Lofoten, Norway

Boligkreditt

Annual Report 2016

Building Insight:
Environmental housing

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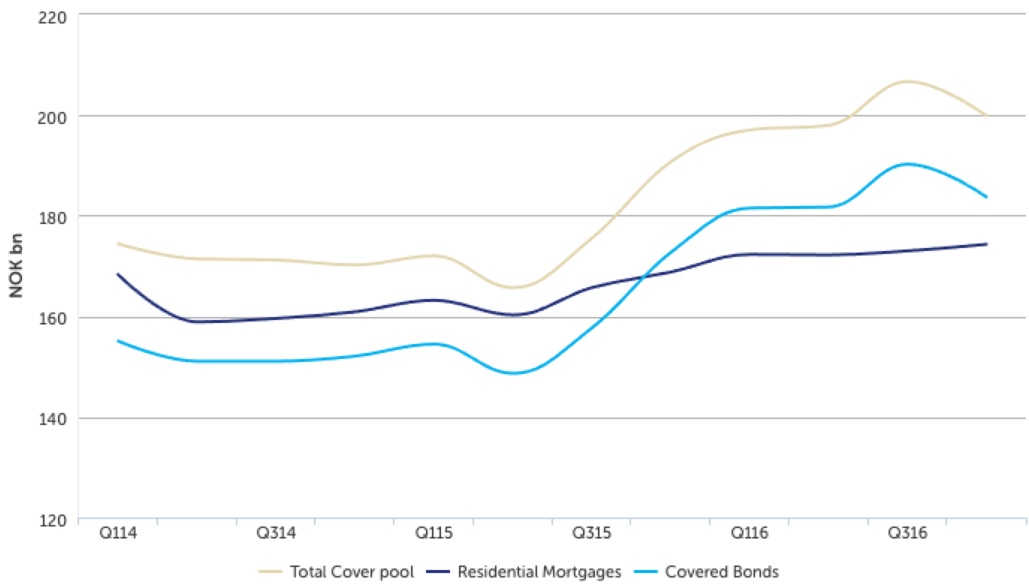
Statement of the Board of Directors

Cover pool and outstanding covered bonds

The cover pool consists of residential mortgages and liquid, highly rated assets (substitute assets). 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). Covered bonds are shown inclusive of the market value of the derivatives deployed to hedge currencies and interest rates.



Key figures overview

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Weighted Average Current LTV (%)	51,1 %	49,9 %	49,9 %	51,4 %	52,1 %
Weighted Average Original LTV (%)	59,4 %	59,0 %	58,7 %	58,7 %	58,7 %
Average Loan Balance (NOK)	1 322 732	1 306 717	1 286 759	1 272 036	1 251 680
Number of Mortgages in Pool	131 743	132 397	133 840	135 432	134 895
Pct. of non first-lien mortgages	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %
Overcollateralization	108,8 %	108,6 %	109,0 %	108,6 %	110,4 %

Key developments in 2016

SpareBank 1 Boligkreditt issued two EUR benchmark covered bonds in 2016 with maturities of 7 and 10 years (in the first and third quarter, respectively) for a total issuance of Euro 2 billion. The bonds were well received in the market with considerable oversubscription levels. Norwegian krone issuance amounted to 13.3 billion throughout the year in various maturities. Issuances in other currencies did not take place.

The residential lending volume has increased moderately as expected by approximately 3 per cent over 2016. This must be seen in connection with a moderate growth in the lending activities of the parent banks and an increase in the same banks' deposit base, as well as other issuances at the parent bank level. The expectation for 2017 is also growth of 3 per cent for residential mortgages in the cover pool based on updated forecasts from the SpareBank 1 banks at the beginning of 2017.

In the market for the Company's bonds the credit spreads have generally contracted with the market, especially during the second and third quarters.

Boligkreditt is well capitalized with a capital coverage ratio of 16.52 per cent measured against a total capital requirement of 15.0 per cent, in addition to a moderate capital requirement for Pillar 2 requirements. Total Tier 1 capital is 14.34 and core equity capital 12.87 per cent.

The Norwegian krone, which had previously declined following the change in oil prices strengthened again over 2016 by approximately 6 per cent against the Euro. This, in addition to the repayment of maturing bonds in currency and the associated maturing of older swaps contracts hedging these bonds, lead to a reduction in the value of derivatives and the amount of collateral held under the derivatives contracts on the balance sheet. The Company is maintaining separate accounts for liquid assets posted to it as collateral and for assets which is a part of the Company's own liquidity portfolio.

SpareBank 1 Boligkreditt has a negative result for 2016 as a whole. 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. The pre-tax result which was negative 146 million is a positive 154 million without accounting for the basis swap change. 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 deducted in the financial accounts to calculate net income.

Nature and development of the Company's business

SpareBank 1 Boligkreditt AS is a credit institution licensed by the Norwegian Financial Services Authority (Finanstilsynet) and is operated according to the legislation for covered bond issuers in Norway which is included in the law regarding financial enterprises ("Finansieringsvirksomhetsloven") chapter 2, section IV 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 which 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 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 10, 2016 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 and Fitch Ratings to evaluate the credit quality of the issuances under the GMTCN Programme. The bond ratings are Aaa from Moody's and AAA from Fitch.

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 2016 amounts to 252 (269) billion kroner. The reduction is largely due to a decline in the value of derivatives used for hedging issued bonds and declines in associated collateral levels held. The Company had in 2016 net interest income of 410 (407) million kroner, deducting also commissions paid to the parent banks to arrive at net interest income. The cost of operations for the year was 35.3 (33.1) million kroner including depreciation and amortization. No additional amounts have been charged as loan provisions (write offs) in 2016 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 146 million kroner (positive 608) before tax. The operating result includes a loss due to basis swap valuation adjustments of approximately 300 million kroner. Basis swap valuation adjustments are temporary effects reversed over time until maturity of the swaps.

Lending to customers amounted to 174 (169) billion kroner as of 31.12.16. 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 December 31, 2016 were 26.3 (21.9) 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 AAA/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 120 billion kroner in EUR, 30 billion kroner in USD 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 bonds and treasury bills at year-end for a total of NOK 50.6 (58.8) billion kroner, whereof 24.3 (37.0) billion kroner is collateral received from counterparties in derivatives transactions and are not available for the Company as liquid assets. The bonds 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 31.12.2016 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 23 to 27 in the annual report provides further information.

Employees and the working environment

SSpareBank 1 Boligkreditt had eight employees as of 31.12.2016. 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.

The working environment is characterised as good and there is no pollution of the physical environment. There has been 0.2% employee absence recorded in 2016 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 2016 have been employed in SpareBank 1 Boligkreditt 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 practice for corporate governance. The Board of Directors has appointed an audit committee which evaluates the Accounts inclusive of the Notes to the Accounts. The Board of Directors reviews the financial reporting processes in order to contribute to a culture which maintains a focus on quality and accuracy of this work. Boligkreditt seeks to deliver through its financial accounting relevant and timely information which can be compared over time to constituents in the SpareBank 1 Alliance, regulatory authorities and participants in the capital markets. The Board evaluates and approves Management's proposed annual and quarterly financial accounts.

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

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

Shareholders

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

Neither the Company nor employees own shares in the company. A shareholders agreement which all shareholders and the Company are parties to, it is agreed 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 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 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 we make a reference to the annual accounts of the banks for a closer description of the social responsibility of SpareBank 1. The Company, within its limited scope and role as funding unit for the banks thus chooses not to maintain special guidelines and principles tied to social responsibility.

Future prospects of the Company

The Company has a portfolio of residential mortgage lending with an average loan to value of approximately 50 per cent and no loans are in default. Residential real estate prices have increased overall in Norway by more than 12 per cent over the year 2016 and stand at a high level. However, there are large regional differences. Houses prices in Oslo, the Norwegian capital have been surprisingly strong with growth of on average 23 per cent over 2016. This outlier development in the capital which is driven by population growth through urbanization and the fact that Oslo is a major jobs and education centre, has also been fuelled by low mortgage rates. Mortgages rates have been trending lower throughout the year, though this development driven by competition in the lending market between banks has come to a halt as 2017 has started. Banks are now starting to increase residential mortgage rates based on the relatively compressed level of customer interest rates compared to the banks' own funding costs where the money market rate (3 months NIBOR) which is the funding cost base has been less reflective of the central bank policy rate (currently and for most of 2016 0.5 per cent) and more dependent on USD rates swapped to NOK, i.e. it has remained higher than expected.

Together with a reverse of trend in mortgage interest rates, the government has for the first time responded with specific rules for mortgage lending in Oslo, which are stricter than in the rest of the country, and these became effective on January 1, 2017. The vigilant regulatory authorities have also added a new national restriction, which restrict any borrowers' maximum debt to gross income relationship to a factor of 5. This may be particularly effective in the capital due to the relatively high level of residential prices. All lending in Norway remains (as before) subject to an 85 per cent loan to value cap and all mortgage applications (with variable rates) must be affordability tested against an increase in mortgages rates of 5 percentage points. In addition, any mortgage above 60 per cent loan to value have mandatory amortization requirements.

SpareBank 1 Boligkreditt's portfolio of mortgages and the houses which secure them are diversified because the banks which originate them are located in different regional centres all over Norway. This means that an index of SpareBank 1 house price development has not increased as much as the national index. The national index is also transactional weighted, meaning that the index is heavily influenced by the apartment market in the capital where much of the transaction volume is. SpareBank 1 lending is more weighted towards families in detached houses in major cities outside of Oslo, and overall SpareBank 1 Boligkreditt has less than 9 per cent of its loans in Oslo.

Due to the high degree of diversification and the continued strength of the Norwegian economy as well as prudent lending practices in place, the prospects for the Company are considered 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[3]:

GThe Norwegian economy expanded in the third quarter 2016 by 0.8 per cent (4th quarter not yet available at the time of writing) compared to the same period in 2015, following a 2 percent increase and a negative 0.5 per cent change in the first and second quarters, respectively. Both private sector investment as well as private (household) consumption shows good growth and is probably indicative of a recovery from a period of weaker development following the downward shift in oil prices. The combination of a depreciated krone helping trade, low interest rates giving impetuses to investment and fiscally expansive policies have probably effectively counter balanced the negative demand impulses from the petroleum sector where investments and activity have been steeply declining since 2014. The unemployment rate stands at 4.8 per cent in Norway, essentially stable from a year ago.

Economic outlook:

The economic outlook is summarized in the table below. The outlook for the full year economic growth for 2016 at 0.7 per cent real growth is the lowest since 2009.

[3] Macroeconomic projections have been sourced from Statistics Norway as of November 29, 2016.

The current economic downturn has been dampened by interest rate cuts and a weaker krone. An expansionary fiscal policy has also contributed. In 2017, the decline in petroleum investment which have been ongoing since 2014 will probably come to a halt. Oil prices have also increased significantly since the bottom in 2015. Continued expansionary impulses from fiscal and monetary policy are expected to contribute to slightly higher growth in household consumption and business investment in 2017. The Norwegian economy as a small and open trading economy will be boosted by the international economy, although the development here is now more uncertain. Overall, there is an expectation of higher economic growth from 2017 onwards. The central bank's key policy interest rate was reduced in March to a record low 0.5 per cent. Most analysts expect the rate to remain at the current level.

Increased growth in Norwegian export markets together with lag effects of improvements in competitiveness based on the weakening of the krone is expected to push exports up going forward. Measured by the import-weighted exchange rate, the krone was 6 per cent stronger in late November than at the end of last year. It is, nevertheless, almost 10 per cent weaker than the average in the 2000s and 22 per cent weaker than at its strongest in 2013.

Fiscal policies have been as mentioned expansionary since the decline in oil prices. While more funds from the Norwegian petroleum fund has been channelled for infrastructure investments and government outlays, the spending has remained well within the so called spending rule for the fund (less than 4 per cent of the funds size annually), due to the large size of the fund. However, 2017 is a general election year in Norway and it is expected that the amount of Norwegian kroner contributed to the government budget from the fund will come under scrutiny.
The investments in the mainland industries have shown a positive trend for four successive quarters, and they are expected to increase somewhat going forward. Improved growth prospects for the Norwegian and global economy, greater competitiveness and low interest rates and reduced taxes for enterprises are all factors that point in this direction.

Wage growth is low and real wage growth is negative in 2016, after a rise in prices mostly attributed to the weaker krone. Negative real wage growth is not expected to continue in 2017 and beyond.

Forecast (%)	**2016**	**2017**	**2018**	**2019**
Mainland GDP growth	0.7	1.7	2.2	2.1
Unemployment rate	4.7	4.5	4.4	4.3
CPI growth	3.6	2.3	2.1	2.4
Annual wage growth	2.2	2.6	2.9	3.4

Source: Statistics Norway (SSB) November 29, 2016

The Board of Directors affirms that the financial accounts present a correct and complete picture of the Company's operations and financial position for 2016. The financial accounts including notes are produced under the as-sumption of a going concern. 114.0 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 1.80 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 2016.

