annual report 2017

helgeland boligkreditt

Helgeland Boligkreditt AS,
Annual Report 2017

General information

Enterprise

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

The company is licensed to operate as a mortgage company, issuing covered bonds. The cover pool is primarily made up of residential mortgages granted by Helgeland Sparebank.
Helgeland Sparebank provides services such as following up customers, management of loans, as well as a number of administrative services.

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

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

Result
Profit before tax was MNOK 64.3. This is an increase of MNOK 17.2 compared to 2016. The net interest increased by MNOK 18.7 and operating cost was MNOK 1.3 higher. The reduction in 3-month NIBOR has given lower funding costs and thus reduced interest costs.

Operating costs in NOK are higher than last year and were MNOK 9.3 compared to MNOK 8.0 in 2016. This is mainly related to increased management fee in 2017.
Group write-downs are increased by MNOK 0.9 in fourth quarter and now amounts to MNOK 5.5.
Net profit was MNOK 48.9 (33.1), which gives a return on equity of 11.1% (8.3%).
Adding capital has contributed to strengthened capital adequacy and the company is well capitalized with Core tier one Capital ratio of 19.9%.

Key figures per 31.12.2017 (31.12.2016)

- Net profit MNOK 48.9 (33.1)
- Net interest MNOK 74.3 (55.6)
- Operation costs MNOK 9.3 (8.0)
- Return on equity 11.1 (8.3) %
- CET1 ratio 19.9 (17.1) %
- OC level 28 (30) %
- Indexed LTV 52 (53) %

Allocation of profit
The Board of Directors proposes that the profit for 2017 of MNOK 48.9 is granted as group contribution to Helgeland Sparebank. The size of the group contribution is considered justifiable in light of the company's position.

Balance development
Total assets in Helgeland Boligkreditt AS was MNOK 7,110 by the end of the year, and 93% of the assets are residential mortgages.

The cover pool
At the end of the year the company held residential mortgages totalling MNOK 6,629 (5,624). A total of 78.3 % (79.6 %) of these loans are lent to customers in Helgeland. All loans have floating interest rates and 14 (17) % of the loan book is made up of flexible mortgages. The company's total gross lending grew by MNOK 1,004 over the past year.

Eligible loans in the cover pool amounts to MNOK 6 580.9 (5 596.8). Loans in the cover pool meet the requirements of the Financial Institutions Act, and are secured by residential mortgages within 75 % of appraised value. The lending portfolio is considered to be of good quality. When calculating the OC the company's substitute assets of MNOK 430.8 (292.9), which are bank deposits in the parent bank, are included. Treasury bill of MNOK 50 is included in the LCR calculation.

Funding
The lending portfolio is funded by issuing covered bonds totaling MNOK 5 476.1 (4 523.3), as well as long term credit lines from Helgeland Sparebank. Covered bonds at the face value of MNOK 0 (247) are in the parent bank's ownership.
The company's debt to finance institutions amounts to MNOK 1 024 (980) by the end of the year. The debt is linked to the credit lines in the parent bank.
The value of the cover pool is well above the volume of funding and there is good quality in the portfolio. The OC level in relation to outstanding bonds was 28 (30) %.

Cash-flow
The cash flow statement shows how Helgeland Boligkreditt AS has received liquid funds and how these have been used. It has been prepared based on gross cash flows from operating, investing and financing activities. Lending in 2017 increased by MNOK 1 004. Liabilities to credit institutions increased MNOK 44 and Covered Bonds increased MNOK 953.

Risk conditions and capital ratio

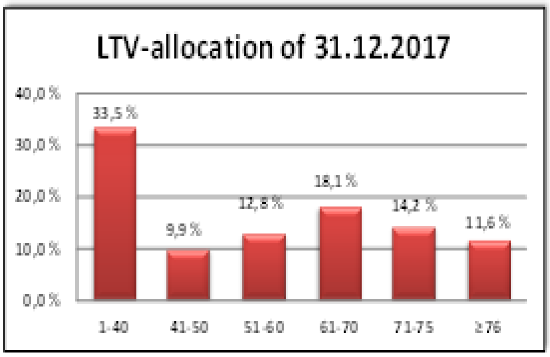
Laws and regulations for companies licensed to issue covered bonds instruct that the risk levels should be low. The company has established guidelines and frames for governing and control of various forms of risk. There is a corporate agreement between Helgeland Boligkreditt AS and Helgeland Sparebank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

Credit risk

The company's credit strategy is approved by the Board of Directors and determines the framework for management objectives and risk profile. The company had no individual write-downs or write-offs. Total write-downs on groups of loans amount to MNOK 5.5, or 0.08% of gross lending, and are based on estimates made by a model that is also used by Helgeland Sparebank.

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

The average LTV (Loan-to-value) ratio was per 31.12.17 52 (53) %. The diagram below shows the distribution of the LTVs for the mortgages in the cover pool.



Liquidity risk

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

By the end of the year the share of funding with maturity exceeding 1 year was 98.7 (88.5) %.This is well above the target figure of 70 %.
Helgeland Boligkreditt AS has established committed credit lines in the parent bank that guarantees repayment of covered bonds maturing the next 12 months on a revolving basis. The company further seeks to reduce the liquidity risk associated with grater maturities by re-purchasing its own bonds. The company's liquidity risk is considered low.

Market risk

The company has little exposure in stocks or securities, and only owns a treasury bill. All funding carry floating interest rates. There are no fixed rate loans in the portfolio, and no loans in foreign currency. Interest rate risk is within the company's governing framework.

Operating risk

The transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreement includes administration, customer care, IT-management, finance- and risk management.

Capital ratio

The capital ratio per 31.12.2017 was 19.9 (17.1) % and consists solely of MNOK 543.8 CET1 capital. The company has increased the share capital by MNOK 150 in 2017. The standard formula is used to calculate the capital requirements, and the basic indicator approach is used to calculate operating risk. The company's goal for CET 1 capital is 13.0 % and total capital ratio of over 16 %.

Corporate responsibility

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

Staff

Helgeland Boligkreditt AS has no employees. An agreement has been made with Helgeland Sparebank regarding the provision of services relating to loan servicing and administration of the company.
Helgeland Boligkreditt AS is committed to gender equality. The Board has 4 members; 2 woman and 2 men.

Prospects ahead

It is expected that interest rates will continue to remain low, and this will result in lower average margins. Costs and losses in Helgeland Boligkreditt AS are however at a low level, and the board believes that the company will remain highly profitable in the future.

The growth in Helgeland Boligkreditt AS is determined by the parent bank's capital needs. There is ongoing work to facilitate further purchases of mortgages from the parent bank, as well as the issuance of covered bonds. This is necessary to maintain competitiveness in the Helgeland Sparebank group.

Average price increase for sold villas in the Helgeland region by the end of the year was 2.8%. The national average was 1.8%.
For sold apartments there was a price increase in 2017 of 6.4% in Helgeland, while the prices nationally decreased by 4.3%.
In Q4 the price development of sold villas in Helgeland

showed an increase of 0.2% compared to a decrease of 1.1% nationally.
For apartments, there was a price increase in Helgeland of 3.2% in the 4th quarter, while the national average decreased by 2.1%.

The unemployment rate remains low in the region with a total unemployment of 1.6% by the end of the year.
Nordland County had an unemployment rate of 1.9% and the national average was 2.4%.
Helgeland together has a stable and versatile labor market with a combination of a solid export industry and larger government agencies, and the overall unemployment rate is still expected to remain at a relatively low level.

