives, which come due in the next three months under a scenario where no interest payments are received from the loan portfolio. SpareBank 1 Boligkreditt AS's liquidity situation is good.

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

The Company spends much time identifying, measuring, managing and following up central areas of risk in such a way that this contributes to meeting the strategic goals. The notes 21 to 25 in the 2017 annual accounts provides further information.

Employees and the working environment

SpareBank 1 Boligkreditt had eight employees as of 31.12.2017. The Company employs six males and two females. SpareBank 1 Boligkreditt AS has a Transfer and Servicing Agreement with each shareholder bank which is handling the customer contact and servicing the mortgage portfolio on behalf of the Company. In addition, the Company purchases a significant amount of its support functions from SpareBank 1 SR-Bank ASA, e.g. accounting, HR and IT functions, as well as finance related back-office functions. This is related to the Company's physical co-location at the premises of SR-Bank. Several banks in the Alliance could also alternatively perform these services.

The working environment is characterised as good and there is no pollution of the physical environment. There has been 7.1 per cent employee absence recorded in 2017 due to sickness. No workplace accidents which might have resulted in property and/or damage to any persons have occurred or been reported during the year.

The Board consists of five persons of which three are male and two are female. SpareBank 1 Boligkreditt AS strives to achieve an even distribution between the genders in recruiting for the staff and the Board.

At the establishment of SpareBank 1 Næringskreditt AS which represents a similar type of business activity to that of SpareBank 1 Boligkreditt AS, it was decided that the two companies will have identical staffing. Of the eight full time employees which in 2017 have been employed in SpareBank 1 Boligkreditt and Næringskreditt AS, 1.6 full time equivalents have been allocated to SpareBank 1 Næringskreditt AS. The Boards of the two companies have joint meetings, where the members associated with one of the companies take the role of observers when matters of the other Company are discussed.

Corporate governance

SpareBank 1 Boligkreditt's principles for corporate governance is based on the Norwegian accounting law and regulations and the Norwegian Code of Practice for Corporate Governance. The Board of Directors has appointed an audit committee which evaluates the Accounts inclusive of the Notes to the Accounts. The Board of Directors reviews the financial reporting processes in order to contribute to a culture which maintains a focus on quality and accuracy of this work. Boligkreditt seeks to deliver through its financial accounting relevant and timely information which can be compared over time to constituents in the SpareBank 1 Alliance, regulatory authorities and participants in the capital markets. The Board evaluates and approves Management's proposed annual and quarterly financial accounts.

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

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

Shareholders

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

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

Social responsibility

SpareBank 1 Boligkreditt is a specialized issuer of covered bonds and has, despite the size of its balance sheet, a very limited activity with only eight full time employees. The nature of the business consists solely of buying residential mortgage loans from its shareholder banks in the SpareBank 1 Alliance, and to finance this activity by issuing covered bonds. The banks in the SpareBank 1 Alliance are regular banks in the Norwegian market with an array of activities, including lending to businesses and households. The parent banks set lending policies, service and handle all customer activity (including the customers whose mortgage loans have qualified for and been sold to the Company). While the Company is legally entitled to set its own terms for the mortgages it owns, this is in practice done by the parent banks, who, in conjunction with the Company have agreed a set of qualifying criteria for which loans may be sold to the Company. Because all customer facing activity, including lending policies, are set by the parent banks a reference is made to the annual accounts and the websites of the banks for a closer description of the social responsibility and the broader spectrum of ESG in SpareBank 1 banks.

The Company supports and encourages increased ESG disclosures and initiatives within SpareBank 1 and has been an active part of the overall development of the strategy by issuing a green covered bond in January 2018. In addition to this, the Company adopts the same set of ESG values and goals as the parent banks (see in particular the Green Bond Framework on the Company's website for further references to this). In the area of mortgage finance in general the originating banks are obligated by Norwegian regulation (boliglånsforskriften) to analyse the sustainability of mortgage debt that borrowers are seeking and both to not approve and provide advice to customers who are seeking debt levels which may be or become unsustainable.

Future prospects of the Company

The Company has a portfolio of residential mortgage lending with an average loan to value (LTV) of approximately 50 per cent and no loans are in default. The maximum allowable level for a mortgage in a cover pool is 75 per cent LTV, with amounts above that level not being eligible as a cover pool asset.

Residential real estate prices in Norway, and especially in the capital of Oslo, have been depreciating since the spring of 2017. Over the full year 2017 the Norwegian real estate index is down 2.1 per cent, while in Oslo it is down 6.2 per cent. The correction seems to be effected by tighter regulations for banks on the mortgage market (amended regulations became effective in January 2017), which specifically address the previous (2015-16) strong price appreciation in the capital. Also, building activity has been high recently in the larger Oslo market (construction responding to higher valuations and strong demand), which means that there are now more residential units on offer, weighing on prices. With transaction prices now declining, sentiment probably has an additive effect in curbing or postponing natural demand, and thus increases the units currently for sale, which reinforces the price drop. However, latest figures show that real estate prices firmed again in January 2018, and also in the capital.

SpareBank 1 Boligkreditt's portfolio is well diversified throughout the major city regions in all of Norway, which do develop with a lesser degree of correlation from time to time. In addition, banks in the SpareBank 1 Alliance must keep reserves of eligible (cover pool qualified) mortgages in order to continue to add more mortgages to the cover pool and thus obtain covered bond funding. The reserves at the individual bank level must be sufficient to cope with an overnight hypothetical price depreciation of real estate prices of 30 per cent. Measured at any one point in time, the mortgage reserve before the 30 per cent price decline must be able to replenish the cover pool for individual loans as needed and absorb the decrease in market values (increase in LTVs) for the reserve loans so that the reserve is no less than zero after the theoretical shift.

Due to the special characteristics and restrictions for loans to become part of the cover pool, the high degree of diversification of the pool and the continued strength of the Norwegian economy, as well as prudent lending practices (and mortgage lending regulations) in place, the prospects for the Company are continuing to be good and stable. The Board also base this conclusion on the low LTVs of the mortgages, no defaults or arrears, a strong history and institutional framework in Norway for loan performance, as well as the low unemployment environment.

Macroeconomic development[2]:

On a year over year basis, the Norwegian mainland economy expanded by 2.9 per cent in the first quarter, and 1.9 per cent in the third, with a small contraction of 0.2 per cent in the second quarter (fourth quarter and full year figures are available in mid-February, but the forecast after three quarter is for 1.9 per cent growth for the full year). Taken together, the quarters represent a good broad-based performance in the mainland economy driven by business investments, exports and consumption increases. Especially business services, trade in goods and tourism contributed. The unemployment rate is now 4.1 per cent (January 2018), down from 4.9 per cent at the peak of the oil driven cycle in the summer of 2016. The labour market is therefore clearly improving. It is to some extent important that the oil price has increased from the lows of 2015-16. The Norwegian energy sector has over the previous two to three years reduced costs significantly and new investment projects in the sector are viable to a higher degree at the current oil price. Jobs are created in many sectors across industries in Norway, which have benefitted from the relatively weak Norwegian currency (and low interest rates). However, the unemployment rate improvement is partially also explained by a reduced labour force participation rate, which is now 69.7 per cent of the population, down from just above 71 per cent at the end of 2014.

Economic outlook:

Internationally, both the OECD area and the Eurozone are growing at better rates than in recent years and this positively impacts the very open and trade orientated Norwegian economy. The Norwegian krone has been weak and has not recovered with the increasing oil price in the second half of 2017, which is surprising given the usually higher positive correlation. In the short to medium term and absent a krone strengthening this should add to growth via the trade balance, where both oil and gas but also other goods and services (around 50 per cent of total exports) are increasing. Other growth impulses are now coming from an expected increase in oil sector investments (oil price recovery), which are expected to increase by over seven per cent in 2018. General business investments on the mainland are also increasing in several sectors, as is household consumption, with increasing real wages.

At the same time the government fiscal stimulus is neutral in 2018 (no increase in the volume of krone spending) and is likely to reverse in later years as there is a general political consensus that the contribution from the sovereign wealth fund to the government budget should decline. As discussed further above, house prices have been correcting in 2017 and the expectation is for residential construction activity to level out and decline, and this should detract from growth.

Summarized the forecast for the next few years are as follows for a few key indicators:

Recent data and forecast (per cent)	**2016**	**2017**	**2018**	**2019**	**2020**
Mainland GDP growth	1,0	1,9	2,5	2,4	2,3
Unemployment rate	4,7	4,2	3,9	3,8	3,7
CPI growth	3,6	1,8	1,9	2,0	2,0
Annual wage growth	1,7	2,4	2,9	3,3	3,9
Current account surplus to GDP	3,9	6,5	6,4	6,6	6,6

Source: Statistics Norway (SSB) Nov 28, 2017

[2] Macroeconomic projections have been sourced from Statistics Norway as of November 28, 2017.

The Board of Directors affirms its conviction that the financial accounts present a correct and complete picture of the Company's operations and financial position for 2017. The financial accounts including notes are produced under the assumption of a going concern. 72.3 million kroner of the annual net income will be distributed as a dividend to the shareholders (basis swap adjustments do not affect distributable income). This corresponds to 1.10 kroner per share (rounded).

There have been no incidents of a material nature after year-end which are expected to impact the annual accounts for 2017.

Stavanger, 31. December 2017 / 8. February 2018
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Inge Reinertsen

/s/ Merete N. Kristiansen

/s/ Geir Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
Managing Director

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

The Board and the chief executive officer have today reviewed and approved the financial accounts for 2017 for SpareBank 1 Boligkreditt AS. The annual accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

To the best knowledge of the board and the chief executive officer the accounts have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole as of 31.12.17.

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

Stavanger, 31. December 2017 / 8. February 2018
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal Chairman of the Board	/s/ Inge Reinertsen	/s/ Merete N. Kristiansen
/s/ Geir Egil Bolstad	/s/ Inger M.S. Eriksen	/s/ Arve Austestad Managing Director

Management's Statement 2017

Issuances in 2017

During 2017 we issued two EUR denominated benchmark transactions for a total of EUR 2.0 billion and approximately NOK 8.2 billion of covered bonds in the Norwegian market (denominated in NOK). SpareBank 1 Boligkreditt (SpaBol) also started an issuance wave in 5 year FRN sterling covered bonds with an inaugural November 2017 issue.

The EUR bonds had maturities of 5 years (issuance in January) and 7 years (June) and met with very good demand at mid-swaps+0 bps for both bonds. As is evident from these two issuances, credit spreads continued to move in during the year. In January 2018 our inaugural green bond, 7-year transaction fetched a spread of -6 bps. The market is acknowledging that the potential end of quantitative easing by the ECB could have spread effects, despite a large stock of covered bonds on the ECBs balance sheet which looks likely to be maintained (reinvested) for longer. For Nordic non-Eurozone covered bond issuers there may also be changes in spread levels depending on actions taken within the Eurozone, but at the same time the investor universe invested in Nordic covered bonds has expanded over the last few years.

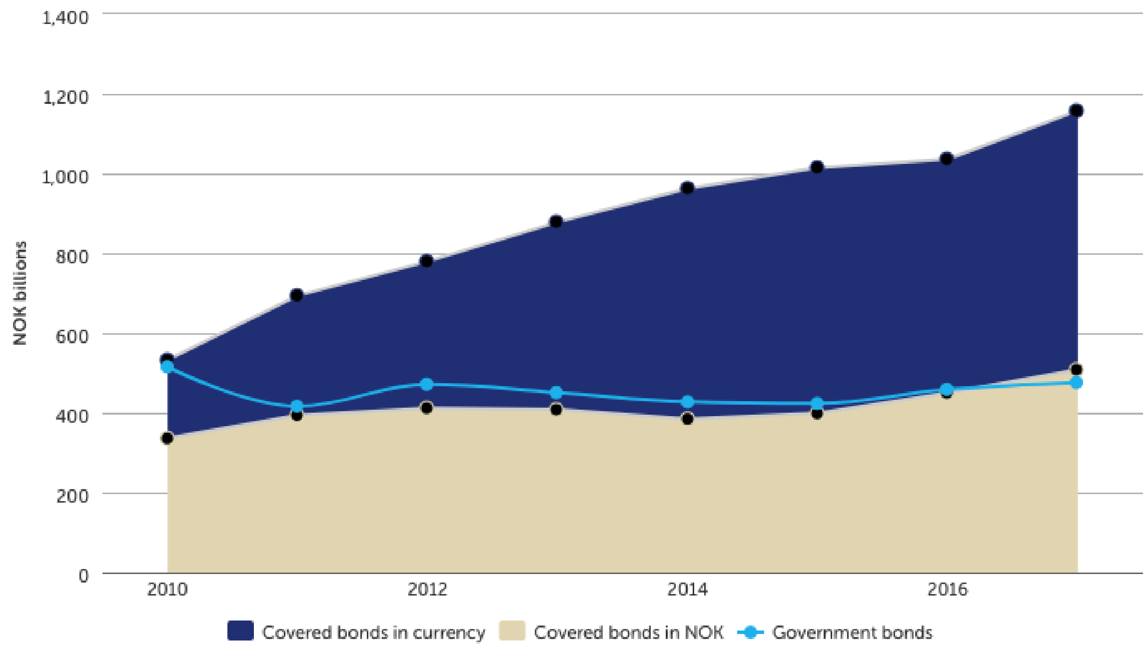
The issued EUR volume for 2016 is what we expect to issue for 2017, although timing of issuances may alter the volume within any one calendar year, and the currency mix, which is now enhanced by GBP, would be in both EUR and NOK as well as potentially USD (no USD issuance has taken place since 2013). Mortgages in the cover pool increased by NOK 2.8 billion (1.6 per cent) over the year and we expect a larger increase over 2018 of or around NOK 10 bn. Lending growth for the largest banks in the Alliance was (weighted average) just below 6 per cent in 2016 and through the first three quarter of 2017, with lending growth in the corporate segment slower than for residential purposes.

SpaBol has since the start in 2007 been and continues to be the strategic and preferred vehicle for covered bonds issuance on behalf of the SpareBank 1 Alliance banks. SpareBank 1 SR-Bank has chosen to supplement its covered bond funding with its own issuer in addition to SpaBol, and therefore SR-Bank's relative share of mortgages of the SpaBol cover pool has reduced. SR-Bank's share of the pool was at year-end 2017 8 per cent or approximately NOK 14 billion out of a total of 178 billion, this is down from 14 per cent a year prior. The bank may further reduce its mortgages in the SpaBol cover pool at those point in time when outstanding bonds mature. We do not expect that any further stand-alone covered bond issuers will emerge from within the Alliance.

Domestic and foreign currency issuance

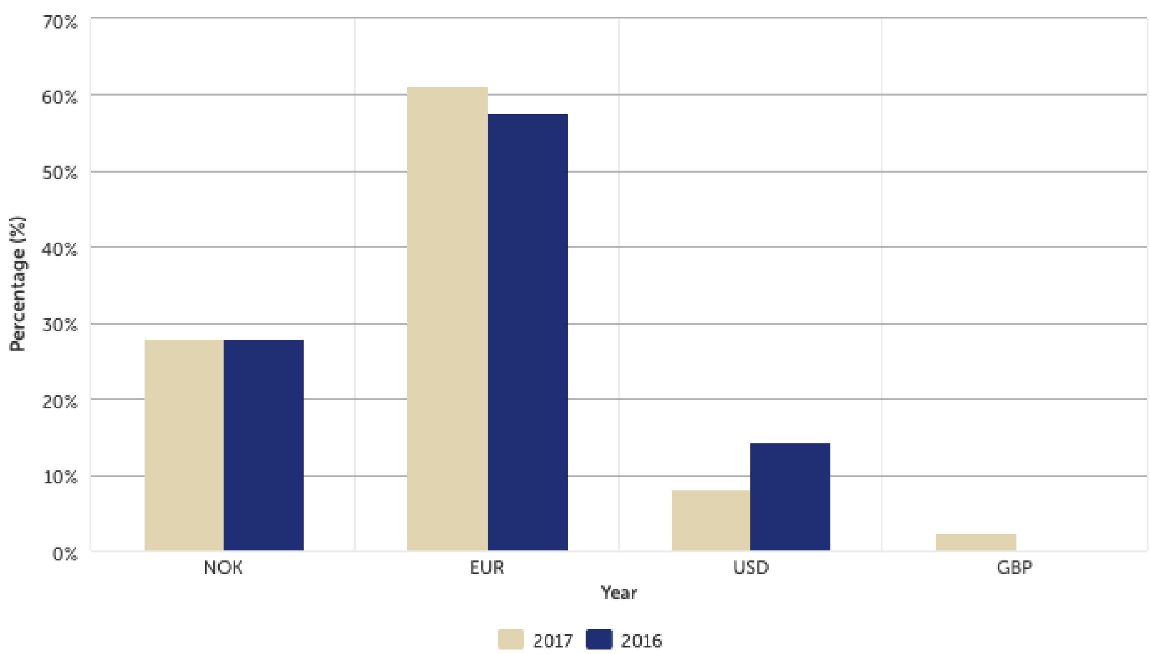
The domestic NOK market for covered bonds have developed well over the years since inception in 2007, and is in magnitude approximately equal to all government securities outstanding. The total volume of Norwegian covered bonds issued in currencies is however larger, at 56 per cent of total covered bond volume, including NOK. For SpareBank 1 Boligkreditt the situation is similar to the national picture, though somewhat more weighted towards Euro and foreign currency. The overall covered bonds outstanding is now nearly 40% of Norwegian mainland GDP.

Chart 1: Outstanding Norwegian covered bonds and government bonds:



Source: SSB, FNO

Chart 2: Relative share of outstanding SpareBank 1 Boligkreditt covered bonds as of year-end, by currency:



All foreign currency issuance is fully hedged using swaps.

Regulations mortgage market

The latest amendments to the regulatory framework on the mortgage market took effect from January 1, 2017, and was seen as a key driver for the correction in real estate prices which unfolded from the spring of 2017. The rules, which are up for review in 2018, are the following :

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

The Norwegian residential real estate market

2017 saw a decrease in the real estate market with the national residential index down 2.2% in January 2018 compared to a year previously . The development was led by a change in prices in the capital area, Oslo, where the index of real estate prices dropped by just over 10 per cent. The correction is welcomed by the banks' regulator as a correction to the previous run-up in prices and was also the aim of the tightened regulations in the mortgage market. The additional factor which has caused the correction is believed to be the heightened pace of building activity in 2015-2017 which have brought many new units to the market, satisfying demand. There are clear signs that the investments into the residential housing sector will now again decline. In fact, this is estimated to be detracting from economic growth in 2018-19.