SStavanger, 31. December 2016 / Gardermoen, 1. February 2017
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Inge Reinertsen

/s/ Merete N. Kristiansen

/s/ Tore Anstein Dobloug

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
Managing Director

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

The Board and the chief executive officer have today reviewed and approved the financial accounts for 2016 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 31.12.16.

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 2016 / Gardermoen, 1. February 2017
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Inge Reinertsen

/s/ Merete N. Kristiansen

/s/ Tore Anstein Dobloug

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
Managing Director

Management's Statement 2016

Issuances in 2016

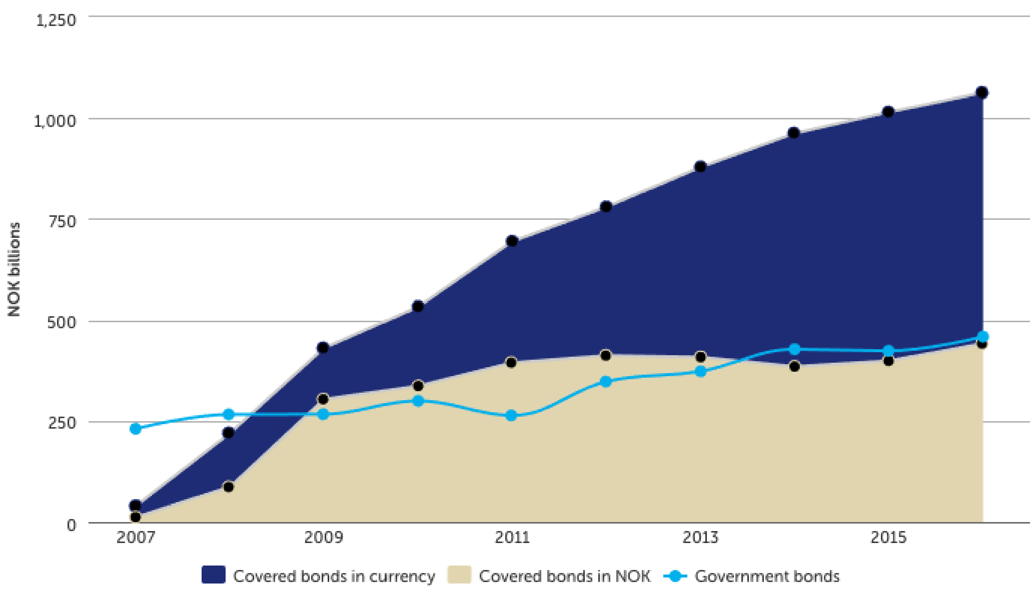
During 2016 we issued two EUR denominated benchmark transactions for a total of EUR 2.0 billion and approximately NOK 14.5 billion of covered bonds in the Norwegian market (denominated in NOK). The EUR bonds had maturities of 7 years (issuance in March) and 10 years (August) and met with very good demand at mid-swaps+ 23 bps for the 7 year and mid-swaps + 4 bps for the 3-year. As is evident from these two issuances, credit spreads continued to move in through the 3rd quarter of the year; however the non-CBPP3 eligibility of Norwegian covered bonds continue to ensure more attractive spreads for our bonds compared to covered bonds from the Eurozone. Our bonds met with good demand and were oversubscribed. Our EUR issuances are Liquidity Cover Ratio (LCR) category 1 eligible. The issued EUR volume for 2016 is also what we expect to issue for 2017, although timing of issuances may alter the volume within any one calendar year. We have not been issuing in other currencies than NOK and EUR for a while (last USD issuance in 2013), but other currency markets are monitored for covered bond opportunities.

Mortgages in the cover pool increased by NOK 5.1 billion (3.0 per cent) over the year and we expect a similar increase in 2017. Spabol has since the start in 2007 been and continues to be the strategic and preferred vehicle for covered bonds issuance on behalf of the SpareBank 1 Alliance banks. SpareBank 1 SR-Bank has chosen to supplement its covered bond funding with its own issuer in addition to Spabol, and therefore SR-Bank's relative share of mortgages of the Spabol cover pool has reduced (reduction of 2.8 per cent of its relative share during 2016). We do not expect that any further covered bond issuers will emerge within the Alliance with any meaningful level of active issuance. Lending growth for the largest banks in the Alliance was (weighted average) just below 6 per cent in 2016, with lending in the corporate segment slower than for residential purposes.

Domestic and foreign currency issuance

The domestic market for covered bonds have developed well over the years since inception in 2007, and is in magnitude approximately equal to all long and short-term government securities. The total volume of Norwegian covered bonds issued in currencies other than NOK is more than 40% larger than the NOK issued volume. For SpareBank 1 Boligkreditt the situation is similar to the national picture, though somewhat more weighted towards Euro and foreign currency. We follow a policy of tapping our outstanding NOK issues and target a normal size for our NOK bonds of above NOK 4 billion kroner for each series. This size makes the bonds LCR category 1 eligible. Several maturities in fixed and floating NOK bonds are available for taps.

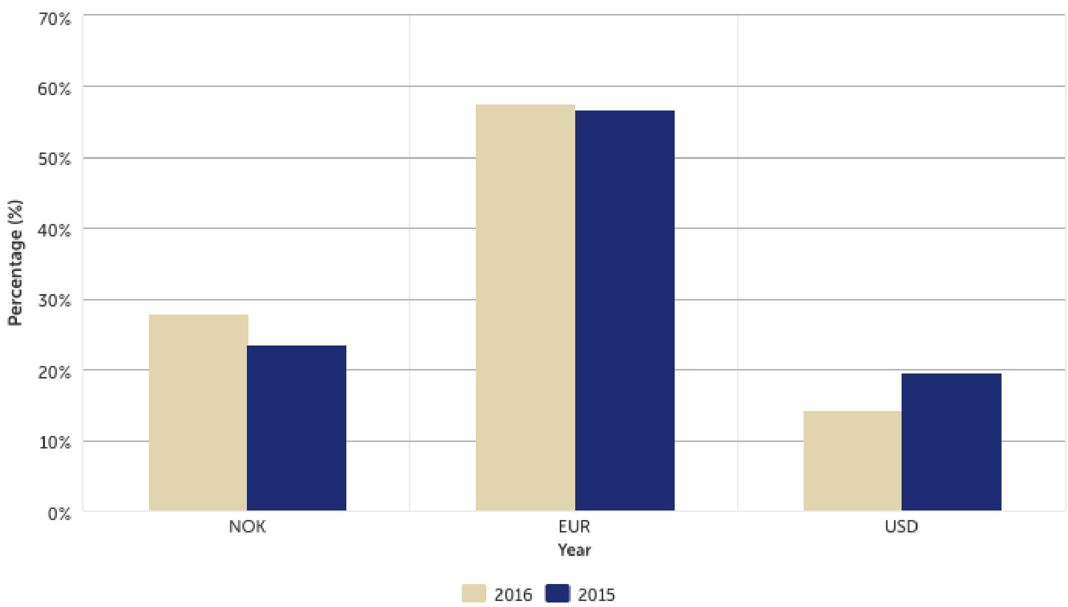
Chart 1: Outstanding Norwegian covered bonds and government bonds:



Source: SSB, FNO

Spabol

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



All foreign currency issuance is fully hedged using swaps.

Regulations mortgage market

Norwegian bank regulators tightened lending regulation in 2016, and new requirements took effect from January 1, 2017. The new regulation is a further tuning of previous regulation and is a response to the low mortgage rate environment in Norway. House prices have increased over some time, partially due to the increased affordability which lower rates imply. These are the current rules now in effect, summarized:

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

The Norwegian residential real estate market

2016 saw an increase in the real estate market national residential index of 12.8%. Despite the weak GDP growth nationally, most regions away from the oil clusters have a positive development. House prices are driven by demand in central areas, in particular Oslo, and the affordability of lower rates. The overall increase in the house price index is driven by Oslo, which outpaces by far the rest of the country and also has a high degree of weight in the composite index, which is weighted by transaction volume in each region. This is also the reason for a particularly targeted regulatory rules for Oslo (see above). Additionally, 5 times gross income as a cap for mortgage debt is a new restriction, albeit generous for the country at large. In Oslo however, this cap is likely to be more effective than elsewhere due to the currently elevated prices there and the development in the capital through 2016. SpareBank 1 Boligkreditt has a very well diversified portfolio with less than 10 per cent of all lending in Oslo.

Chart 3: Twelve month growth rate of the residential real estate price index for Norway:

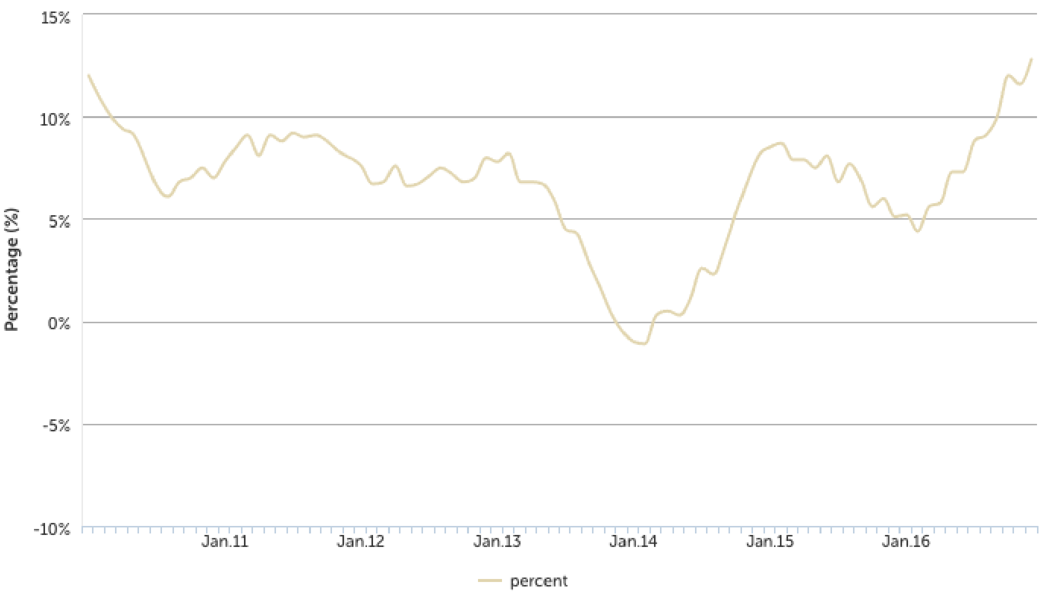
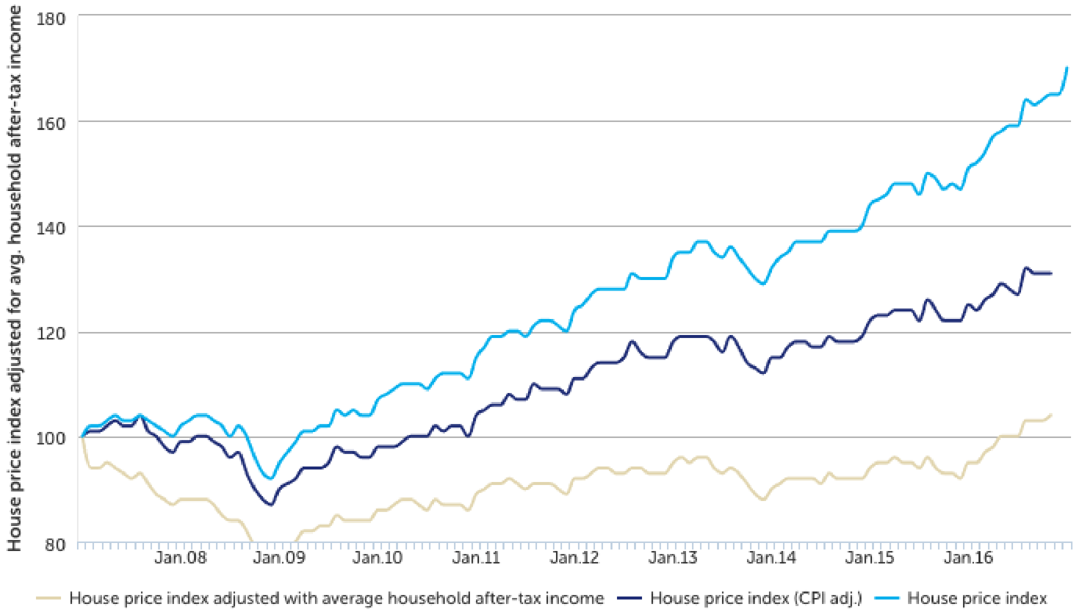


Chart 4: National house price index adjusted for after-tax household income (Jan. 2007=100)



Capital requirements

Norwegian capital requirements have continued to increase for banks and covered bond issuer for some time and the overall capitalization requirement for significant financial institutions (SIFIs) is 17 per cent of risk weighted assets as of July 1, 2016 (see chart below). This includes a countercyclical buffer of 1.5 per cent, which was revised to 2 per cent from December 31, 2017. The countercyclical buffer represents a tool for the authorities to increase lending capacity for banks should credit growth turn negative or be too low to sustain economic expansion. SpareBank Boligkreditt's total capital coverage at year-end 2016 was 16.5%. SpareBank 1 banks are not defined by the regulator as SIFI banks, though several banks have stated the objective to meet the same capital requirements. The weighted average capitalization of the four largest SpareBank 1 banks was 18.8 per cent as of year-end 2016. Pillar 2 capital requirements for banks were published during the year and the largest SpareBank 1 banks have Pillar 2 requirements in the range from 1.7 to 2.1 per cent.