Mo i Rana, 21 February 2018

Hanne J. Nordgaard
Chairman

Dag-Hugo Heimstad
Vice-Chairman

Håkon Stanghelle

Ranveig Kråkstad

Brit Søfting
General Manager

Corporate Governance

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

The company's policy is laid down in various governing documents for the activities of Helgeland Boligkreditt AS. These include the company's articles of association, strategy document, policy documents, budget, mandates and frameworks, descriptions of procedures, framework for governance and control, guidelines for systems and processes that focus on risk management and internal control in the company.
These documents are based on the Norwegian Code of Corporate Governance and the Committee of European Banking Supervisors' principles for overall governance and control.

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

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

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

The General Meeting shall consider:

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

A new Financial Institutions Act entered into force on 1 January 2016. The General Meeting adapted to the new act by, among other things, dissolving its Supervisory Board and Control Committee in March 2016.
The General Meeting also amended the company's Articles of Association to meet the new requirements of the new act.

Operations

Helgeland Boligkreditt AS was established to be the bank's company for issuing covered bonds.
The mortgage company acquires residential mortgages which are secured within 75% of appraised property value. The mortgage loans are purchased from Helgeland Sparebank.

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

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

Company capital

The company's equity consists of share capital, share premium reserve and retained earnings.
The company's goal for tier one capital adequacy is 13.0 %. Statutory minimum is 12.0 % from 31.12.17. The new objective requirements were revised according to the CRD IV requirements in connection with the company's strategy process in 2017

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

Elections

The general meeting elects the Board of Directors.

The Board's composition and independence

The Board of Directors consists of 4 permanent members and one alternate. Two of the permanent members are women.
Important criteria for the Board members and composition of the Board are qualifications, gender, capacity and independence.
In its activity plan the Board has assumed an annual evaluation of the independence of its members and the Board's overall competence.

The Board meets at least once every quarter and works according to a set schedule for the year. In addition to the elected members, the general manager also attends the Board meetings. The Board of Directors has overall responsibility for the administration of Helgeland Boligkreditt AS and to oversee the daily management and operations.
The Board's management responsibilities includes responsibility for organizing the company in a proper manner, the responsibility to draw up plans and budgets for the company, for keeping itself informed about the company's financial position and the company's activities, asset management and accounts are subject to adequate controls.
The annual strategy process/rollover of the strategic plans is a priority. Overall goals and strategies are determined, and on the basis of those action plans and budgets are drawn up.
The general manager prepares matters to be considered by the board, together with the chairman.

Risk management and internal control

Good risk and capital management is essential to the long-term value creation of Helgeland Boligkreditt AS.
Risk management is linked to four risk areas:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

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

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

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

The Internal auditor is participating in all board meetings.

Remuneration to the Board

The General Meeting determines remuneration rates for the Board.

Management remuneration

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

Information and communication

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

Auditor

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

Investigator

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

TABLE OF CONTENTS:

PROFIT AND LOSS ACCOUNT (amounts in NOK 1.000)

	Note	31.12.17	31.12.16
Interest receivable and similar income	4.23	170 182	143 341
Interest payable and similar costs	4.23	95 860	87 749
Net interest- and credit commission income		**74 322**	**55 592**
Commissions receivable and income from banking services		14	9
Commissions payable and costs relating to banking services		0	0
Net commission income		**14**	**9**
Gains/losses on financial assets available for sale	5	152	0
Operating costs	6,22,23	9 301	8 031
Losses on loans, guarantees etc.	2	900	500
Operating profit		**64 287**	**47 070**
Result before tax		**64 287**	**47 070**
Tax payable on ordinary result	7	15 416	13 968
Result from ordinary operations after tax		**48 871**	**33 102**
Yield per equity capital certificate	24	91	85
Diluted result per ECC in Norwegian currency	24	91	85

Extended Income Statement		**31.12.16**	**31.12.16**
Result from ordinary operations after tax		**48 871**	**33 102**
Net extended profit or loss items	6	0	0
Total result for the period		**48 871**	**33 102**

BALANCE SHEET (amounts in NOK 1.000)

	Note	31.12.17	31.12.16
ASSETS			
Loans to and claims on credit institutions	2,3,9,10,11,17,23	430 762	292 853
Loans to and claims on customers	2,9,11,12,13,17	6 628 775	5 624 424
Certificates, bonds and shares available for sale	2.2.2,2.3.1,9	49 968	24 913
Other assets		0	775
Total assets		**7 109 505**	**5 942 965**
LIABILITIES AND EQUITY CAPITAL			
Liabilities to credit institutions	2,9,17,23	1 024 389	980 112
Borrowings through the issuance of securities	2,9,10,15,16,17,23	5 476 143	4 523 326
Other liabilities	8,14	16 071	12 526
Total liabilities		**6 516 603**	**5 515 964**
Paid-in equity capital	19,20,23,24	540 010	390 010
Accrued equity capital/retained earnings	19,20	52 892	36 991
Total equity capital		**592 902**	**427 001**
Total liabilities and equity capital		**7 109 505**	**5 942 965**

Mo i Rana, 21 February 2018

Hanne J. Nordgaard
Chairman

Dag-Hugo Heimstad
Vice-Chairman

Håkon Stanghelle

Ranveig Kråkstad

Brit Søfting
General Manager

CHANGE IN EQUITY CAPITAL DURING THE YEAR

	ECC capital	Premium fund	Fund unr. gains	Other ecc	Sum
Equity capital 01.01.16	290.000	10		42.018	332.028
Issued new share capital	100.000				100.000
Group contribution				-38.195	-38.195
Profit				33.102	33.102
Value change securities			66		66
Equity capital as at 31.12.16	**390.000**	**10**	**66**	**36.925**	427.001

	ECC capital	Premium fund	Fund unr. gains	Other ecc	Sum
Equity capital 01.01.17	390.000	10	66	36.925	427.001
Issued new share capital	150.000				150.000
Group contribution				-33.101	-33.101
Result				48.871	48.871
Value change securities			131		131
Equity capital as at 31.12.17	**540.000**	**10**	**197**	**52.695**	**592.902**

CASH FLOW STATEMENT

	31.12.17	31.12.16
Change in lending to customers	-1 005 251	-1 317 306
Interest income lending to custumers	170 180	141 156
Change deposits from customers	44 277	483 099
Interest cost deposit from customers	-17 663	-15 720
Change sertificates and bonds	-24 994	-24 848
Interest income sertificates and bonds	1	13
Comission income	14	9
Payments relating to operations	-9 301	-8 031
Paid tax	-12 700	-17 734
Other cutoffs	3 645	5 711
A Net liquidity change from operating activities	**-851 792**	**-753 651**
Long-term investments in shares	0	0
Income sale of long-term investments in shares	0	0
Dividend from long-term investments in shares	0	0
B Liquidity change from financial activities	**0**	**0**
New borrowing through issuanse of securities	3 195 000	1 774 951
Repayments - issued securities	-2 244 000	-925 218
Interest payments borrowing through issuance of securities	-78 197	-72 029
New share capital	150000	100 000
Dividend to share owners	-33 102	-38 109
C Net liquidity change financing	**989 701**	**839 595**
A+B+C Net liquidity change in the period	137 909	85 944
Liquid funds at the start of the period	292 853	206 909
Liquid funds at the end of the period	430 762	292 853
Liquid funds specified	**137 909**	**85 944**
Balances with credit institutions without notice periods	430 762	292 853

NOTE 1. ACCOUNTING PRINCIPLES

General background

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

Presentation currency

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

Basis of preparation of financial statements

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

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

Presentation in the balance sheet and profit and loss account

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

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

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

Segment reporting

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

Changes in accounting principles and information

(a) New and amended standards adopted

There are no significant new IFRS standards or interpretations which have been adopted from 1. January 2017.

