

# SR-BOLIGKREDITT AS

Q2 2016

**SR-Boligkreditt**

Subsidiary of SpareBank 1 SR-Bank

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## 1. Statement of the Board of Directors

SR-Boligkreditt AS is a wholly owned subsidiary of SpareBank 1 SR-Bank. The company issues covered bonds backed by home mortgages acquired from SpareBank 1 SR-Bank. Moody's rates SR-Boligkreditt AS's covered bond programme Aaa.

### 1.1. Income statement for the first half of 2016

Net income totalled NOK 77.3 million in the first half of 2016.

(Amounts in NOK millions)

Total income	77.3
Net interest income	73.0
Net other operating income	4.3

Operating expenses are kept low due to effective operation and synergies with treasury in SpareBank 1 SR-Bank ASA and totalled NOK 4.3 million for the first half of 2016.

### 1.2. Balance sheet

At end of June 2016, total assets stood at NOK 24.0 billion. SR-Boligkreditt AS has NOK 5.0 billion outstanding in the Norwegian market and three international benchmarks of EUR 1.75 billion EURO. Liabilities to financial institutions (credit facility with parent bank) stood at NOK 0.

### 1.3. Risk

SR-Boligkreditt AS has established guidelines and limits for the management and control of the different types of risk. Currency and interest rate risk is eliminated through the use of derivatives. Liquidity risk is managed in accordance with regulatory requirements and limits approved by the board. The company's overall financial risk is considered to be low. The servicing agreement with SpareBank 1 SR-Bank ASA comprises administration, bank production, IT operations, and financial and liquidity management. Operational risk is assessed as low. Negative developments in the housing market will affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate effects of a negative development in housing prices. One short-term measure to meet a significant fall in housing prices would be to supply SR-Boligkreditt with home mortgages from SpareBank 1 SR-Bank. The board considers the company's total risk exposure to be low. At the end of June 2016, the company's equity totalled NOK 2.1 billion. The capital adequacy ratio was 21.81%.

### 1.4. Outlook

Economic forecasts for 2016 indicate moderate global economic growth. Economic growth is also expected in Norway, although the growth will probably slow somewhat in 2016 as a result of declining oil investments and their spillover effects on the mainland economy. House prices are expected to be stable to slightly declining in SpareBank 1 SR-Bank's region. SR-Boligkreditt will continue to build the company's funding curve and to provide funding diversification for the parent bank. The volume of covered bond issues in 2016 is expected to be close to NOK 15 billion and to provide a sound basis for SpareBank 1 SR-Bank's lending activities.

## 2. Statement pursuant to the Securities Trading Act

Statement pursuant to Section 5-6 of the Securities Trading Act.

We hereby confirm that the first half financial statements for the company for the period 1 January 2016 through 30 June 2016 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole. To the best of our knowledge, the second quarter report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties

Stavanger, 9. August 2016

The Board of Directors of SR-Boligkreditt AS

Inge Reinertsen  
(Chairman)

Merete Eik

Stian Helgøy

Børge Henriksen

Dag Hjelle  
(CEO)

### 3. Income statement

NOK 1 000	Note	Q2 2016	01.01.16 - 30.06.16	17.03.15- 30.06.15	17.03.15- 31.12.15
Interest income		109.791	203.498	18.445	124.749
Interest expense		(69.554)	(130.448)	11.888	(74.416)
<b>Net interest income</b>		<b>40.236</b>	<b>73.049</b>	<b>6.557</b>	<b>50.333</b>
Commission and fee expenses		(3.218)	(5.689)	(589)	(2.941)
Net gains/losses on financial instruments	10	593	9.955	-	(1.664)
<b>Net other operating income</b>		<b>(2.625)</b>	<b>4.266</b>	<b>(589)</b>	<b>(4.605)</b>
<b>Total operating income</b>		<b>37.611</b>	<b>77.315</b>	<b>5.968</b>	<b>45.728</b>
Administrative expenses		(360)	(763)	(253)	(1.821)
Other operating costs		(3.186)	(3.536)	(24)	(4.132)
<b>Total operating costs</b>		<b>(3.546)</b>	<b>(4.299)</b>	<b>(277)</b>	<b>(5.953)</b>
<b>Operating profit before impairment losses</b>		<b>34.066</b>	<b>73.017</b>	<b>5.691</b>	<b>39.775</b>
Impairment losses on loans and guarantees	5	(132)	(823)	-	(493)
<b>Pre-tax profit</b>		<b>33.934</b>	<b>72.194</b>	<b>5.691</b>	<b>39.282</b>
Tax expense		(8.483)	(18.048)	(1.537)	(10.572)
<b>Profit after tax</b>		<b>25.450</b>	<b>54.145</b>	<b>4.154</b>	<b>28.710</b>
Adjustments		-	-	-	-
<b>Comprehensive Income</b>		<b>25.450</b>	<b>54.145</b>	<b>4.154</b>	<b>28.710</b>

#### 4. Balance sheet

NOK 1 000	Note	30.06.16	30.06.15	31.12.15
<b>Assets</b>				
Balances with credit institutions		1.597.880	290.859	706.494
Loans to customers	2, 5	21.596.684	5.171.133	9.949.686
Bonds		49.957	-	-
Financial derivatives	9	353.424	-	96.103
Other assets	3	400.637	-	821
<b>Total assets</b>		<b>23.998.581</b>	<b>5.461.992</b>	<b>10.753.104</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Listed debt securities	7	21.647.178	5.000.627	9.438.553
Balances with credit institutions		-	154.652	-
Financial derivatives	9	251.575	-	-
Taxes payable	4	18.048	1.537	10.143
Other liabilities	4	1.774	872	548
<b>Total liabilities</b>		<b>21.918.575</b>	<b>5.157.688</b>	<b>9.449.244</b>
<b>Equity</b>				
Paid-in equity capital		2.025.150	300.150	1.275.150
Retained earnings		54.856	4.154	28.710
<b>Total equity</b>		<b>2.080.006</b>	<b>304.304</b>	<b>1.303.860</b>
<b>Total liabilities and equity</b>		<b>23.998.581</b>	<b>5.461.992</b>	<b>10.753.104</b>