Chart 3: Residential real estate price index for Norway:

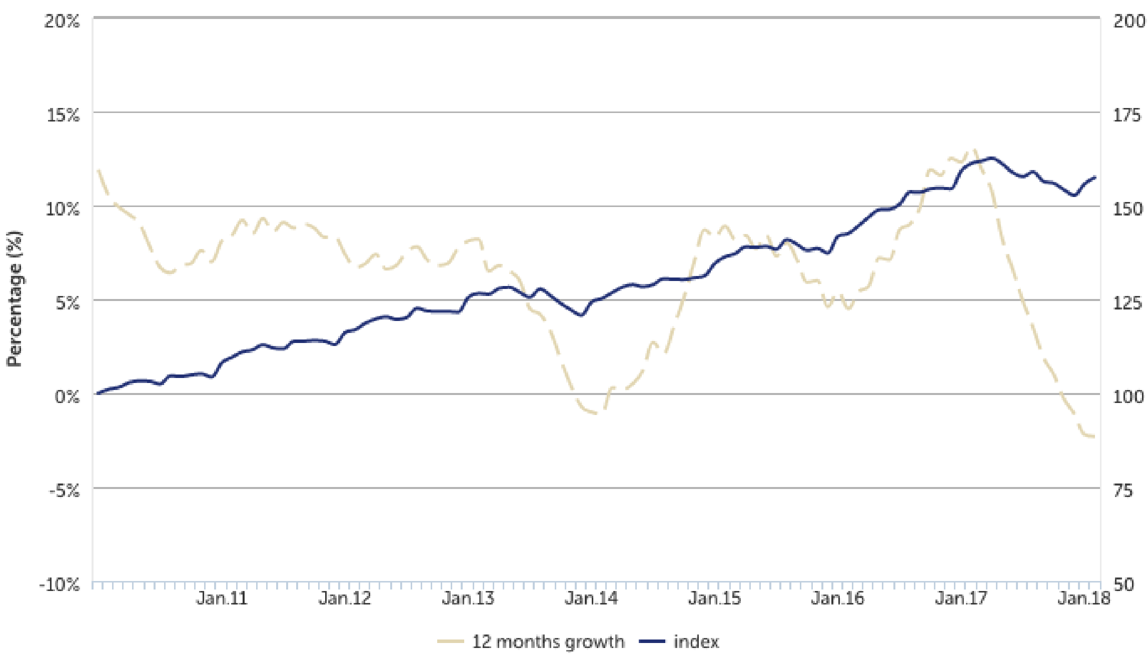
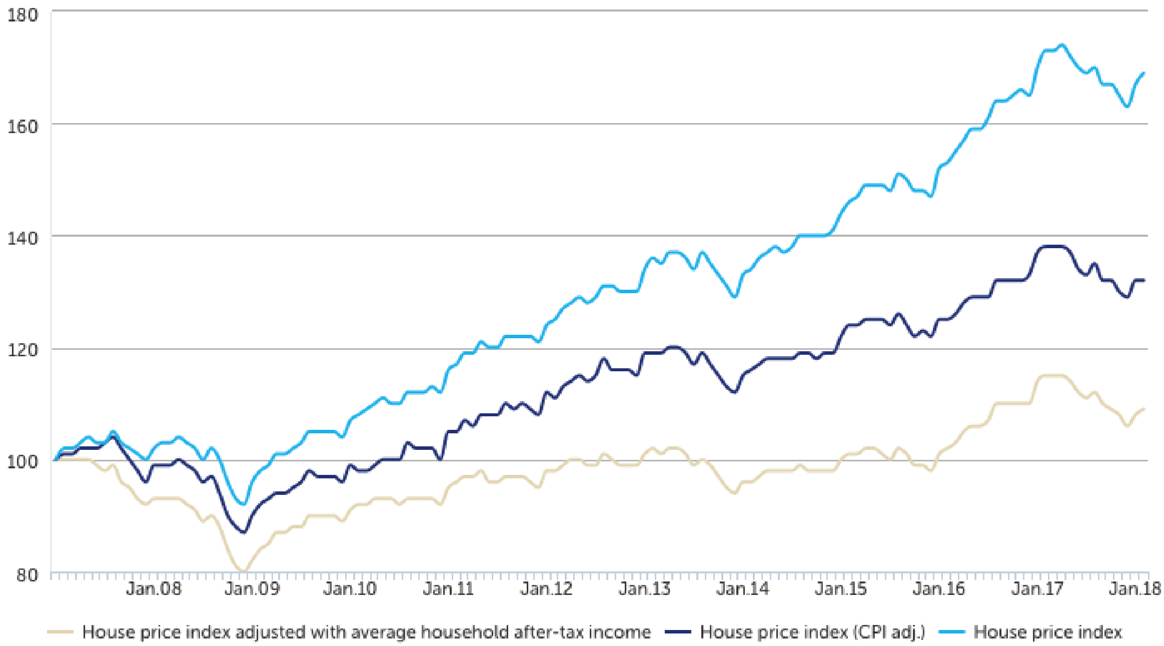


Chart 4: National house price index adjusted for inflation and after-tax household income (Jan. 2007=100)



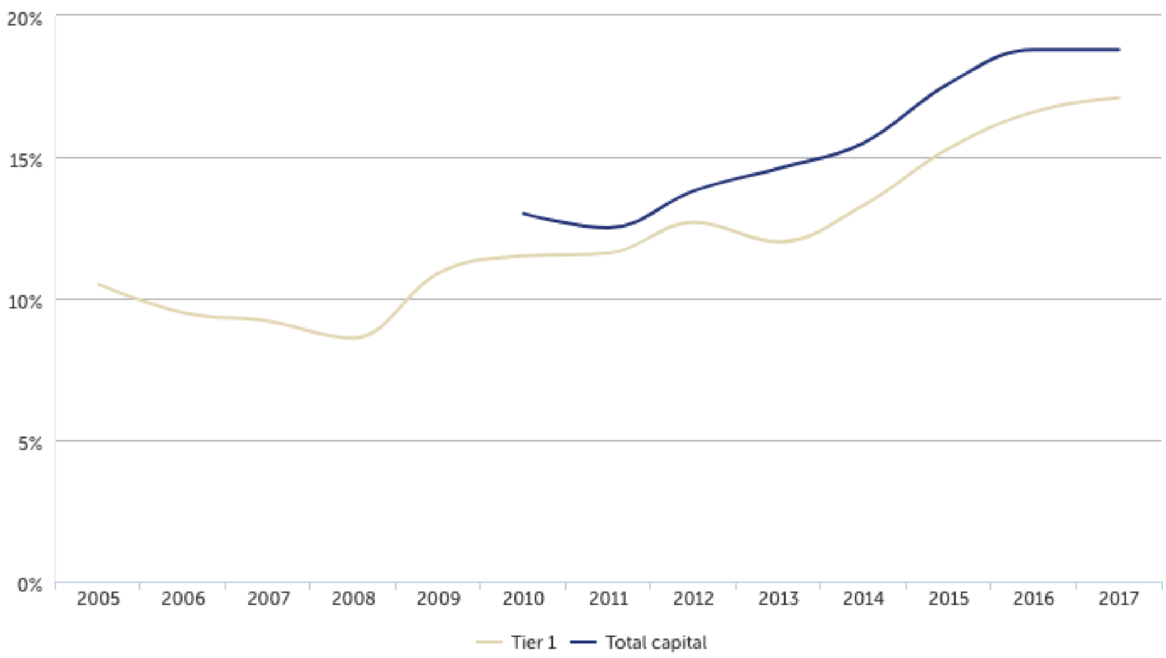
Adjusted for income and inflation, Norwegian house prices look more balanced (especially as adjusted for the after-tax growth in household income)

Capital requirements

Norwegian capital requirements have continued to increase for banks and covered bond issuer for some time and the overall capitalization requirement for significant financial institutions (SIFIs) is 17.5 per cent of risk weighted assets as of December 31, 2017. This includes a countercyclical buffer of now 2 per cent. The countercyclical buffer also represents a tool for the authorities to increase lending capacity for banks should credit growth turn negative or be too low to sustain economic expansion. SpareBank Boligkreditt's total capital coverage at year-end 2017 was 16.6 per cent, which meets the total requirements for the Company which is 15.5 per cent in Pillar I and an additional 0.8 per cent in Pillar II (no SIFI buffer applies for covered bond issuers). Boligkreditt calls on its owner banks for capital contributions as needed, and especially in connection with larger transfers of mortgages.

SpareBank 1 banks are not SIFIs on a stand-alone basis, though several banks have stated the objective to meet the same capital requirements. The weighted average capitalization of the four largest SpareBank 1 banks was 18.7 as of 30. September 2017. Pillar 2 capital requirements for banks were published during the year and the largest SpareBank 1 banks have Pillar 2 requirements in the range from 1.7 to 2.1 per cent.

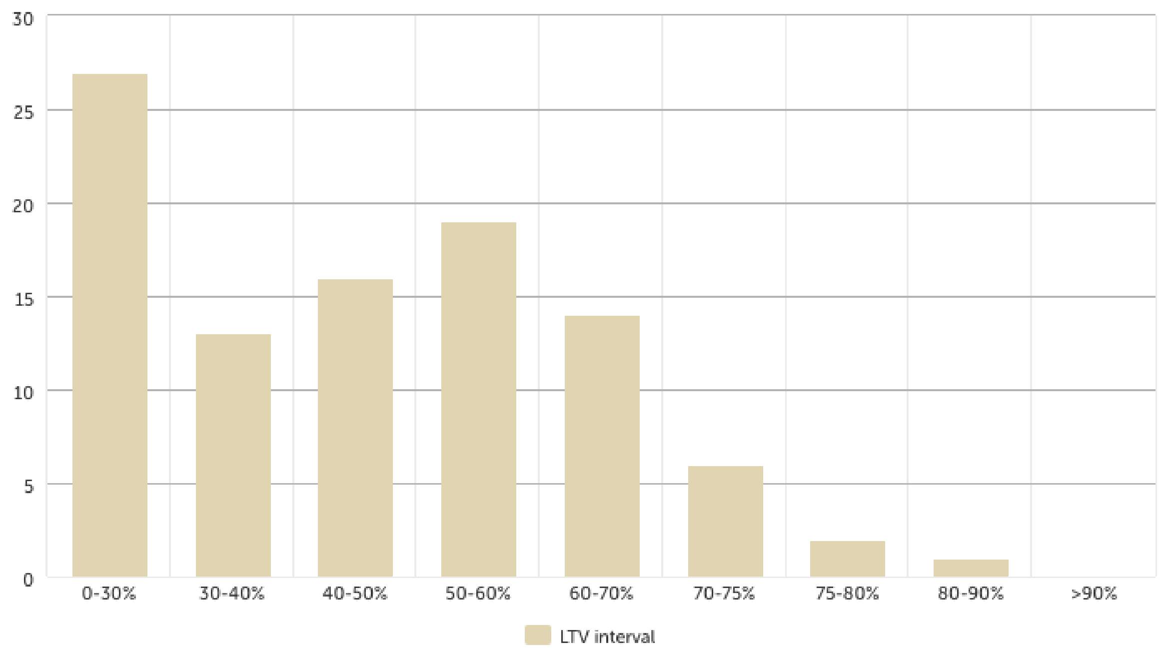
Chart 5: Capital in the four largest SpareBank 1 banks (weighted average)



Cover Pool

Our cover pool metrics continue to exhibit a robust profile with an average weighted LTV in the cover pool of 51%. The real estate values are updated for the entire cover pool each quarter based on an automated valuation model (AVM) from the Norwegian company Eiendomsverdi, used by most Norwegian banks. The model is independently tested and validated and has certain parameters built into its valuation settings which allow for a cautious treatment of potential upside valuation outcomes for individual houses.

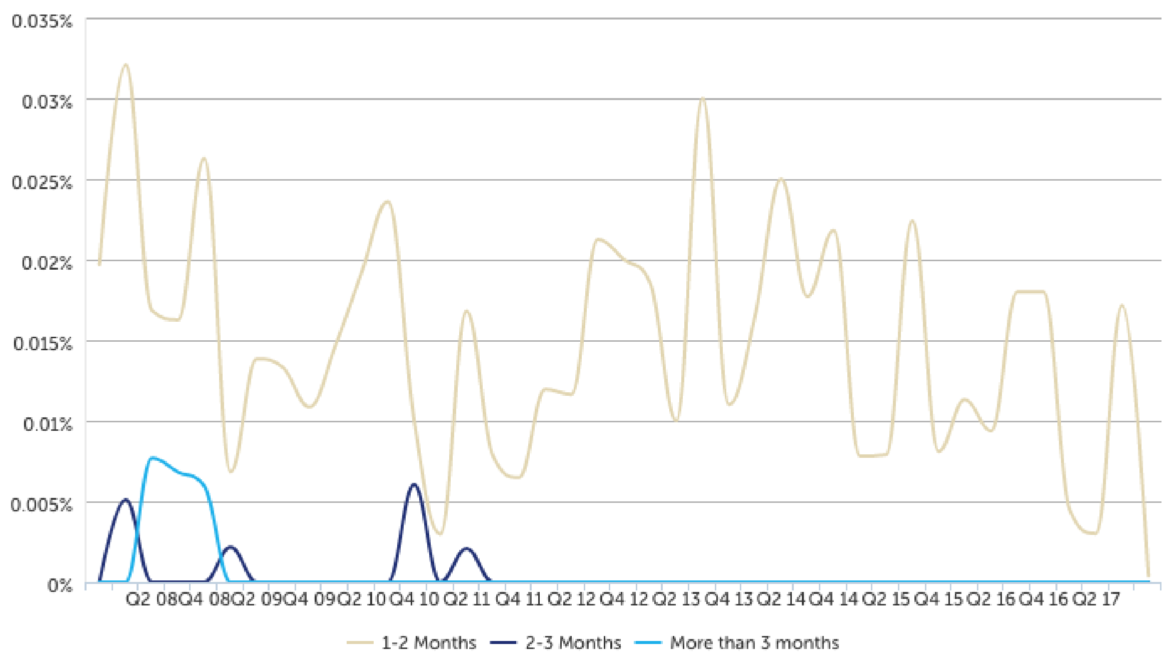
Chart 6: SpareBank 1 Boligkreditt cover pool: number of loans by LTV interval



SpareBank 1 Boligkreditt continues to have no arrears beyond 90 days in the cover pool and has never experienced a credit event with regards to any of the mortgage loans in the pool. We stress test the portfolio regularly for potential sharp house price declines, which provides comfort with regards to the robustness of the pool, even in a scenario where house prices drop by 30 per cent quickly, the mortgage assets are sufficient to cover the preferred obligations within the 75 per cent legal limit for LTVs. The owner banks are required to maintain loan reserves, which are pre-qualified for the cover pool. Mortgage loans in the pool at over 75% LTV means some migration has taken place since transfer of the loan to the cover pool, though the parts of these loans representing higher than 75% LTV may not be counted as cover assets.

Under the IFRS 9 rules for mortgage loans expected losses the Company has shown that approximately 12 million of expected losses would be booked as a consequence of the macroeconomic scenarios developed and the definitions and requirements of the new accounting rule. The amount is small seen against the balance of mortgage loans, including fully drawn revolving loans on which it is based of 189 billion kroner. No losses have been realized in the Company since inception in 2005.

Chart 7: SpareBank 1 Boligkreditt cover pool: loans in arrears history



Liquid assets in the cover pool

Liquid assets are included in the cover pool and are cash deposits, government or government guaranteed bonds (Nordic and German) and covered bonds from Nordic issuers. The minimum level of liquid assets are defined as covering 50 per cent of upcoming bond redemptions 12 months ahead of the maturity date and covering 100 per cent when there is six months or less until maturity. The actual level of liquid assets may also be higher than the minimum, depending on timing of new bond issuances. Liquid assets cannot be additional mortgages as this would not be prudent because mortgages are less effortlessly liquidated when funds are needed (for repayments), under certain circumstances. A complete list of liquid assets is presented in the quarterly cover pool reporting. Due to past issuance patterns, redemptions in any one year will typically include two benchmark bonds in USD or EUR and so the liquid assets buffer is sizable. At year-end 2017 it was 34 billion kroner compared to 26 billion at the end of 2016.

Outlook 2018

With an early issuance of a green bond (inaugural) in January 2018, the Company is likely to, following the pattern of previous years, to revisit the EUR market once more in a benchmark format. Other currencies are under consideration as well, including GBP and USD. Norwegian krone issuance is also planned, market conditions permitting. With the establishment of an inaugural GBP transaction in November 2017, the Company has an interest in meeting investor expectations of following this up during 2018, market conditions permitting, with another point on the GBP SpaBol curve. Green issuance will be limited by the amount of green assets. These are limited as per the Climate Bond Initiative's definition/limit, which the Company has adopted in its framework. The Company will let the owner banks spend some more time originating assets that could qualify as green and seek to transfer these to the cover pool for a later additional green covered bond.

Norway has managed the economic challenges of the reduction in oil prices well, despite that the oil and gas industry has been and remains a dominant industry. Monetary and fiscal policies as well as benefits from a floating (weaker) NOK are all contributing factors in this development. The housing market, which has experienced a sharp price increase in 2016, corrected in 2017. Important for the mortgage industry and the banks, including the Company, is the rate of unemployment, and this has been reduced significantly (in a Norwegian context) from a post oil-shock of 4.9 per cent to now 4.0 per cent in February 2018.

The SpaBol cover pool continues to be geographically very well diversified across the country, and the LTV is low. Liquidity risk (refinancing bonds when due), which may be seen as a significant risk in comparison to benign credit risk, is well mitigated by the sizeable liquidity portfolio which ensures liquidity in a market freeze scenario of 9 months. There are further second and third lines of defense against a hypothetical deteriorating liquidity situation as well. The outlook for continued stability and a robust cover pool is therefore good.