(b) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are mandatory for future financial statements. Among those that the company has chosen not to early apply, are disclosed below.

IFRS 9 Financial instruments are replacing current standard IAS 39. Financial instruments – recognition and measurement. IFRS 9 concerns recognition, classifying, measuring and deduction of financial assets and obligations together with hedge accounting. IFRS 9 is implemented from 01.01.18 and is approved by the EU.

Derivatives and investments in equity instruments
All derivatives should initially be measured to fair value with value change in the income statement, but derivatives designated as hedging instruments shall be accounted for in accordance with the principles of hedge accounting. Investments in equity instruments shall be measured in the balance sheet as fair value. Changes in value are generally recognized in the ordinary income, but an equity instrument can be designated as measured at fair value with changes in value taken against the extended income statement.

Write-downs on lending
In accordance to current rules, write-downs for losses are only to take place when there is objective proof that a loss incident has occurred. In accordance to IFRS 9, the loss provisions are recognized based on expected credit loss (ECL). The general model for write-downs of financial assets in IFRS 9 will apply both for financial assets measured to amortized cost and to fair value with value change recognized in the extended income statement.

Change for classification and measuring for the enterprise
Bonds and certificates has earlier been classified as "available for sale" in accordance with IAS 39, with value change over the extended income statement (OCI). From 01.01.18, the bank is changing accounting principle so that value change is recognized in the ordinary profit and loss statement.

For Helgeland Boligkreditt AS, the transformation to IFRS 9 has consequences for the calculation of write-downs.

IFRS 9 has a more principle-based approach to how the financial assets are measured, either at amortized cost or fair value, than IAS 39 has. The principles for financial liabilities is mainly the same, with some exceptions including cases related to changes in value of own credit risk, where liability is measured using the fair value option. In addition, financial assets that are both held to receive contractual cash flows and for resale are measured at fair value. Changes are recorded as other comprehensive income (OCI). The rules around classification and measuring will first of all affect mortgages in the parent bank that are transferrable to Helgeland Boligkreditt AS. These must be recognized to fair value in the balance sheet and value changes must be recognized in the extended income statement (OCI). With current practice where fair value is assumed to be similar to fair value for loans to retail customers with floating interests, the change will have lesser importance.

Write-downs on lending and guarantees
IAS 39 is based on the condition that loss provisions should only take place when there is objective evidence that a loss event has occurred. With IFRS 9 the loss provisions are based on expected losses in the future. The new standard involves claims for loss provisions also on new loans, by allowing it to be written down for anticipated credit losses as a result of expected default in the next twelve months. For loans where credit risk has increased significantly after the establishment, it should be written down for anticipated credit losses over loans duration.

The Bank has together with three other savings banks worked to develop a loss model that is in line with the requirements IFRS 9 sets to quantify losses. Helgeland Boligkreditt is included in the calculation. Model calculation and assumptions in the loss model:

The measuring of the deposition of expected loss depends on if the credit risk has increased significantly since first time balance recognition. This is done in 3 "steps". Step 1: It must be done a deposition for 12 month expected loss at first time balance recognition, when the credit risk haven't increased significantly after first time balance recognition or the instrument has low credit risk on the report day. Step 2: It must me done a deposition of expected loss for remaining maturity if the credit risk is significant worsened after first time recognition. This does not concern commitments with low credit risk on the report day (Step 1) or commitments where there is no objective proof of loss (Step 3). Step 3: It must be done a deposition of expected loss for remaining maturity for non-performing commitments.

Assumptions: If a commitment is "significant worsened", is determined by a comparison of probability for defaults (PD) on the approval date with PD on calculation date. A commitment that in the calculation date has a PD higher than 0,075 % and simultaneous either have had twice as high PD, or have had a PD that is at least 5 %-points higher, is considered to be significant worsened.
Expected loss is calculated as the product of probability for defaults (PD), exposure at defaults (EAD) and loss given defaults (LGD), and is to be expectation right. The PD model has been in use in the bank since 2009, while the LGD model is developed recently.
Three different scenarios that affect projected LGD and PD, is developed based on empirical and macro variables.

Calculations has been made and implemented from 01.01.18. The effect is shown in note 9.

Financial instruments

The company defines its financial assets and liabilities within the following classes:

- Securities issued and subordinated loan capital
    - Securities issued at floating rates of interest
- Loan to and claims on costumers
    - Loan at floating rates of interest

Financial instruments are valued in accordance with IAS 39. All purchases and sales of financial instruments are recognised in the accounts at the transaction date.

Securities issued
Securities issued are defined as securities which the company does not intend to trade and which were originally issued by the company.

Liabilities at floating rates of interest are assessed at fair value when they are first included in the accounts and later at amortised cost through the use of the effective interest method. Any premium/discount is accrued over the term to maturity. The liabilities are shown in the balance sheet at amortised cost (including accrued interest). Changes in value for amortised cost are recognised in the profit and loss statement and net interest.

The company does not have securities issued at fixed rate.

Loans to customers
The company has defined its market area (Helgeland) as one segment.

Loans are by first time measuring valued at fair value with addition of direct transaction expenses. In periods after first time measuring, loans are valued to amortized cost (IAS 39) after effective interest method.

The company does not have fixed rate loans in the portfolio.

Write-downs on loans
A loan or a group of loans is written down when there is objective evidence of impairment of value as a result of loss events which can be reliably estimated, and which are important for the expected future cash flows from the loan or group of loans.

Loans are written down individually when there is objective evidence of the loan's impairment of value. The amount of the write-down is calculated as the difference between the book and present value of future cash flows in the loan. The discounting is done through the use of the effective interest method. On commitments with individual write-downs, the effective interest rate will either be locked except in the cases where a) the loan is not in default or b) the interest rate change is independent of that the loan is at default and the interest rate change affects expected cash flows similar to actual interest rate change

Calculated loss is shown on a gross basis in the balance sheet as an individual write-down on loans and is recognised in the profit and loss account as a loss cost. Loans which have been written down individually are not included in the basis for collective write-downs.

Loans are written down collectively when there is objective evidence suggesting impairment of a group of loans. Customers are classified in risk groups on the basis of different parameters such as financial strength, revenue generation, liquidity and funding, business sector, geographical location and behavioural score. These factors provide indications of debtors' ability to service their loans, and are relevant for the calculation of future cash flows from the different risk groups. Each individual risk group is assessed collectively with regard to the need for write-downs.

Interest income and interest cost
Interest income and interest costs relating to assets and liabilities measured at amortised cost are recognised in the profit and loss account on an ongoing basis through the use of the effective interest method.
Interest income on loans which have been written down is calculated by using the same effective rate of interest as the one applied when discounting the original cash flow. Interest income on fixed-interest loans is recognised at fair value. Changes in the fair value of fixed-interest loans are recognised in the profit and loss account as a change in the value of financial instruments.

Commission income and expenses
In general, commission income and expenses are accrued as a service is provided. Fees related to interest bearing instruments are not accounted as commission, but is included in the calculation of effective interest and recognized equivalent.