Chart 5: Pillar 1 capital requirements for banks and credit institutions (covered bond issuers) in Norway

Capital requirements SIFI banks from 1 July 2016: 17% risk weighted total capital

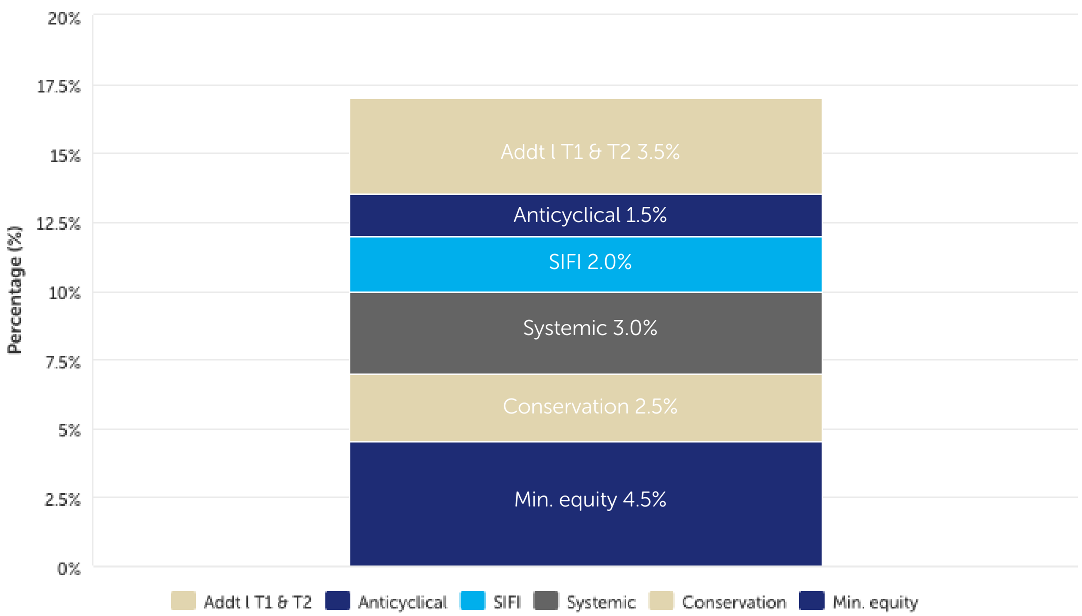
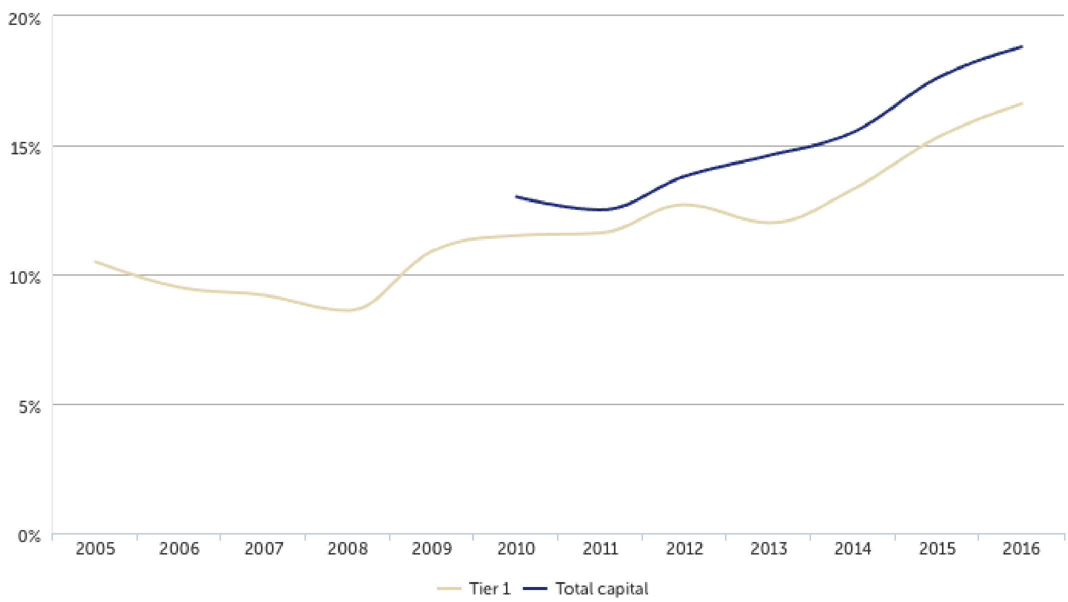


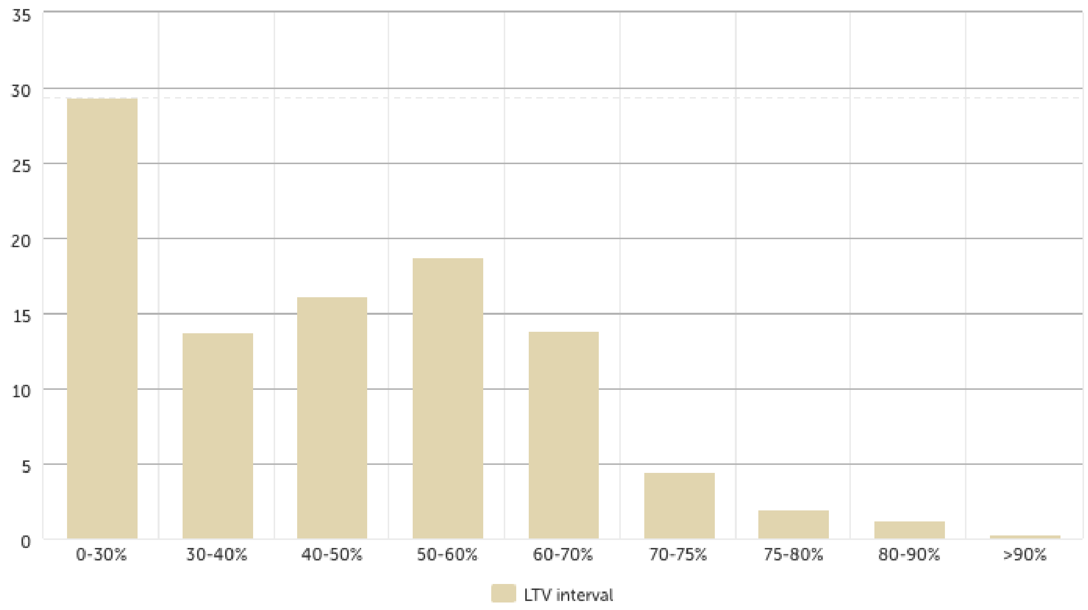
Chart 6: Capital in the four largest SpareBank 1 banks (weighted average)



Cover Pool

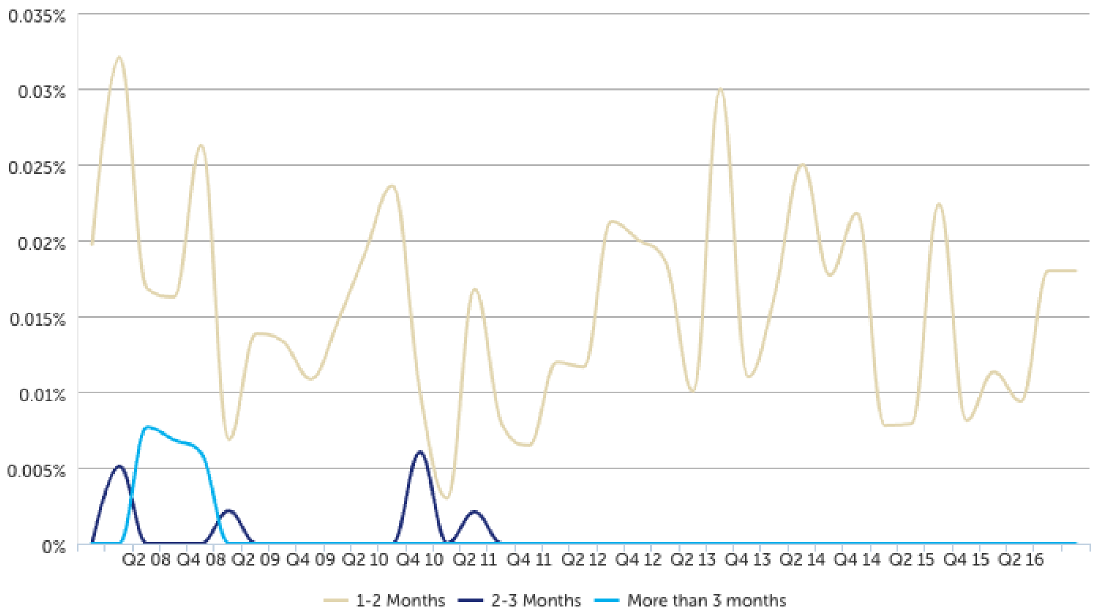
Our cover pool metrics continue to exhibit a robust profile with an average weighted LTV in the cover pool of 51.1%. The real estate values are updated for the entire cover pool each quarter based on an automated valuation model (AVM) from the Norwegian company Eiendomsverdi, used by most Norwegian banks. The model is independently tested and validated and has certain parameters built into its valuation settings which allow for a cautious treatment of potential upside valuation outcomes for individual houses.

Chart 7: SpareBank 1 Boligkreditt cover pool: number of loans by LTV interval



SpareBank 1 Boligkreditt continues to have no arrears beyond 90 days in the cover pool and has never experienced a credit event with regards to any of the mortgage loans in the pool. We stress test the portfolio regularly for potential sharp house price declines, which provides comfort with regards to the robustness of the pool, even in the face of 20 to 40% house price declines. Mortgage loan reserves are not primarily maintained within the cover pool, but are cover pool qualified loans kept on balance sheet in the parent banks until such time as they need to or should be transferred. Mortgage loans in the pool at over 75% LTV means some migration has taken place since transfer of the loan to the cover pool, though the parts of these loans representing higher than 75% LTV may not be counted as cover assets.

Chart 8: SpareBank 1 Boligkreditt cover pool: loans in arrears history



Liquid assets in the cover pool

Liquid assets are included in the cover pool and are cash, government or government guaranteed bonds and covered bonds from Nordic issuers. The minimum level of liquid assets are defined as covering 50 per cent of upcoming bond redemptions 12 months ahead of the maturity date and covering 100 per cent when there is six months or less until maturity. The actual level of liquid assets may also be higher than the minimum, depending on timing of new bond issuances. Liquid assets cannot be additional mortgages as this would not be prudent because mortgages are less effortlessly liquidated when funds are needed (for repayments), under certain circumstances. Liquid assets are detailed line in the quarterly cover pool reporting. Due to past issuance patterns, redemptions in any one year will typically include two benchmark bonds in USD or EUR and so the liquid assets buffer is sizable. At year-end 2016 it was 26 billion Norwegian kroner compared to 22 billion at the end of 2015.

Outlook 2017

With one issuance of a EUR benchmark in January 2017, we expect to issue one additional covered bond benchmark in foreign currency during 2017, as well as regular domestic Norwegian kroner issuance. EUR, USD and GBP are possible currencies for 2017 issuance.

Norway has managed the economic challenges of the reduction in oil prices well, despite that the oil and gas industry has been and remains a dominant industry. Monetary and fiscal policies as well as benefits from a floating (weaker) NOK are all contributing factors in this development. The housing market, which has experienced a sharp price increase in 2016 that very clearly was driven by developments in the capital of Norway, Oslo, should be set for a moderation course. The reasons for this are that in additional to already increased house prices, mortgage interest rates have increased some in late 2016 into 2017, regulations have been tightened and importantly building (supply) of new residential dwellings have increased. At year-end 2016 housing starts are at a trailing 12 months average of 3,000 per month, the highest seen in more than ten years.

The mortgage pool have a low weighted average current loan to value, unemployment remains low in Norway and there is ample structural support (fiscal, monetary policy as well strong unemployment support). The Spabol pool is geographically very well diversified across the country, much less exposed to an area of rapid growth (like Oslo) or one of recent (moderate) declines, such as in Stavanger. The outlook for continued stability and a robust cover pool is therefore good.