Financial statements 2017

Income statement

NOK 1 000	Note	4. quarter 2017	4. quarter 2016	2017	2016
Total interest income	5	809 548	972 314	3 470 270	3 797 962
Total interest expenses	5	-701 413	-883 715	-3 044 417	-3 386 965
Net interest income		**108 134**	**88 599**	**425 852**	**410 997**
Net gains/losses from financial instruments	6	-153 411	-262 950	-630 361	-521 993
Net other operating income		**-153 411**	**-262 950**	**-630 361**	**-521 993**
Total operating income		**-45 277**	**-174 351**	**-204 508**	**-110 996**
Salaries and other ordinary personnel expenses	7,8,9	-3 081	-3 106	-12 017	-11 409
Other operating expenses	10	-6 679	-7 050	-22 389	-23 929
Total operating expenses		-9 760	-10 156	-34 406	-35 338
Operating result before losses		**-55 037**	**-184 507**	**-238 914**	**-146 334**
Write-downs on loans and guarantees	13			-	-
Pre-tax operating result		**-55 037**	**-184 507**	**-238 914**	**-146 334**
Taxes	11	**13 750**	**46 126**	**59 720**	**36 583**
Profit/loss for the year		**-41 286**	**-138 381**	**-179 194**	**-109 751**

Statement of comprehensive income 2017

NOK 1 000	4. quarter 2017	4. quarter 2016	2017	2016
Profit/loss for the year	-41 286	-138 381	-179 194	-109 751
Items which will not impact the income statement in future periods:				
Change in pensions for a previous period	-	-	-	-
Estimate deviation for pensions	-1 054	-347	-347	-1 054
Tax effect of the estimate deviation	264	87	87	264
Total profit/loss accounted for in equity	-791	-260	-259,933	-791
Total profit/loss	**-42 077**	**-138 641**	**-179 454**	**-110 542**

Balance sheet

NOK 1 000	Note	2017	2016
Assets			
Lending to and deposits with credit institutions	18	3 044 644	8 129 096
Certificates and bonds	19, 20	54 318 384	42 506 617
Lending to customers	13,19	177 675 130	174 463 203
Financial derivatives	18,19,20	27 144 125	27 150 388
Defered tax asset		-	-
Other assets	12,19	1 188	1 543
Total assets		**262 183 472**	**252 250 848**
Liabilities and equity			
Liabilities			
Debt incurred by issuing securities	15,17,19,20	224 462 981	213 056 583
Collateral received under derivatives contracts	17,19	23 628 253	24 304 397
Financial derivatives	17,18,19,20	898 292	1 781 221
Deferred tax	11,19	136 634	208 816
Tax payable	11,19	-	124 898
Subordinated debt	16,17,19	1 603 356	1 603 778
Other Liabilities	19,21	182 231	117 865
Total Liabilities		**250 911 747**	**241 197 558**
Equity			
Paid-in equity	14	9 858 470	9 498 470
Other paid-in equity (not yet registered)		300 000	210 000
Hybrid capital	14	1 180 000	1 081 034
Accrued equity		-139 022	149 836
Net profit		-	-
Declared dividends		72 276	113 950
Total equity		**11 271 724**	**11 053 290**
Total liabilities and equity		**262 183 472**	**252 250 848**

Stavanger, 08.02.2017

/s/ Kjell Fordal
Chairman of the Board

/s/ Inge Reinertsen

/s/ Merete N. Kristiansen

/s/ Geir Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
Managing Director

Changes in equity

NOK 1 000	Share capital	Additional paid in equity	Dividend	Other paid-in equity (not yet registered)	Other Equity	Hybrid capital	Total Equity
Balance as of 31 December 2015	**5 710 548**	**2 857 922**	**105 074**	**690 000**	**374 328**	**-**	**9 737 872**
Registration of share increase (from 22 December 2015)	460 000	230 000	-	-690 000	-	-	-
Dividend 2015	-	-	-105 074	-	-	-	-105 074
Share increase 29 June 2016	160 000	80 000	-	-	-	-	240 000
Share increase 28 December 2016 (not yet registered)	-	-	-	210 000	-	-	210 000
Net income for the period *	-	-	-	-	-109 751	-	-109 751
Proposed dividend for 2016	-	-	113 950	-	-113 950	-	-
OCI - pension - annual estimate deviation	-	-	-	-	-791	-	-791
Reclassification of hybrid capital as of 31 December 2016	-	-	-	-	-	1 081 034	1 081 034
Balance as of 31 December 2016	**6 330 548**	**3 167 922**	**113 950**	**210 000**	**149 836**	**1 081 034**	**11 053 290**
Registration of share increase (from 28 December 2016)	140 000	70 000	-	-210 000	-	-	-
Share increase 28 September 2017	100 000	50 000	-	-	-	-	150 000
Dividend 2015	-	-	-113 950	-	-	-	-113 950
Net income for the period	-	-	-	-	-179 194	-	-179 194
New hybrid capital	-	-	-	-	-	100 000	100 000
Paid interest on hybrid capital	-	-	-	-	-49 503	-1 034	-50 537
Tax on hybrid capital, directly against equity	-	-	-	-	12 376	-	12 376
Share increase December 27 (not yet registered)	-	-	-	300 000	-	-	300 000
Proposed dividend for 2017	-	-	72 276	-	-72 276	-	-
OCI - pension - annual estimate deviation	-	-	-	-	-260	-	-260
Balance as of 31 December 2017	**6 570 548**	**3 287 922**	**72 276**	**300 000**	**-139 022**	**1 180 000**	**11 271 724**

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

All hybrid instruments have been reclassified to equity from 31.12.2016. This is according to the definition of a financial liability under IAS 32.

Cash flow statement

NOK 1 000	2017	2016
Cash flows from operations		
Interest received	3 552 215	3 858 846
Paid expenses, operations	-34 718	-36 469
Paid tax	-124 898	0
Net cash flow relating to operations	**3 392 598**	**3 822 377**
Cash flows from investments		
Net purchase of loan portfolio	-3 187 555	-5 128 140
Net payments on the acquisition of government bills	552 662	6 685 763
Net payments on the acquisition of bonds	-11 142 971	-495 538
Net investments in intangible assets	-214	-732
Net cash flows relating to investments	**-13 778 078**	**1 061 353**
Cash flows from funding activities		
Net receipt/payment from the issuance of certificates	-828 967	949 966
Net receipt/payment from the issuance of bonds	10 266 970	8 296 329
Net receipt/payment from the issuance of subordinated debt	100 000	250 000
Net receipt/payment of loans to credit institutions	-1 413 538	-11 329 904
Equity capital subscription	450 000	450 000
Paid dividend	-113 950	-105 074
Net interest payments on funding activity	-3 234 635	-3 396 582
Net cash flow relating to funding activities	**5 225 880**	**-4 885 266**
Net cash flow in the period	**-5 159 599**	**-1 535**
Balance of cash and cash equivalents at beginning of period	8 129 097	8 083 543
Net receipt/payments on cash	-5 159 599	-1 535
Exchange rate difference	75 147	47 089
Balance of cash and cash equivalents at end of period	3 044 644	8 129 096

Quarterly income statements and balance sheets

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

Income statement

NOK 1 000	4th Quarter 2017	3th Quarter 2017	2th Quarter 2017	1th Quarter 2017	4th Quarter 2016
Total interest income	809 548	822 416	900 887	937 419	972 314
Total interest expenses	-701 413	-718 215	-777 648	-847 140	-883 715
Net interest income	**108 134**	**104 201**	**123 239**	**90 278**	**88 599**
Net gains/losses from financial instruments	-153 411	-20 781	-205 252	-250 917	-262 950
Net other operating income	**-153 411**	**-20 781**	**-205 252**	**-250 917**	**-262 950**
Total operating income	**-45 277**	**83 420**	**-82 013**	**-160 639**	**-174 351**
Salaries and other ordinary personnel expenses	-3 081	-3 118	-2 429	-3 389	-3 106
Other operating expenses	-6 679	-4 257	-6 317	-5 136	-7 050
Total operating expenses	-9 760	-7 375	-8 746	-8 525	-10 156
Operating result before losses	-55 037	76 045	-90 759	-169 164	-184 507
Write-downs on loans and guarantees	**-**	**-**	**-**	**-**	**-**
Pre-tax operating result	**-55 037**	**76 045**	**-90 759**	**-169 164**	**-184 507**
Taxes	13 750	-19 011	22 690	42 291	46 126
Profit/loss for the year	**-41 286**	**57 034**	**-68 069**	**-126 873**	**-138 381**
Other income and expense	-260	-	-	-	-791
Total Profit/Loss	**-41 546**	**57 034**	**-68 069**	**-126 873**	**-139 172**

Balance sheets

NOK 1 000	31.12.2017	30.09.2017	30.06.2017	31.03.2017	31.12.2016
Assets					
Lending to and deposits with credit institutions	3 044 644	4 200 397	10 490 289	8 251 587	8 129 096
Certificates and bonds	54 318 384	41 638 986	44 774 036	40 229 178	42 506 617
Lending to customers	177 675 130	176 093 142	173 571 981	175 654 209	174 463 203
Financial derivatives	27 144 125	21 637 545	24 684 813	25 160 358	27 150 388
Defered tax asset	-	9 299	6 174	3 005	-
Other assets	1 188	992	1 109	1 703	1 543
Total assets	**262 183 472**	**243 580 361**	**253 528 402**	**249 300 040**	**252 250 848**
Liabilities and equity					
Liabilities					
Debt incurred by issuing securities	224 462 981	211 526 141	216 466 932	212 822 181	213 056 583
Collateral received under derivatives contracts	23 628 253	17 848 036	23 245 875	22 005 476	24 304 397
Financial derivatives	898 292	1 231 492	1 074 719	1 514 308	1 781 221
Deferred tax	136 634	208 816	208 816	208 816	208 816
Tax payable	-	-	-	124 898	124 898
Subordinated debt	1 603 356	1 603 253	1 603 328	1 603 633	1 603 778
Other Liabilities	182 231	126 173	89 939	104 359	117 865
Total Liabilities	**250 911 747**	**232 543 911**	**242 689 610**	**238 383 671**	**241 197 558**
Equity					
Contributed equity	9 858 470	9 708 470	9 708 470	9 708 470	9 498 470
Other paid in equity (not yet registered)	300 000	150 000	-	-	210 000
Hybrid capital	1 180 000	1 080 000	1 080 000	1 070 986	1 081 034
Accrued equity	-139 022	121 938	131 314	149 836	149 836
Net profit	-	-137 908	-194 942	-126 873	-
Declared dividends	72 276	113 950	113 950	113 950	113 950
Total equity	**11 271 724**	**11 036 449**	**10 838 792**	**10 916 369**	**11 053 290**
Total liabilities and equity	**262 183 472**	**243 580 361**	**253 528 402**	**249 300 040**	**252 250 848**

Deloitte.

Deloitte AS
Strandsvingen 14 A
Postboks 287 Forus
NO-4066 Stavanger
Norway

Tel: +47 51 81 56 00
Fax: +47 51 81 56 01
www.deloitte.no

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of SpareBank 1 Boligkreditt AS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 Boligkreditt AS which comprise the balance sheet as at 31 December 2017, income statement, overview 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 present fairly, in all material respects, the financial position of the Company as at 31 December 2017, 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, included 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 basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING	
The IT systems within SpareBank 1 Boligkreditt AS are essential to the accounting and reporting of completed transactions, in obtaining the basis for key estimates and calculations, and in obtaining relevant information to be disclosed in the notes to the financial statements. The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers. Proper management and control of these IT systems both from SpareBank 1 Boligkreditt AS and their service providers are of high importance in order to ensure accurate, complete and reliable financial reporting, and this area is therefore a key audit matter.	SpareBank 1 Boligkreditt AS has established a general governance model for management and control of their IT systems. We have obtained an understanding of this general governance model at SpareBank 1 Boligkreditt AS and their IT environment relevant to financial reporting. We assessed and tested the design of the control activities related to the IT systems which are relevant for financial reporting, including selected controls related to operations, change management and information security. For a sample of these control activities, we tested if they operated effectively in the reporting period. We assessed and tested the design of automated controls related to among others calculations, reconciliations and transaction settlements. For a sample of these control activities, we tested if they operated effectively in the reporting period. We assessed the ISAE 3402 reports issued by the independent auditors of service providers to the Company to assess if such service providers had adequate internal controls in areas important to the Company's financial reporting. We engaged our internal IT experts in the work related to understanding the general governance model on IT, and in assessing and testing the internal control activities related to IT.
NOTE DISCLOSURES ON CAPITAL ADEQUACY	
SpareBank 1 Boligkreditt AS is required to comply with the regulations on capital adequacy as set forth in the Financial Institutions Act ("Finansforetaksloven") and related regulations. Regulations on financial statements for banks («Forskrift om årsregnskap for banker») requires disclosure of capital adequacy in the notes to the financial statements. See note 28 to the financial	SpareBank 1 Boligkreditt AS has established control activities related to the calculations of total capital, minimum requirement for capital and actual capital coverage. We assessed and tested the design of the control activities we considered to be of highest relevance, including internal controls on risk weighted balance sheet items and off-balance sheet items, calculation of

statement as to information with respect to the applied methods for calculating capital adequacy, total capital, total basis for calculation of minimum requirement for capital and actual capital coverage for the Company. SpareBank 1 Boligkreditt AS is required to comply with the minimum requirement for capital on an ongoing basis. Due to the importance of capital adequacy compliance, this is a key audit matter.	required capital for operational risk and calculation of risk adjusted basis for calculations. We assessed SpareBank 1 Boligkreditt AS' interpretations of the capital adequacy regulations in selected areas against the capital adequacy regulations and industry practice. We tested the accuracy of the calculated minimum requirement for capital on a sample of balance sheet items and off-balance sheet items. We also tested the accuracy of the calculation of selected items in total capital.
FINANCIAL INSTRUMENTS – VALUATION OF CROSS CURRENCY BASIS SWAPS	
The carrying amount of the Company's financial derivatives liability amounts to 898 mNOK as per December 31, 2017, whereof net loss on valuation adjustment of cross currency basis swap (basis swap) spreads amounts to 190,5 mNOK as per December 31, 2017. The estimates and judgmental assessments concerning the valuation of these financial instruments are described in note 6, 18 and 19 to the financial statements. The risk related to valuation of financial instruments is related to instruments that are not traded in an active market. At SpareBank 1 Boligkreditt AS, this is the case for their basis swaps used to hedge exchange and interest risk on their funding. These instruments are valued using valuation models where certain assumptions (the basis spread and the credit charge) could not be obtained from other comparable instruments («non-observable assumptions»). The valuation of the change in the basis spread and credit charge to enter into these basis swaps with counterparties change from time to time. Net gain and loss following this change in basis spread and credit charge results in annual net gain and loss in the income statement as there is no corresponding change in fair value on the hedged item. Valuation of these basis swaps are therefore considered a key audit matter in our audit.	SpareBank 1 Boligkreditt AS has established certain control activities related to the valuation of basis swaps. We assessed and tested the design and implementation of the key internal controls we considered to be of highest relevance related to valuation of such financial instruments. We assessed and challenged the Company's model for valuating basis swaps, considering if these were in line with renowned valuation models and industry practice, and whether the model is consistently applied over time. We challenged the assumptions used by management in the valuation, by benchmarking them with recognized valuation methods and practices. For a sample of basis swaps, we reconciled the input in the model to external sources and based on the company's own assumptions, we also re-performed the calculation of gains and loss reported on the valuation adjustment of basis swaps. In addition we tested the mathematically accuracy of the model. Furthermore, we have considered the appropriateness of the disclosures related to basis swaps.

Other information
Management is responsible for the other information. Other information comprises the annual report for 2017 and the statement on corporate governance, which is expected to be available to us after the date of this report, but does not include the financial statements and the report on the audit of the financial statements that was available to us before the date of this report.

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.

If, in our reading of the annual report for 2017 and the statement on corporate governance, we conclude that these contain material misstatements, we are required to report in this regard to those in charge of governance.

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 and fair presentation of the financial statements of the Company in accordance with International Financial Reporting Standards as adopted by EU. Management is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 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 the 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 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Stavanger, February 8, 2018
Deloitte AS

Bjarte M. Jonassen
State Authorized Public Accountant in Norway

The private home in Western Norway has been through an extensive upgrading process

Clean heating – green electricity

In 2020, Norway will become the first country in Europe to introduce a ban on heating with fossil fuels. The ban means that all energy used to heat buildings in Norway will become green.

Heating with fossil fuels is on its way out in Norway. After having been heavily reduced in recent years, fossil fuel heating will thus be a thing of the past from 2020. The Norwegian State has been preparing for this change for several years and has implemented numerous measures aimed at increasing the number of dwellings which are upgraded in an environmentally-friendly and energy-efficient direction. The measures introduced cover a wide range of initiatives from attitude campaigns to financial subsidy schemes, aimed at making homeowners appreciate the importance of the transition and providing them with incentives to modernise their own homes.

Renewable power

Norway is already at the forefront when it comes to environmentally-friendly electricity. Right since the 19th Century, Norway has exploited the energy inherent in renewable hydroelectric power and waterfalls. There are more than 1,500 hydroelectric power stations in total in Norway (energifaktanorge.no), and renewable electricity today constitutes 98 per cent of the electricity systems in Norwegian dwellings (regjeringen.no). This electricity is primarily generated from hydroelectric power. In the past ten years, wind power has also become part of the Norwegian power production, although it is still on a minor scale. Cutting fossil fuels completely by 2020 means that Norwegian dwellings will be heated by an environmentally-friendly and renewable energy source. At the same time, there is demand for renewable electricity in Europe. In several European countries, renewable electricity is often dependent on the weather and is a less stable energy source. Unlike water, sun and wind cannot be stored in the water reservoirs which form the principal basis for Norwegian hydroelectric power. In addition, the supply of hydroelectric power makes Norway the country in Europe with the lowest electricity prices.

Low emission society

The state enterprise Enova SF was set up in 2001. The object of the enterprise is to contribute to a conversion of energy consumption and energy production. The enterprise, which has, until now, been owned by the Norwegian Ministry of Petroleum and Energy, will become part of the Norwegian Ministry of Climate and Environment from the spring of 2018. Enova works for Norway's transition to a low emission society. The transition requires that Norway cuts greenhouse gas emissions, ensures security of supply and creates new values. The enterprise therefore works to establish good solutions on the market and contributes to new energy and climate technologies. Enova annually invests more than two billion Norwegian kroner in good solutions which contribute to building the green Norway of the future.

This is achieved through State subsidies for environmentally-friendly measures aimed at improving energy efficiency – to private individuals as well as trade and industry.

As one of these measures, the Norwegian State has set up the Enova subsidy scheme. This is rights-based scheme which makes it simple for Norwegian homeowners to receive a reimbursement for energy-efficient measures implemented in their homes. Through 15 different measures, Norway thus wishes to provide incentives for Norwegian homeowners to introduce measures that will contribute to climate-friendly and energy-efficient solutions.

"Since 2015, Enova has made NOK 250 million available a year to homeowners who implement large and small energy-efficient changes in their dwellings. A Norwegian household can receive a subsidy of up to NOK 200,000 for such modernisation. We've already come far in the transition and made it well known among the population," says Tor Brekke, Senior Consultant in Enova SF.

Since the slender start in 2015, the disbursements have increased in line with people learning about the scheme, but there is still some way to go. In 2017, Enova disbursed NOK 165 million to private homeowners. This constitutes just over 70 per cent of the funds available.

"The greatest challenge concerns dwellings from the 1950s, 1960s and 1970s. When renovating these dwellings, many of the homeowners have simply refurbished their dwelling without thinking about the environment or energy efficiency improvements. This is also the segment in which we find most of those who still heat their home with fossil fuels. Enova has extra focus on precisely these dwellings, but, also in this segment, our consultants find that people are positive about receiving advice and support," says Brekke.