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

Provisions
Provisions are included in the accounts when the company has a currently valid obligation (legal or assumed) as a result of events, which have occurred, and when it is more likely than not that a financial settlement as a result of the obligation will take place, and when the size of the amount involved can be reliably estimated.
Provisions are reviewed on each balance sheet date in question, the level reflecting the best estimate of the obligation. When the effect of time is insignificant, the provisions will be equal to the amount of the cost required in order to be free of the obligation. When the effect of time is significant, the provisions will be equal to the present value of the future cash payments needed to meet the obligation.
In cases where there are several obligations of the same kind, the likelihood of the obligation resulting in a settlement is determined by assessing the group as a whole. Provisions for the company are included in the accounts even if the likelihood of a settlement relating to the company’s individual elements may be low.

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

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

Share capital
Provision for dividends and group contributions are classified as equity capital in the period until the dividend is decided by the company's supervisory board. Provisions are not included in the calculation of capital adequacy. When the dividend or group contribution is decided by the General Assembly, it will be removed from the equity capital and classified as short-term liability until payment is made.

NOTE 2 CAPITAL MANAGEMENT AND RISK CONDITIONS

Organization and authorizations
The Board of Helgeland Boligkreditt AS sets long-term goals for the company's risk profile that are matched against the Helgeland Sparebank Group's risk. The risk profile is operationalized through the risk management framework, including authorizations.

Monitoring and use
Risk reporting in the company should ensure that all managers have the necessary information about current risk levels and future development. To ensure quality and sufficient independence, risk reporting is organized and led by units that are independent for the operative units.
Capital evaluation; the company's capital situation and risk is assessed and summarized in a separate risk report to the Board of Helgeland Boligkreditt AS.

Risk categories in Helgeland Boligkreditt AS
- Credit risk is defined as the risk for losses if a borrower or counterparty is unable to meet their payment obligations.
- Liquidity risk is the risk that the company not complies with its payment obligations.
- Operational risk is the risk for losses as the result of deficiencies or errors in processes and systems, errors made by employees or external events.
- Market risk is the risk of financial loss as the result of changes in external factors such as market conditions or government regulations. The risk also includes reputational risk.

The Helgeland Sparebank Group uses a total risk model to quantify risk through calculation for the individual risk categories and for the Group's overall risk, this includes the Group's individual companies, like Helgeland Boligkreditt AS. The capital requirement shall among others cover unexpected losses that may occur in business. ICAAP calculation is carried out separately for Helgeland Boligkreditt AS.

The Main Agreement and the Transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreements include administration, customer care, IT-management, finance- and risk management.
The company has no currency exposure.

NOTE 2.1 CREDIT RISK

Overall, the credit risk of the company is characterized low; WA LTV per 31.12.17 was 52 % (53 %).

NOTE 2.1.1 CREDIT EXPOSURE

Balance items	**31.12.17**	**31.12.16**
Loans to and claims on credit institutions	430 762	292 853
Loans to and claims on customers	6 628 775	5 624 424
Lending to and claims on customers, to amortized cost	**7 057 537**	**5 917 277**
Leding to customers at fair value	0	0
Lending to and claims on customers, at fair value	**0**	**0**
Potetntial exposure to credit lines	449 481	424 091
Total credit exposure, balance items	**449 481**	**424 091**
Unallocated credit limit	1 975 611	2 019 888
Total credit exposure, off-balance sheet	**2 425 092**	**2 443 979**
Total credit exposure	**9 484 629**	**8 361 256**

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

NOTE 2.1.2 COMMITMENT BY RISK CLASS

Risk classifications loans

Risk classification is an integral part of the Group's administrative system. The system permits risk development in the Bank's loan portfolio to be monitored. The risk classification model used for both retail and corporate customers has been developed in cooperation with a number of other banks. The classification system has been adopted for the entire customer base from 31.05.09.

Retail customers are awarded a Probability of Default (PD)/score based on payment reminders, overdrawn ratio of loans/deposits etc. The loan portfolio is classified monthly and customers are awarded a score from A to K, where A is the lowest risk and K the highest risk. Retail customers are also subject to an application score in connection with new loan applications. The actual change in risk allocations from 2016 is marginal.

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

31.12.17

	Gross lending	Guarantees	Potential exposure	Total exposure
	Behavior score			
Personal customers retail				
Low risk	5 742 356		437 906	6 180 262
Medium risk	735 738		4 133	739 871
High risk	19 564			19 564
Not classified	1 316			
Total personal customers retail	**6 498 974**	**0**	**442 039**	**6 939 697**
Corporate retail				
Low risk	115 631		6 628	122 259
Medium risk	11 215		646	11 861
High risk	8 455		168	8 623
Total corporate retail	**135 301**	**0**	**7 442**	**142 743**
Total	**6 634 275**	**0**	**449 481**	**7 082 440**

31.12.16

	Gross lending	Guarantees	Potential exposure	Total exposure
	Behavior score			
Personal customers retail				
Low risk	4 860 037		413 312	5 273 349
Medium risk	578 237		3 211	581 448
High risk	56 375		0	56 375
Total personal customers retail	**5 494 649**	**0**	**416 523**	**5 911 172**
Corporate retail				
Low risk	115 915		7 423	123 338
Medium risk	11 256		145	11 401
High risk	7 204		0	7 204
Total corporate retail 1)	**134 375**	**0**	**7 568**	**141 943**
Total	**5 629 024**	**0**	**424 091**	**6 053 115**

Secured; LTV distribution	31.12.17	31.12.16
1-40	33.5 %	24.3 %
41-50	9.9 %	13.6 %
51-60	12.8 %	18.0 %
61-70	18.1 %	24.6 %
71-75	14.2 %	13.5 %
>76	11.6 %	6.0 %
Total LTV	**52 %**	**53 %**

NOTE 2.1.3 DOUBTFUL LOANS AND COMMITMENTS

Defaulted commitments	31.12.17	31.12.16
Gross defaulted commitments over 90 days	0	0
Individual write-downs of defaulted loans	0	0
Net defaulted commitments	**0**	**0**

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

Overdrawn - number of days	31.12.17	31.12.16
1-29 days	0	0
30-59 days	931	2 680
60-89 days	0	0
> 90 days	0	0
Total disordered loans without impairments	**931**	**2 680**

NOTE 2.2 MARKET RISK

Helgeland Boligkreditt AS is through its operations exposed to interest rate risk. The company has no fixed rate loans and no fixed rate funding; hence there are no derivative agreements in the company.
The Board sets limits for interest rate risk and the positions are monitored continuously. The prepared reports showing exposure are reported monthly to the finance committee of the parent bank and to the CEO, and quarterly to the Board of Directors.

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

Interest rate risk at 31.12.17 is MNOK -1.5 (MNOK -0.5) and is well within the company's target of < MNOK 10 with 1 % parallel shift in the interest rate curve.

