

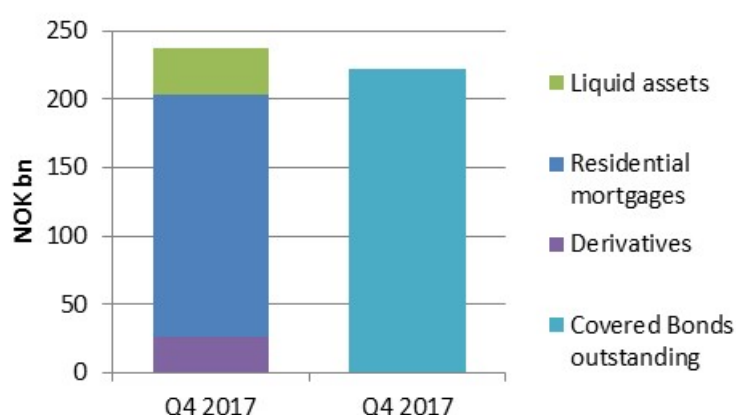


**BOLIGKREDITT AS**  
**Annual Accounts 2017**  
**(audited)**

# SpareBank 1 Boligkreditt AS – Statement of the Board of Directors with the annual accounts 2017

## 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<sup>1</sup>.



The amount of liquid assets varies over time and the variation is solely a result of the Issuer's liquidity risk management (and regulatory requirements), whereby upcoming redemptions are refinanced early (up to 12 months) with proceeds held as liquid assets (please see the investor reports for details on the composition of liquid assets).

## Key figures

	<u>Q4 2017</u>	<u>Q3 2017</u>	<u>Q2 2017</u>	<u>Q1 2017</u>	<u>Q4 2016</u>
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 %

<sup>1</sup> See also note 26 in the 2017 annual accounts for further information

## 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 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](http://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<sup>2</sup>:

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:

<b>Recent data and forecast (per cent)</b>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
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

<sup>2</sup> Macroeconomic projections have been sourced from Statistics Norway as of November 28, 2017.

# SpareBank 1 Boligkreditt AS

Source: Statistics Norway (SSB) Nov 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

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Kjell Fordal (s)  
Chair

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Inge Reinertsen (s)

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Merete N Kristiansen (s)

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Inger M S Eriksen (s)

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Geir-Egil Bolstad (s)

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Arve Austestad (s)  
CEO

## SpareBank 1 Boligkreditt AS

### - Statement of the members of the board and the chief executive officer

The Board and the chief executive officer have today reviewed and approved the financial accounts for 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

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Kjell Fordal (s)  
Chair

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Inge Reinertsen (s)

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Merete N Kristiansen (s)

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Inger M S Eriksen (s)

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Geir-Egil Bolstad (s)

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Arve Austestad (s)  
CEO

# SpareBank 1 Boligkreditt AS

## Annual Accounts 2017

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## SpareBank 1 Boligkreditt AS

### Income Statement 2017

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
<b>Net interest income</b>		<b>108,134</b>	<b>88,599</b>	<b>425,852</b>	<b>410,997</b>
Net gains/losses from financial instruments	6	-153,411	-262,950	-630,361	-521,993
<b>Net other operating income</b>		<b>-153,411</b>	<b>-262,950</b>	<b>-630,361</b>	<b>-521,993</b>
<b>Total operating income</b>		<b>-45,277</b>	<b>-174,351</b>	<b>-204,508</b>	<b>-110,996</b>
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
<b>Total operating expenses</b>		<b>-9,760</b>	<b>-10,156</b>	<b>-34,406</b>	<b>-35,338</b>
<b>Operating result before losses</b>		<b>-55,037</b>	<b>-184,507</b>	<b>-238,914</b>	<b>-146,334</b>
Write-downs on loans and guarantees	13	-	-	-	-
<b>Pre-tax operating result</b>		<b>-55,037</b>	<b>-184,507</b>	<b>-238,914</b>	<b>-146,334</b>
Taxes	11	13,750	46,126	59,720	36,583
<b>Profit/loss for the year</b>		<b>-41,286</b>	<b>-138,381</b>	<b>-179,194</b>	<b>-109,751</b>