Modernisation and low electricity consumption

In a house in Western Norway, private homeowner Tor-Martin Kvalsund enjoys the view to the west towards the sea. The dwelling, which is located in the middle of an urban building plot, was built in 1981. After Kvalsund acquired the dwelling in 2015, it has been through an extensive upgrading process, which has included environmentally-friendly, energy-efficient and electricity-reducing measures. The result is that, after the upgrade, the electricity consumption of the dwelling has been halved compared with his previous dwelling – even though his current house is twice as large. His own experience from the electronical and automation industry as well as advice from the Enova energy consultant have helped in the process.

"When I bought the house, it was a real energy guzzler and ranked very low on the energy consumption efficiency scale. My objective was to reduce energy costs as much as possible. Today, the house covers most of its energy requirements from two wells, located around 15 metres from each other under the garage," he says.

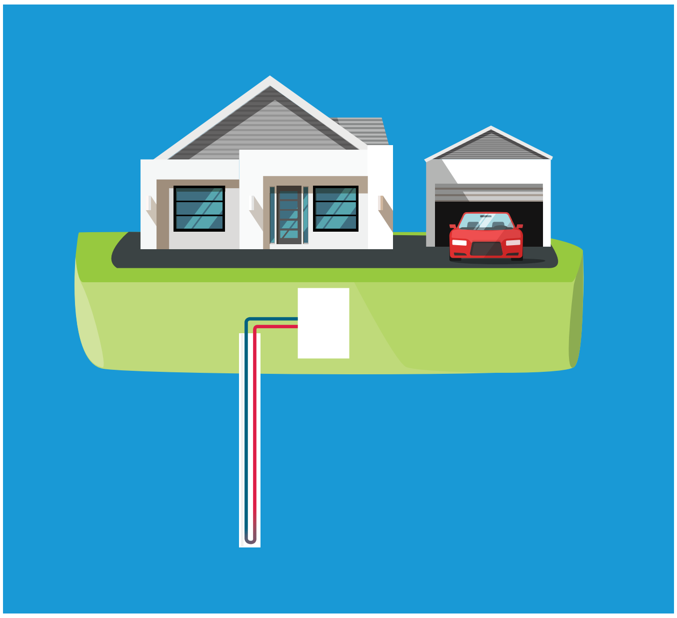
Kvalsund has been through the various recommended stages and has received a subsidy for energy consultancy, upgrading of the building envelope, balanced ventilation, water-borne heating, liquid-to-water heat pump and heating control system.

Tor Brekke, Senior Consultant, Enova SF

Tor-Martin Kvalsrud , private homeowner

Different measures which are subsidised for private households which modernise Norwegian dwellings:

- Energy consultancy
- Removal of oil stove and oil tank
- Air-to-water heat pump
- Liquid-to-water heat pump
- Ventilating heat pump
- Water-borne heating
- Bio oven with water jacket
- Bio boiler
- Electricity production
- Solar collector
- Heat recirculation of greywater
- Upgrading of building envelope
- Balanced ventilation
- Heating control system



liquid-to-water heat pump illustration

In an attempt to make the installations even more efficient, profitable and environmentally friendly, he has buried a ground collector in the ground outside the house. The plan is to trap solar energy, which will be stored in the top stratum of the ground in the garden outside the house. During the summer, the energy will then move from the top stratum down into the ground and provide heating for the two 130-metre deep wells.

A liquid-to-water heat pump, also known as a mountain heat pump, ground heat pump or sea heat pump, uses energy stored in the mountain, ground or sea to heat water for radiators or water-borne floor heating. Heating based on such a heat pump consumes less energy than when direct electricity is used. In addition to cutting costs, a solution based on water-borne heating will contribute to a good indoor climate by providing good even heating throughout the house.

"When the water circulates outside in the garden, it functions, in principle, a bit like a solar collector. This combination of heat pump, balanced ventilation and water-borne heating results in a highly pleasant indoor climate in the house," says Kvalsund.

Consequences

Why should Norway focus on energy efficiency when it already has green electricity from renewable electricity sources such as hydroelectric power and wind power? Even though Norway has a high percentage of renewable electricity today, electricity consumption is also higher than previously. This concerns new value creation and electricity-intensive technology, and electricity consumption will only continue to increase in the years to come. The number of electrical cars is increasing rapidly. Electrically driven ferries are about to be introduced, robot-operated production is increasing, and many predict that the aeroplanes of the future will use electricity instead of fuel. If the large value creation provided by oil production today is to be replaced with other value creation in the long term, there will be a great need for electricity. This means that it is still an objective to reduce the use of electricity to heat buildings.

When Norwegian homeowners are met with a ban on heating with fossil fuels in 2020, the transition will probably be smooth. In practice, not many homeowners are still heating with fossil fuels. The demand is today so small that it may be difficult to find remaining suppliers on the market. The new ban will be enforced in the form of supervision.

Factsheet

Enova

Enova disbursed twice as much in subsidies for energy measures in dwellings in 2016 compared with the year before. A total of NOK 119 million was disbursed for nearly 6500 measures. The subsidy scheme is beginning to be well known in the population, and the growth continued throughout 2017. Last year, a total of NOK 165 million was disbursed in subsidies. Towards the end of the year, there was also an increase in the phasing out of oil-fired boilers.

ENOVA

Illustration photo

Green Covered Bond Issuance

The topic of green bonds has matured at SpareBank 1 Boligkreditt (SpaBol) over 2017, and especially during the second half of that year, and culminated in an inaugural issuance in January 2018.

The overall green bond market has grown in Europe over some years and we have seen issuances on the covered bond side emerge from German issuers (first in in 2015 and again in 2017). Most green bonds have however been in a senior unsecured format. Worldwide, the Climate Bond Initiative reports of $155 billion worth of green bonds outstanding as of year-end 2017.

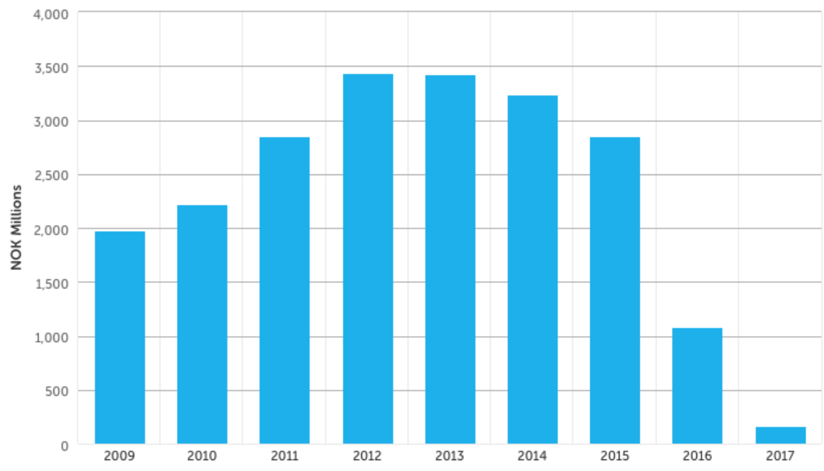
Our (SpaBol's) owner banks in the SpareBank 1 Alliance have increased their focus on sustainability, as it has become an important topic for businesses everywhere. Norway is in many ways a leading country in working for environmental improvements internationally and is a Paris climate accord and Kyoto Protocol signatory. The banks in the country already work to high ESG (Environmental, Social and Governance) standards, though have not until relatively recently communicated this in a structured and transparent way. The SpareBank 1 banks are improving both their awareness and efforts by, for example, signing the UN Global Compact as well as increasing transparency and disclosure about their sustainability policies. The issuance of a green covered bond is a natural and complementary step in this process. (SpareBank 1 is a market leader in Norwegian residential mortgage finance alongside lender DNB). The green covered bond project has also functioned as a catalyst for some of the SpareBank 1 banks to start offering green mortgages to customers on advantageous terms.

By and large the question of issuing a green bond is a question whether an appropriate set of data can be isolated in order to designate certain assets as green. In the area of Norwegian residential finance, market participants expected that there would be ample scope to issue a green covered bond due to that the country covers all its electricity needs (for all sectors) with renewable carbon emission free hydroelectric power. We also know that Norwegian houses are heated to a very high degree with electricity and that fossil fuels have been phased out over several years and are banned in the latest building code, as well as being made generally illegal from 2020. A strict building code applies for the whole country. Norway is very long and has a northern and southern climate, but also a coastal and an inland climate. There is however only one building code which exist to ensure ever- increasing energy efficiency for residential buildings no matter where they are located. Norwegian lenders have therefore for some time been eager to access the data on specific residences contained in the Energy Performance Certificate (EPC) database. ENOVA, which is the government agency responsible for effecting green policies operates and maintains this database. Energy certificates must by law be produced for any residence in Norway built or transacted in 2010 or later. The certificate database is however subject to privacy laws, which means that no bank has wholesale access to it in order to link its portfolio of mortgage loans to the best performing buildings. This was the fundamental challenge which we faced when considering identifying green assets.

We sought the advice of ING, which has extensive competencies in the area of green finance, as well as Norwegian engineering consultancy Multiconsult. The latter was also involved when the current EPC system was designed and building code was developed and has a unique insight in exactly the area of identifying green residences. The approach taken was to define, in the absence of the EPC data, a proxy which would identify residences that are within the 15% most energy efficient residences in Norway. This limit is established by the Climate Bond Initiative for various markets and the idea is that it is a constant limit whereby as more energy efficient residences are created, others will drop out of the so defined green universe. Multiconsult identified residences constructed in accordance with the building code from 2007 as starting point. In 2007 the code was amended and this tightened energy efficiency criteria significantly. In order to ensure that the houses and apartments are also built in accordance with this code, only such units which are constructed after January 2009 are considered. This effectively limited the selectable universe for the SpaBol green assets to within 8% of the overall building stock (residential units built 2009 to 2017), a lower limit than 15% as per the CBI. In Norway, when building, there is no choice of whether to construct a house according to the strict energy efficiency demands of the code or to a different, lesser standard; it must be in accordance with the code. A house constructed in accordance with the code would normally expect to fetch a C-EPC rating. A and B are then normally designations for houses where additional measures have been taken beyond the code requirements.

At present, we plan to expand and/or replace the criteria to include other buildings with an energy label of A, B and C at a future time when the EPC database may be made available as well as to include renovated buildings with a minimum 30% calculated energy efficiency improvement. It is the calculated energy requirement to heat the buildings which is important, independent of the actual occupants use/behavioural characteristics. From the calculated energy use the CO2 emissions result, based on the assumptions for how electricity is produced. In Norway the essential source is emissions free hydroelectric power, but assumptions are included when calculating CO2 emissions which address the interconnectedness of the power grids across the Nordic countries.

The SpaBol portfolio which was identified during the project phase was just over NOK 21 bn of green mortgages (approximately EUR 2.2 bn):



According to the ICMA Green Bond Principles, which we have adopted, we will report on the development of these green assets on a portfolio basis, as part of the regular cover pool, measured against the green bonds outstanding. The reporting will also contain the energy savings and CO2 emission savings vs. the Norwegian average building stock. The figures for the green assets at the time of the inaugural issuance show that the green assets have a 57% reduction in emissions as expressed by kg CO2 / m2 heated space. Second party opinion provider DNV has opined on the adherence to the Green Bond Principles. Both DNV and Multiconsult are approved verifiers under at Climate Bond Initiative and verification of this project is under way.

By issuing the green bond the SpareBank 1 Alliance wanted to take an early lead in developing the green covered bond market from the Norwegian point of view, rather than waiting another few years for the EPC database to become available. This provides investors with an early opportunity to invest in Norwegian green covered bonds, it provides additional investor diversification for the issuer and it gives an early impetus for the SpareBank 1 banks to focus on developing their share and the overall market for more energy efficiency in Norwegian housing. Ultimately, this contributes to the agreed CO2 emissions reductions under the Paris Agreement of 40% reduction by 2030 compared to 1990 levels.

All documents pertaining to our green covered bond project are available on the "Green Bond" section or our website; spabol.no

Eivind Hegelstad

Eivind Hegelstad is CFO / Investor Relations at SpareBank 1 Boligkreditt

Notes to the Accounts

Note 1 General information

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

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

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

The Financial Statements for 2017 is approved by the Board of Directors on February 8, 2017.

Note 2 Summary of significant accounting policies

Presentation Currency

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

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

Assets and liabilities are recognised on the balance sheet at the point in time when the Company establishes real control over the rights of ownership to assets and becomes effectively responsible for the discharge of a liabilities.

Assets are de-recognised at the point in time when the real risk of the assets has been transferred and control over the rights to the assets has been terminated or expired. Liabilities are de-recognised when they have been effectively discharged.

Lending

Lending is measured at amortised cost. Amortised cost is the acquisition cost less any repayments on the principal, adding or subtracting any cumulative amortisation from an effective interest rate method, and less any loss of value or risk of loss. The effective rate of interest is the interest that exactly discounts estimated future positive or negative cash payments made prior to the financial instrument's maturity. Assessment of loans is thus carried out in accordance with the "lending regulation dated 21 December 2004" c.f. circular no 10/2005 from The Financial Supervisory Authority of Norway.

Evaluation of impairments (write downs) on mortgage loans

IFRS 9 will become effective from January 1, 2018 and implemented for the Company in the 1st quarter 2018 financial statements. The accounting for loan impairments under IFRS 9 will supersede IAS 39 as detailed below. These financial statements contain a separate note which discusses IFRS 9 and the resulting loan write downs which would have taken place (Estimated Cumulative Loss) if IFRS 9 had been in effect as of 31.12.2017.

Under IAS 39, the Company evaluates the occurrence of impairment to loans or groups of loans at 31 December each year. Impairment has occurred if there is an objective proof of a reduction in value that can lead to a reduction in the future cash flow needed to service the debt. Impairment must result from one or more events that has occurred after the first entering into of a loan or group of loans (a loss incident), and the result of the loss incident (or incidents) must also be measured reliably. Objective proof that the value of a loan or a group of loans has been impaired includes observable data that is known to the group on the following loss incidents:

- substantial financial difficulties for the Issuer or with the borrower
- default on the contract, such as missing instalments or interest payments
- the Company grants the borrower particular terms on the basis of financial or legal circumstances related to the borrower's financial situation
- the probability that the debtor will enter into debt negotiations or other financial re-organisations
- the active market for the financial assets cease to exist due to financial difficulties, or
- observable data indicates that there is a measurable reduction in the future cash flow from a group of loans since they were first entered into, even though the reduction cannot be attributed to a single loan in the group, including;
- an unfavourable development in the payment status of the borrowers in the group, or
- national and/or local financial conditions correlating to the default of the assets in the group

The Company will first evaluate whether there exists individual objective proof of impairment for loans that are individually significant. For loans that are not individually significant, the objective proof of impairment will be evaluated either on an individual basis or collectively. If the Company concludes that there does not exist objective proof of impairment for an individually evaluated loan, whether it is significant or otherwise, the asset will be included in a group of loans having the same credit risk characteristics. This group will then be evaluated collectively for a possible impairment. Assets that are being evaluated individually for signs of impairment, and where an impairment is identified, or continues to be observed, will not be a part of a collective evaluation of impairment.

If objective proof of the occurrence of impairment exist, the magnitude of the loss will be considered to be the gap between the asset's book value and the present value of the estimated cash flow (exclusive of any future credit loss that has not yet occurred) discounted by the loan's last given effective interest rate. The book value of a loan will be reduced and the loss will be reflected in the income statement.

The future cash flow from a group of loans that has been collectively evaluated for impairment will be estimated in accordance with the contractual cash flow of the group as well as any historical loss on assets with a similar credit risk. Historic losses will be adjusted in accordance with existing observable data in order to allow for the effects of any current circumstances that were not present at the time of the historic losses, as well as the adjustment of the effects of circumstances that are not currently present.

According to Transfer and Servicing Agreement which the SpareBank 1 banks have entered into with the Company, SpareBank 1 Boligkreditt has the right to off-set any losses incurred on individual mortgage loans against the commissions due to all banks for the remainder of the calendar year. The Company has not since the commencement of its operations had any instances of off-sets against the commissions due to its owner banks.

Segment

Segments are organised by business activities and the Company has only one segment, mortgage lending to private individuals. All of the mortgages have been acquired from the SpareBank 1 Alliance banks. The Company's entire result therefore represents the result of the mortgage lending to private customers segment.

Established losses

When there is a prevailing possibility that the losses are final, the loss will be classified as established losses. Any established losses that have been covered by previously specified loan loss provisions will be set off against these provisions. Any established losses that have not been provided for in the loan loss provisions, as well as excessive or insufficient loan loss provisions will be reflected in the income statement.

Securities

Securities consists of certificates and bonds. These are either carried at fair value or hold to maturity. All securities that are classified at fair value in the accounts are recorded at fair value, and changes in value from the opening balance are allocated in the income statement as income from other financial investments. Certificates and bonds that are classified as hold to maturity are recorded at amortised cost by means of the effective interest rate method. The effective rate of interest is the interest that exactly discounts estimated future positive or negative cash payments made prior to the financial instrument's maturity.

Hedge Accounting

The company has implemented fair value hedge accounting for bonds with fixed rates and bonds in foreign currencies. These bonds are entered into a hedging relationship with individually tailored interest swaps and currency swaps. The company values and documents the efficacy of the hedge both at first entry and consecutively. In fair value hedging both the hedging instrument and the hedged object are entered into the accounts at fair value with respect to the relevant interest rate curve and currency, and changes in these values from the opening balance are recorded in net income. The cash flow is therefore known for the entire contractual duration after the hedging relationship has been established. Because the hedging relationship is intended to remain in place throughout the life of the hedged instrument, only those changes which the interest rate and currency swap agreements are intended to hedge have an influence on the valuation of the hedging instrument.

The introduction of IFRS 9 will not have any practical impact on the Company's hedge accounting. All hedges are deployed to exactly offset a cash flow for the duration of the hedged instrument, thus bringing financial liabilities (bonds outstanding) in fixed rate and/or foreign currency into a NOK 3 month NIBOR basis, while financial assets at fixed rates and/or foreign currency are transformed to a floating rate 3 month NIBOR asset through the derivative. Derivatives used are swaps.

Valuation of Derivatives and Other Financial Instruments

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

<u>Liabilities:</u>

- The Issuer applies fair value hedge accounting under IFRS for fixed rate issued debt (covered bonds) utilizing derivatives (swaps) which hedge the fixed interest rate and currency elements of the issued bonds.
- Issued floating rate debt in NOK is accounted for at amortised cost

<u>Assets:</u>

- For liquidity management purposes the issuer maintains a portfolio of liquid assets (including bonds) of which a part is designated as held-to-maturity and valued at amortized cost
- The majority of the liquidity portfolio (trading portfolio) is valued at fair value (market value) and the associated derivatives (swaps) which hedge interest and/or currency risk are valued at fair value.