Financial statements 2016

Income statement

NOK 1 000	Note	2016	2015
Total interest income	5	3 797 962	3 879 909
Total interest expenses	5	-3 386 965	-3 473 052
Net interest income		**410 997**	**406 857**
Net gains/losses from financial instruments	6	-521 993	233 848
Net other operating income		**-521 993**	**233 848**
Total operating income		**-110 996**	**640 704**
Salaries and other ordinary personnel expenses	7,8,9	-11 409	-10 700
Administration expenses	10	-10 247	-10 625
Other operating expenses	11	-12 315	-9 760
Depreciation on fixed assets and other intangible assets	13	-1 367	-1 985
Total operating expenses		**-35 338**	**-33 070**
Operating result before losses		**-146 334**	**607 635**
Write-downs on loans and guarantees		0	0
Pre-tax operating result		**-146 334**	**607 635**
Taxes	12	36 583	-134 535
Profit/loss for the year		**-109 751**	**473 100**

Statement of comprehensive income 2016

NOK 1 000	Note	2016	2015
Profit/loss for the year		-109 751	473 100
Items which will not impact the income statement in future periods:			
Change in pensions for a previous period			
Estimate deviation for pensions		-1 054	5 685
Tax effect of the estimate deviation	12	264	-1 421
Total profit/loss accounted for in equity		**-791**	**4 264**
Total profit/loss		**-110 542**	**477 363**

Balance sheet

NOK 1 000	Note	2016	2015
Assets			
Lending to and deposits with credit institutions	19	8 129 096	8 083 543
Norwegian Government Treasury Bills	19	1 948 409	8 705 692
Bonds	19,20,21	40 558 209	42 113 662
Lending to customers	14,19	174 463 203	169 338 988
Financial derivatives	18,19,20	27 150 388	40 947 743
Other assets	13,19	1 543	3 671
Total assets		**252 250 848**	**269 193 299**
Liabilities and equity			
Liabilities			
Debt incurred by issuing securities	16,19,20	213 056 583	218 853 602
Collateral received under derivatives contracts	19,32	24 304 397	36 950 453
Financial derivatives	18,19,20	1 781 221	690 315
Deferred tax	12,19	208 816	370 561
Tax payable	12,19	124 898	-
Subordinated debt	17,19	1 603 778	2 434 380
Other Liabilities	19,20,22	117 865	156 116
Total Liabilities		**241 197 558**	**259 455 427**
Equity			
Paid-in equity	15	9 498 470	8 568 470
Other paid-in equity (not yet registered)		210 000	690 000
Hybrid capital		1 081 034	-
Accrued equity		149 836	374 328
Declared dividends		113 950	105 074
Total equity		**11 053 290**	**9 737 872**
Total liabilities and equity		**252 250 848**	**269 193 299**

Gardermoen, 01.02.2017

/s/ Kjell Fordal
Chairman of the Board

/s/ Inge Reinertsen

/s/ Merete N. Kristiansen

/s/ Tore Anstein Dobloug

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
Managing Director

Changes in equity

NOK 1 000	Share capital	Additional paid in equity	Dividend	Other paid-in equity (not yet registered)	Other Equity	Hybrid capital	Total Equity
Balance as of 31 December 2013	**5 310 548**	**2 657 922**	**319 630**	**-**	**925**	**-**	**8 289 025**
Share increase 26. February 2014	200 000	100 000	-	-	-	-	300 000
Dividend paid for 2013	-	-	-319 630	-	-	-	-319 630
Net income for the period	-	-	203 890	-	1 149	-	205 039
Change in pension for a previous period	-	-	-	-	4 700	-	4 700
OCI - pension - annual estimate deviation	-	-	-	-	-4 736	-	-4 736
Balance as of 31 December 2014	**5 510 548**	**2 757 922**	**203 890**	**-**	**2 038**	**-**	**8 474 399**
Dividend paid for 2014	-	-	-203 890	-	-	-	-203 890
Equity increase 29. Sept, 2015	200 000	100 000	-	-	-	-	300 000
Other pad-in equity (not yet registered)	-	-	-	690 000	-	-	690 000
Net income for the period *	-	-	105 074	-	368 026	-	473 100
OCI - pension - annual estimate deviation	-	-	-	-	4 263	-	4 263
Balance as of 31 December 2015	**5 710 548**	**2 857 922**	**105 074**	**690 000**	**374 328**	**-**	**9 737 872**
Registration of share increase (from Dec. 22, 2015)	460 000	230 000	-	-690 000	-	-	-
Dividend 2015	-	-	-105 074	-	-	-	-105 074
Share increase June 29	160 000	80 000	-	-	-	-	240 000
Share increase December 28 (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 December 31	-	-	-	-	-	1 081 034	1 081 034
Balance as of 31 December 2016	6 330 548	3 167 922	113 950	210 000	149 836	1 081 034	11 053 290
Balance as of 31 December 2016	**6 330 548**	**3 167 922**	**113 950**	**210 000**	**149 836**	**1 081 034**	**11 053 290**

* The Board has elected not to distribute all of other equity as a dividend. The effect of the valuation of basis swaps of NOK 149 million (after tax) is not paid out but added to other Equity.

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

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

Cash flow statement

NOK 1 000	2016	2015
Cash flows from operations		
Interest received	3 858 846	3 784 335
Paid expenses. operations	-36 469	-27 767
Paid tax	0	0
Net cash flow relating to operations	**3 822 377**	**3 756 568**
Cash flows from investments		
Net purchase of loan portfolio	-5 128 140	-8 168 134
Net payments on the acquisition of government bills	6 685 763	-8 214 730
Net payments on the acquisition of bonds	-495 538	-21 073 393
Net investments in intangible assets	-732	-1 054
Net cash flows relating to investments	**1 061 353**	**-37 457 311**
Cash flows from funding activities		
Net receipt/payment from the issuance of certificates	949 966	-749 970
Net receipt/payment from the issuance of bonds	8 296 329	19 811 929
Net receipt/payment from the issuance of subordinated debt	250 000	480 000
Net receipt/payment of loans to credit institutions	-11 329 904	8 412 189
Equity capital subscription	450 000	990 000
Paid dividend	-105 074	-203 890
Net interest payments on funding activity	-3 396 582	-3 433 837
Net cash flow relating to funding activities	**-4 885 266**	**25 306 422**
Net cash flow in the period	**-1 535**	**-8 394 321**
Balance of cash and cash equivalents Jan 1, 2016	8 083 543	16 268 940
Net eceipt/payments on cash	-1 535	-8 394 321
Exchange rate difference	47 089	208 925
Balance of cash and cash equivalents Dec 31. 2014	**8 129 097**	**8 083 543**

Quarterly income statements and balance sheets

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

Income statement

NOK 1 000	4th Quarter 2016	3rd Quarter 2016	2nd Quarter 2016	1st Quarter 2016	4th Quarter 2015
Total interest income	972 314	942 275	924 572	958 801	933 888
Total interest expenses	-883 715	-839 655	-817 253	-846 342	-838 460
Net interest income	**88 599**	**102 620**	**107 319**	**112 459**	**95 427**
Net gains/losses from financial instruments	-262 950	-181 345	-112 625	34 927	18 482
Net other operating income	**-262 950**	**-181 345**	**-112 625**	**34 927**	**18 482**
Total operating income	**-174 351**	**-78 725**	**-5 306**	**147 386**	**113 909**
Salaries and other ordinary personnel expenses	-3 106	-3 160	-2 043	-3 100	-3 622
Administration expenses	-2 649	-2 577	-2 299	-2 722	-2 961
Other operating expenses	-4 047	-3 557	-3 076	-1 635	-3 003
Depreciation on fixed assets and other intangible assets	-354	-293	-320	-400	-438
Total operating expenses	**-10 156**	**-9 587**	**-7 738**	**-7 857**	**-10 025**
Operating result before losses	**-184 507**	**-88 312**	**-13 044**	**139 529**	**103 885**
Write-downs on loans and guarantees	-	-	-	-	-
Pre-tax operating result	**-184 507**	**-88 312**	**-13 044**	**139 529**	**103 885**
Taxes	46 126	22 078	3 261	-34 882	1 477
Profit/loss for the year	**-138 381**	**-66 234**	**-9 783**	**104 647**	**105 362**
Other income and expense	**-791**	**-**	**-**	**-**	**4 264**
Total Profit/Loss	**-139 172**	**-66 234**	**-9 783**	**104 647**	**109 626**

Balance sheets

NOK 1 000	31.12.2016	30.09.2016	30.06.2016	31.03.2016	31.12.2015
Assets					
Lending to and deposits with credit institutions	8 129 096	10 261 328	11 257 916	11 442 842	8 083 543
Norwegian Government Treasury Bills	1 948 409	2 596 035	1 656 360	2 833 598	8 705 692
Bonds	40 558 209	46 446 864	44 733 335	45 244 165	42 113 662
Lending to customers	174 463 203	173 328 663	172 616 073	172 626 526	169 338 988
Financial derivatives	27 150 388	27 278 826	32 728 300	36 047 126	40 947 743
Other assets	1 543	2 262	1 833	2 571	3 671
Total assets	**252 250 848**	**259 913 978**	**262 993 816**	**268 196 829**	**269 193 299**
Liabilities and equity					
Liabilities					
Debt incurred by issuing securities	213 056 583	220 083 440	217 597 620	220 439 708	218 853 602
Collateral received under derivatives contracts	24 304 397	25 331 451	31 632 419	34 494 554	36 950 453
Financial derivatives	1 781 221	1 415 786	575 679	428 169	690 315
Deferred tax	208 816	380 104	370 561	370 561	370 561
Tax payable	124 898	-	31 621	34 882	-
Subordinated debt	1 603 778	2 684 461	2 684 337	2 434 192	2 434 380
Other Liabilities	117 865	117 308	133 917	152 245	156 116
Total Liabilities	**241 197 558**	**250 012 550**	**253 026 155**	**258 354 310**	**259 455 427**
Equity					
Contributed equity	9 498 470	9 498 470	9 258 470	9 258 470	8 568 470
Other paid in equity (not yet registered)	210 000	-	240 000	-	690 000
Hybrid capital	1 081 034	-	-	-	-
Accrued equity	149 836	374 328	374 328	374 328	374 328
Net profit	-	28 630	94 864	104 647	-
Declared dividends	113 950		-	105 074	105 074
Total equity	**11 053 290**	**9 901 428**	**9 967 662**	**9 842 519**	**9 737 872**
Total liabilities and equity	**252 250 848**	**259 913 978**	**262 993 816**	**268 196 829**	**269 193 299**

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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 2016, income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, 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.

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Key audit matter	How the matter was addressed in the audit
IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING	
The IT systems within SpareBank 1 Boligkreditt AS are key in the accounting and reporting of completed transactions, in obtaining the basis for key estimates and calculations, and in obtaining relevant information to be disclosed. The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers. Proper management and control of these IT systems both from SpareBank 1 Boligkreditt AS and their service providers are of high importance in order to ensure precise, complete and reliable financial reporting, and this area is therefore considered to be a key audit matter.	SpareBank 1 Boligkreditt AS has established a governance model for management and control of their IT systems. We have obtained an understanding of this general governance model at SpareBank 1 Boligkreditt AS and their IT environment relevant to financial reporting. We assessed and tested the design and implementation of the internal control activities related to the IT systems which are relevant for financial reporting, including selected controls related to operations, change management and information security. On a sample of these controls, we have also tested their operating effectiveness in the period. In addition, we assessed and tested the design of automated controls related to among others calculations, reconciliations and transaction settlements. On a sample of these controls, we have tested their operating effectiveness in the period. We also considered the attestation reports from the independent auditors (ISAE 3402 Reports) of SpareBank 1 Boligkreditt AS' service providers focusing on whether they had adequate internal controls on areas that have importance for the financial reporting of SpareBank 1 Boligkreditt AS. We have engaged our internal IT experts in the work related to understanding the governance model on IT and in assessing and testing the internal control activities related to IT.
NOTE DISCLOSURES ON CAPITAL ADEQUACY	
SpareBank 1 Boligkreditt AS is required to comply with the regulations on capital adequacy as set forth in the Financial Institutions Act ("Finansforetaksloven") and related regulations. Regulations on financial statements for banks («Forskrift om årsregnskap for banker») requires disclosure of capital adequacy in the notes to the financial statements. In note 29, among other matters, it is given information with respect to the	SpareBank 1 Boligkreditt AS has established internal 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 internal 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 required

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, we have concluded that this is a key audit matter.	capital for operational risk and calculation of risk adjusted basis for calculations. We assessed SpareBank 1 Boligkreditt AS' interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice. Furthermore, we reviewed the accuracy of the calculated minimum requirement for capital on a sample of balance sheet items and off-balance sheet items. We also reviewed the accuracy of the calculation of selected items in total capital.
FINANCIAL INSTRUMENTS – VALUATION OF FINANCIAL INSTRUMENTS (BASIS SWAPS)	
SpareBank 1 Boligkreditt AS has financial derivatives assets of 27,150 mNOK as per December 31, 2016, whereof net gain on valuation adjustment of cross currency swap (basis swap) spreads amounts to 199 mNOK as per December 31, 2016. 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 could not be obtained from other comparable instruments («non-observable assumptions»). Elements of basis swaps are included in the valuation of these derivatives. Net gain and loss from basis swaps results in annual net gain and loss in the income statement as there is no corresponding change in fair value on funding. Valuation of these basis swaps are therefore considered a key audit matter in our audit. The gain and losses described above will reverse over time given that the instruments are not settled prior to their expiry date.	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 basis swaps. We challenged management's model and the applied assumptions by considering if these were in line with renowned valuation models and industry practice. On a sample of basis swaps, we reconciled the applied assumptions with the external sources used by the company. Based on the company's own assumptions we also re-performed the calculation of gain and loss reported on the valuation adjustment of basis swaps.