## SpareBank 1 Boligkreditt AS

### Overview of Comprehensive Income

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
<b>Total profit/loss accounted for in equity</b>	<b>-791</b>	<b>-260</b>	<b>-259,933</b>	<b>-791</b>
<b>Total profit/loss</b>	<b>-42,077</b>	<b>-138,641</b>	<b>-179,454</b>	<b>-110,542</b>

# SpareBank 1 Boligkreditt AS

## Balance Sheet 2017

NOK 1 000	Note	2017	2016
<b>Assets</b>			
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
Deferred tax asset		-	-
Other assets	12.19	1,188	1,543
<b>Total assets</b>		<b>262,183,472</b>	<b>252,250,848</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
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
<b>Total Liabilities</b>		<b>250,911,747</b>	<b>241,197,558</b>
<b>Equity</b>			
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
<b>Total equity</b>		<b>11,271,724</b>	<b>11,053,290</b>
<b>Total liabilities and equity</b>		<b>262,183,472</b>	<b>252,250,848</b>

Stavanger, 08.02.2017

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Kjell Fordal(s)  
Chair

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Inge Reinertse(s)

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Geir-Egil Bolstad(s)

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Inger M S Eriksen(s)

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Merete N Kristiansen(s)

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Arve Austestad(s)  
CEO

# SpareBank 1 Boligkreditt AS

## 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
<b>Balance as of 31 December 2015</b>	<b>5,710,548</b>	<b>2,857,922</b>	<b>105,074</b>	<b>690,000</b>	<b>374,328</b>	<b>-</b>	<b>9,737,872</b>
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
<b>Balance as of 31 December 2016</b>	<b>6,330,548</b>	<b>3,167,922</b>	<b>113,950</b>	<b>210,000</b>	<b>149,836</b>	<b>1,081,034</b>	<b>11,053,290</b>
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
<b>Balance as of 31 December 2017</b>	<b>6,570,548</b>	<b>3,287,922</b>	<b>72,276</b>	<b>300,000</b>	<b>-139,022</b>	<b>1,180,000</b>	<b>11,271,724</b>

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.

# SpareBank 1 Boligkreditt AS

## Cash Flow Statement

NOK 1 000	2017	2016
<b>Cash flows from operations</b>		
Interest received	3,552,215	3,858,846
Paid expenses, operations	-34,718	-36,469
Paid tax	-124,898	0
<b>Net cash flow relating to operations</b>	<b>3,392,598</b>	<b>3,822,377</b>
<b>Cash flows from investments</b>		
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
<b>Net cash flows relating to investments</b>	<b>-13,778,078</b>	<b>1,061,353</b>
<b>Cash flows from funding activities</b>		
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
<b>Net cash flow relating to funding activities</b>	<b>5,225,880</b>	<b>-4,885,266</b>
<b>Net cash flow in the period</b>	<b>-5,159,599</b>	<b>-1,535</b>
<b>Balance of cash and cash equivalents at beginning of period</b>	<b>8,129,097</b>	<b>8,083,543</b>
Net receipt/payments on cash	-5,159,599	-1,535
Exchange rate difference	75,147	47,089
<b>Balance of cash and cash equivalents at end of period</b>	<b>3,044,644</b>	<b>8,129,096</b>

# SpareBank 1 Boligkreditt AS

## Quarterly Financial Statements

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

### Income Statement

	4th Quarter	3th Quarter	2th Quarter	1th Quarter	4th Quarter
NOK 1 000	2017	2017	2017	2017	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
<b>Net interest income</b>	<b>108,134</b>	<b>104,201</b>	<b>123,239</b>	<b>90,278</b>	<b>88,599</b>
Net gains/losses from financial instruments	-153,411	-20,781	-205,252	-250,917	-262,950
<b>Net other operating income</b>	<b>-153,411</b>	<b>-20,781</b>	<b>-205,252</b>	<b>-250,917</b>	<b>-262,950</b>
<b>Total operating income</b>	<b>-45,277</b>	<b>83,420</b>	<b>-82,013</b>	<b>-160,639</b>	<b>-174,351</b>
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
<b>Total operating expenses</b>	<b>-9,760</b>	<b>-7,375</b>	<b>-8,746</b>	<b>-8,525</b>	<b>-10,156</b>
<b>Operating result before losses</b>	<b>-55,037</b>	<b>76,045</b>	<b>-90,759</b>	<b>-169,164</b>	<b>-184,507</b>
Write-downs on loans and guarantees	-	-	-	-	-
<b>Pre-tax operating result</b>	<b>-55,037</b>	<b>76,045</b>	<b>-90,759</b>	<b>-169,164</b>	<b>-184,507</b>
Taxes	13,750	-19,011	22,690	42,291	46,126
<b>Profit/loss for the year</b>	<b>-41,286</b>	<b>57,034</b>	<b>-68,069</b>	<b>-126,873</b>	<b>-138,381</b>
Other income and expense	-260	-	-	-	-791
<b>Total Profit/Loss</b>	<b>-41,546</b>	<b>57,034</b>	<b>-68,069</b>	<b>-126,873</b>	<b>-139,172</b>