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

- Temporary mark-to-market differences in the value of an interest rate swap may occur depending on the difference between the level at which the 3 months floating rate leg in the swap was last fixed and the 3 months interest rate level at the financial reporting date.
- There is a credit risk element which forms a part of the fair value of the assets in the trading portfolio, which is not reflected in the value of the associated interest and/or currency swaps hedging the trading portfolio assets.
- There may be floating rate assets (bonds) denominated in foreign currency which are hedged via a corresponding foreign exchange liability (issued debt) also on an effective floating rate basis. In such natural asset liability hedges there may be a small element of foreign currency risk which may impact the P&L in that the floating rate coupons on the asset and the liability are not reset on the same dates and/or may be of different magnitude. Also, a change in a market credit spread element would impact the price of some of the foreign currency assets held (bonds), though not the liability.
- Temporary differences will result from basis swaps. Boligkreditt uses basis swaps in order to swap cash flows from floating interest rate foreign currency liabilities and assets into floating interest rate in Norwegian kroner. The valuation of the change in the cost element to enter into these swaps with counterparties change from time to time. The valuation change will only occur on the derivatives (hedging instrument) and not on the hedged instruments and thus can not be mitigated. The impact in net income from this valuation element may be large and volatile. All gains and losses from basis swaps reverse over time when basis swap prices and costs change from the point in time when a derivative was entered into and reduce over time as the derivatives remaining maturity decreases. Under IFRS 9 changes in basis swap spreads will no longer be included in the profit and loss account but only under other comprehensive income (OCI); This is due to that changes in fair value for liabilities must be reported in OCI unless the fair value option is elected (. This is not the case for changes in the fair value of basis swaps which are thus reported in OCI.

Intangible Assets

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

Cash and Cash Equivalents

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

Taxes

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

The statutory tax rate for 2017 is 25%.

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

Pensions

SpareBank 1 Boligkreditt AS has a defined contribution pension plan. A defined benefits plan and was closed to new members in 2011. All employees were migrated to the defined contribution plan from January 1, 2016 .

Defined Contribution Plan

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

The Company has eight employees as of year end 2016. All employees are included in SpareBank 1 SR-Bank ASAs pension scheme and accrue the same benefits as the other membership in that scheme which are employees of SpareBank 1 SR-Bank ASA.

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

Cash Flow Statement

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

Reserves

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

Supplier Debt and other Short Term Liabilities

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

Interest Income and Expense

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

Commission Expense

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

Dividends

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

Events after the Balance Sheet Date

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

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

Share Capital and Premium

Ordinary shares are classified as equity capital. Expenses directly related to the issuing of new shares or options with tax relief, will be recorded in the accounts as a reduction in the proceeds received.

Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purpose of measuring inventories or value in use for impairment assessment purposes).

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

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

IFRS 9 is introduced from January 1, 2018. See the separate IFR 9 note for a discussion.

Note 3 Risk management

SpareBank 1 Boligkreditt AS is an institution which acquires residential mortgages from banks in the SpareBank 1 Alliance. This activity is predominantly financed by the issuance of covered bonds. The Company is therefore subject to the Norwegian legislation for covered bonds and the demands this imply for exposure to risk. In addition, the

Company wishes to maintain the AAA/Aaa ratings from Fitch and Moody's, respectively, with regards to the covered bonds, which also requires a high degree of attention to risk management and a low risk exposure profile.

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

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

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

Organisation and organisational culture

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

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

- The Board of Directors determines the main principles for risk management, including determining the risk profile, limits and guidelines. The Board also carries the responsibility to review capital levels in accordance with the risk profile and the requirements of the regulatory authorities.
- The Chief Executive Officer is responsible for the day to day administration of the Company's business and operations according to laws, statutes, powers of attorney and instructions from the Board. Strategic items or operational items of an unusual nature or importance are discussed with and presented to the Board of Directors. The CEO may however decide a matter in accordance with a power of attorney from the Board. The CEO is responsible for implementing the Company's strategy and in cooperation with the Board to also develop and evolve the strategy.
- The risk manager reports both directly to the CEO and to the Board. The risk manager is tasked with developing the framework for risk management including risk models and risk management systems. The position is further responsible for the independent evaluation and reporting of risk exposure in addition to maintain all relevant laws and regulations.
- The balance sheet committee is an advisory council for the operational management of the Company's balance sheet within the framework determined by the Board of Directors. The committee is an important component of Boligkreditt's operative management of liquidity risks. The balance sheet committee is headed by the CEO and consists of the CFOs of the largest banks in the SpareBank 1 Alliance in addition to one representative from the smaller Alliance banks (Samspar).
- The investment committee is an advisory council for the evaluation of counterparty exposure limits and for the composition of the liquidity portfolio. The committee is headed by the CEO and consists of Boligkreditt's financial director and director for asset liability management. The committee advises on credit limits for counterparties and the composition of the liquidity portfolio. The CEO has been tasked by the Board to make decisions regarding credit limits for counterparties and individual investments. "

Risk Categories:

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

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

Further details about risk categories are discussed in later Notes

Note 4 Important estimates and considerations regarding application of accounting policies

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

Loss on loans and guarantees

The Company makes loan provisions for individual loans if an objective incident has occurred which can be identified in relation to a single exposure, and the objective incident reduces the future expected cash flow for repayment of the exposure. Objective incident may be the default, bankruptcy, lack of liquidity or other material financial problems. Individual loan loss provisions are calculated as the difference between the book value of the loan and the net present value of the future cash flow based on the effective interest rate at the time of the initial calculation of the individual write off. Subsequent changes in interest rates are considered for loan agreements with floating interest rates to the extent this impacts expected cash flow. Group loss provisions are estimated on groups of loans where there are objective evidence that an incurrence of loss has taken place following the initial accounting recognition of these loans on the balance sheet. Objective evidence include observable data which allows for a conclusion that the future cash flow from the group of loans is reduced. The development in probability of default over time is one such objective evidence which is utilised in order to identify a need for a group loan loss provision. Where a requirement for a group write down exists, the loss on the group of loans is calculated as the difference between the book value and the net present value of the future estimated cash flow. In order to calculate this difference (which equates to the amount of write downs) the starting point is the expected loss for the group of loans. The estimates of individual and group loan loss provisions are always evaluated and formulated with a considerable degree of uncertainty. Futures estimates based on historical incidents may prove to be erroneous because it is uncertain which relevance historical data have as a predictor for the future. Where loans are secured on collateral in stressed situations, such as when certain objects or industries are in distress, the proceeds from sales of collateral in relative illiquid markets may be subject to a high degree of uncertainty.

Fair value of financial instruments

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

Pensions

Net pension obligations are based on a number of estimates including future investment returns, future interest rate and inflation levels, developments in compensation, turnover, development in the "G" amount (the basic level of pension as determined by the public pension system and used as a yardstick in several calculations nationally) and the general development in the number of disabled persons and life expectancy are of significant importance. The uncertainty is primarily related to the gross obligation for pensions and not the net amount which is recorded in the financial accounts (balance sheet). Changes in pension obligation estimates which may result from changes in the factors mentioned above will be charged directly against the Company's recorded equity. The

Income Taxation

The calculation of the income tax also incorporates material estimates. For many transactions and calculations there will be a degree of uncertainty related to the final tax obligation. SpareBank 1 Boligkreditt AS records tax obligations in tax- and other legal disputes based upon whether future income tax obligations are expected to materialise. If the final outcome of a particular case deviate from the original accrued amount for tax, the difference will affect the profit and loss account for tax expense. The recognised amounts for deferred taxation in the period where the difference is established will also be affected.

Note 5 Net interest income

NOK 1 000	2017	2016
Interest income		
Interest income and similar income from loans to and balances with credit institutions	450 391	526 792
Interest income and similar income from loans to and balances with customers	4 599 141	4 511 245
Interest income treasury bills	3 500	7 877
Commission expense (payable to shareholder banks) *	-1 582 762	-1 247 952
Total interest income	**3 470 270**	**3 797 962**
Interest expense		
Interest expense and similar expenses to credit institutions	-25 579	12 258
Interest expense and similar expenses on issued bonds	3 000 407	3 265 299
Interest expense and similar expenses on issued certificates	9 824	9 107
Interest expense and similar expenses on Tier 1 capital **	-	45 227
Interest expense and similar expenses on Tier 2 capital	51 641	54 001
Other interest expenses	8 124	1 073
Total interest expense	**3 044 417**	**3 386 965**
Net interest income	**425 852**	**410 997**

* Commissions to our parent banks are calculated daily for each mortgage loan transferred, whereby the commission equals the customer loan rate less a rate which incorporates the Company's average cost of funding and operational costs. The operational add-on element is expressed through an average rate which is from time to time decided by the Company's Board of Directors.

** The reclassification on Tier 1 capital, Hybrid capital to equity, occurred at 31.12.2016 so that the interest will first be recognized in other equity as of 01.01.2017.

Note 6 Net gains from financial instruments

NOK 1 000	2017	2016
Net gains (losses) from financial liabilities (1)	-3 819 661	-3 274 659
Net gains (losses) from financial derivatives, hedging liabilities, at fair value, hedging instrument (1,3)	3 006 425	3 641 152
Net gains (losses) from financial assets (2)	517 587	-665 916
Net gains (losses) from financial derivatives, hedging assets, at fair value, hedging instrument (2,3)	54 560	77 376
Net gains (losses) due to changes in basisswapspreads (4)	-389 271	-299 947
Net gains (losses)	**-630 361**	**-521 993**

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

(2) SpareBank 1 Boligkreditt AS manages its liquidity risk by refinancing its outstanding bonds ahead of expected maturities and keeping proceeds as a liquidity portfolio. The majority of this portfolio is valued according to observed market values (fair value). Fixed rate bonds and bonds in other currencies than Norwegian kroner are hedged using swaps. The latter are valued according to interest rate and foreign exchange rates and are also valued at fair value (though differences may occur because the valuation of the bonds include a credit risk/spread element which the swaps do not contain). A smaller part of the portfolio is classified as hold-to-maturity and consist of bonds in Norwegian kroner at floating rates. Included in assets in the table are also investments which are hedged with natural currency hedges, as well as investments in short term, highly rated bonds from funds received from swap counterparties for collateral purposes. Such investments do not have a corresponding value change in the financial derivatives hedging the assets (and are also not included in the liabilities in line 1 in the table above as this contains only the Company's issued debt securities).

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

(4) The Company utilizes basis swaps, which is the foreign exchange swap that changes foreign currency exposure into Norwegian kroner exposure, and this is entered into at a certain cost expressed in bps per annum. The change in this cost is used to adjust the valuation of all of the outstanding basis swaps each quarter, along with the change in other transaction charges to enter into the swaps. An increase in the costs for basis swaps results in a positive adjustment (gain), while a reduction in basis swap costs lead to a negative adjustment (loss). The effect of the basis swap valuation adjustments can be material from quarter to quarter because the Company's portfolio of swaps is extensive. All basis swap valuation adjustments will reverse in line the with the passage of time and will become zero at the latest at the point of the scheduled swap termination date.

Note 7 Salaries and remuneration

NOK 1 000	2017	2016
Salary	10 486	9 903
Salaries reinvoiced to SpareBank1 Næringskreditt*	-2 945	-2 691
Pension expenses	2 002	1 956
Social insurance fees	2 251	1 699
Other personnel expenses	221	541
Total salary expenses	**12 017**	**11 409**
Average number of full time equivalents (FTEs)	8	8

* The company's employees have shared employment between SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. All remuneration is effectuated through SpareBank 1 Boligkreditt and a portion is reinvoiced to SpareBank 1 Næringskreditt. The company also buys administrative services from SpareBank 1 SR-Bank ASA and SpareBank 1 Gruppen. Pension benefit obligations are covered in SpareBank 1 Boligkreditt through participation in the pension fund of SpareBank 1 SR-Bank ASA. This pension scheme meets the legal demands on mandatory occupational pension.

Note 8 Salaries and other remuneration of management

Paid in 2017

NOK 1 000	Total compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2 170	-	185	630	5 467	3 427
Chief Operating Officer - Henning Nilsen	1 466	-	88	-	1 197	6 708
Chief Financial Officer - Eivind Hegelstad	1 474	-	62	-	-	4 271
Total for Management	**5 110**	**-**	**335**	**630**	**6 664**	**14 406**

Paid in 2016

NOK 1 000	Total compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2 122	-	277	536	5 438	3 828
Chief Operating Officer - Henning Nilsen	1 394	-	34	-	1 096	6 885
Chief Financial Officer - Eivind Hegelstad	1 439	-	63	-	-	4 178
Total for Management	**4 955**	**-**	**374**	**536**	**6 534**	**14 891**

All employees have an offer of an employee mortgage loan from SpareBank 1 SR-Bank. The terms and conditions for this include an interes trate one percentage point below the standard rate as determined by the Norwegian Treasury Department from time to time.

The Board of Directors	2017	2016
Kjell Fordal	105	100
Inge Reinertsen	85	80
Tore Anstein Dobloug - to 31 March 2017	85	80
Merete N. Kristiansen	85	80
Inger M S Eriksen	85	80
Geir-Egil Bolstad (Observer to 31. March 2017, then Board member)		
Trond Søràs (Observer)	23	23
Total for the Board of Directors	**468**	**466**

The Control Committee		
Ola Neråsen	-	10
Brigitte Ninauve	-	10
Solveig Midtbø	-	5
Kjersti Hønstad	-	13
Total for the Control Committee	**-**	**39**

The Committee of Representatives		
Arne Henning Falkenhaug	-	10
Sveinung Hestnes	-	-
Vegard Sæten	-	-
Kjersti Hønstad	-	2
Hanne J Nordgaard	-	2
Gudrun Michelsen	-	-
Thor-Christian Haugland	-	2
Vidar Norheim	-	2
Kåre Johan Osen	-	2
Total for the Committee of Representatives	**-**	**18**

Note 9 Pensions

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

	2017	**2016**
Net pension obligations on the balance sheet		
Present value pension obligation as of Dec 31	17 093	15 980
Pension assets as of Dec 31	4 321	4 121
Net pension obligation as of Dec 31	12 772	11 859
Employer payroll tax	2 439	2 265
Net pension obligation recorded as of Dec 31	**15 211**	**14 124**

	2017	2016
Pension expense in the period		
Defined benefit pension accrued in the period	1 002	941
Defined contribution plan pension costs including AFP	1 043	1 019
Pension expense accounted for in the income statement	**2 045**	**1 960**

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

	2017	**2016**
Discount rate	2,60 %	2,60 %
Expected return on pension assets	2,60 %	2,60 %
Future annual compensation increases	2,50 %	2,50 %
Regulatory cap change	2,25 %	2,25 %
Pensions regulation amount	1,60%/2,00%	1,60%/2,00%
Employer payroll taxes	14,10 %	14,10 %

Note 10 Other operating expenses

NOK 1 000	2017	2016
IT and IT operations	9 143	9 295
Purchased services other than IT	10 290	11 471
Other Operating Expenses	1 934	1 796
Depreciation on fixed assets and other intangible assets	1 021	1 367
Total	**22 389**	**23 929**

Auditing

Remuneration to Deloitte AS and cooperating companies is allocated as follows:

NOK 1 000	2017	2016
Legally required audit	575	516
Other attestation services, incl. examination services, loan documents sample testing, comfort letters	682	611
Other services outside auditing	130	300
Total (incl VAT)	**1 387**	**1 427**

Note 11 Taxes

NOK 1 000	2017	2016
Pre-tax profit	-238 914	-146 334
Permanent differences	34	2
Change in temporary differences due to net unrealized gain/loss	270 260	1 577 616
Change in temporary differences due to use of previously tax deficit	-	-931 692
Change in corrections to be carried forward	-220 230	-
Tax base/taxable income for year	**(188 849,709)**	**499 591**
Tax payable	-	124 898
Change in deferred taxes	-59 720	-161 481
Tax expense	**-59 720**	**-36 583**
Effective tax rate	**25,00 %**	**25,00 %**
Change in derered taxes, tax expence	-59 720	-161 481
Tax on hybrid capital, directly against equity	-12 376	-
Tax effect on pension estimate deviation, shown in other comprehensive income	-87	-264
Change in derered taxes	**-72 182**	**-161 745**
Temporary differences as of 31.12		
Net unrealized gain/loss	800 099	1 069 618
Pension	-15 211	-14 124
Tax deficit to be carried forward	-238 353	-
Corrections to be carried forward	-	-220 230
Total temporary differences that affect taxable income	**546 535**	**835 264**
Net deferred tax benefit (-) / deferred tax (+)	**136 634**	**208 816**
Taxrate applied	25 %	25 %
Taxrate applied for temporary differences	25 %	25 %

Note 12 Other assets

NOK 1 000	2017	2016
Intangible assets *	438	1 245
Account receivables from SpareBank 1 Næringskreditt AS	750	299
Total	**1 188**	**1 543**

* Intangible assets

NOK 1 000	
Acquisition cost 01.01.2016	33 359
Acquisitions	732
Disposals	
Acquisition cost 31.12.2016	**34 091**
Accumulated depreciation and write-downs 01.01.2016	31 479
Periodical depreciation	1 367
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2016	32 846
Book value as of 31.12.2016	**1 245**
Acquisition cost 01.01.2017	34 091
Acquisitions	214
Disposals	
Acquisition cost 31.12.2017	**34 305**
Accumulated depreciation and write-downs 01.01.2017	32 846
Periodical depreciation	1 021
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2017	33 867
Book value as of 31.12.2017	**438**
Financial lifespan	3 years
Depreciation schedule	linear

Note 13 Lending to customers

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of 2017 were NOK 177.7 billion. All mortgages carry a variable interest rate.