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

NOTE 2.2.1 REMAINING TIME TO INTEREST RATE ADJUSTMENT

Interest rate risk- remaining perionds until next interest rate re-fix							31.12.17
	Inntil 1 mnd.	Fra 1-3 mnd.	Fra 3 mnd	Fra 1-5 år	Over 5 år	Uten renteendring	Totalt
ASSETS							
Loans to and claims on credit inst with no a/maturity		430 762					430 762
Net loans to and claims on customers		6 628 775					6 628 775
Securities available for sale		49 968					49 968
Other non-int-bearing assets							
Total assets	0	7 109 505	0	0	0	0	7 109 505
Liabilities and EQ. CAP							
Liabilities to credit inst. With no agreed maturity				1 024 389			1 024 389
Borrowings through the issuance of securities	910 034	4 566 109					5 476 143
Other non-int-bearing liabilities						16 071	16 071
Total liabilities	910 034	4 566 109	0	1 024 389	0	16 071	6 516 603
Net int rate sensitivity gap	-910 034	2 543 396	0	-1 024 389	0	-16 071	592 902

Interest rate risk- remaining perionds until next interest rate re-fix							31.12.16
	Up to 1 mth.	From 1-3 mnt	From 3 mnt	From 1-5 years	Over 5 years	No int rate change	Totalt
ASSETS							
Loans to and claims on credit inst with no a/maturity		292 853					292 853
Net loans to and claims on customers		5 624 424	0				5 624 424
Certifikate			24 913				24 913
Other non-int-bearing assets		0				775	775
Total assets	**0**	**5 917 277**	**24 913**	**0**	**0**	**775**	**5 942 965**
Liabilities and EQ. CAP							
Liabilities to credit inst. With no agreed maturity				980 112			980 112
Borrowings through the issuance of securities		4 523 326					4 523 326
Other non-int-bearing liabilities						12 526	12 526
Total liabilities	**0**	**4 523 326**	**0**	**980 112**	**0**	**12 526**	**5 515 964**
Net int rate sensitivity gap	**0**	**1 393 951**	**24 913**	**-980 112**	**0**	**-11 751**	**427 001**

NOTE 2.2.2 FINANCIAL DERIVATIVES

As of 31.12.17 (31.12.16), both customer loans and funding (CB) have been agreed at floating rates and we have not signed any swap-agreements.

NOTE 2.3 LIQUIDITY RISK

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

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

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

Overall, Helgeland Boligkreditt AS's liquidity situation per 31.12.17 is considered good. Long-term funding with maturities over one year is 98.7 % (88.5 %).

NOTE 2.3.1 LIQUIDITY RISK, MATURITY

Funding risk. Remaing periods							31.12.17
	0-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	No Remaining	Totalt
Liabilities to credit institutions				1 041 389			1 041 389
Borrowings through the issuance of secuti	71 017		2 030 654	2 945 380	507 621		5 554 672
Financial derivatives gross settlement						16 071	16 071
Total payments	**71 017**	**0**	**2 030 654**	**3 986 769**	**507 621**	**16 071**	**6 612 132**
Loans to and claims on credit institutions		432 401					432 401
Loans to and claims on customers	57165	171 816	1 434 427	495 357	4 742 314		6 901 079
Sertificates and bonds	49 968						49 968
Total payments	**107 133**	**604 217**	**1 434 427**	**495 357**	**4 742 314**	**0**	**7 383 448**
Net	-36 116	-604 217	596 227	3 491 412	-4 234 693	16 071	-771 316

Funding risk. Remaing periods							31.12.16
	0-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	No Remaining	Totalt
Liabilities to credit institutions				997 112	0	0	997 112
Borrowings through the issuance of secutities		530 024	2 631 008	1 599 545	0	0	4 760 577
Financial derivatives gross settlement					12 526	0	12 509
Total payments	**0**	**530 024**	**2 631 008**	**2 596 657**	**12 526**	**0**	**5 770 198**
Loans to and claims on credit institutions	47 177	295 025					342 202
Loans to and claims on customers		155 771	1 349 841	450 318	3 940 483		5 896 413
Certificates, bonds and shares available for sale		25 151					25 151
Total payments	**47 177**	**475 947**	**1 349 841**	**450 318**	**3 940 483**	**0**	**6 263 766**
Net	-47 177	54 077	1 281 167	2 146 339	-3 927 974	0	-493 568

Gross settlement (including interest payments).

The company has unused credit facilities in the parent bank totaling 2 (2.5) bn.

NOTE 3. SEGMENT

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

	31.12.17	31.12.16
Personal retail	6 498 975	5 494 610
Corporate retail	135 300	134 414
Total	**6 634 275**	**5 629 024**
Collective write-downs	-5 500	-4 600
Total	**6 628 775**	**5 624 424**

Geographical exposure within the loan portfolio	31.12.17	31.12.16
Helgeland	5 197 130	4 477 971
Areas other than Helgeland	1 427 054	1 140 131
International 1)	10 091	10 922
Total	**6 634 275**	**5 629 024**

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

NOTE 4. NET INTEREST INCOME

Specifications of income:	31.12.17	31.12.16
Interest income of lending to and claims on credit institutions	1 639	2 172
Interest income of lending to and claims on customers	168 543	141 169
Total interest income	**170 182**	**143 341**

Interest expense on liabilities to credit institutions	17 663	15 720
Interest expense on issued securities	78 197	72 029
Other interest expenses	0	0
Total interest expenses	**95 860**	**87 749**
Net interest income	**74 322**	**55 592**

NOTE 5. NET CHANGE IN VALUE OF FINANCIAL INSTRUMENTS

Specification of costs	31.12.17	31.12.16
Unrealized change securities	152	0
Total value financial instruments	**152**	**0**

NOTE 6. OPERATING COSTS

Specification of costs:	31.12.17	31.12.16
Management fee and wage general manager	6.676	5.679
Other administration costs	0	0
Total wages and administration costs	**6.676**	**5.679**
Other operating costs	2.626	2.352
Total operating costs	**9.302**	**8.031**
Number of FTEs	**0**	**0**

Specification of costs auditing	31.12.17	31.12.16
Audit fees	138	138
Assistance audit	94	199
Total costs audition	**232**	**337**

NOTE 7. TAX

	31.12.17	31.12.16
Tax for the year:		
Tax payable	15 706	12 091
Insufficent provision previous year	1	2 205
Change in deferred tax (note 8)	-291	-327
Tax cost for the year	**15 416**	**13 969**

Breakdown between accounts-related result before tax and the year's income liable to tax		
Accounts-related result before tax	64 287	47 070
Permanent differences	3	-13
Change in temporary differences (note 8)	1 142	1 306
Income subject to tax	**65 432**	**48 363**

NOTE 8. DEFERRED TAXES

Deferred tax / Deferred tax benefit	31.12.17	31.12.16
Positive temporary differences:		
Positive temporary differences:	0	0
Total positive temporary differences	**0**	**0**
Negative temporary differences		
Market value adjustment certifivates	197	66
Change in value of cover bonds at amortizied cost	334	1 607
Total negative temporary differences	**531**	**1 673**
Losses carried forward	0	0
Total negative temporary differences	**531**	**1 673**
Deferred tax asset		
Deferred tax	127	418

Reconciliation of tax	31.12.17	31.12.16
Accouting profit before tax	64 287	47 070
Tax calculated at the entity's weighted average tax	15 429	11 768
Tax effect of:		
Tax-free income	1	-3
Effect change tax rate deferred tax	-15	
Adjustment from previous year	1	2 205
Taxes in the income statement	**15 416**	**13 969**

Weighted average tax rate in 2017 is 24 % (2016 is 26 %)

NOTE 9. CLASSIFICATION OF FINANCIAL INSTRUMENTS

IFRS 9 is implemented 01.01.18. IFRS 9 introduces a business oriented model for classifying and measuring financial assets. The standard replaces current standard IAS 39.