### Balance Sheet

NOK 1 000	31.12.2017	30.09.2017	30.06.2017	31.03.2017	31.12.2016
<b>Assets</b>					
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
Deferred tax asset	-	9,299	6,174	3,005	-
Other assets	1,188	992	1,109	1,703	1,543
<b>Total assets</b>	<b>262,183,472</b>	<b>243,580,361</b>	<b>253,528,402</b>	<b>249,300,040</b>	<b>252,250,848</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>250,911,747</b>	<b>232,543,911</b>	<b>242,689,610</b>	<b>238,383,671</b>	<b>241,197,558</b>
<b>Equity</b>					
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
<b>Total equity</b>	<b>11,271,724</b>	<b>11,036,449</b>	<b>10,838,792</b>	<b>10,916,369</b>	<b>11,053,290</b>
<b>Total liabilities and equity</b>	<b>262,183,472</b>	<b>243,580,361</b>	<b>253,528,402</b>	<b>249,300,040</b>	<b>252,250,848</b>

## 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
<i>IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING</i>	
<p>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.</p> <p>The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<i>NOTE DISCLOSURES ON CAPITAL ADEQUACY</i>	
<p>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.</p> <p>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</p>	<p>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</p>

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 mathematical 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

## **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 1<sup>st</sup> 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.

Liabilities:

- 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

Assets:

- 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
<b>Interest income</b>		
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
<b>Total interest income</b>	<b>3,470,270</b>	<b>3,797,962</b>
<b>Interest expense</b>		
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
<b>Total interest expense</b>	<b>3,044,417</b>	<b>3,386,965</b>
<b>Net interest income</b>	<b>425,852</b>	<b>410,997</b>

\* 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 basisswapsreads (4)	-389,271	-299,947
<b>Net gains (losses)</b>	<b>-630,361</b>	<b>-521,993</b>

(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

<b>NOK 1 000</b>	<b>2017</b>	<b>2016</b>
Salary	10,486	9,903
Salaries re invoiced 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
<b>Total salary expenses</b>	<b>12,017</b>	<b>11,409</b>

Average number of full time equivalents (FTEs)	8	8
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\* 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 re invoiced 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
<b>Management</b>						
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
<b>Total for Management</b>	<b>5,110</b>	<b>-</b>	<b>335</b>	<b>630</b>	<b>6,664</b>	<b>14,406</b>

Paid in 2016

NOK 1 000	Total compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
<b>Management</b>						
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
<b>Total for Management</b>	<b>4,955</b>	<b>-</b>	<b>374</b>	<b>536</b>	<b>6,534</b>	<b>14,891</b>

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

	2017	2016
<b>The Board of Directors</b>		
Kjell Fordal	105	100
Inge Reinertsen	85	80
Tore Anstein Dobloug	85	80
Merete N. Kristiansen	85	80
Merete Eik	85	80
Trond Sørås (Observer)	23	23
Geir-Egil Bolstad (Observer)	23	23
<b>Total for the Board of Directors</b>	<b>490</b>	<b>466</b>
<b>The Control Committee</b>		
Ola Neråsen	-	10
Brigitte Ninauve	-	10
Solveig Midtbø	-	5
Kjersti Hønstad	-	13
<b>Total for the Control Committee</b>	<b>-</b>	<b>39</b>
<b>The Committee of Representatives</b>		
Arne Henning Falkenhaug	-	10
Sveinung Hestnes	-	-
Vegard Sæten	-	-
Kjersti Hønstad	-	2
Hanne J Nordgaard	-	2
Guðrun Michelsen	-	-
Thor-Christian Haugland	-	2
Vidar Norheim	-	2
Kåre Johan Osen	-	2
<b>Total for the Committee of Representatives</b>	<b>-</b>	<b>18</b>