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Other information
Management is responsible for the other information. Other information comprises the annual report for 2016 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 2016 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 1, 2017
Deloitte AS

Bjarte M. Jonassen
State Authorized Public Accountant in Norway

Illustration image of ISOBO

Norwegian environmental housing in the top European league

A Norwegian home was in 2016 nominated for the Active House Label Contest. This has shown that the Norwegian sustainable home development is on the rise.

There were only 4 development projects nominated to the final of the Active House Label Contest in the autumn of 2016 in Europe. The contest was held in Brussels and hosted by The Active House Alliance. This is a network of companies sharing the vision of developing buildings that are sustainable, created healthier and provide for more comfortable lives for their occupants, without a negative impact on the climate. The contest was launched last April to introduce the new label and it gathered submissions from all over the world.

What is the Active House label?

The Active House Alliance has developed specifications that define an Active House. These specifications are tools to design buildings based on a balanced focus on comfort, energy and environment. The Active House label is a worldwide quality stamp for comfortable and sustainable buildings. It advises on elements that are important to human's life and living in their home. Buildings with an Active House label have been designed and evaluated with a combined focus on comfort, smart use of energy and minimum impact on the environment.

The jury appointed a conference centre Green Solution House as winner of the contest, because of its unique combination of the three Active House principles in the design processes, its detailed modernization of their existing buildings and their concept´s emphasis on educational aspects.

In addition to the winner from Denmark, The Active House Alliance jury decided that the remaining three contestants where to be awarded the Active House Label as well. ISOBO

Aktiv is the one from Norway - a detached one-family house built with wood. The projects are built for different climates and for different conditions. This shows that the Active House principles can have a variation of design and be used all over the world.

ISOBO Aktiv – a house for the future?

The building evaluated several technical solutions in one design and identifies steps to design optimal indoor air quality. This house is based on passive measures and is a compact building with extra insulation. The issue of avoiding overheating resulted in a ventilated cooling design with several more skylights than normal, something that has other positive effects such as better daylight conditions with better spread of the daylight in the building.

The Norwegian environmental housing project ISOBO Aktiv was handpicked by The Active House Alliance along with its Italian competitor. The Norwegian contractor Jadarhus, who mainly focuses on environmental housing for both new and existing developments, developed the concept.

ISOBO Aktiv is a wooden timber house, which is typical for the cold Norwegian climate. Wooden houses are an old tradition in Norwegian architectural history, mainly intended to consume environmentally friendly building materials.

Inside ISOBO

The story of ISOBO

- "How can we build a house that is actively running on sustainable energy, and developed using environmentally friendly and sustainable materials?" This was the key question presented by Rune Hatlestad, general manager in Jadarhus during an inspirational meeting in Denmark.

In collaboration with the Scandinavian research association Sintef, the Norwegian State housing bank (Husbanken), state-owned company Enova (Enova's role is to drive the industries in Norway towards a greener society) and the international research facility Sintef Byggforsk – Jadarhus developed the ISOBO Aktiv as the new low energy consuming house to be more environmental than the traditional house with emphasis on indoor climate and low heating costs.

The type of environmental house that is designed to withstand the rainy west coast of Norway has more surrounding insulation than normal. The floors, roof, walls and windows have an airtight solution to minimize heat loss in the best possible way. One of the goals with this design is to make the most use of new and improved technical solutions. Another goal is to optimize the indoor climate and avoid overheating.

The green shift in Norway

By the beginning of 2017, Norway is producing more renewable energy than its national demand. The main source is hydropower. Nevertheless, Norway is a large producer of fossil energy in the form of oil and gas from the North Sea, Norwegian and Barents Sea.

The climate challenges and implementation of international treaties as a response thereto are forcing also Norway to look towards a greener future. Albeit predominantly based on hydro power, Norwegians consume more energy per household than other countries in the Nordic region. Therefore energy conservation is in the spotlight these days, as are pollution reductions from transportation. More residential development projects are presented with sustainable energy solutions. Governmental demands are increased in line with this development, as architects and housing developers are responding with smart and energy saving solutions.

The Norwegian landscape has great wind opportunities, and will continue focusing on wind power both offshore and onshore. There are several wind producing projects that are currently under development, in addition to existing innovative

Here are some of the energy measures with the ISOBO Aktiv project:

Geothermal heating
pre-heated or cooled air

A geothermal system below ground placed under the residence. This is linked to the ventilation system to maximize efficiency and even out the temperatures inside the house.

Solar panels
for water and room heating.

The solar panels are approx. 8 m2 big. They are designed to cover 50% of the warm water usage and 10% of the room temperature, using radiators and bathroom floor heating

Balanced ventilation
Fresh air and minimal heat loss

This is used as an efficient ventilation system, with an effect over 90%.

Heating Pump
for hot water and room temperature

Air-to-water heating pump uses the outdoor air to heat up a designated water tank for hot water, radiators and floor heating. It is designed to cover approx. 40% of the entire hot water usage, and 85% of the room temperature by the help of radiators and heated bathroom floors.

Hot water tank
pre-heated water which are powered by solar panels and heating pump.

The unit where the heat produced by solar collectors and heat pump stored, has one tank for general hot water usage and one tank for heating system in the house. An active energy flow of the water tanks is used to ensure the correct priority of the most environmental energy.

Intelligent windows and sun screening
Light and ventilation to optimize indoor climate

Outdoor sun screening on featured windows with active control. The active control system for opening and shut of the selected windows is to ensure correct temperature flow and ventilation.

Solar panels
The residence has 8 area of solar panel system. This will make the house self-sufficient with electricity and more. The surplus energy is "sold back" to the electricity provider through the national power grid.

offshore solutions. Statoil, the Norwegian energy company, is developing the world's first floating wind farm project outside the cost of Scotland.

Active house -vs- Passive house

With a variety of definitions energy-friendly houses, the terms Active house and Passive house are here defined:

Passive house: constructed for least possible energy use, with thick insulation, plastics and mechanical ventilation. These types of houses are very well insulated and ventilated, based on extensive use of natural building materials. The term for Passive houses came reportedly in to our vocabulary only a few years ago, although not many residences of such have been built.

Active house: As the idea of a Passive house to be as tightly insulated as possible, the fundamental idea of the Active house is to be breathing for a better indoor climate. With the use of biological materials and ancestral knowledge about energy efficiency and natural ventilation, the Active house will be a more ecological way of living than a Passive house or a regular home.

The Norwegian contractor company Jadarhus, has only built one such Active house. It was stuffed with all the technical wonders to make it as active, living and self-sufficient as possible. With future environmental requirements, Norway has now the competence and resources to take this development further, on a European scale.

Factsheet

he Active House of the year, 2016

- Only 4 nominated development projects to receive The Active House Label
- The winner of 2016 was the Danish conference centre Green Solution House.
- Only 2 of 4 were family residences: Italy (concrete house) and Norway (wood house).
- The Norwegian ISOBO Aktiv house from Jadarhus was the only wooden house, which is very typical for Norwegian houses.

Jadarhus Group

- The Norwegian company Jadarhus has developed private homes since 1969
- The company focuses heavily on energy efficiency
- In total, the 160 employees delivers annually over 200 energy efficient homes
- Jadarhus has built the first Active House in the Nordic region

activehouse

Text: Tonje Pedersen, Apropos. Photography: Procontra

Tromsø

SpareBank 1 Alliance banks and Boligkreditt

The operating relationship with parent banks

SpareBank 1 Boligkreditt (Spabol or the Company) was founded in 2005 and issued its first Euro benchmark in September 2007, a 1 billion, 3 year covered bond. 2017 is the 10th year of issuing covered bonds and Spabol is an important source of funding for the banks in the SpareBank 1 Alliance. On average 1/3 of all residential mortgage lending from the SpareBank 1 Alliance banks in Norway has been funded via Spabol covered bond issuance. The banks sell originated loans which meet a series of quality checks to SpareBank 1 Boligkreditt's cover pool.

The relationship between covered bond issuer and banks are regulated by Norwegian law, but also by contract between Spabol and each bank. This is a source of the cover pool's credit risk strength and diversification. The law requires that a special entity, separate from the parent institution(s) issues cover bonds. The main objective of this feature of the law is to segregate the assets over which investors in covered bonds and pari passu counterparties in hedging swap contracts have a first priority right in case of insolvency, second it provides for a simple, transparent balance sheet. The contractual arrangements are such that the parent banks are obligated to support the cover pool in times of stress and emergencies with additional equity (above paid in equity for regulatory capital adequacy purposes) and liquidity. Additionally, and more relevant for ongoing operations, parent banks need to maintain reserves of mortgages for the cover pool, in case LTVs in the pool increase due to valuation declines in the housing market. In the Alliance, reserves are calibrated so that the Company's cover pool can withstand sudden house price declines of 30 per cent. The cover pool, however, is continuously extremely robust due to the process of qualification that each mortgage goes through in order to be eligible for the pool. This means that customer credit scores, customers past behavior, as well as income and loan metrics and correctness of documentation and registration determine the share of mortgages that qualify for the cover pool. With reference to the 1/3 of Alliance banks' mortgages financed through the pool, another approximately 30 per cent of loans are pre-qualified, but not transferred (or sold) from the banks.

Ownership

Ownership is tied to the relative volume of mortgages. Because covered bond entities in Norway are credit institutions, the same capital requirements apply as to all banks in general. A transfer (a sale) of mortgages to the cover pool therefore requires an equity injection. Through the year, mortgages continue to be sold to the pool, and equity is raised from the Alliance banks at irregular intervals. At the end of each year, ownership shares are reset depending on the then prevailing relative positons of the banks with regards to mortgage volume in the cover pool. At year-end 2016, the equity shares of the banks were:

	No of Shares	in per cent
Sparebanken Hedmark	12 823 943	20,26 %
SpareBank 1 SMN	12 081 960	19,09 %
SpareBank 1 Nord-Norge	9 247 688	14,61 %
SpareBank 1 SR-Bank ASA	8 778 079	13,87 %
BN Bank ASA	3 820 090	6,03 %
SpareBank 1 BV	3 811 059	6,02 %
SpareBank 1 Østfold Akershus	2 817 655	4,45 %
Sparebanken Telemark	2 669 547	4,22 %
SpareBank 1 Ringerike Hadeland	2 322 759	3,67 %
SpareBank 1 Nordvest	1 390 766	2,20 %
SpareBank 1 Modum	921 156	1,46 %
SpareBank 1 Søre Sunnmøre	823 622	1,30 %
SpareBank 1 Hallingdal Valdres	758 599	1,20 %
SpareBank 1 Gudbrandsdal	587 012	0,93 %
SpareBank 1 Lom og Skjåk	451 547	0,71 %
Total	**63 305 482**	**100 %**

The ownership shares determine the pro rata and joint obligations of the banks. As mentioned above, a shareholders agreement provide for additional equity contributions to be made in case of sufficient impairments in the cover pool while a shareholders note purchasing agreement regulates when the banks themselves will need to buy covered bonds from Spabol. Neither the covered bond issuer nor the banks expect that any of these agreements would ever be drawn upon. In fact they were constructed to formalize and exhibit the strong cohesion between Spabol and the banks which exists anyway. Each bank is obligated to perform its share of each agreement's commitment based on its pro rata equity share in Spabol, details of the agreement are in the SpareBank 1 Boligkreditt Prospectus document. Furthermore, in case of other Alliance banks being unable to participate under either agreement at the point of draw down, each bank is additionally taking on the commitment of its pro rata share a second time.

Regulations

Because Norway is outside of the political European Union, EU Directives tend to take longer to be implemented in Norway, for example EMIR and BRRD are not yet implemented, but expected. However, as a member of the inner market through the European Economic Area agreement, Norway must implement EU Directives. In the area of banks and regulations of the banking industry, law and regulations are the same in Norway as in the EU. Consequences can therefore arise for special situations in Norway which have not been accommodated for in the EU regulation. One such area is the rules on largest exposures between banks, where a bank's exposure to another banking institution is limited by 25 per cent of the bank's Tier 1 equity capital, with a weighting of the exposures at 100 per cent. There is no exemption in the relationship covered bond issuer to parent banks, which must contribute the equity capital for the covered bond entity. This equity is an exposure of the parent banks vs. Spabol. However, for Norwegian Boligkreditt entities which are wholly owned by one bank, the weighting of exposures is a lower 20 per cent (as opposed to 100 per cent), disadvantaging covered bond issuers owned jointly by several banks. In practice, there is no meaningful limitation to covered bond issuance in the Alliance because SpareBank 1 banks have been required to increase their equity capital over several years, as have all banks. This comes as a function of the implementation of the EU's CRD IV, on top of which Norway's finance ministry has added a countercyclical buffer and Pillar 2 requirements (from 1.5 to 2.5 per cent, depending on institution). In Norway, the level of a bank's risk-weighted assets has a floor, which is defined as 80% of what applying the Basel I regime would have resulted in. As a consequence, banks in Norway are very well capitalized compared to European and Scandinavian peers.