For the Helgeland Sparebank Group, the transition to IFRS 9 will have consequences for the calculation of the Group's write-downs together with the accounting of value change on shares, bonds and certificates earlier classified as available for sale in accordance to IAS 39. Value change on shares, bonds and certificates available for sale is in 2017 accounted for in the extended profit and loss statement, but from 01.01.18, such value changes will be included in the ordinary profit and loss statement.

After current rules, write-downs for losses are only being recognized when there is objective proof that a loss incident has occurred after first time balance recognition. After IFRS 9, the impairment depositions are included based on expected credit loss. The measuring of the deposition of expected loss depends on if the credit risk has increased significantly since first time balance recognition. This is done in 3 "steps". Step 1: It must be done a deposition for 12 month expected loss at first time balance recognition, when the credit risk haven't increased significantly after first time balance recognition or the instrument has low credit risk on the report day. Step 2: It must me done a deposition of expected loss for remaining maturity if the credit risk is significant worsened after first time recognition, but there is no objective proof of loss. Step 3: It must be done a deposition of expected loss for remaining maturity for non-performing commitments.

The company's equity will 01.01.18 become increased by MNOK 3.2 after tax as a consequence of implementation or IFRS 9.

	IAS 39		IFRS 9	
	Measurement category	Accounted value	Measurement category	Accounted value
Financial assets		31.12.2017		01.01.2018
Loans to and claims on credit institutions	Amortized cost (Loans and claims)	430 762	Amortized cost	430 762
Loans to customers, floating interest rate	Amortized cost (Loans and claims)	6 628 775	Amortized cost	6 633 001
Certificates and bonds	Fair value over comprehensive income	49 968	Fair value through profit and loss (designated)	49 968
Financial liabilities				
Deposits from credit institutions	Amortized cost	1 024 389	Amortized cost	1 024 389
Debts founded on the issuance of securities, floating interest rates	Amortized cost	5 476 143	Amortized cost	5 476 143

Reconciliaton of loss deposition between IAS 39 and IFRS 9

	Provisions for loan losses and guarantees (IAS39/IAS37)	Reclassification	Change IAS 39 and IFRS 9	Provisions for loan losses and guarantees (IFRS 9)
Financial assets at amortized cost (IFRS9)				
Loans and receivables from credit instistutions	0	0	0	0
Lending to customers	5 500	0	-4 237	1 263
Total	**5 500**	**-**	**-4 237**	**1 263**
Loan commitments and guarantees	0	0	11	11
Total	**0**	**0**	**11**	**11**

Classification of financial instruments

31.12.17	Loand and claims	Assets to real value through Profit and loss account	Avalible for sale	Total
Lending to and claims on credit institutions	430 762			430 762
Lending to and claims on customers	6 628 775			6 628 775
Securities	49 968			49 968
Total assets	**7 109 505**	**0**	**0**	**7 109 505**

31.12.17	Orher financial commitment	Commitment to real value through profit and loss acc	Total
Liabilities to creditinst. With agreed maturity	1 024 389		1 024 389
Liabilities from issuance of securities	5 476 143		5 476 143
Total liabilities	**6 500 532**	**0**	**6 500 532**

*) The debt is entirely related to Helgeland Sparebank.

The Company has a credit facility (with maturity> one year) of MNOK 1,500. Per 31.12.17 unused credit was MNOK 476.
In addition the company has a revolving credit facility of MNOK 1,500 (with maturity>one year). This credit facility shall cover payment obligations in the Cover Pool for a rolling 12-months period, and is entirely unused.
Treasure bill is valued at fair value.

31.12.16	Loand and claims	Assets to real value through Profit and loss account	Avalible for sale	Total
Lending to and claims on credit institutions	292 853			292 853
Lending to and claims on customers	5 624 424			5 624 424
Securities	24 914			24 914
Total assets	**5 942 191**	**0**	**0**	**5 942 191**

31.12.16	Orher financial commitment	Commitment to real value through profit and loss acc	Total
Liabilities to creditinst. With agreed maturity *)	980 112		980 112
Liabilities from issuance of securities	4 523 326		4 523 326
Total liabilities	**5 503 438**	**0**	**5 503 438**

*) The debt is entirely related to Helgeland Sparebank.

NOTE 10. LOANS TO AND CLAIMS ON CREDIT INSTITUTIONS

	31.12.17	31.12.16
Liabilities to credit institutions without agreed maturity	430 762	292 853
Total loans to and liabilities to credit institutions	**430 762**	**292 853**

Geographic areas	31.12.17	%
Total Helgeland	430 762	100 %

Applies in its entirety bank deposits in Helgeland Sparebank.

NOTE 11. LOANS AND AMORTIZATION

Lending	31.12.17	31.12.16
Gross lending to customers	**6 634 275**	**5 629 024**
Individual write-downs on lending	0	0
Lending to customers after individual write-downs	**6 634 275**	**5 629 024**
Collective write-downs	5 500	4 600
Lending to and claims on customers, to amortized cost	**6 628 775**	**5 624 424**

NOTE 12. DISTRIBUTION LOANS

	31.12.17	31.12.16
Loans secured by residential property	6 626 264	5 623 064
Accrued interest	8 012	5 960
Total	**6 634 276**	**5 629 024**

NOTE 13. WARRANTIES AND LIABILITIES

The company has no such obligations.

NOTE 14. LIABILITIES

	31.12.17	31.12.16
Loans and deposits at credit institutuons with afreed maturity")	1 024 389	980 112
Liabilities to credit institutions	**1 024 389**	**980 112**
Bond debt	5 476 143	4 523 326
Liabilities securities	**5 476 143**	**4 523 326**
Tax liabilities	15 706	12 091
Deferred tax	127	418
Other liabilities	114	17
Total ather liabilities	**15 947**	**12 526**
Total liabilities	**6 516 479**	**5 515 964**

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

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

Liabilities through issuance of securities are valued at amortized cost.

ISIN code	Currency	Par value	Own hold.	Interest		Admission	Maturity	Soft call	31.12.17
NO0010686710	NOK	500 000		Floating	3mnd. Nibor+0,50	2013	2019	2020	491 956
NO0010709355	NOK	500 000		Floating	3mnd. Nibor+0,40	2014	2020	2021	492 218
NO0010660640	NOK	70 000		Floating	3mnd. Nibor+0,85	2012	2018	2019	62 483
NO0010724065	NOK	500 000		Floating	3mnd. Nibor+0,30	2014	2021	2022	491 253
NO0010748601	NOK	500 000		Floating	3 mnd.Nibor+0,78	2015	2019	2020	491 486
NO0010740673	NOK	500 000		Floating	3 mnd.Nibor+0,49	2015	2020	2021	490 968
NO0010764897	NOK	500 000		Floating	3 mnd.Nibor+0,86	2016	2021	2022	492 326
NO0010769920	NOK	500 000		Floating	3 mnd.Nibor+0,78	2016	2021	2022	492 448
NO0010782774	NOK	500 000			3 mnd.Nibor+0,52	2017	2022	2023	492 921
NO0010804008	NOK	500 000		Floating	3 mnd.Nibor+0,45	2017	2021	2022	491 623
NO0010785843	NOK	500 000		Floating	3 mnd.Nibor+0,64	2017	2022	2023	493 564
NO0010810278	NOK	500 000	100 000	Floating	4 mnd.Nibor+0,41	2017	2021	2022	492 897
Total listed covered bonds									**5 476 143**

All loans have soft call one year before maturity.