## 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
<b>Net pension obligations on the balance sheet</b>		
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
<b>Net pension obligation recorded as of Dec 31</b>	<b>15,211</b>	<b>14,124</b>

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

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
<b>Total</b>	<b>22,389</b>	<b>23,929</b>

### 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
<b>Total (incl VAT)</b>	<b>1,387</b>	<b>1,427</b>

## Note 11 Taxes

<b>NOK 1 000</b>	<b>2017</b>	<b>2016</b>
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	-
<b>Tax base/taxable income for year</b>	<b>(188,849.709)</b>	<b>499,591</b>
Tax payable	-	124,898
Change in deferred taxes	-59,720	-161,481
<b>Tax expense</b>	<b>-59,720</b>	<b>-36,583</b>
<b>Effective tax rate</b>	<b>25.00 %</b>	<b>25.00 %</b>
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
<b>Change in derered taxes</b>	<b>-72,182</b>	<b>-161,745</b>
<b>Temporary differences as of 31.12</b>		
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
<b>Total temporary differences that affect taxable income</b>	<b>546,535</b>	<b>835,264</b>
<b>Net deferred tax benefit (-) / deferred tax (+)</b>	<b>136,634</b>	<b>208,816</b>
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
<b>Total</b>	<b>1,188</b>	<b>1,543</b>

\* Intangible assets

NOK 1 000	
Acquisition cost 01.01.2016	33,359
Acquisitions	732
Disposals	
<b>Acquisition cost 31.12.2016</b>	<b>34,091</b>

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

<b>Book value as of 31.12.2016</b>	<b>1,245</b>
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Acquisition cost 01.01.2017	34,091
Acquisitions	214
Disposals	
<b>Acquisition cost 31.12.2017</b>	<b>34,305</b>

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

<b>Book value as of 31.12.2017</b>	<b>438</b>
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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
<b>Total loans before specified and unspecified loss provisions</b>	<b>177,682,838</b>	<b>174,470,910</b>
Specified loan loss provisions		-
Unspecified loan loss provisions	7,708	7,708
<b>Total net loans and claims with customers</b>	<b>177,675,130</b>	<b>174,463,203</b>

### Liability

Unused balances under customer revolving credit lines (flexible loans)	12,431,823	13,593,736
<b>Total</b>	<b>12,431,823</b>	<b>13,593,736</b>

### Defaulted loans

Defaults*	0.0 %	0.0 %
Specified loan loss provisions	0.0 %	0.0 %
<b>Net defaulted loans</b>	<b>0.0 %</b>	<b>0.0 %</b>

### 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 %
<b>Net other loans at risk of loss</b>	<b>0.0 %</b>	<b>0.0 %</b>

\*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
<b>Loan loss provisions ending balance</b>	<b>7,708</b>	<b>7,708</b>

### Loans sorted according to geography (Norwegian countries)

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 %
<b>SUM</b>	<b>-177,675,130</b>	<b>100.0 %</b>	<b>174,463,203</b>	<b>100.0 %</b>

## 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 %
<b>Total</b>	<b>65,705,482</b>	<b>100 %</b>	<b>100 %</b>

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
<b>Perpetual</b>						
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	-
<b>Book value</b>					<b>1,180,000</b>	<b>1,080,000</b>

## 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
<b>Total debt incurred by issuing securities</b>	<b>197,629,860</b>	<b>187,539,527</b>

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

	Book value	Book value
NOK 1 000	2017	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
<b>Total debt incurred by issuing securities</b>	<b>224,462,981</b>	<b>213,056,583</b>

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
<b>Total</b>	<b>2,868,000</b>	<b>4,199,000</b>

### 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
<b>Total</b>	<b>194,761,860</b>	<b>183,340,527</b>
<b>Total</b>	<b>197,629,860</b>	<b>187,539,527</b>

\* 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
<b>Total</b>	<b>224,462,981</b>	<b>213,056,583</b>