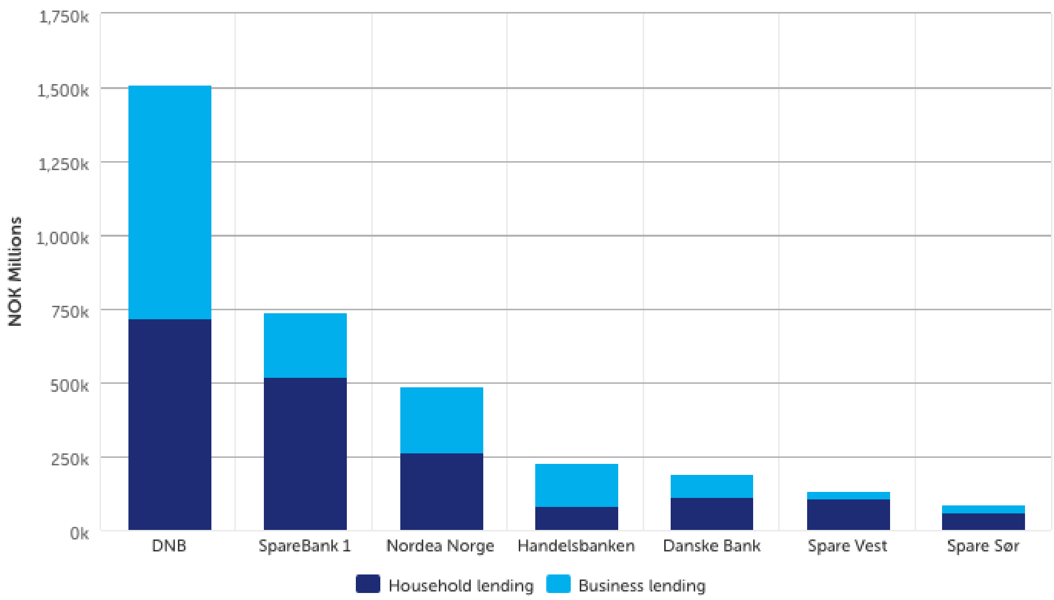
Hedging currency and interest rate exposure with swaps

SpareBank 1 Boligkreditt issues a main portion of its financing in foreign currency, especially in Euros. Mortgage loans in the cover pool are denominated exclusively in Norwegian kroner at a variable rate, while bonds issued are typically fixed rate. Derivatives are employed to hedge the ensuing market risks. The operating model entails covering any such exposure fully, and for the whole duration of the outstanding bond, with a swap contract. While these contracts attract some costs, they are a prudent tool for removing market risks compared to other solutions and also best meet legal requirements. Another prudent element for SpareBank 1 Boligkreditt is to swap with external counterparties instead of with parent banks, and in particular to also diversify external swap counterparties. Swaps with a parent bank means that market risks could accumulate there, unless also mitigated. However, under the covered bond swaps the Company enters into, the collateral posting is one-directional only, from counterparties to Spabol. Therefore, at times of sharper moves in market variables, collateral volumes from a series of swap contracts hedging several billions of Euros of exposure could be material and could become a source of liquidity constraint for a parent bank not receiving collateral from the Company.

Nature of the Alliance banks' business

On average the SpareBank 1 banks are retail institutions, and their operations are exclusively in Norway. As much as 70 per cent of the aggregated balance sheet is lending to private households, and almost all of this is residential mortgages. Of the remaining lending to the corporate or business segment, the largest share is commercial mortgages for offices, warehouses, logistical centres, manufacturing centres, hotels and so on. Lending to other industries in order of size are business services, construction, utilities, industry and trade, maritime and offshore, followed by several others. The corporate segment is diversified and granular and SpareBank 1 banks are not present with lending to the cyclical shipping tanker industry for example, but which does have rich traditions in Norway.

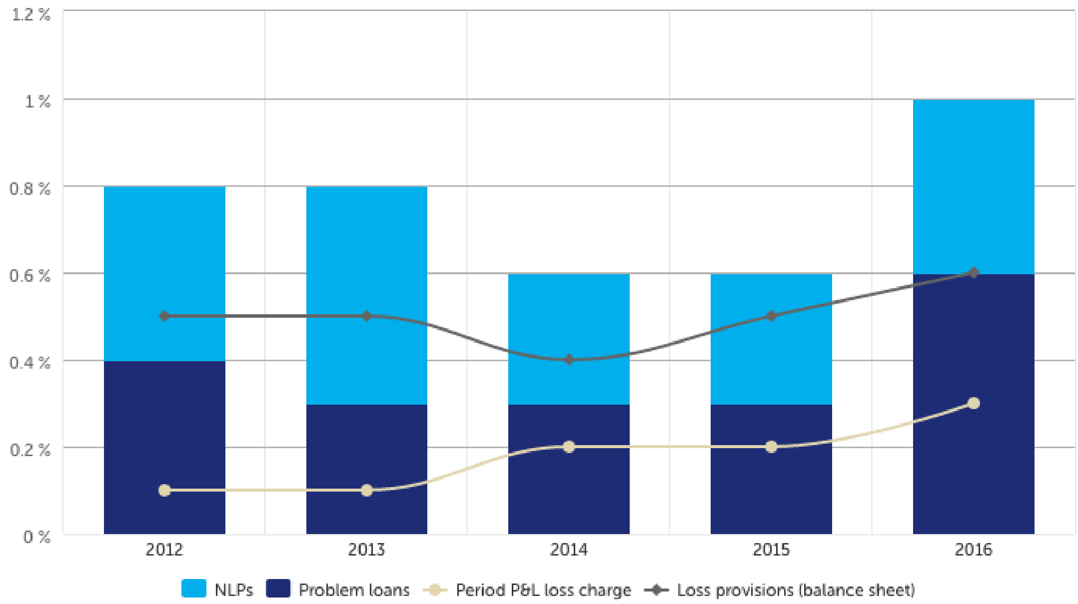
Lending in Norway to household and businesses:



Source: banks annual reports for 2016

With their similar business profile, the banks have joined forces within the Alliance since 1996 on many efforts regarding operations processes, in order to be as efficient as possible and in this regard act as one concern. Today the work in the Alliance and in the banks is focused on further technological adaption, automation and providing customers with online platforms and options to conduct business. The SpareBank 1 Alliance is highly integrated on many levels, also though that the banks jointly own product companies, such as insurance and asset management. The banks and the units in the SpareBank 1 Alliance operate under the single brand name SpareBank 1, a very familiar financial brand name to Norwegians.

Loan quality in the SpareBank 1 banks is high, though due to some oil and oil services industry related exposures, both loan loss charges and loans in default as well as loans classified as at risk of default has increased over 2016. This increase is not due to a general trend across all SpareBank 1 banks, but occur in two banks with more oil related exposures as a share of their gross lending at the end of 2016, SpareBank 1 SR-Bank with 8,1 per cent of oil related exposures and SMN with less than half of this. The following chart illustrates the trend and level for the four largest Alliance banks as an average aggregate of overall lending.



Source: banks annual reports for 2016

Defaults and problem loans in the retail (household) segment is very low. Cumulative loan loss provisions as an expression of this is 0.09 per cent as of 2016 for the four largest Alliance banks and only 0.03 per cent when considering only those loans which have been individually identified as impaired loans. The Boligkreditt balance sheet, where lending is solely for residential household mortgage purposes, remains as before very robust with no defaulted or problematic loans and a negligible level of arrears below 90 days.

Eivind Hegelstad

Eivind Hegelstad is CFO / Investor Relations at SpareBank 1 Boligkreditt

Notes to the Accounts

Note 1 General information

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

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

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

The Financial Statements for 2016 is approved by the Board of Directors on February 1, 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

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.

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) in the held-to-maturity portfolio 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.
- 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 val-

uation 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.

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)

For the previous year, no new or revised IFRS have been incorporated into the Company's accounts

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The new and revised IFRSs are not mandatorily effective for the year ended December 31, 2016. The Company intends to adopt these standards when they become effective.

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 de-recognition 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. There is a possibility to implement the new standard early, which SpareBank 1 Boligkreditt will not do. 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, and which will plan and implement IFRS 9 ('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 de-recognition 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 I 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.

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.

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.

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 judgment 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. The preliminary assessment is that hedge accounting will be continued along the same lines a today.

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.

B. Write downs for loan losses

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.

The measurement of the provision for expected losses in the general 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 that according to todays practice. This will be especially noticeable at the downturn of the economic and business cycle. The Company does however not expect any material increase in write downs at the time of implementation of IFRS 9. Preliminary tests indicate this.

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. All limits are temporary and may be adjusted depending on the development of methods, new guidance and observed practice.

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.

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

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

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

Further development of the model

The model for loan loss provision is still under continuous development. The Company will assess prospective information for macroeconomic factors such as for example unemployment, GDP growth rates, interest rates and real estate prices in order to attempt to make forecasts for input into the model. The model will calculate loan loss provisions per month-end and adjustments will be made for events occurring prior to the reporting point in time.

Note 3 Risk management

SSpareBank 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

TThe 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.

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	2016	2015
Interest income		
Interest income and similar income from loans to and balances with credit institutions	526 792	300 398
Interest income and similar income from loans to and balances with customers	4 511 245	5 258 746
Interest income treasury bills	7 877	7 849
Commission expense (payable to shareholder banks) *	-1 247 952	-1 687 085
Total interest income	**3 797 962**	**3 879 909**
Interest expense		
Interest expense and similar expenses to credit institutions	12 258	31 291
Interest expense and similar expenses on issued bonds	3 265 299	3 359 422
Interest expense and similar expenses on issued certificates	9 107	1 735
Interest expense and similar expenses on Tier 1 capital **	45 227	22 047
Interest expense and similar expenses on Tier 2 capital	54 001	58 537
Other interest expenses	1 073	19
Total interest expense	**3 386 965**	**3 473 052**
Net interest income	**410 997**	**406 857**

* 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	2016	2015
Net gains (losses) from financial liabilities (1)	-3 274 659	-408 266
Net gains (losses) from financial derivatives, hedging liabilities, at fair value, hedging instrument (1,3)	3 641 152	160 711
Net gains (losses) from financial assets (2)	-665 916	-34 613
Net gains (losses) from financial derivatives, hedging assets, at fair value, hedging instrument (2,3)	77 376	48 869
Net gains (losses) due to changes in basisswapspreads (4)	-299 947	467 146
Net gains (losses)	**-521 993**	**233 847**

(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 this will cause the valuation change of the liabilities to be different to the valuation changes in the derivatives hedging the liabilities. There will also be valuation differences due to the the amortization of issuance costs and when the bonds are issued at prices different from par value.

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

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

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

Note 7 Salaries and remuneration

NOK 1 000	2016	2015
Salary	9 903	10 726
Salaries reinvoiced to SpareBank1 Næringskreditt*	-2 691	-3 108
Pension expenses	1 956	706
Social insurance fees	1 699	1 736
Other personnel expenses	541	640
Total salary expenses	**11 409**	**10 700**
Average number of full time equivalents (FTEs)	8	8

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

Note 8 Salaries and other remuneration of management

Paid in 2016

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

Paid in 2014

NOK 1 000	Total compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2 089	-	168	706	4 637	4 163
Chief Operating Officer - Henning Nilsen	1 347	-	35	208	1 043	1 383
Chief Financial Officer - Eivind Hegelstad	1 314	-	35	-	-	4 425
Total for Management	**4 750**	**-**	**238**	**914**	**5 680**	**9 971**

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.