ISIN code	Currency	Par value	Own hold.	Interest		Admission	Maturity	Soft call	31.12.16
NO0010686710	NOK	500 000		Floating	3mnd. Nibor+0,50	2013	2019	2020	492 395
NO0010709355	NOK	300 000		Floating	3mnd. Nibor+0,40	2014	2020	2021	292 779
NO0010623978	NOK	300 000	170 000	Floating	3mnd. Nibor+0,67	2011	2017	2018	292 412
NO0010645963	NOK	500 000	111 000	Floating	3mnd. Nibor+1,00	2012	2017	2018	492 469
NO0010660640	NOK	500 000		Floating	3mnd. Nibor+0,85	2012	2018	2019	493 018
NO0010724065	NOK	500 000		Floating	3mnd. Nibor+0,30	2014	2021	2022	491 543
NO0010748601	NOK	500 000		Floating	3 mnd.Nibor+0,78	2015	2019	2020	491 691
NO0010740673	NOK	500 000		Floating	3 mnd.Nibor+0,49	2015	2020	2021	491 107
NO0010764897	NOK	500 000		Floating	3 mnd.Nibor+0,86	2016	2021	2022	492 893
NO0010769920	NOK	500 000		Floating	3 mnd.Nibor+0,78	2016	2022	2023	493 019
Total listed covered bonds									**4 523 326**

Issue NO0010645963 MNOK 247.

All loans have soft call one year before maturity.

	31.12.17	31.12.16
Total listed bonds	**5 476 143**	**4 523 326**
Loans secured by property	6 580 923	5 596 770
Claims that constitutes cover pool (inc. Interests)	430 762	292 853
Total cover pool	**7 011 685**	**5 889 623**
Cover pool capacity utilization	1 535 542	1 366 297
Cover pool capacity utilization %	28 %	30 %
Cover pool capacity utilization %, own share covered bonds deducted	26 %	24 %

The composition of the cover pool is defined in the Financial Undertakings Act § 2.28.

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

NOTE 16. COVER POOL CAPACITY UTILIZATION

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

LTV (loan to value) per 31.12.17 was 52 (53) %

NOTE 17. BALANCE SHEET DIVIDED IN SHORT AND LONG TERM

	31.12.17	31.12.16
ASSETS		
Loans to and claims on credit institutions	430 762	292 853
Loans to and claims on customers	228 981	187 948
Certificates	49 968	24 914
Total short term assets	**709 711**	**505 715**
Loans to and claims on customers	**6 399 794**	**5 437 250**
Total long term assets	**6 399 794**	**5 437 250**
Total Assets	**7 109 505**	**5 942 965**
LIABILITIES AND EQUITY CAPITAL		
Other liabilities	16 071	12 526
Borrowings through the issuance of securities	70 148	519 582
Total short term liabilities	**86 219**	**532 108**
Liabilities to credit institutions	1 024 389	980 112
Borrowings through the issuance of securities	5 405 995	4 003 744
Total long term liabilities	**6 430 384**	**4 983 856**
Total liabilities	**6 516 603**	**5 515 964**
Paid-in equity capital	540 010	390 010
Accrued equity capital/retained earnings	52 891	36 991
Total equity capital	**592 901**	**427 001**
Total liabilities and equity capital	**7 109 504**	**5 942 965**

NOTE 18. SUBORDINATED LOANS

The company has no subordinated loans per 31.12.17 or 31.12.16.

NOTE 19. CAPITAL ADEQUACY

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

	31.12.17	31.12.16
Total paid-in capital	**540 010**	**390 010**
Total accrued equity capital/retained earnings	**52 695**	**36 927**
Additional		
Deduction	-48 921	-33 102
Total core capital	**543 784**	**393 835**
Total net supplementary capital	**0**	**0**
Total net equity and related capital	**543 784**	**393 835**
Weighted asset calculation basis	2 736 285	2 298 874
Capital adequacy ratio	19.87 %	17.13 %
Of which core capital accounted for	19.87 %	17.13 %

The share capital is increased by MNOK 150 in 2017. Total share capital amounts to MNOK 540. Helgeland Sparebank is the sole shareholder in the company.

NOTE 20. CAPITAL ADEQUACY REGULATIONS BASEL II

	31.12.17	31.12.16
States and central banks	0	0
Local and regional authorities (including municipalities)	0	0
Publicly owned enterprises	0	0
International organizations	0	0
Institutions	86 152	58 571
Enterprises	0	0
Mass market loans	225 058	136 482
Loans secured by real property	2 304 056	1 978 530
Loans overdue	0	0
Other loans and commitments	142	775
Capital requirement credit risk	**2 615 408**	**2 174 358**
Capital requirement operational risk	120 877	124 516
Deduction from capital requirement	0	0
Total capital requirement	**2 736 285**	**2 298 874**

NOTE 21. SHARE CAPITAL

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

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

		2017
	Payments	Loans
General manager, Britt Søfting1)	0	1 000
Total remuneration for management	**0**	**1 000**
Chairman of the board, Hanne J. Nordgaard f.o.m 01.09.17	0	0
Chairman of the board, Lisbeth Flågeng t.o.m 31.08.17	0	500
Dag Hugo Gangmark Heimstad	0	0
Helge Stanghelle t.o.m 31.03.17	22	0
Håkon Stanghelle f.o.m 01.04.17	0	0
Ranveig Kråkstad	0	0
Total boards of Directors	**22**	**500**
Grant Total	**22**	**1 500**

1) The General Manager is hired from Helgeland Sparebank and is remunerated by the parent bank. The company has paid NOK 233,000 to the parent bank for this. The Supervisory Board and the control committee have been discontinued. Remuneration to the chairman of the Supervisory Boards applies to 2015, - and for the Control committee until 01.04.2016.

	Payments	2016 Loans
General manager, Britt Søfting 1)		0
Total remuneration for management	**0**	**0**
Chairman of the board, Lisbeth Flågeng	0	0
Dag Hugo Heimstad	0	0
Helge Stanghelle	22	0
Ranveig Kråkstad	0	0
Total boards of Directors	**22**	**0**
Chairman Board of trustees, Thore Michalsen	5	0
Geir Sætran	0	0
Øyvind Karlsen	0	4 105
Ann Karin Krogli	0	2 564
Kenneth Lyngseth Nilsson	0	1 627
Svein Hansen	0	0
Total Board of trustees	**5**	**8 296**
Chairman og the Control Committee, Frank Høyen	5	0
Other members of the Control Committee	10	0
Total Control Commitee	**15**	**0**
Grant Total	**42**	**8 296**

1) The General Manager is hired from Helgeland Sparebank and is remunerated by the parent bank. The company has paid NOK 226,000 to the parent bank for this.

NOTE 23. TRANSACTIONS WITH RELATED PARTIES

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

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

All loans in the balance sheet of Helgeland Boligkreditt AS are transferred from Helgeland Sparebank. These loans are well secured mortgages within a loan to value of 75% or less. From the transfer date, revenues and repayments are recorded in the mortgage company. The parent bank administers the loans and a separate transfer and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank is entered into. The transfer and service agreement regulates the transfer of loans qualifying as collateral for the issuance of Covered bonds. Helgeland Boligkreditt AS pays management fees to the bank per 2017 there were transferred loans totaling MNOK 6 634. The acquisition is based on market conditions.
Under the Main Agreement Helgeland Boligkreditt AS purchases services from the parent bank, including administration, banking, distribution, customer service, IT-services, financial and liquidity management. For these services Helgeland Boligkreditt AS pays an annual management fee based on the lending volume MNOK 6.6 (5.6), in addition to payment for hired staff.
Helgeland Sparebank has by the end of 2017 invested MNOK 0 (MNOK 247) in Covered Bonds issued by Helgeland Boligkreditt AS.
(Ref.Note 2.3 credit facilities from the parent bank).