## Note 16 Subordinated Debt

NOK 1000	ISIN	Interest rate	Issued year	Call option	Nominal amount	2017	2016
<b>With maturity</b>							
Subordinated debt (Tier 2 capital instrum	NO0010704109	3M Nibor + 225 bp	2014	07.05.2019	1,600,000	1,600,000	1,600,000
Accrued interest						3,356	3,778
<b>Book value</b>						<b>1,603,356</b>	<b>1,603,778</b>

## 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.

NOK 1 000	2016	Financing cash flows	Non-cash changes		2017
			Adjustments	Other changes	
<b>Liabilities</b>					
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
<b>Interest rate derivative contracts</b>		
<b>Interest rate swaps</b>		
Nominal amount	74,269,883	69,479,995
Asset	3,661,041	4,346,925
Liability	-655,346	-667,779
<b>Currency derivative contracts</b>		
<b>Currency swaps</b>		
Nominal amount	145,676,227	138,286,431
Asset	23,483,084	22,604,660
Liability	-52,478	-1,113,441
<b>Total financial derivative contracts</b>		
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.		
<b>* Change due to basis swap spread adjustment</b>	<b>Liability</b>	<b>Asset</b>
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

	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	
NOK 1 000					2017
<b>Assets</b>					
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
Deferred tax asset	-	-	-	0	0
Other assets	-	-	-	1,188	1,188
<b>Total Assets</b>	<b>81,462,509</b>	<b>180,719,774</b>	<b>0</b>	<b>1,188</b>	<b>262,183,472</b>
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>177,434,557</b>	<b>73,158,325</b>	<b>-</b>	<b>318,865</b>	<b>250,911,747</b>
<b>Total Equity</b>	<b>-</b>	<b>1,180,000</b>	<b>-</b>	<b>10,091,724</b>	<b>11,271,724</b>
<b>Total Liabilities and Equity</b>	<b>177,434,557</b>	<b>74,338,325</b>	<b>-</b>	<b>10,410,589</b>	<b>262,183,472</b>

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

	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	
NOK 1 000					2016
<b>Assets</b>					
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
<b>Total Assets</b>	<b>69,582,160</b>	<b>182,592,299</b>	<b>74,846</b>	<b>1,543</b>	<b>252,250,848</b>
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	<b>171,705,232</b>	<b>69,040,747</b>	<b>-</b>	<b>451,579</b>	<b>241,197,558</b>
<b>Total Equity</b>	<b>-</b>	<b>1,081,034</b>	<b>-</b>	<b>9,972,256</b>	<b>11,053,290</b>
<b>Total Liabilities and Equity</b>	<b>171,705,232</b>	<b>70,121,781</b>	<b>-</b>	<b>10,423,835</b>	<b>252,250,848</b>

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

\*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
<b>Total Assets</b>	<b>34,388,921</b>	<b>47,073,589</b>	<b>-</b>	<b>81,462,509</b>
Bonds	-	176,536,265	-	176,536,265
Financial Derivatives	-	898,292	-	898,292
<b>Total Liabilities</b>	<b>-</b>	<b>177,434,557</b>	<b>-</b>	<b>177,434,557</b>

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
<b>Total Assets</b>	<b>25,742,488</b>	<b>43,914,479</b>	<b>-</b>	<b>69,656,968</b>
Bonds	-	169,924,011	-	169,924,011
Financial Derivatives	-	1,781,221	-	1,781,221
<b>Total Liabilities</b>	<b>-</b>	<b>171,705,232</b>	<b>-</b>	<b>171,705,232</b>

## Note 21 Other Liabilities

<b>NOK 1 000</b>	<b>2017</b>	<b>2016</b>
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
<b>Total</b>	<b>182,231</b>	<b>117,865</b>

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
<b>Total assets</b>	<b>262,182,284</b>	<b>252,249,305</b>
Unused credit on flexible loans	12,430,867	13,593,736
Received collateral in relation to derivative contracts	-23,628,253	-24,304,397
<b>Total credit exposure</b>	<b>250,984,897</b>	<b>241,538,644</b>

### 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 data series 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
<b>Total</b>			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		
	<b>Total</b>	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
	<b>Total</b>	2,678,466	7,703,501
A+/A1 - A/A2	Financial institutions	1,655,413	4,147,781
	<b>Total</b>	1,655,413	4,147,781
<b>Total</b>		<b>57,363,028</b>	<b>50,635,714</b>