NOK 1 000	2017	2016
Revolving loans - retail market	49 192 170	53 353 004
Amortising loans - retail market	128 318 018	120 969 629
Accrued interest	172 650	148 277
Total loans before specified and unspecified loss provisions	**177 682 838**	**174 470 910**
Specified loan loss provisions		-
Unspecified loan loss provisions	7 708	7 708
Total net loans and claims with customers	**177 675 130**	**174 463 203**

Liability		
Unused balances under customer revolving credit lines (flexible loans)	12 431 823	13 593 736
Total	**12 431 823**	**13 593 736**

Defaulted loans		
Defaults*	0,0 %	0,0 %
Specified loan loss provisions	0,0 %	0,0 %
Net defaulted loans	**0,0 %**	**0,0 %**

Loans at risk of loss		
Loans not defaulted but at risk of loss	0,0 %	0,0 %
- Write downs on loans at risk of loss	0,0 %	0,0 %
Net other loans at risk of loss	**0,0 %**	**0,0 %**

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

Changes to loan loss provisions

NOK 1 000	2017	2016
Loan loss provisions starting balance	7 708	7 708
Change in group loan loss provisions	0	0
Loan loss provisions ending balance	**7 708**	**7 708**

Loans sorted according to geography (Norwegian counties)

NOK 1 000		Lending 2017	Lending 2017 %	Lending 2016	Lending 2016 %
NO01	**Østfold**	-6 880 200	3,87 %	6 529 476	3,74 %
NO02	**Akershus**	-20 936 360	11,78 %	19 581 758	11,22 %
NO03	**Oslo**	-19 905 974	11,20 %	17 923 579	10,27 %
NO04	**Hedmark**	-13 975 457	7,87 %	13 334 486	7,64 %
NO05	**Oppland**	-6 134 660	3,45 %	5 439 439	3,12 %
NO06	**Buskerud**	-11 352 675	6,39 %	10 316 497	5,91 %
NO07	**Vestfold**	-7 593 287	4,27 %	7 394 448	4,24 %
NO08	**Telemark**	-6 776 593	3,81 %	6 473 779	3,71 %
NO09	**Aust Agder**	-385 354	0,22 %	421 288	0,24 %
NO10	**Vest Agder**	-1 236 810	0,70 %	1 792 554	1,03 %
NO11	**Rogaland**	-12 545 415	7,06 %	21 176 762	12,14 %
NO12	**Hordaland**	-2 737 304	1,54 %	3 245 956	1,86 %
NO14	**Sogn og Fjordane**	-374 850	0,21 %	369 652	0,21 %
NO15	**Møre og Romsdal**	-10 813 146	6,09 %	10 341 902	5,93 %
NO16	**Sør Trøndelag**	-19 284 868	10,85 %	18 470 852	10,59 %
NO17	**Nord Trøndelag**	-8 014 968	4,51 %	7 779 190	4,46 %
NO18	**Nordland**	-12 121 195	6,82 %	9 800 260	5,62 %
NO19	**Troms**	-11 517 284	6,48 %	9 848 163	5,64 %
NO20	**Finnmark**	-4 985 577	2,81 %	4 177 157	2,39 %
	Svalbard	-103 153	0,06 %	46 006	0,03 %
SUM		**-177 675 130**	**100,0 %**	**174 463 203**	**100,0 %**

Note 14 Share capital and shareholder information

List of shareholders as of 31.12.2017

	No of Shares	in per cent	Share of votes
SpareBank 1 Østlandet	13 850 375	21,08 %	21,08 %
SpareBank 1 SMN	13 039 586	19,85 %	19,85 %
SpareBank 1 Nord-Norge	11 072 943	16,85 %	16,85 %
SpareBank 1 SR-Bank ASA	5 228 563	7,96 %	7,96 %
BN Bank ASA	4 355 860	6,63 %	6,63 %
SpareBank 1 BV	4 101 771	6,24 %	6,24 %
SpareBank 1 Østfold Akershus	2 979 762	4,54 %	4,54 %
Sparebanken Telemark	2 920 903	4,45 %	4,45 %
SpareBank 1 Ringerike Hadeland	2 733 288	4,16 %	4,16 %
SpareBank 1 Nordvest	1 453 094	2,21 %	2,21 %
SpareBank 1 Modum	1 066 828	1,62 %	1,62 %
SpareBank 1 Søre Sunnmøre	847 945	1,29 %	1,29 %
SpareBank 1 Hallingdal Valdres	809 318	1,23 %	1,23 %
SpareBank 1 Gudbrandsdal	726 547	1,11 %	1,11 %
SpareBank 1 Lom og Skjåk	518 699	0,79 %	0,79 %
Total	65 705 482	100 %	100 %

The share capital consists of 65 705 482 shares with a nominal value of NOK 100

Hybrid capital

NOK 1000	ISIN	Interest rate	Issued year	Call option	2017	2016
Perpetual						
Hybrid (Tier 1 capital instrument)	NO0010713746	3M Nibor + 310 bp	2014	09.05.2019	350 000	350 000
Hybrid (Tier 1 capital instrument)	NO0010745920	3M Nibor + 360 bp	2015	23.09.2020	300 000	300 000
Hybrid (Tier 1 capital instrument)	NO0010746191	3M Nibor + 360 bp	2015	29.09.2020	180 000	180 000
Hybrid (Tier 1 capital instrument)	NO0010767643	3M Nibor + 360 bp	2016	22.06.2021	250 000	250 000
Hybrid (Tier 1 capital instrument)	NO0010811318	3M Nibor + 310 bp	2017	01.12.2022	100 000	-
Book value					1 180 000	1 080 000

Note 15 Liabilities incurred by issuing securities

	Nominal value*	Nominal value*
NOK 1 000	**2017**	**2016**
Short term notes, unsecured	121 000	950 000
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	2 747 000	3 481 000
Repurchased senior unsecured bonds	-	-232 000
Covered bonds	195 440 860	185 292 077
Repurchased Covered bonds	-679 000	-1 951 550
Total debt incurred by issuing securities	197 629 860	187 539 527

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

NOK 1 000	Book value 2017	Book value 2016
Short term notes, unsecured	120 999	949 966
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	2 747 224	3 480 574
Repurchased senior unsecured bonds	-	-231 456
Covered bonds	220 881 928	209 376 266
Repurchased covered bonds	-690 258	-2 136 734
Activated costs incurred by issuing debt	-165 460	-163 181
Accrued interest	1 568 549	1 781 147
Total debt incurred by issuing securities	**224 462 981**	**213 056 583**

Liabilities categorized by debt instrument and year of maturity (nominal value*, net of repurchased bonds) NOK 1,000:

Senior Unsecured Bonds and notes

Due in	2017	2016
2017	-	2 518 000
2018	1 312 000	800 000
2019	1 556 000	881 000
Total	**2 868 000**	**4 199 000**

Covered bonds

Due in	2017	2016
2017	-	19 449 500
2018	33 624 750	35 754 250
2019	27 580 116	27 535 470
2020	24 963 500	24 958 500
2021	28 877 278	28 770 128
2022	38 749 200	21 148 750
2023	14 624 800	9 252 750
2024	11 191 944	1 517 529
2025	1 010 000	1 010 000
2026	12 185 000	12 185 000
2027	672 472	475 850
2028	1 282 800	1 282 800
Total	**194 761 860**	**183 340 527**

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

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

NOK 1 000	2017	2016
NOK	65 008 436	62 584 741
EUR	135 362 358	120 282 131
USD	18 270 303	29 922 726
GBP	5 546 052	0
SEK	275 832	266 985
Total	**224 462 981**	**213 056 583**

Note 16 Subordinated debt

NOK 1000	ISIN	Interest rate	Issued year	Call option	Nom-inal	2017	2016
With maturity							
Subordinated debt (Tier 2 capital instrument)	NO0010704109	3M Nibor + 225 bp	2014	07.05.2019		1 600 000	1 600 000
Accrued interest						3 356	3 778
Book value						**1 603 356**	**1 603 778**

Note 17 Reconciliation of liabilities arising from financing activities

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

			Non-cash changes		
NOK 1000	**2016**	**Financing cash flows**	**Adjustments**	**Other changes**	**2017**
Liabilities					
Debt incurred by issuing certificates	956 248	-828 967	-	-4 576	122 705
Debt incurred by issuing bonds	212 100 336	10 266 970	2 180 994	-208 023	224 340 276
Collateral received in relation to financial derivatives	24 304 397	-1 413 538	-	737 394	23 628 253
Financial derivatives	1 781 221	-	-887 665	4 737	898 292
Subordinated dept	1 603 778	-	-	-423	1 603 356
	240 745 979	8 024 466	1 293 328	529 110	250 592 882

Note 18 Financial derivatives

NOK 1 000	2017	2016
Interest rate derivative contracts		
Interest rate swaps		
Nominal amount	74 269 883	69 479 995
Asset	3 661 041	4 346 925
Liability	-655 346	-667 779
Currency derivative contracts		
Currency swaps		
Nominal amount	145 676 227	138 286 431
Asset	23 483 084	22 604 660
Liability	-52 478	-1 113 441
Total financial derivative contracts		
Nominal amount	219 946 110	207 766 425
Asset	27 144 125	26 951 585
Liability	-707 824	-1 781 221

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

* Change due to basis swap spread adjustment	Liability	Asset
Asset/Liability	-707 824	26 951 585
Net gain (loss) on valuation adjustment of basisswap spreads	-190 468	198 803
Net asset/liability derivatives	**-898 292**	**27 150 388**

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

Note 19 Classification of Financial Instruments

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	**2017**
Assets					
Lending to and deposits with credit institutions	-	3 044 644	-	-	3 044 644
Certificates and bonds	54 318 384	-	-	-	54 318 384
Lending to customers	-	177 675 130	-	-	177 675 130
Financial derivatives	27 144 125	-	-	-	27 144 125
Defered tax asset	-	-	-	0	0
Other assets	-	-	-	1 188	1 188
Total Assets	**81 462 509**	**180 719 774**	**0**	**1 188**	**262 183 472**
Liabilities					
Debt incurred by issuing securities	176 536 265	47 926 716	-	-	224 462 981
Collateral received in relation to financial derivatives	-	23 628 253	-	-	23 628 253
Financial derivatives	898 292	-	-	-	898 292
Deferred taxes	-	-	-	136 634	136 634
Taxes payable	-	-	-	-	-
Subordinated dept	-	1 603 356	-	-	1 603 356
Other liabilities	-	-	-	182 231	182 231
Total Liabilities	**177 434 557**	**73 158 325**	**-**	**318 865**	**250 911 747**
Total Equity	**-**	**1 180 000**	-	**10 091 724**	**11 271 724**
Total Liabilities and Equity	**177 434 557**	**74 338 325**	**-**	**10 410 589**	**262 183 472**

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

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	2016
Assets					
Deposits at and receivables from financial institutions	-	8 129 096	-	-	8 129 096
Certificates and bonds	42 431 771	-	74 846	-	42 506 617
Lending to customers	-	174 463 203	-	-	174 463 203
Financial derivatives	27 150 388	-	-	-	27 150 388
Other assets	-	-	-	1 543	1 543
Total Assets	**69 582 160**	**182 592 299**	**74 846**	**1 543**	**252 250 848**
Liabilities					
Debt incurred by issuing securities	169 924 011	43 132 572	-	-	213 056 583
Collateral received in relation to financial derivatives	-	24 304 397	-	-	24 304 397
Financial derivatives	1 781 221	-	-	-	1 781 221
Deferred taxes	-	-	-	208 816	208 816
Taxes payable	-	-	-	124 898	124 898
Subordinated dept	-	1 603 778	-	-	1 603 778
Other liabilities	-	-	-	117 865	117 865
Total Liabilities	**171 705 232**	**69 040 747**	**-**	**451 579**	**241 197 558**
Total Equity	**-**	**1 081 034**	**-**	**9 972 256**	**11 053 290**
Total Liabilities and Equity	**171 705 232**	**70 121 781**	**-**	**10 423 835**	**252 250 848**

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

Note 20 Financial instruments at fair value

Methods in order to determine fair value

General

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

Interest rate and currency swaps

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

Bonds

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

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

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

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

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

The following table presents the company's assets and liabilities at fair value as of 31.12.2017

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	34 388 921	19 929 463	-	54 318 384
Financial Derivatives	-	27 144 125	-	27 144 125
Total Assets	34 388 921	47 073 589	-	81 462 509
Bonds	-	176 536 265	-	176 536 265
Financial Derivatives	-	898 292	-	898 292
Total Liabilities	**-**	**177 434 557**	**-**	**177 434 557**

The following table presents the company's assets and liabilities at fair value as of 31.12.2016

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	25 742 488	16 764 091	-	42 506 579
Financial Derivatives	-	27 150 388	-	27 150 388
Total Assets	**25 742 488**	**43 914 479**	**-**	**69 656 968**
Bonds	-	169 924 011	-	169 924 011
Financial Derivatives	-	1 781 221	-	1 781 221
Total Liabilities	**-**	**171 705 232**	**-**	**171 705 232**

Note 21 Other liabilities

NOK 1 000	**2017**	**2016**
Employees tax deductions and other deductions	911	1 470
Employers national insurance contribution	627	476
Accrued holiday allowance	1 038	1 011
Commission payable to shareholder banks	155 832	92 506
Deposits*	771	1 010
Pension liabilities	15 211	14 124
Other accrued costs	7 840	7 267
Total	**182 231**	**117 865**

The Company does not have an overdraft facility or a revolving credit facility as of 31.12.2017

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

Note 22 Credit risk

Credit risk is defined as the risk that losses can occur as a consequence of that customers and others do not have the ability or willingness to meet their obligations to SpareBank 1 Boligkreditt as and when agreed.

Credit risk mainly includes loans to customers which are collateralised by private residences (residential mortgage loans), but also includes credit risk in derivatives contracts (counterparty credit risk) and investment in bonds within the Company's liquidity portfolio. SpareBank 1 Boligkreditt AS maintains a credit policy and limits in order to manage and closely monitor all credit risk the company is exposed to.

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

Credit Exposure

NOK 1 000	2017	2016
Loans to customers	177 675 130	174 463 203
Loans to and deposits with credit institutions	3 044 644	8 129 096
Government certificates	1 457 489	1 948 409
Bonds	52 860 895	40 558 209
Financial derivatives	27 144 125	27 150 388
Total assets	**262 182 284**	**252 249 305**
Unused credit on flexible loans	12 430 867	13 593 736
Received collateral in relation to derivative contracts	-23 628 253	-24 304 397
Total credit exposure	**250 984 897**	**241 538 644**

Lending to customers (residential mortgage loans)

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

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

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

- Maximum probability of default for the portfolio: 0.75 %
- Expected loss in the portfolio: < 0.05 % of the loan volume
- Unexpected loss in the portfolio (at a 99.97% confidence level): < 0,5 % of the loan volume

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

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

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

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

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

Definition of risk groups - based on probability of default

			Distribution in %		Total lending *	
Risk group	**Lower limit**	**Upper limit**	**2017**	**2016**	**2017**	**2016**
Lowest	0,00 %	0,01 %	84,97 %	83,49 %	150 705 579	145 420 072
Low	0,01 %	0,05 %	11,45 %	12,66 %	20 315 920	22 058 993
Medium	0,05 %	0,20 %	2,40 %	2,60 %	4 247 925	4 531 889
High	0,20 %	0,50 %	0,62 %	0,62 %	1 092 737	1 079 148
Highest	0,50 %	100 %	0,56 %	0,63 %	994 165	1 094 298
Total			**100,00 %**	**100,00 %**	**177 356 326**	**174 184 400**

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

Loans to and deposits with credit institutions

SpareBank 1 Boligkreditt only has deposits with financial institutions rated A-/A2 or higher as of 31.12.2017

Bonds and certificates

Rating class		2017	2016
AAA/Aaa	Covered Bonds	33 109 780	24 681 109
	Norw. Government bills	1 146 945	1 948 409
	Other government or gov guaranteed bonds	18 772 424	12 154 915
	Financial institutions		
	Total	53 029 149	38 784 432
AA+/Aa1 to AA-/Aa3	Other government bonds	1 289 235	-
	Covered Bonds	-	3 722 186
	Financial institutions	1 389 231	3 981 316
	Total	2 678 466	7 703 501
A+/A1 - A/A2	Financial institutions	1 655 413	4 147 781
	Total	1 655 413	4 147 781
Total		**57 363 028**	**50 635 714**

Fitch/Moody's/S&P rating classes are used. If the ratings differ, the lowest counts. All bonds are publicly listed.

Financial derivatives
Derivative contracts are only entered into with counterparties with a certain minimum rating by Fitch Ratings and Moody's Ratings. Service. If the value of the derivative exceeds the credit limits held by SpareBank 1 Boligkreditt for counterparty risk in derivative contracts the counterparty must post cash collateral in either NOK or EUR. SpareBank 1 Boligkreditt is not required to post collateral if the value of the contract should be in favour of the counterparty. Collateral received is included in the balance sheet under receivables with and debt to credit institutions.

Note 23 Liquidity risk

Liquidity risk is defined as the risk that the business is not able to meet its obligations at maturity. SpareBank 1 Boligkreditt AS issues covered bonds at shorter maturities than the residential mortgages which make up the largest portion of assets on the Company's balance sheet. The Liquidity risk which arises is closely monitored and is in compliance with the Norwegian covered bond legislation which amongst other things requires that the cash flow from the cover pool is sufficient to cover outgoing cash flows for holders of preferential claims on the cover pool (holders of covered bonds and counterparties in associated hedging contracts (swaps). In order to manage the liquidity risk certain limits and liquidity reserves have been approved by the Board of Directors. SpareBank 1 Boligkreditt AS maintains a liquidity reserve which will cover undrawn amounts under revolving loans, a theoretical temporary halt to incoming interest payments from the mortgage loans and at any point in time cover bond maturities for the next six months (100 per cent) and 50 per cent for maturities between 6 and 12 months, according to the proposals for a new Net Stable Funding Ratio (NSFR). Liquidity risk is monitored on a regular basis and weekly reports are presented to the management and monthly reports to the Board.