The Board of Directors	2016	2015
Kjell Fordal	100	100
Inge Reinertsen	80	79
Tore Anstein Dobloug	80	79
Merete N. Kristiansen	80	79
Merete Eik	80	79
Trond Sørås (Observer)	23	20
Geir-Egil Bolstad (Observer)	23	17
Total for the Board of Directors	**466**	**450**
The Control Committee		
Ola Neråsen	10	10
Brigitte Ninauve	10	10
Solveig Midtbø	5	5
Kjersti Hønstad	13	13
Total for the Control Committee	**39**	**38**

The Committee of Representatives		
Arne Henning Falkenhaug	10	9
Sveinung Hestnes	-	2
Vegard Sæten	-	2
Kjersti Hønstad	2	2
Hanne J Nordgaard	2	2
Gudrun Michelsen	-	2
Thor-Christian Haugland	2	-
Vidar Norheim	2	-
Kåre Johan Osen	2	-
Total for the Committee of Representatives	**18**	**18**

Note 9 Pensions

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

	2016	**2015**
Net pension obligations on the balance sheet		
Present value pension obligation as of Dec 31	15 980	15 567
Pension assets as of Dec 31	4 121	4 734
Net pension obligation as of Dec 31	11 859	10 833
Employer payroll tax	2 265	1 527
Net pension obligation recorded as of Dec 31	14 124	12 360
Pension expense in the period		
Defined benefit pension accrued in the period	941	602
Defined contribution plan pension costs including AFP	1 019	292
Pension expense accounted for in the income statement	1 960	894

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

	2016	**2015**
Discount rate	2,60 %	2,70 %
Expected return on pension assets	2,60 %	2,70 %
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 Administrative expenses

NOK 1 000	2016	2015
IT operation and maintenance	9 456	9 705
Travel	944	1 087
Telephone and postage	123	163
Misc other adm expenses	9	10
Cost share with SpareBank 1 Næringskreditt AS	-284	-340
Total	**10 247**	**10 625**

Note 11 Other operating expenses

NOK 1 000	2016	2015
Auditing, hired personnel from SpareBank 1 Group, other services	11 761	9 062
Operating expenses rented offices	618	675
Operating expenses reinvoiced to SpareBank 1 Næringskreditt	-500	-462
Misc other operating expenses	436	486
Total	**12 315**	**9 760**

Auditing

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

NOK 1 000	2016	2015
Legally required audit	516	571
Other attestation services, incl. examination services, loan documents sample testing, comfort letters	611	841
Other services outside auditing	300	57
Total (incl VAT)	**1 427**	**1 469**

Note 12 Taxes

NOK 1 000	2016	2015
Pre-tax profit	-146 334	607 635
Permanent differences	2	18
Change in temporary differences due to net unrealized gain/loss	1 577 616	-1 425 662
Change in temporary differences due to use of previously tax deficit	-931 692	
Tax base/taxable income for year	**499 591**	**-818 009**
Tax payable	124 898	-
Change in deferred taxes	-161 481	164 066
Change in deferred tax due to rate change from 27 % to 25 %	-	-29 530
Tax expense	**-36 583**	**134 535**
Effective tax rate	**25,00 %**	**22,14 %**
Tax effect on pension estimate deviation	-264	1 421
Tax effects on elements in comprehensive income and loss	**-264**	**1 421**
Temporary differences as of 31.12		
Net unrealized gain/loss	1 069 618	2 646 524
Pension	-14 124	-12 360
Tax deficit to be carried forward	-	-931 692
Corrections to be carried forward	-220 230	-220 230
Total temporary differences that affect taxable income	**835 264**	**1 482 242**
Net deferred tax benefit (-) / deferred tax (+)	**208 816**	**370 561**
Taxrate applied	25 %	27 %
Taxrate applied for temporary differences	25 %	25 %

Note 13 Other assets

NOK 1 000	2016	2015
Intangible assets *	1 245	1 880
Account receivables from SpareBank 1 Næringskreditt AS	299	1 791
Total	**1 543**	**3 671**

* Intangible assets

NOK 1 000	
Acquisition cost 01.01.2015	32 397
Acquisitions	962
Disposals	
Acquisition cost 31.12.2015	**33 359**
Accumulated depreciation and write-downs 01.01.2015	29 494
Periodical depreciation	1 985
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2015	31 479
Book value as of 31.12.2015	**1 880**
Acquisition cost 01.01.2016	33 359
Acquisitions	732
Disposals	
Acquisition cost 31.12.2016	**34 091**
Accumulated depreciation and write-downs 01.01.2016	31 479
Periodical depreciation	1 367
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2016	32 846
Book value as of 31.12.2016	**1 245**
Financial lifespan	3 years
Depreciation schedule	linear

Note 14 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 2016 were NOK 174,5 billion. All mortgages carry a variable interest rate.

NOK 1 000	2016	2015
Revolving loans - retail market	53 353 004	54 205 342
Amortising loans - retail market	120 969 630	114 989 151
Accrued interest	148 277	152 202
Total loans before specified and unspecified loss provisions	**174 470 911**	**169 346 696**
Specified loan loss provisions	-	-
Unspecified loan loss provisions	7 708	7 708
Total net loans and claims with customers	**174 463 203**	**169 338 988**
Liability		
Unused balances under customer revolving credit lines (flexible loans)	13 593 736	18 636 235
Total	**13 593 736**	**18 636 235**
Defaulted loans		
Defaults*	0,0 %	0,0 %
Specified loan loss provisions	0,0 %	0,0 %
Net defaulted loans	**0,0 %**	**0,0 %**
Loans at risk of loss		
Loans not defaulted but at risk of loss	0,0 %	0,0 %
- Write downs on loans at risk of loss	0,0 %	0,0 %
Net other loans at risk of loss	**0,0 %**	**0,0 %**

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

Changes to loan loss provisions

NOK 1 000	2016	2015
Loan loss provisions as of 01.01	7 708	7 708
Change in group loan loss provisions	0	0
Loan loss provisions as of 31.12	**7 708**	**7 708**

Loans sorted according to geography (Norwegian counties)

NOK 1 000		Lending 2016	Lending 2016 %	Lending 2015	Lending 2015 %
NO01	**Østfold**	6 529 476	3,74 %	6 145 884	3,63 %
NO02	**Akershus**	19 581 758	11,22 %	18 026 924	10,65 %
NO03	**Oslo**	17 923 579	10,27 %	17 205 312	10,16 %
NO04	**Hedmark**	13 334 486	7,64 %	12 782 891	7,55 %
NO05	**Oppland**	5 439 439	3,12 %	4 570 495	2,70 %
NO06	**Buskerud**	10 316 497	5,91 %	9 347 308	5,52 %
NO07	**Vestfold**	7 394 448	4,24 %	6 825 251	4,03 %
NO08	**Telemark**	6 473 779	3,71 %	6 027 434	3,56 %
NO09	**Aust Agder**	421 288	0,24 %	459 263	0,27 %
NO10	**Vest Agder**	1 792 554	1,03 %	1 923 355	1,14 %
NO11	**Rogaland**	21 176 762	12,14 %	24 310 677	14,36 %
NO12	**Hordaland**	3 245 956	1,86 %	3 604 683	2,13 %
NO14	**Sogn og Fjordane**	369 652	0,21 %	316 366	0,19 %
NO15	**Møre og Romsdal**	10 341 902	5,93 %	9 615 178	5,68 %
NO16	**Sør Trøndelag**	18 470 852	10,59 %	17 932 825	10,59 %
NO17	**Nord Trøndelag**	7 779 190	4,46 %	7 655 581	4,52 %
NO18	**Nordland**	9 800 260	5,62 %	9 050 823	5,34 %
NO19	**Troms**	9 848 163	5,64 %	9 713 575	5,74 %
NO20	**Finnmark**	4 177 157	2,39 %	3 792 768	2,24 %
	Svalbard	46 006	0,03 %	32 397	0,02 %
SUM		**174 463 203**	**100,0 %**	**169 338 988**	**100,0 %**

Note 15 Share capital and shareholder information

List of shareholders as of 31.12.2016

	No of Shares	in per cent	Share of votes
SpareBank 1 SMN	12 081 960	19,09 %	19,09 %
SpareBank 1 Nord-Norge	9 247 688	14,61 %	14,61 %
SpareBank 1 SR-Bank ASA	8 778 079	13,87 %	13,87 %
Bank 1 Oslo Akershus AS	6 466 157	10,21 %	10,21 %
Sparebanken Hedmark	6 357 786	10,04 %	10,04 %
BN Bank ASA	3 820 090	6,03 %	6,03 %
SpareBank 1 BV	2 926 026	4,62 %	4,62 %
SpareBank 1 Østfold Akershus	2 817 655	4,45 %	4,45 %
Sparebanken Telemark	2 669 547	4,22 %	4,22 %
SpareBank 1 Ringerike Hadeland	2 322 759	3,67 %	3,67 %
SpareBank 1 Nordvest	1 390 766	2,20 %	2,20 %
SpareBank 1 Modum	921 156	1,46 %	1,46 %
SpareBank 1 Nøtterøy Tønsberg	885 033	1,40 %	1,40 %
SpareBank 1 Søre Sunnmøre	823 622	1,30 %	1,30 %
SpareBank 1 Hallingdal Valdres	758 599	1,20 %	1,20 %
SpareBank 1 Gudbrandsdal	587 012	0,93 %	0,93 %
SpareBank 1 Lom og Skjåk	451 547	0,71 %	0,71 %
Total	**63 305 482**	**100 %**	**100 %**

The share capital consists of 63 305 482 shares with a nominal value of NOK 100

Note 16 Liabilities incurred by issuing securities

NOK 1 000	Nominal value * **2016**	Nominal value * **2015**
Short term notes, unsecured	950 000	-
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	3 481 000	6 476 000
Repurchased senior unsecured bonds	-232 000	-74 000
Covered bonds	185 292 077	177 244 869
Repurchased Covered bonds	-1 951 550	-4 917 100
Total debt incurred by issuing securities	187 539 527	178 729 769

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

NOK 1 000	Book value **2016**	Book value **2015**
Short term notes, unsecured	949 966	-
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	3 480 574	6 475 779
Repurchased senior unsecured bonds	-231 456	-73 998
Covered bonds	209 376 266	215 868 978
Repurchased covered bonds	-2 136 734	-5 125 020
Activated costs incurred by issuing debt	-163 181	-158 707
Accrued interest	1 781 147	1 866 571
Total debt incurred by issuing securities	**213 056 583**	**218 853 602**

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	2016	2015
2015	-	-
2016	-	3 752 000
2017	2 518 000	2 650 000
2018	800 000	-
2019	881 000	-
Total	**4 199 000**	**6 402 000**

Covered bonds

Due in	2016	2015
2016	-	20 621 625
2017	19 449 500	21 013 000
2018	35 754 250	35 754 250
2019	27 535 470	27 167 690
2020	24 958 500	24 958 500
2021	28 770 128	25 402 456
2022	21 148 750	12 648 750
2023	9 252 750	-
2024	1 517 529	1 462 848
2025	1 010 000	1 010 000
2026	12 185 000	1 650 000
2027	475 850	475 850
2028	1 282 800	162 800
Total	**183 340 527**	**172 327 769**
Total	**187 539 527**	**178 729 769**

* 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	2016	2015
NOK	62 584 741	56 218 289
EUR	120 282 131	120 721 290
USD	29 922 726	41 625 965
SEK	266 985	288 058
Total	**213 056 583**	**218 853 602**

Note 17 Subordinated debt

NOK 1000	ISIN	Interest rate	Issued year	Call option	Nominal amount	2016	2015
With maturity							
Subordinated loan (Tier 2 capital)	NO0010704109	3M Nibor + 225 bp	2014	07.05.2019	1 600 000	1 600 000	1 600 000
Accrued interest						3 778	3 778
Additional tier 1 capital classified as hybrid capital as of 31/12-16							
Perpetual							
Hybrid (Tier 1 capital instrument) *	NO0010713746	3M Nibor + 310 bp	2014	09.05.2019	350 000	-	350 000
Hybrid (Tier 1 capital instrument) *	NO0010745920	3M Nibor + 360 bp	2015	23.09.2020	300 000	-	300 000
Hybrid (Tier 1 capital instrument) *	NO0010746191	3M Nibor + 360 bp	2015	29.09.2020	180 000	-	180 000
Hybrid (Tier 1 capital instrument) *	NO0010767643	3M Nibor + 360 bp	2016	22.06.2021	250 000	-	-
Accrued interest *						-	603
Book value						**1 603 778**	**2 434 380**

*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.

Note 18 Financial derivatives

NOK 1 000	2016	2015
Interest rate derivative contracts		
Interest rate swaps		
Nominal amount	69 479 995	80 539 030
Asset	4 346 925	5 345 413
Liability	-667 779	-638 503
Currency derivative contracts		
Currency swaps		
Nominal amount	138 286 431	153 531 262
Asset	22 604 660	35 103 579
Liability	-1 113 441	-51 812
Total financial derivative contracts		
Nominal amount	207 766 425	234 070 292
Asset	26 951 585	40 448 992
Liability *	-1 781 221	-690 315

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

* Including basis swap spread adjustments, see note 6.