Group contribution

Allocated group contribution in 2016 of MNOK 33.1 was paid in 2017 to Helgeland Sparebank. In allocation of profits per 31.12.17 MNOK 48.9 is allocated as group contribution to the parent bank.

Intragroup transactions	31.12.17	31.12.16
Profit and loss account		
Interest income and similar income	1 639	2 172
Interest expense and similar expense	17 663	15 720
Dividend	33 102	38 129
Management fee	6 646	5 628
Balance sheet		
Lending and claims on credit institutions	430 762	292 853
Liabilities to credit institutions	1 024 389	980 112
Liabilities from issue of securities	0	247 000

NOTE 24. RESULT PER SHARE

	31.12.17	31.12.16
Result this year	48 871	33 102
Number of shares	540 000	390 000
Average number og shares	403 562	365 000
Result per share in NOK	91	85
Diluted result per share in NOK	91	85

NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 26. RESULT IN PERCENT OF AVERAGE TOTAL ASSETS

	31.12.17	31.12.16
Interest receivable and similar income	2.67 %	2.70 %
Interest payable and similar costs	1.50 %	1.66 %
Net interest- and credit commission income	**1.16 %**	**1.05 %**
Commissions receivable and income from banking services	0.00 %	0.00 %
Commissions payable and costs relating to banking services	0.00 %	0.00 %
Net commission income	**0.00 %**	**0.00 %**
Operating costs	0.15 %	0.15 %
Losses on loans, guarantees etc.	0.00 %	0.00 %
Operating profit	**1.02 %**	**0.90 %**
Result before tax	1.01 %	0.89 %
Tax payable on ordinary result	0.24 %	0.26 %
Result from ordinary operations after tax	**0.77 %**	**0.62 %**

STATEMENT UNDER THE SECURITIES TRADING ACT § 5-6

We confirm to the best of our knowledge that the financial statements for the period 1 January to 31 December 2016 have been prepared in accordance with the applicable accounting standards, and that the information in the financial statements give true and fair view of the company's assets, liabilities, financial positions and result. We also declare that the annual report gives a fair review of the development, performance and position of the company, together with a description of the principal risks and uncertainties facing the company.

Mo i Rana, 21. February 2018

Hanne J. Nordgaard
Chairman

Dag-Hugo Heimstad
Vice-Chairman

Håkon Stanghelle

Ranveig Kråkstad

Brit Søfting
General Manager

To the General Meeting of Helgeland Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Helgeland Boligkreditt AS which comprise the balance sheet as at 31 December 2017, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

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

The mortgage company's business activities has in general been unchanged compared to the previous year. It has not been any regulatory changes, transactions or other events with material impact on the 2017 financial statements. *Loan to customers* and *IT systems supporting processes over financial reporting* are areas with the same characteristics and risks this year as last year, and these important areas of focus have been the same in 2017 as for 2016.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loan to customers	
The mortgage company has loans to private individuals amounting to NOK 6.6 bn secured by real estate and has issued covered bonds. Processes and controls have been established to ensure that the mortgage company complies with the various requirements the mortgage company is subject to, including that the	In order to comply with the requirements in the regulations applicable to covered bonds, the mortgage company had established controls in the process of granting and transferring loans. These controls ensured that the mortgage company reviewed the applications for loans and associated documentation. The process included formal controls and division of responsibilities, which were directed at ensuring that the process had

value of the collateral consistently backs the covered bonds. The value of the collateral at any time shall be above 75 % of the loan. Historically, the mortgage company has realized only limited losses on loans. As the requirements and the processes and controls are of fundamental importance for the mortgage company's operations, limited losses and compliance with the regulations, we have focused our attention on this subject.	been carried out prior to granting or transfer of loans from the parent bank to the mortgage company. Our audit was conducted by obtaining documentation and examining whether the process was conducted appropriately and timely. This included assessing whether the underlying documentation the mortgage company collected, supported the conclusions drawn by the company that the requirements in legislation and regulations was met. Our testing substantiated that the mortgage company's investigation and processes supported compliance with regulations in this area.
IT systems supporting processes over financial reporting Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations and risk of misstatements. We have focused on this area because it is important for the mortgage company's financial reporting systems, and their business model is dependent on complex IT systems.	The mortgage company used external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluated the design and efficiency of the established control systems, and tested the controls designed to ensure the integrity of the IT system that were relevant to financial reporting. We satisfied ourselves regarding the auditors' objectivity and competence and examined the reports and evaluated possible misstatement and improvements. Furthermore, we tested IT general controls where necessary for our audit. Our work gave us sufficient evidence to enable us to rely on the operation of the mortgage company's IT systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, the statements on Corporate Governance and Corporate Social Responsibility and key figures, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit 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.

Mo i Rana, 12 March 2018

PricewaterhouseCoopers AS

Per Erik Pedersen

State Authorised Public Accountant

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

OTHER KEY FIGURES

	31.12.17	31.12.16
Profit & Loss Account		
Gross profit (NOK 1.000)	48 871	33 102
Net interest as a % of average assets	1.16 %	1.05 %
Operation cost as a % of income	12.5 %	14.4 %
Net profit as a % of average assets	0.77 %	0.62 %
Balance sheet		
Gross lending (NOK 1.000)	6 634 275	5 629 024
Collective write-downs as a % of lending	0.10 %	0.10 %
12 months growth in customer lending	17.90 %	30.60 %
Total assets (NOK 1.000 kr)	7 109 505	5 942 965
Average total assets	6 381 718	5 299 332
Solidity		
Rate of return on equity capital	11.1 %	8.3 %
Core tier one Capital (NOK 1.000)	543 834	393 835
Core tier one Capital ratio	19.9 %	17.1 %
Leveral Ratio	7.4 %	6.4 %
Information on lending portfolio		
Surplus value of cover pool (NOK 1.000)	1 535 542	1 391 210
Surplus value of cover pool (%)	28 %	31 %
Indexed LTV	52 %	53 %
Propotion of variable-rate loans	100 %	100 %
Propotion of flexible mortgages*)	14.0 %	17.0 %
Average loan value (NOK 1.000)	1 032	1 020
Number of loans	6 421	5 512
Remaining maturity - weighted average (year)	19.1	18.4
Seasoning - weighted average (year)	2.8	2.8

*) Calculated from the drawn amount

Elected representatives and senior management in Helgeland Boligkreditt AS

The General Meeting:
Helgeland Sparebank through its CEO, Hanne J. Nordgaard

General Manager
Brit Søfting

Board of Directors:
Lisbeth Flågeng, Chairman
Dag Hugo Heimstad, Vice Chairman
Ranveig Kråkstad
Helge Stanghelle

Contact information

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Helgeland Boligkreditt AS
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Investor Relations
Sverre Klausen, CFO, telephone +47 75 12 82 22
Tore Stamnes, Head of Treasury, telephone +47 75 11 90 91

Other sources:

Annual reports:
Helgeland Boligkreditt AS is part of the Helgeland Sparebank group. Annual reports are available under investor relations information at www.hsb.no

Interim reports
Quarterly reports are available at www.hsb.no