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

Liquidity Risk - all amounts in 1000 NOK

	31.12.2017	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	57 002 570	3 044 644	1 786 446	3 676 825	18 875 514	27 951 055	1 668 086
Lending to customers	177 675 130		1 806	6 710	34 579	1 359 146	176 272 889
Derivatives	27 144 125			2 618 827	3 642 042	19 301 624	1 581 632
Treasury Bills	360 459				360 459		
Other assets with no set term	1 188	1 188					
Total Assets	262 183 472	3 045 832	1 788 251	6 302 362	22 912 594	48 611 825	179 522 607
Liabilities incurred when issuing securities	-224 462 981		-122 705	-9 957 524	-31 044 197	-140 952 709	-42 385 846
Other liabilities with a set term	-23 628 253		-23 628 253				
Derivatives	-898 292			0	-42 365	-577 844	-278 083
Liabilities with no set term	-318 865	-318 865					
Subordinated debt	-1 603 356						-1 603 356
Equity	-11 271 724	-11 271 724					
Total liabilities and equity	-262 183 472	-11 590 589	-23 750 959	-9 957 524	-31 086 561	-141 530 553	-44 267 285
Net total all items		-8 544 757	-21 962 708	-3 655 162	-8 173 967	-92 918 728	135 255 322

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2016	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	48 687 305	3 994 435	3 357 730	8 578 924	8 044 821	22 730 132	1 981 263
Lending to customers	174 463 203		461	11 380	54 358	1 335 536	173 061 469
Derivatives	27 150 388			1 683 619	3 687 768	19 877 432	1 901 571
Treasury Bills	1 948 409			1 556 606	391 802		
Other assets with no set term	1 543	1 543					
Total Assets	252 250 848	3 995 978	3 358 191	11 830 529	12 178 749	43 943 099	176 944 302
Liabilities incurred when issuing securities	-213 056 583	163 142		-11 729 124	-15 631 589	-137 982 657	-47 876 356
Other liabilities with a set term	-24 304 397		-24 304 397				
Derivatives	-1 781 221		-4 334	-1 665	-26 161	-910 328	-838 733
Liabilities with no set term	-451 579	-451 579					
Subordinated debt	-1 603 778						-1 603 778
Equity	-11 053 290	-9 972 256					-1 081 034
Total liabilities and equity	-252 250 848	-10 260 693	-24 308 730	-11 730 788	-15 657 751	-138 892 985	-51 399 901
Net total all items		-6 264 714	-20 950 540	99 741	-3 479 002	-94 949 886	125 544 401

Note 24 Interest rate risk

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

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2017	**No set term**	**Maturity 0 to 1 month**	**Maturity 1 to 3 months**	**Maturity 3 to 12 months**	**Maturity 1 to 5 years**	**Maturity more than 5 years**
Loans to credit institutions	57 002 570		10 927 048	20 539 188	14 045 322	9 885 412	1 605 600
Lending to customers	177 675 130			177 675 130			
Treasury Bills	360 459			0	360 459		
Other assets with no set term	1 188	1 188					
Total Assets	235 039 347	1 188	10 927 048	198 214 318	14 405 781	9 885 412	1 605 600
Liabilities incurred when issuing securities	-224 462 981		-2 715 292	-62 534 873	-24 406 676	-97 778 557	-37 027 584
Other liabilities with a set term	-23 628 253	-23 628 253					
Liabilities with no set term	-318 865	-318 865					
Subordinated debt	-1 603 356						-1 603 356
Equity	-11 271 724	-11 271 724					
Total liabilities and equity	-261 285 180	-35 218 843	-2 715 292	-62 534 873	-24 406 676	-97 778 557	-38 630 939
Net interest rate risk before derivatives	-26 245 833	-35 217 654	8 211 756	135 679 445	-10 000 895	-87 893 145	-37 025 339
Derivatives	26 245 833	0	-18 090 116	-103 224 852	24 233 598	87 919 170	35 408 033
Net interest rate risk		-35 217 654	-9 878 361	32 454 594	14 232 703	26 025	-1 617 306
% of total assets		13 %	4 %	12 %	5 %	0 %	1 %

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2016	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	48 687 305		14 280 822	20 056 453	6 637 569	5 930 120	1 782 340
Lending to customers	174 463 203			174 463 203			
Treasury Bills	1 948 409			1 556 606	391 802		
Other assets with no set term	1 543	1 543					
Total Assets	225 100 459	1 543	14 280 822	196 076 262	7 029 372	5 930 120	1 782 340
Liabilities incurred when issuing securities	-213 056 583	163 142	-2 582 945	-53 356 072	-13 584 329	-102 482 711	-41 213 669
Other liabilities with a set term	-24 304 397	-24 304 397					
Liabilities with no set term	-451 579	-451 579					
Subordinated debt	-1 603 778						-1 603 778
Equity	-11 053 290	-9 972 256					-1 081 034
Total liabilities and equity	-250 469 627	-34 565 089	-2 582 945	-53 356 072	-13 584 329	-102 482 711	-43 898 481
Net interest rate risk before derivatives	-25 369 168	-34 563 546	11 697 877	142 720 190	-6 554 958	-96 552 591	-42 116 140
Derivatives	25 369 168	0	-13 613 890	-108 987 025	12 419 060	96 568 067	38 982 956
Net interest rate risk		-34 563 546	-1 916 013	33 733 166	5 864 102	15 476	-3 133 185
% of total assets		14 %	1 %	13 %	2 %	0 %	1 %

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

		Sensitivity of net interest rate expense in NOK 1000	
Currency	**Change in basis points**	**2017**	**2016**
NOK	100	51 373	57 009

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

Note 25 Currency risk

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

Net currency exposure in NOK 1000

Currency	2017	2016
EUR	**-53 851**	**2 378**
- Bank Deposits	12 650	6 015
- Issued Bonds	-135 527 780	-120 282 093
- Derivatives	123 802 194	111 776 825
- Bond investments	11 659 085	8 501 631
USD	**5 513**	**14 246**
- Bank Deposits	5 413	14 142
- Issued Bonds	-18 270 303	-29 922 726
- Derivatives	18 270 402	29 922 831
- Bond investments		
SEK	**0**	**0**
- Bank Deposits	**-**	**-**
- Issued Bonds	-275 832	-266 985
- Derivatives	275 832	266 985
- Bond investments	-	-
GBP	-	-
- Bank Deposits	-	-
- Issued Bonds	-5 546 052	-
- Derivatives	5 546 052	-
- Bond investments	-	
Total	-48 338	16 625

P&L effect before tax, in NOK 1000

Currency	Change in Exchange Rate (per cent)	2017	2016
EUR	+10	-5 385	-297
USD	+10	551	183
SEK	+10	0	-
GBP	+10	-	
Total		-4 834	-114

Note 26 Operational Risk

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

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

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

The Company annually holds a risk-works shop to discuss and look for risks and improvements in any aspects of the operational systems. The Company's management and control of operational risks are satisfactory. Based on these facts there are no reasons which would lead to a different conclusion than that the standard method for the calculation of capital for operational risks are required. The Company therefore applies the standard method under the capital adequacy rules (CRD IV, Pillar 1) as method to calculate the operational risk capital requirement. The capital so calculated amounts to 58.7 million for 31.12.2017 (see also the note for capital adequacy)

Note 27 Asset coverage test

The asset coverage is calculated according to the Financial Services Act § 2-31 (Covered Bond Legislation). There is a discrepancy between the asset coverage test and the amounts in the balance sheet because for the purposes of the test mortgage loans which may have migrated above the 75% loan to value level are reduced to reflect the decrease in the value of the underlying collateral so that only a maximum loan corresponding to a value of 75% of the collateral is considered. Market values are used for all substitute collateral in the test. In addition any defaulted loans, i.e. loans in arrears at or beyond 90 days, are excluded from the test (there have been no occurrences of any defaults starting with the commencement of operations through 2017).

According to discussions the Company has had with the Financial Services Authority, the presentation of the table in this note has been modified in the following way for 2017 (2016 is shown on the previous basis):

- The derivatives values, which are fx and/or hedges corresponding to issued covered bonds have been moved to be included in the cover pool. They were previously shown with the covered bonds. - Repurchased own bonds have been removed from the calculation.

NOK 1 000	2017	2016
Covered Bonds	222 444 844	211 161 257
Repurchased Bonds **	-	-2 155 498
Derivatives *	-	-25 321 068
Total Covered Bonds	222 444 844	183 684 691
Lending to customers	176 832 108	173 757 431
Lending to the public sector (gov. bonds/ certificates or gov. guaranteed debt)	2 432 576	-
Liquid assets (substitute assets)	30 750 021	26 181 743
Derivatives *	26 599 558	-
Total Cover Pool	236 614 263	199 939 174
Asset-coverage	106,4 %	108,8 %

Liquidity Coverage Ratio (LCR)	2017	2016
Liquid assets	510 729	6 907 156
Cash outflow next 30 days	491 758	430 345
LCR ratio	104 %	1605 %

Net Stable Funding Ratio (NSFR)	2017	2016
Available amount of stable funding	185 243 178	179 903 405
Required amount of stable funding	181 490 902	178 901 734
NSFR ratio	102,1 %	100,6 %

Note 28 Capital adequacy

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

A new capital requirements directive was introduced in Norway as of January 1, 2007 (Basel II). SpareBank1 Boligkreditt AS obtained permission from the Financial Services Authority in Norway (Finanstilsynet) for the implementation of its own Internal Ratings Based (IRB model for credit risks from the second quarter of 2009.

Transitional rules have been implemented by the FSA whereby regulated financial institutions with approved IRB models will not be able to fully benefit from the results of such models until the year 2018. Regulated entities are allowed to reduce by 20% the total sum of risk weighted assets which would otherwise have been in place under the previous Basel I framework. In the following years until the end of 2017, the transitional rules will lead to significantly higher capital requirements than what would otherwise have been applicable under Basel II.

The European Union has approved new regulatory requirements, CRD IV, which is implemented in Norway. The requirement of 16.3% total capital in effect from December 31, 2017 includes a 12.8% Core Tier 1 capital (including a 2.0% countercyclical buffer and 0,8% pilar 2 requirment) and 3.5% other capital.

The Company's parent banks have committed themselves to keep the Equity Core Tier 1 capital at a minimum 9% (is currently being reviewed with a target to increase to 11%). Primarily this commitment is pro rata according to the ownership stakes in the Company, but it is a joint and several undertaking if one or more ownership banks are unable to comply, up to the maximum of twice the initial pro rata amount.

Capital. NOK 1 000	2017	2016
Share capital	6 570 548	6 330 548
Premium share fund	3 287 922	3 167 922
Other equity capital	233 254	473 786
Common equity	10 091 724	9 972 256
Intangible assets	-438	-1 245
Declared share dividend	-72 276	-113 950
100% deduction of expected losses exceeding loss provisions IRB (CRD IV)	-338 144	-322 613
Prudent valuation adjustment (AVA)	-32 770	-71 438
Core equity capital	**9 648 096**	**9 463 010**
Hybrid bond	1 180 000	1 080 000
Tier 1 equity capital	**10 828 096**	**10 543 010**
Supplementary capital (Tier 2)	1 600 000	1 600 000
Total capital	**12 428 096**	**12 143 010**

Minimum requirements for capital. NOK 1 000	2017	2016
Credit risk	3 318 616	3 173 049
Market risk	-	-
Operational risk	58 661	52 871
Depreciation on groups of loans	-	-
CVA Risk	245 931	109 651
Difference in capital requirement resulting from transitional floor	2 337 486	2 545 697
Minimum requirement for capital	**5 960 695**	**5 881 268**

Capital Coverage

	2017	2016
Risk-weighted assets incl. transitional floor	74 508 686	73 515 848
Capital coverage (%)	16,68 %	16,52 %
Tier 1 capital coverage (%)	14,53 %	14,34 %
Core Tier 1 capital coverage (%)	12,95 %	12,87 %
Leverage ratio (%)	3,63 %	4,38 %

Note 29 Related parties

The Company has 177 675 MNOK loans to customers. These are loans acquired from shareholder banks at market values (i.e. nominal value).

SpareBank 1 SR-Bank ASA

The Company purchases a substantial amount of their support functions from SpareBank 1 SR-Bank ASA. A complete SLA is established between the Company and SpareBank 1 SR-Bank ASA.

SpareBank 1 - Alliance

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

SpareBank 1 Næringskreditt AS

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

Note 30 Collateral received

SpareBank 1 Boligkreditt has signed ISDA-agreements including CSAs (Credit Support Annexes) with a number of financial institutions that are counterparties in interest rate and currency swaps. These institutions post collateral in the form of cash deposits to SpareBank 1 Boligkreditt. At the end of the period 31.12.2017 this collateral amounted to NOK 23 628 million. This amount is included in the balance sheet, but represents restricted cash. According to signed ISDA and CSA agreement, it is not permitted for the parties in derivatives transactions to net amounts amongst various transactions.

Note 31 Contingencies and Events after the Balance Sheet Date

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

No events have taken place after the balance sheet date which are expected to have any material impact on the financial statements as of the end of the period 31.12.2016

The dividend for 2016 is proposed to be NOK 114 million (NOK 1.8 per share)

Note 32.1 IFRS 9 Financial instruments

IFRS 9 Financial instruments will replace today's IAS 39 Financial instruments – recognition and measurement. IFRS 9 concerns recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 will be applicable from 1. January 2018 and has been approved by the EU. In 2015 the SpareBank 1 Gruppen has created a joint task team across several work disciplines with participants from all the banks which use IFRS to work on IFRS 9 implementation ('the Project'). The Project has a management group and the following sub-teams:

1. Models and methods
   Development of a calculation solutions and models in order to establish forward looking estimates for expected loss.
2. Strategy, organisation and processes
   Define how the ongoing accounting work according to IFRS 9 shall be organised between all the cooperating banks.
3. Accounts and reporting
   Specify the accounting and notes, including accounting principle note and templates
4. Classification and measurement
   Map the financial instruments in the group and classify these in various categories

A description of the new requirements in IFRS 9 and changes from earlier standards follows below. Furthermore a clarification of the choices which SpareBank 1 Boligkreditt (the 'Company') has taken and the status of the Project implementation

A. Classification and measurement

Financial assets

According to IFRS 9 financial assets are to be classified into three categories: fair value with changes in fair value over other income and expense (OCI), fair value with changes in fair value over the profit and loss and amortized cost. The measurement category is determined at the initial accounting for the asset. Within financial assets a differentiation is made between debt instruments, derivatives and equity instruments, where debt instruments are all instruments which are not derivatives or equity instruments. The classification of financial assets is determined based on the contractual terms and conditions for the assets and according to which business model is employed for the management of the portfolio which the assets are included in.

Financial assets which are debt instruments

Debt instruments with contractual cash flows which consists solely of interest rates and principal payments on specified dates and which are held for the purpose of receiving the contractual cash flows are measured at amortized cost. Instruments with contractual cash flows which consists solely of interest rates and principal payments on specified dates and which are held in order to both receive the contractual cash flows and in order to sell the instruments are measured at fair value with changes in fair value over OCI, but with interest income and any write downs included in the ordinary profit and loss statement. Changes to fair value recorded in OCI shall be reclassified to the profit and loss upon sale or upon any other derecognition of the asset.

Other debt instruments are measured at fair value with changes in fair value over profit and loss. These are instruments with cash flows which involve not just the payment of interest rate (which is payment for the time value of money, credit margin and other normal margins tied to lending and receivables) and principal amount, and instruments which are included in portfolios where the aim is not the receipt of contractual cash flows. Instruments which according to IFRS 9 should be accounted for at amortized cost or at fair value with changes in fair value over OCI may be measured at fair value with changes over profit and loss if this eliminates or materially reduces an accounting mismatch.

The majority of Boligkreditts assets are lending to customers at variable rates. The business model is the receive contractual cash flows from interest and principal. These assets are held at amortized cost. All other financial assets (liquidity portfolio) are accounted for at fair (market value) with changes in fair value over profit and loss.

Derivatives

All derivatives are measured at fair value with changes in fair value over profit and loss, though derivatives which are designated as hedging instruments are to be accounted for according to the principles of hedge accounting. Boligkreditt accounts for derivatives at fair value based on the market elements of interest rates and foreign exchange rates, while the hedged instruments which are financial assets are held at market values.

Financial liabilities

The rules for financial liabilities are essentially unchanged compared to today's IAS 39. As a main rule financial liabilities are measured at amortized cost with the exception of financial derivative measured at fair value, financial instruments which are included in a trading portfolio and financial liabilities designated to be accounted for at fair value with changes in fair value over the profit and loss statement. A change compared to IAS 39 is that for financial liabilities which are accounted for at fair value over the profit and loss, the changes in fair value that are due to the company's own credit risk are included in OCI, and not in the regular profit and loss as today. Boligkreditt accounts for derivatives at fair value based on changes in interest and foreign exchange rates while liabilities that are hedged are also held at fair value for changes in these elements, in addition to an amortized cost element.

Hedge accounting

IFRS 9 simplifies the requirements for hedge account in that the hedge efficiency is tied to management's risk control and thereby more room for judgments is provided. The requirement of hedge efficiency within the 80 to 125 per cent range has been removed and replaced with more qualitative requirements, including an economic connection between the hedge instrument and the hedged instrument and that credit risk is not the dominating factor for changes in the value of the hedging instrument. According to IFRS 9 it is sufficient with a prospective test of efficiency, while the hedge efficiency according to IAS 39 has to be evaluated both prospectively and retrospectively. Hedge documentation is still required. Hedge accounting will be continued along the same lines as today.

Hedges at SpareBank 1 Boligkreditt are always used to exactly off-set cash flows, meaning all hedges are tailored to a specific debt issuance or asset for the duration of the hedged instrument. Bonds issued in currency are thereby exactly matched to create an effective liability on a floating 3 months NIBOR basis. Fixed rate and/or currency assets held in the Company's liquidity portfolio have hedges that exactly match the return feature, creating 3 month NIBOR floating rate assets. Another minor feature in the Company's hedging activities is that natural liability-assets hedges may occur, whereby a liability in currency matches an investment in currency on a floating rate basis. In natural hedges, due to differences in tenor between floating rate assets and floating rate liabilities there may be credit spread risk which is not exactly offset, but this is a minor component of the overall hedging activities.

SpareBank 1 Boligkreditt has made the following choices for selected issues:

Lending

All loans the Company has made are at variable interest rates. The Company has the right to adjust the interest rate terms according to changes in market rates, in credit exposures, in the competitive landscape and so on. At the same time the debtor has the right to prepay the loan at par. The loans are made at standard terms and conditions for residential real estate mortgages in Norway, and the debtor's right to early prepayment and the competition between banks means that the cash flows of the loans do not materially deviate from what IFRS 9 defines as the payment of interest rates and principal at defined dates. In the Project team's assessment the nature of the loans are consistent with the requirement for measurement at amortized cost. The business model which the loans are included in is one where contractual cash flows are received, and therefore the conclusion is that the classification according to IFRS 9 is at amortized cost.

Lending at fixed interest rates and with a right to prepayment

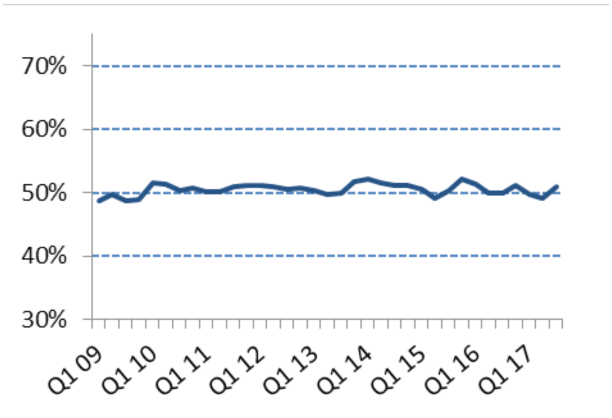
Loans at fixed interest rates may be prepaid prior to maturity in exchange for the payment of an amount above or below par. Contractual terms which give a right to prepayment below par may result in that fixed rates loans have to be accounted for at fair value with changes in fair value in the profit and loss statement. This is due to that the nature of these cash flows are assessed not to be consistent with the receipt of only interest rate and principal payments. Rights which are provided by legal statutes as opposed to contracts may be disregarded in the assessment of classification. The Company's assessment is that these loans are measured at fair value with changes in fair value over profit and loss according to IFRS 9. The question of whether prepayment rights lead to a requirement that such instruments must be accounted for at fair value has been raised with the IASB and changes to the rules in this area can not be excluded. SpareBank 1 Boligkreditt bars the transfer of fixed rate loans to its cover pool at the present time, and it has never been possible for the SpareBank1 banks to sell fixed rate loans to the Company since the founding in 2005.

Liquidity portfolio

The Company maintains a liquidity portfolio which has a business model that is the receipt of contractual cash flows and sales and the assessment is that this portfolio is accounted for at fair value with changes in fair value over profit and loss.