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					
<b>Total Assets</b>	<b>262,183,472</b>	<b>3,045,832</b>	<b>1,788,251</b>	<b>6,302,362</b>	<b>22,912,594</b>	<b>48,611,825</b>	<b>179,522,607</b>
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					
<b>Total liabilities and equity</b>	<b>-262,183,472</b>	<b>-11,590,589</b>	<b>-23,750,959</b>	<b>-9,957,524</b>	<b>-31,086,561</b>	<b>-141,530,553</b>	<b>-44,267,285</b>
<b>Net total all items</b>		<b>-8,544,757</b>	<b>-21,962,708</b>	<b>-3,655,162</b>	<b>-8,173,967</b>	<b>-92,918,728</b>	<b>135,255,322</b>

### Liquidity 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					
<b>Total Assets</b>	<b>252,250,848</b>	<b>3,995,978</b>	<b>3,358,191</b>	<b>11,830,529</b>	<b>12,178,749</b>	<b>43,943,099</b>	<b>176,944,302</b>
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
<b>Total liabilities and equity</b>	<b>-252,250,848</b>	<b>-10,260,693</b>	<b>-24,308,730</b>	<b>-11,730,788</b>	<b>-15,657,751</b>	<b>-138,892,985</b>	<b>-51,399,901</b>
<b>Net total all items</b>		<b>-6,264,714</b>	<b>-20,950,540</b>	<b>99,741</b>	<b>-3,479,002</b>	<b>-94,949,886</b>	<b>125,544,401</b>

## 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 1 000 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					
<b>Total Assets</b>	<b>235,039,347</b>	<b>1,188</b>	<b>10,927,048</b>	<b>198,214,318</b>	<b>14,405,781</b>	<b>9,885,412</b>	<b>1,605,600</b>
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					
<b>Total liabilities and equity</b>	<b>-261,285,180</b>	<b>-35,218,843</b>	<b>-2,715,292</b>	<b>-62,534,873</b>	<b>-24,406,676</b>	<b>-97,778,557</b>	<b>-38,630,939</b>
<b>Net interest rate risk before derivatives</b>	<b>-26,245,833</b>	<b>-35,217,654</b>	<b>8,211,756</b>	<b>135,679,445</b>	<b>-10,000,895</b>	<b>-87,893,145</b>	<b>-37,025,339</b>
<b>Derivatives</b>	<b>26,245,833</b>	<b>0</b>	<b>-18,090,116</b>	<b>-103,224,852</b>	<b>24,233,598</b>	<b>87,919,170</b>	<b>35,408,033</b>
<b>Net interest rate risk</b>		<b>-35,217,654</b>	<b>-9,878,361</b>	<b>32,454,594</b>	<b>14,232,703</b>	<b>26,025</b>	<b>-1,617,306</b>
<b>% of total assets</b>		<b>13 %</b>	<b>4 %</b>	<b>12 %</b>	<b>5 %</b>	<b>0 %</b>	<b>1 %</b>

**Interest rate risk - all amounts in 1 000 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					
<b>Total Assets</b>	<b>225,100,459</b>	<b>1,543</b>	<b>14,280,822</b>	<b>196,076,262</b>	<b>7,029,372</b>	<b>5,930,120</b>	<b>1,782,340</b>
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
<b>Net interest rate risk before derivatives</b>	<b>-25,369,168</b>	<b>-34,563,546</b>	<b>11,697,877</b>	<b>142,720,190</b>	<b>-6,554,958</b>	<b>-96,552,591</b>	<b>-42,116,140</b>
<b>Derivatives</b>	<b>25,369,168</b>	<b>0</b>	<b>-13,613,890</b>	<b>-108,987,025</b>	<b>12,419,060</b>	<b>96,568,067</b>	<b>38,982,956</b>
<b>Net interest rate risk</b>		<b>-34,563,546</b>	<b>-1,916,013</b>	<b>33,733,166</b>	<b>5,864,102</b>	<b>15,476</b>	<b>-3,133,185</b>
<b>% of total assets</b>		<b>14 %</b>	<b>1 %</b>	<b>13 %</b>	<b>2 %</b>	<b>0 %</b>	<b>1 %</b>

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.