Asset	26 951 585	40 448 992
Net gain (loss) on valuation adjustment of basisswap spreads	198 803	498 751
Net asset derivatives	27 150 388	40 947 743

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

Note 19 Classification of Financial Instruments

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	**2016**
Assets					
Deposits at and receivables from financial institutions	-	8 129 096	-	-	8 129 096
Norwegian government short term debt certificates	1 948 409	-	-	-	1 948 409
Bonds	40 483 363	-	74 846	-	40 558 209
Lending to customers	-	174 463 203	-	-	174 463 203
Financial derivatives	27 150 388	-	-	-	27 150 388
Other assets	-	-	-	1 543	1 543
Total Assets	**69 582 160**	**182 592 299**	**74 846**	**1 543**	**252 250 848**
Liabilities					
Debt incurred by issuing securities	169 924 011	43 132 572	-	-	213 056 583
Collateral received in relation to financial derivatives	-	24 304 397	-	-	24 304 397
Financial derivatives	1 781 221	-	-	-	1 781 221
Deferred taxes	-	-	-	208 816	208 816
Taxes payable	-	-	-	124 898	124 898
Subordinated dept	-	1 603 778	-	-	1 603 778
Other liabilities	-	-	-	117 865	117 865
Total Liabilities	**171 705 232**	**69 040 747**	**-**	**451 579**	**241 197 558**
Total Equity	**-**	**1 081 034**	-	**9 972 256**	**11 053 290**
Total Liabilities and Equity	**171 705 232**	**70 121 781**	**-**	**10 423 835**	**252 250 848**

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

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	2015
Assets					
Deposits at and receivables from financial institutions	-	8 083 543	-	-	8 083 543
Norwegian government short term debt certificates	8 705 692	-	-	-	8 705 692
Bonds	41 888 568	-	225 094	-	42 113 662
Lending to customers	-	169 338 988	-	-	169 338 988
Financial derivatives	40 947 743	-	-	-	40 947 743
Other assets	-	-	-	3 671	3 671
Total Assets	**91 542 003**	**177 422 531**	**225 094**	**3 671**	**269 193 299**
Liabilities					
Debt incurred by issuing securities	178 925 021	39 928 581	-	-	218 853 602
Collateral received in relation to financial derivatives	-	36 950 453	-	-	36 950 453
Financial derivatives	690 315	-	-	-	690 315
Deferred taxes	-	-	-	370 561	370 561
Taxes payable	-	-	-	-	-
Subordinated dept	-	2 434 380	-	-	2 434 380
Other liabilities	-	-	-	156 116	156 116
Total Liabilities	**179 615 336**	**79 313 414**	**-**	**526 677**	**259 455 427**
Total Equity	**-**	**-**	**-**	**9 737 872**	**9 737 872**
Total Liabilities and Equity	**179 615 336**	**79 313 414**	**-**	**10 264 549**	**269 193 299**

*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 31.12.2016

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	25 742 488	16 764 091	-	42 506 579
Financial Derivatives	-	27 150 388	-	27 150 388
Total Assets	30 189 424	45 929 039	-	76 118 463
Bonds	-	169 924 011	-	169 924 011
Financial Derivatives	-	1 781 221	-	1 781 221
Total Liabilities	**-**	**171 705 232**	**-**	**171 705 232**

The following table presents the company's assets and liabilities at fair value as of 31.12.2015

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	41 286 375	9 307 886	-	50 594 260
Financial Derivatives	-	40 947 743	-	40 947 743
Total Assets	**41 286 375**	**50 255 628**	**-**	**91 542 003**
Bonds	-	178 925 021	-	178 925 021
Financial Derivatives	-	690 315	-	690 315
Total Liabilities	**-**	**179 615 336**	**-**	**179 615 336**

Note 21 Bonds classified as hold to maturity

As of 31.12.2016

Bonds classified as	Book value 01.01.2016	Investments	Matured	Amortizing	Exchange rate effects	Amortised cost 31.12.2016
Hold to maturity	224 605	-	-150 000	240	-	74 845
Total certificates and bonds	**224 605**	**-**	**-150 000**	**240**	**-**	**74 845**

Market value of bonds in hold to maturity portfolio

Bonds classified as	Book value	Market value incl fx effect	Effect on result if at fair value
Hold to maturity	74 845	75 204	358
Total certificates and bonds	**74 845**	**75 204**	**358**

Note 22 Other liabilities

NOK 1 000	**2016**	**2015**
Employees tax deductions and other deductions	1 470	1 478
Employers national insurance contribution	476	462
Accrued holiday allowance	1 011	1 015
Commission payable to shareholder banks	92 506	117 921
Deposits*	1 010	12 977
Pension liabilities	14 124	12 360
Other accrued costs	7 267	9 902
Total	**117 865**	**156 116**

The Company does not have an overdraft facility or a revolving credit facility as of 31.12.2016

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

Note 23 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	**2016**	**2015**
Loans to customers	174 463 203	169 338 988
Loans to and deposits with credit institutions	8 129 096	8 083 543
Government certificates	1 948 409	8 705 692
Bonds	40 558 209	42 113 662
Financial derivatives	27 150 388	40 947 743
Total assets	**252 249 305**	**269 189 628**
Unused credit on flexible loans	13 593 736	18 653 742
Received collateral in relation to derivative contracts	-24 304 397	-36 950 453
Total credit exposure	**241 538 644**	**250 905 798**

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: 0.90 %
- Expected loss in the portfolio: < 0.02 % of the loan volume
- Unexpected loss in the portfolio (at a 99.97% confidence level): < 0,75 % of the loan volume

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

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

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

3. Loss given default (LGD): This is a calculated number which expresses how much the Company potentially stands to lose if a custiner 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

Risk group	Lower limit	Upper limit	Distribution in % 2016	Distribution in % 2015	Total lending * 2016	Total lending * 2015
Lowest	0,00 %	0,01 %	83,49 %	75,98 %	145 420 072	128 452 104
Low	0,01 %	0,05 %	12,66 %	18,61 %	22 058 993	31 469 568
Medium	0,05 %	0,20 %	2,60 %	3,84 %	4 531 889	6 483 931
High	0,20 %	0,50 %	0,62 %	0,72 %	1 079 148	1 216 783
Highest	0,50 %	100 %	0,63 %	0,85 %	1 094 298	1 433 267
Totalt			**100,00 %**	**100,00 %**	**174 184 400**	**169 055 653**

* 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 31.12.2016

Bonds and certificates

Rating class		2016	2015
AAA/Aaa	Covered Bonds	24 681 109	14 832 945
	Norw. Government bills	1 948 409	8 705 692
	Other government or gov guaranteed bonds	12 154 915	25 468 493
	Financial institutions		
	Total	38 784 432	49 007 130
AA+/Aa1 til AA-/Aa3	Covered Bonds	3 722 186	1 812 225
	Financial institutions	3 981 316	3 319 040
	Total	7 703 501	5 131 265
A+/A1	Financial institutions	4 147 781	4 764 503
	Total	4 147 781	4 764 503
Total		**50 635 714**	**58 902 897**

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 24 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

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

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2015	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	50 197 205	6 434 928	3 286 100	11 086 835	15 806 019	12 100 177	1 483 146
Lending to customers	169 338 988		9 322	14 151	47 161	1 329 844	167 938 509
Derivatives	40 947 743				6 565 858	25 343 180	9 038 705
Treasury Bills	8 705 692			4 739 781	3 965 912		
Other assets with no set term	3 671	3 671					
Total Assets	269 193 299	6 438 598	3 295 422	15 840 767	26 384 950	38 773 201	178 460 360
Liabilities incurred when issuing securities	-218 853 602	158 707	-672 290	-568 436	-29 744 075	-136 813 686	-51 213 822
Other liabilities with a set term	-36 950 453		-36 950 453				
Derivatives	-690 315		-3 130		-35 394	-447 723	-204 067
Liabilities with no set term	-526 677	-526 677					
Subordinated debt	-2 434 380	0					-2 434 380
Equity	-9 737 872	-9 737 872					
Total liabilities and equity	-269 193 299	-10 105 841	-37 625 873	-568 436	-29 779 469	-137 261 409	-53 852 269
Net total all items		-3 667 243	-34 330 451	15 272 331	-3 394 519	-98 488 209	124 608 091

Note 25 Interest rate risk

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

Interest Rate Risk - all amounts in 1000 NOK

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

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2015	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	50 197 205		13 798 383	18 996 862	13 290 834	3 674 048	437 078
Lending to customers	169 338 988			169 338 988			
Treasury Bills	8 705 692			4 739 781	3 965 912		
Other assets with no set term	3 671	3 671					
Total Assets	228 245 556	3 671	13 798 383	193 075 631	17 256 746	3 674 048	437 078
Liabilities incurred when issuing securities	-218 853 602	158 707	-7 165 766	-34 399 765	-23 706 227	-109 208 193	-44 532 358
Other liabilities with a set term	-36 950 453	-36 950 453					
Liabilities with no set term	-526 677	-526 677					
Subordinated debt	-2 434 380						-2 434 380
Equity	-9 737 872	-9 737 872					
Total liabilities and equity	-268 502 984	-47 056 294	-7 165 766	-34 399 765	-23 706 227	-109 208 193	-46 966 738
Net interest rate risk before derivatives	-40 257 428	-47 052 624	6 632 617	158 675 865	-6 449 482	-105 534 145	-46 529 660
Derivatives	40 257 427	0	-15 586 140	-117 215 091	22 625 436	105 544 855	44 889 626
Net interest rate risk		-47 052 624	-8 953 523	41 460 774	16 175 954	10 710	-1 640 034
% of total assets		17 %	3 %	15 %	6 %	0 %	1 %

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

		Sensitivity of net interest rate expense in NOK 1000	
Currency	**Change in basis points**	**2016**	**2015**
NOK	100	57 009	74 560

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 26 Currency risk

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

	Net currency exposure in NOK 1000	
Currency	**2016**	**2015**
EUR	**2 378**	**-2 706**
- Bank Deposits	6 015	2 117
- Issued Bonds	-120 282 093	-120 721 290
- Derivatives	111 776 825	116 867 190
- Bond investments	8 501 631	3 849 277
USD	**14 246**	**38 900**
- Bank Deposits	14 142	38 975
- Issued Bonds	-29 922 726	-41 625 965
- Derivatives	29 922 831	41 625 891
- Bond investments		
SEK	**0**	**0**
- Bank Deposits	**-**	**-**
- Issued Bonds	-266 985	-288 058
- Derivatives	266 985	288 059
- Bond investments	-	-
SUM	16 625	36 195

P&L effect before tax, in NOK 1000

Currency	Change in Exchange Rate (per cent)	2016	2015
EUR	+10	-297	219
USD	+10	183	4 422
SEK	+10	-	-
Total		-114	4 642

Note 27 Operational Risk

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

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

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

Based on these facts there are no reasons which would lead to a different conclusion than that the standard method for the calculation of capital for operational risks are required. The Company therefore applies the standard method under the capital adequacy rules (CRD IV, Pillar 1) as method to calculate the operational risk capital requirement. The capital so calculated amounts to 52.9 million for 31.12.2016 (see also the note for capital adequacy)

Note 28 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 31.12.2016).

NOK 1 000	2016	2015
Covered Bonds	211 161 257	217 752 078
Repurchased Bonds	-2 155 498	-5 155 728
Derivatives	-25 321 068	-39 848 930
Total Covered Bonds	183 684 691	172 747 420
Lending to customers	173 757 431	168 792 683
Norwegian government s-t debt	0	7 210 022
Substitute collateral (liquid assets)	26 181 743	14 664 356
Total Cover Pool	199 939 174	190 667 061
Asset-coverage	108,8 %	110,4 %

Note 29 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 15.0% total capital in effect from July 1, 2016 includes a 11.5% Core Tier 1 capital, including a 1.5% countercyclical buffer, and 3.5% other capital. From 31.12.2017 the countercyclical buffer will increase to 2.0%.

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.

New CRD IV calculation

Capital. NOK 1 000	**2016**	**2015**
Share capital	6 330 548	5 710 548
Premium share fund	3 167 922	2 857 922
Other equity capital	359 836	1 169 402
Common equity	9 858 306	9 737 872
Intangible assets	-1 245	-1 880
Declared share dividend	-	-105 074
100% deduction of expected losses exceeding loss provisions IRB (CRD IV)	-322 613	-326 724
Prudent valuation adjustment (AVA)	-71 438	-83 752
Core equity capital	**9 463 010**	**9 220 442**
Hybrid bond	1 080 000	830 000
Tier 1 equity capital	**10 543 010**	**10 050 442**
Supplementary capital (Tier 2)	1 600 000	1 600 000
Total capital	**12 143 010**	**11 650 442**

Minimum requirements for capital. NOK 1 000	2016	2015
Credit risk	3 173 049	3 122 194
Market risk	-	-
Operational risk	52 871	41 779
Depreciation on groups of loans	-	-
CVA Risk	109 651	165 228
Difference in capital requirement resulting from transitional floor	2 545 697	2 463 358
Minimum requirement for capital	**5 881 268**	**5 792 559**

Capital Coverage

	2016	**2015**
Risk-weighted assets incl. transitional floor	73 515 848	72 406 991
Capital coverage (%)	16,52 %	16,09 %
Tier 1 capital coverage (%)	14,34 %	13,88 %
Core Tier 1 capital coverage (%)	12,87 %	12,73 %
Leverage ratio (%)	4,38 %	3,54 %

Note 30 Related parties

The Company has 174 463 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 31 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 31.12.2016 this collateral amounted to NOK 24 304 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 32 Contingencies and events after the balance sheet date

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

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

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

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