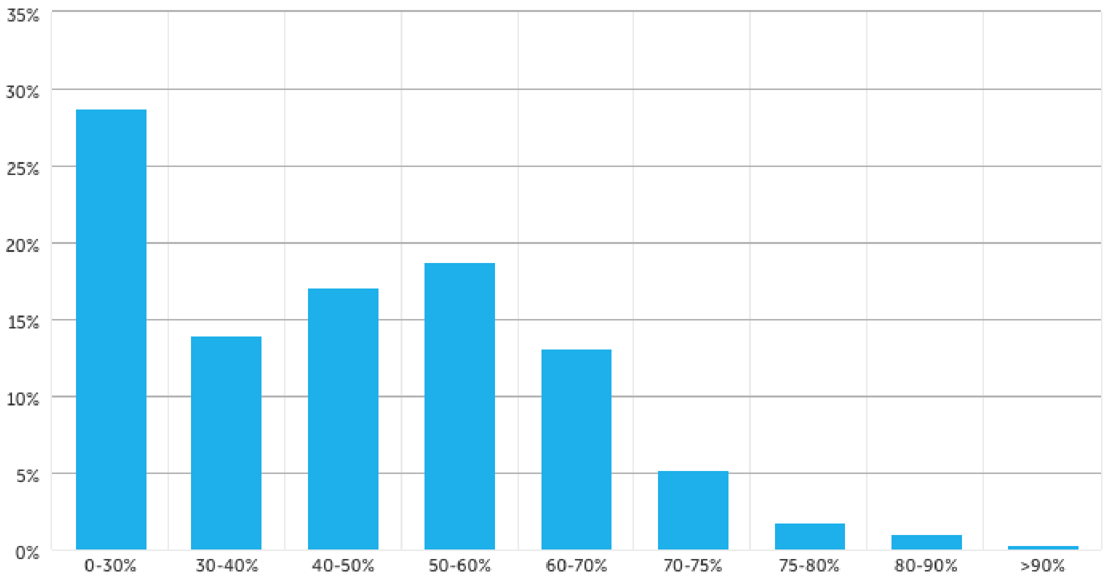
Generally about the Boligkreditt mortgage loan portfolio:

Boligkreditt has a granular and homogenous portfolio of loans originated and transferred to the Company by its parents' banks to obtain covered bond funding. The criteria that governs which loans qualify for the cover pool are several, both legal criteria for covered bond companies in Norway internal and rules selecting certain customers with a lower probability of default, as well as based on other customer quality characteristics and documentation criteria. The legal limit for loan to value is 75 per cent at the time of loan transfer and the weighted current (updated quarterly) average loan to value has been around the 50 per cent level. The Company has, as a consequence for which mortgage loans can come into the cover pool, a better credit quality than a typical bank

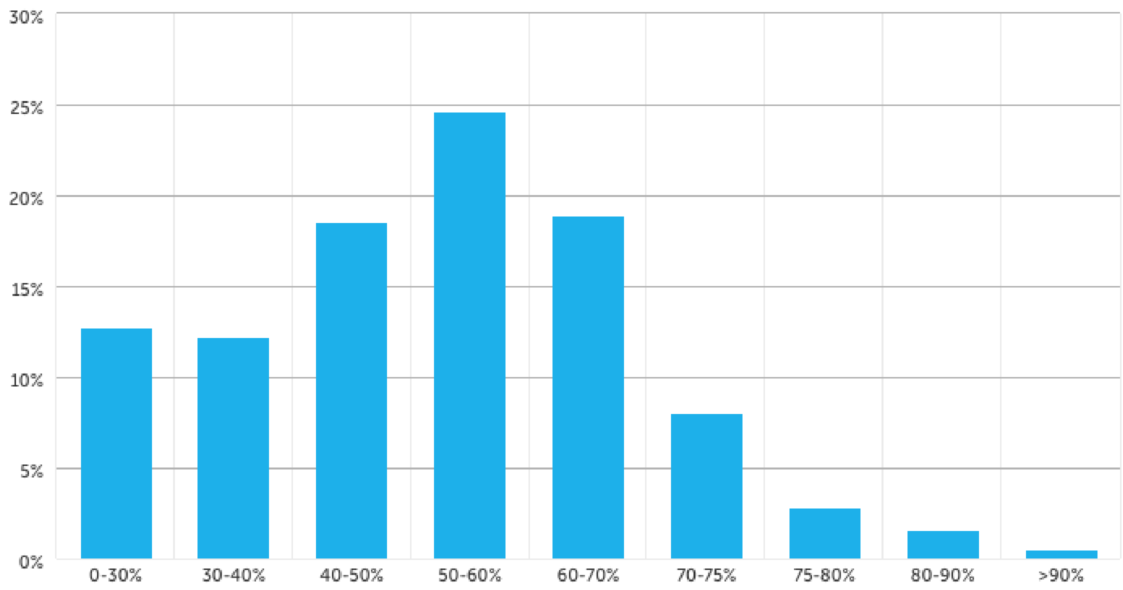


The mortgage loans are to a large degree in the lower loan to value intervals, with few loans over 75 per cent. The average mortgage loan size is 1.3 million kroner

Number of loans in each LTV intervall:



Share of loans (measured in NOK) in each LTV intervall:



B. Loan loss write downs

According to today's rules, write downs for loan losses are only to be made when objective evidence exists that a loss event has occurred. According to IFRS 9 the loan loss provisions shall be made based on expected loan losses (ECL). The general model for loan write downs of financial assets in IFRS 9 will be applicable to financial assets measured at amortized cost or at fair value with changes in fair value over OCI.

Individual loan loss write downs or actual loan losses have not been taken in the accounts at SpareBank 1 Boligkreditt in the past. The Company's parent banks (mortgage originators) have an incentive to take back loans which come into arrears beyond a certain point, and before a loan defaults at 90 days of arrears. This practice is expected to continue.

The measurement of the provision for expected losses in the general IFRS 9 model depends on whether the credit risk has materially changed since the assets was originally recorded. At the initial accounting for a new assets and when the credit risk has not increased materially thereafter a loan loss provision corresponding to a 12 months expected loss shall be made. The 12 months expected loss is the loss that can be expected to occur over the life time of the instrument, but which is tied to events that may occur in the first 12 months. If the credit risk has materially increased a loan loss provision for the entire life of the asset shall be made.

The management team of the Project has established a method to determine whether the credit risk since the first recognition of a loan has materially increased by calculating the change in the probability of default for the remaining life time of the loan. The expected credit loss is calculated based on the present value of all cash flows according to the contract and the cash flows the lender expects to receive, discounted by the effective interest rate for the loan.

The method in the IFRS 9 standard implies a somewhat increased volatility in loan write downs based on the economic outlook. It is to be expected that loan write downs will occur at an earlier date than according to todays practice. This will be especially noticeable at the downturn of the economic and business cycle.

The model for loan loss provisions

The assessment of loan losses will be made quarterly and will be based upon the existing database where all past history for all account- and customer data for the credit portfolio, lending and guarantees are included. The loan loss provisions will be calculated based on a customer's probability of default (PD), the loan loss given default (LGD) and loan exposure at default (EAD). The database contains historical data for PD and LGD observations. This will form the basis on which estimates for future values for PD and LGD are made. Based on IFRS 9, the Company will categorize its loans into three levels.

Level 1:

This is the starting point for all financial assets included in the general loan loss provision model. All assets which have no materially increased credit risk since the initial recognition will have a loan loss provisions corresponding to a 12 months expected loss. This level includes all assets not transferred to Level 2 or 3. The loss is calculated by the formula below under the Level 2 heading, but only one year is considered

Level 2:

In level 2 in the loan loss provision model are assets which have had a material increase in credit risk since the initial recognition, but where an objective evidence of a loan loss does not exist. For these assets a loan loss provision corresponding to an expected loss over the life time of the asset is made:

$Lifetime\ Expected\ Credit\ Loss = \sum_{t=1}^{T} \frac{PD_t \times LGD_t \times EAD_t \times (1-CPD_{t-1})}{(1+r)^t}$, where 1-CPD is the survival rate (r= discount rate, i.e. risk free rate plus the loan credit spread, t = year, T= years to maturity)

5 years are considered in the model by PD and LGD point in time

estimates for each year, after which the year 5 value applies for the following years.

At this level there are accounts where a material degree of change with regards to adverse credit risk has taken place, but belong to customers which are classified as not in default, i.e. that have not been assigned to risk class J or K (default). The demarcation line between Level 2 and 3 is then clear. IFRS 9 does describe that a material increase in credit risk has taken place, unless it can be proven otherwise, when a payment is 30 or more days delayed.

SpareBank 1 has further defined that assets associated to customers which are on a watchlist shall be included in Level2 and that as a main rule there has been a material increase in credit risk when a loan has negatively migrated by two or more risk classes. Two risk classes translates into an increase in PD of approximately 150 per cent. A lower bound for PD has been set at 0.6 per cent in order that customers with a low PD are not included in Level 2.

The following criteria thereby must be met for a material adverse change in credit risk to have ocurred:

- Payment delayed by 30 or more days or
- The probability of default has increased by 150% and
- The PD is above 0.6%

Level 3:

At Level 3 in the loan loss provision model there are assets which have had a material increase in credit risk since initial recognition and where there are objective evidence of a loss in existence at the balance sheet date. The Company has defined objective evidence when customers are categorized in risk classes J or K. This definition matches the definition which applies for internal risk management and control procedures and for the regulatory capital requirement calculation for the IRB banks. Customers in risk class J or K are in default. Default is defined as:

- 90 days past due payment of an amount larger than 1,000 kroner.
- Loss occurred
- Bankruptcy / debt restructuring

The corresponding ECL is calculated as the EAD x expected LGD

ECL estimates and impact on the accounts

The basis of the model are a certain set of macro assumptions which impact the default rate and the loss given default for each loan. The Company use the same model as for the Company's Internal Capital Adequacy Assessment Process (ICAAP). The model estimates the default rate (PD) and the loss given based on two macro variables; the unemployment rate and the level of NIBOR. The documentation behind the Company's ICAAP model finds and discusses, and the models employs, the positive correlation between these variables and defaults for mortgage loans over the longer term, including also experience neighbouring Nordic countries. The LGD is derived from calculations based on the degree of collateral coverage of the loans, i.e. the loan-to-value, also taking in a broader dataset to build the link between price developments and estimated losses.

Mortgage loans which are renegotiated, where the terms are materially changed, are always removed from the Company's cover pool and transferred back the originating lender. All renegotiation of loans is outsourced to the Company's parent banks.

For mass market loans (residential mortgages), the Company assesses the development in PD for each loan over time and negative migrations in this is reflected in the IFRS 9 model (see step 2 and 3 above). In addition the Company reviews mortgages that are in arrears from one or a few days and up to the point where loans in arrears are transferred back to the originating parent back. This transfer is not a strict requirement, but the banks are economically incentivized to take back loans in arrears. Consequently the Company does not have any loans in default and have not incurred any individual loan loss write downs since the commencement of operations in 2007.

When considering the impact of the macroeconomic variables to estimate point in time PD and LGD factors for loans in the IFRS 9 expected loss model, three scenarios are selected and these are a base case (weight 80%), a downside case (10% weight) and an upside case (10% weight). The three scenarios are deemed as sufficient to express the main directional views or outcomes over the next five years. The weighting of the base case reflects that this is what is considered the overall likely outcome with a symmetry around this to show the potential up- and downside. The macro scenarios are an input to the ICAAP model which produces the PD and LGD estimates as input to the IFRS 9 expected loss model and the calculated expected loss in each Level and for each scenario. A total ECL is created by adding the ECL at each loan Level 1, 2 and 3 and adding the weighted scenarios. The change in the total ECL from one period to the next will then be reflected in the Company's result presentation.

Macroeconomic scenarios

Below are the assumptions that constitutes the base case and the corresponding development in PD and LGD which the ICAAP model produces as inputs in the IFRS 9 ECL model. The results have also been calibrated in light of actual observed PDs for the portfolio over time in order to represent the best point-in-time estimates for the next 5 years.

	Base case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	4.00%	3.90%	3.80%	3.70%	3.70%
Residental real estate prices	0.00%	5.00%	10.00%	15.00%	20.00%
3 month NIBOR	1.00%	1.50%	1.75%	2.00%	2.00%

The base case considers the current situation and the view for the development for the years ahead. In developing this view we have taken several sources into account, including forecasts from Statistics Norway as well as from other market based organizations that perform and publish economic research.

- The unemployment rate is currently 4% in Norway and we see this heading slightly lower over the coming years alongside the growth in GDP in Norway
- Residential real estate prices which are currently correcting in Norway (down 2.1% over 2017) are expected to continue with a 5% drop in the first year in the model, then growing from year 2 onwards (the property price development is cumulative in the table above)
- The interest rate 3 month NIBOR is increasing to 1% during year one and continues to go up with the trajectory of the Norwegian economic performance and decline in unemployment

The upside and downside scenarios are considered as derivations on the base case.

	Upside case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	4.00%	3.50%	3.00%	2.80%	2.50%
Residental real estate prices	5.00%	10.00%	20.00%	30.00%	40.00%
3 month NIBOR	1.00%	1.50%	2.00%	2.50%	2.50%

	Downside case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	5.00%	5.50%	6.00%	6.00%	5.00%
Residental real estate prices	-10.00%	-20.00%	-20.00%	-20.00%	-10.00%
3 month NIBOR	1.00%	1.00%	0.50%	0.50%	0.50%

- In the downside scenario unemployment increases to 6% while house prices are assumed to drop 10% in the first and again in the second year, then level out (house prices are cumulative over the years in the tables above)
- This development clearly increase the PD and the LGD estimates in scenario 3 (downside) as rendered below

These inputs create the following PD and LGD estimates and ECL for the scenarios per Level of loan categorization. Scenario 1 is the base case, scenario 2 the upside case and scenario 3 the downside case. Boligkreditt does not have any loans in default, nor have any actual losses been observed since operations commenced. The observed default rate for mortgage loans including loans which have been transferred back to parent banks have been ca. 0,13%, which is an anchor point for the PD estimate in the base case.

Forecast weighted PD and LGD for Level 1 and 2

	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5
Weighted PD	1	0.14%	0.13%	0.13%	0.12%	0.12%
Weighted PD	2	0.11%	0.11%	0.11%	0.10%	0.10%
Weighted PD	3	0.24%	0.24%	0.28%	0.27%	0.22%
	Weighted avg.	0.14%	0.14%	0.14%	0.14%	0.13%
Weighted LGD	1	1.00%	0.54%	0.09%	0.00%	0.00%
Weighted LGD	2	0.57%	0.09%	0.00%	0.00%	0.00%
Weighted LGD	3	8.58%	13.09%	13.09%	13.09%	8.66%
	Weighted avg.	1.71%	1.75%	1.38%	1.31%	0.87%

- The total ECL amount to 11.8 million kroner and the change based on the December 2017 portfolio data
- The downside scenario show expected losses of a total of 90 million kroner, the total EAD in Boligkreditt is 189 billion
- No mortgage loans are in default (Level 3)
- These expected losses according to IFRS 9 does not cause a deduction in core capital for expected losses as the regulatory deduction in capital is substantially higher.

ECL in NOK per Level and Total

	Scenario	Level 1	Level 2	Level 3	Total
ECL	1	1,617,527	1,690,974		3,308,501
ECL	2	773,380	640,918		1,414,298
ECL	3	24,720,869	65,428,400		90,149,269
ECL	Weighted avg.	3,843,446	7,959,712		11,803,158
ECL/EAD	Weighted avg.	0.00%	0.00%		0.01%

Note 32.2 IFRS 9

The following table shows the effects of implementing IFRS 9

	Note	Balance sheet according to IAS 39, 31 December 2017	Change due to reclassification	Change due to new measurement	Balance sheet according to IFRS 9, January 1, 2018
Amortised cost					
Lending to and deposits with credit institutions		3 044 644	-	-	3 044 644
Lending to customers		177 675 130	-	-4 095	177 671 035
Other assets		1 188	-	-	1 188
Total effect amortized cost		**180 720 962**	**-**	**-4 095**	**180 716 867**
Fair value through profit or loss					
Certificates and bonds		54 318 384	-	-	54 318 384
Financial derivatives		27 144 125	-	-	27 144 125
Total fair value through profit or loss		81 462 509	-	-	81 462 509
Total assets		**262 183 472**	**-**	**-4 095**	**262 179 377**
Financial liabilities					
Amortised cost					
Collateral received in relation to financial derivatives		23 628 253	-	-	23 628 253
Debt incurred by issuing securities		47 926 716	-	-	47 926 716
Subordinated dept		1 603 356	-	-	1 603 356
Other liabilities		318 865	-	-	318 865
Total effect amortized cost		73 477 190	-	-	73 477 190
Fair value through profit or loss					
Debt incurred by issuing securities		176 536 265	-	-	176 536 265
Financial derivatives		898 292	-	-	898 292
Total fair value through profit or loss		**177 434 557**	**-**	**-**	**177 434 557**
Total Liabilities		**250 911 747**	**-**	**-**	**250 911 747**
Equity					
Equity		10 091 724	-	-4 095	10 087 629
Hybrid capital		1 180 000	-	-	1 180 000
Totale equity		**11 271 724**	**-**	**-4 095**	**11 267 629**
Total liabilities and equity		**262 183 472**	**-**	**-4 095**	**262 179 377**

Note 32.3 IFRS 9

The following table shows loss provisions when implementing IFRS 9

Change in loss provisions	Balance sheet according to IAS 39, 31 December 2017	Change due to reclas-sification	Change due to new measurement	Balance sheet according to IFRS 9, January 1, 2018
Loans under IAS 39 to be measured at amortized cost under IFRS 9	7 708		4 095	11 803
Total change loss provisions	**7 708**	**-**	**4 095**	**11 803**

	2018				2017		
Loans and advances to customers at amortized cost	Level 1	Level 2	Level 3	Total	Individual	Group	Total
Balance sheet on 1 January	**-**	**-**	**-**	**-**	**-**	**7 708**	**7 708**
Transferred to 12 month ECL	3 843	-	-	3 843	-	-	-
Transferred to lifetime ECL - No objective evidence of loss	-	7 960	-	7 960	-	-	-
Transferred to lifetime ECL - objective proof of loss	-	-	-	-	-	-	-
Balance sheet on 31 December	3 843	7 960	-	11 803	-	7 708	7 708

Contact Information

SpareBank 1 Boligkreditt AS

Mailing address:
SpareBank 1 Boligkreditt
P.O.Box 250
N-4066 Stavanger
Norway

Visiting address:
Bjergsted Terrasse 1
4007 Stavanger
Norway

Managing Director
Arve Austestad
Phone: +47 5150 9411

Director finance and investor relations
Eivind Hegelstad
Phone: +47 5150 9367

Director risk and operations
Henning Nilsen
Phone: +47 5150 9412