		<b>Sensitivity of net interest rate expense in NOK 1000</b>	
<b>Currency</b>	<b>Change in basis points</b>	<b>2017</b>	<b>2016</b>
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 1 000

Currency	2017	2016
<b>EUR</b>	<b>-53,851</b>	<b>2,378</b>
- 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
<b>USD</b>	<b>5,513</b>	<b>14,246</b>
- Bank Deposits	5,413	14,142
- Issued Bonds	-18,270,303	-29,922,726
- Derivatives	18,270,402	29,922,831
- Bond investments		
<b>SEK</b>	<b>0</b>	<b>0</b>
- Bank Deposits	-	-
- Issued Bonds	-275,832	-266,985
- Derivatives	275,832	266,985
- Bond investments	-	-
<b>GBP</b>	<b>-</b>	<b>-</b>
- Bank Deposits	-	-
- Issued Bonds	-5,546,052	-
- Derivatives	5,546,052	-
- Bond investments	-	-
<b>Total</b>	<b>-48,338</b>	<b>16,625</b>

### 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	-	-
<b>Total</b>		<b>-4,834</b>	<b>-114</b>

## 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 outsourced 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

<b>NOK 1 000</b>	<b>2017</b>	<b>2016</b>
Covered Bonds	222,444,844	211,161,257
Repurchased Bonds **	- -	2,155,498
Derivatives *	- -	25,321,068
<b>Total Covered Bonds</b>	<b>222,444,844</b>	<b>183,684,691</b>
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	-
<b>Total Cover Pool</b>	<b>236,614,263</b>	<b>199,939,174</b>
<b>Asset-coverage</b>	<b>106.4 %</b>	<b>108.8 %</b>

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

<b>Net Stable Funding Ratio (NSFR)</b>	<b>2017</b>	<b>2016</b>
Available amount of stable funding	185,243,178	179,903,405
Required amount of stable funding	181,490,902	178,901,734
<b>NSFR ratio</b>	<b>102.1 %</b>	<b>100.6 %</b>

## 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% pillar 2 requirement) 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.

<b>Capital. NOK 1 000</b>	<b>2017</b>	<b>2016</b>
Share capital	6,570,548	6,330,548
Premium share fund	3,287,922	3,167,922
Other equity capital	233,254	473,786
<b>Common equity</b>	<b>10,091,724</b>	<b>9,972,256</b>
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
<b>Core equity capital</b>	<b>9,648,096</b>	<b>9,463,010</b>
Hybrid bond	1,180,000	1,080,000
<b>Tier 1 equity capital</b>	<b>10,828,096</b>	<b>10,543,010</b>
Supplementary capital (Tier 2)	1,600,000	1,600,000
<b>Total capital</b>	<b>12,428,096</b>	<b>12,143,010</b>

<b>Minimum requirements for capital. NOK 1 000</b>	<b>2017</b>	<b>2016</b>
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
<b>Minimum requirement for capital</b>	<b>5,960,695</b>	<b>5,881,268</b>

<b>Capital coverage</b>	<b>2017</b>	<b>2016</b>
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 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 year 2017.

The dividend for 2017 is proposed to be NOK 72 million (NOK 1.1 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

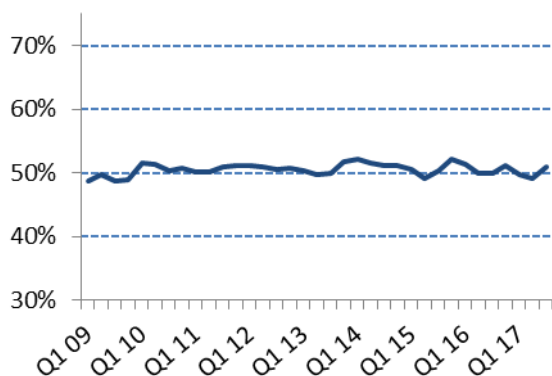
consistent with the receipt of only interest rate and principal payments. Rights which are provided by legal statutes as opposed to contracts may be disregarded in the assessment of classification. The Company's assessment is that these loans are measured at fair value with changes in fair value over 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.

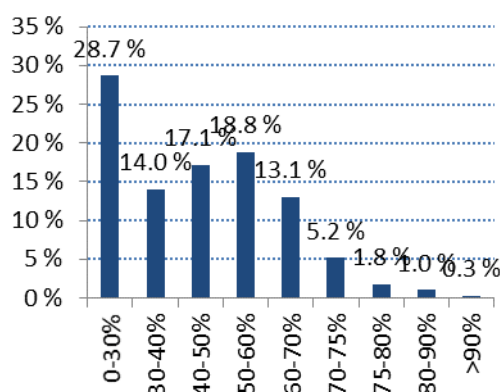
### Generally about the Boligkreditt mortgage loan portfolio:

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

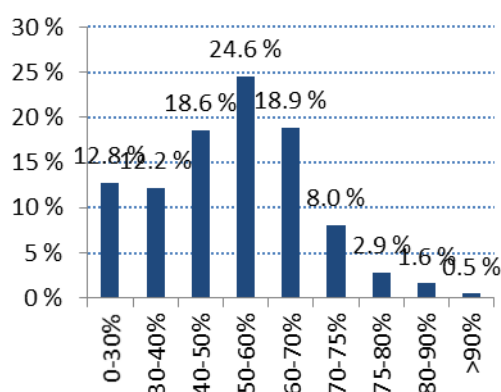


The mortgage loans are to a large degree in the lower loan to value intervals, with few loans over 75 per cent. The average mortgage loan size is 1.3 million kroner

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 today's 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 Level 2 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 occurred:

- 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 to 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 bank. 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 %
Residential 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 %
Residential 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 %
Residential 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 %
	<b>Weighted avg.</b>	<b>0.14 %</b>	<b>0.14 %</b>	<b>0.14 %</b>	<b>0.14 %</b>	<b>0.13 %</b>
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 %
	<b>Weighted avg.</b>	<b>1.71 %</b>	<b>1.75 %</b>	<b>1.38 %</b>	<b>1.31 %</b>	<b>0.87 %</b>

- 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
<b>ECL</b>	<b>Weighted avg.</b>	<b>3,843,446</b>	<b>7,959,712</b>		<b>11,803,158</b>
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
<b>Amortised cost</b>				
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
<b>Total effect amortized cost</b>	<b>180,720,962</b>	<b>-</b>	<b>4,095</b>	<b>180,716,867</b>
<b>Fair value through profit or loss</b>				
Certificates and bonds	54,318,384	-	-	54,318,384
Financial derivatives	27,144,125	-	-	27,144,125
<b>Total fair value through profit or loss</b>	<b>81,462,509</b>	<b>-</b>	<b>-</b>	<b>81,462,509</b>
<b>Total assets</b>	<b>262,183,472</b>	<b>-</b>	<b>4,095</b>	<b>262,179,377</b>
<b>Financial liabilities</b>				
<b>Amortised cost</b>				
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 debt	1,603,356	-	-	1,603,356
Other liabilities	318,865	-	-	318,865
<b>Total effect amortized cost</b>	<b>73,477,190</b>	<b>-</b>	<b>-</b>	<b>73,477,190</b>
<b>Fair value through profit or loss</b>				
Debt incurred by issuing securities	176,536,265	-	-	176,536,265
Financial derivatives	898,292	-	-	898,292
<b>Total fair value through profit or loss</b>	<b>177,434,557</b>	<b>-</b>	<b>-</b>	<b>177,434,557</b>
<b>Total Liabilities</b>	<b>250,911,747</b>	<b>-</b>	<b>-</b>	<b>250,911,747</b>
<b>Equity</b>				
Equity	10,091,724	-	4,095	10,087,629
Hybrid capital	1,180,000	-	-	1,180,000
<b>Totale equity</b>	<b>11,271,724</b>	<b>-</b>	<b>4,095</b>	<b>11,267,629</b>
<b>Total liabilities and equity</b>	<b>262,183,472</b>	<b>-</b>	<b>4,095</b>	<b>262,179,377</b>

## Note 32.3 IFRS 9

The following table shows loss provisions when implementing IFRS 9

Change in loss provisions	Loss according to IAS 39, 31 December 2017	Change due to reclassification	Change due to new measurement	Losses 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

Loans and advances to customers at amortized cost	2018				2017		
	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