#### 5. Statement of changes in equity

NOK 1 000	Share-capital	Premium reserve	Other equity	Total equity
<b>Equity as of 31. December 2014</b>	-	-	-	-
Incorporation 17. March 2015	150.000	150	-	150.150
Capital increase 24. April 2015	150.000	-	-	150.000
Capital increase 4. September 2015	225.000	-	-	225.000
Capital increase 27. October 2015	750.000	-	-	750.000
Profit for the period	-	-	28.710	28.710
<b>Equity as of 31. December 2015</b>	<b>1.275.000</b>	<b>150</b>	<b>28.710</b>	<b>1.303.860</b>
Dividend 2015, resolved in 2016	-	-	(28.000)	(28.000)
Capital increase 18. Mai 2016	750.000	-	-	750.000
Profit for the period	-	-	54.146	54.146
<b>Equity as of 30. June 2016</b>	<b>2.025.000</b>	<b>150</b>	<b>54.856</b>	<b>2.080.006</b>

## 6. Cash flow statement

<b>NOK 1 000</b>	<b>01.01.16- 30.06.16</b>	<b>17.03.15- 30.06.15</b>	<b>17.03.15- 31.12.15</b>
Interest receipts from lending to customers	198.091	12.132	113.976
Payments for operations	(9.834)	(146)	(8.716)
Taxes paid	(10.143)	-	-
<b>Net cash flow relating to operations</b>	<b>178.114</b>	<b>11.986</b>	<b>105.260</b>
Net purchase of loan portfolio	(11.640.411)	(5.164.820)	(9.939.407)
Net payments on the acquisition of bonds	(49.892)	-	-
Net investments in intangible assets	-	-	(880)
<b>Net cash flow relating to investments</b>	<b>(11.690.303)</b>	<b>(5.164.820)</b>	<b>(9.940.287)</b>
Debt raised by issuance of securities	11.789.531	4.996.710	9.333.893
Receipts from borrowing from financial institutions	-	154.652	-
Paid in capital equity	750.000	300.150	1.275.150
Net interest payments on funding activities	(107.957)	(7.819)	(67.522)
Dividend paid	(28.000)	-	-
<b>Net cash flow relating to funding activities</b>	<b>12.403.574</b>	<b>5.443.693</b>	<b>10.541.521</b>
<b>Net cash flow during the period</b>	<b>891.385</b>	<b>290.859</b>	<b>706.494</b>
Balance of cash and cash equivalents start of period	706.494	-	-
Balance of cash and cash equivalents end of period	<b>1.597.879</b>	<b>290.859</b>	<b>706.494</b>

## 7. Notes to the financial statements

### Note 1 – Accounting policies

#### 1.1 Basis of preparation

These interim financial statements for SR-Boligkreditt AS cover the period 1 January - 30 June 2016. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements were also prepared in accordance with the applicable IFRS standards and IFRIC interpretations. The interim financial statements are unaudited. All amounts are stated in NOK thousands unless stated otherwise.

The interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual accounts for 2015.

There are no other standards or interpretations that are not currently in effect and could be expected to have a material effect on the financial statements.

## 1.2 Critical accounting estimates and judgements

The preparation of financial information pursuant to IFRS entails the executive management making estimates, judgements and assumptions that affect the effect of the application of the accounting policies and thus the amounts recognized as assets, liabilities, income and costs. Note 3 of the annual accounts for 2015 explains in more detail the use of critical estimates and judgements when applying the accounting policies.

### Note 2 – Non-performing and impaired loans

NOK 1 000	30.06.16	30.06.15	31.12.15
<b>Non-performing loans and advances</b>			
Gross non-performing loans above 90 days	0	0	0
Provisions for Individual impairment losses	0	0	0
<b>Net non-performing loans and advances</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan loss provision ratio</b>	<b>0 %</b>	<b>0 %</b>	<b>0 %</b>
<b>Other problem commitments</b>			
Problem commitments	0	0	0
Provisions for Individual impairment losses	0	0	0
<b>Collective impairment loss provisions</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net other problem commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan loss provision ratio</b>	<b>0 %</b>	<b>0 %</b>	<b>0 %</b>

### Note 3 – Other assets

NOK 1 000	30.06.16	30.06.15	31.12.15
Intangible assets	634	-	781
Unsettled securities	400.000	-	-
Other assets	3	-	40
<b>Total other assets</b>	<b>400.637</b>	<b>-</b>	<b>821</b>

### Note 4 – Other liabilities

NOK 1 000	30.06.16	30.06.15	31.12.15
Taxes payable	18.048	1.536	10.143
Deferred taxes	429	-	429
Accounts payable	212	-	40
Accrued expenses and prepaid revenue	1.133	873	79
<b>Total other liabilities</b>	<b>19.822</b>	<b>2.409</b>	<b>10.691</b>

## Note 5 – 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 the period were NOK 21.598 million. All mortgages carry a variable interest rate.

<b>NOK 1 000</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
Flexible loans - retail market	4.438.786	320.555	896.941
Amortising loans - retail market	17.141.032	4.844.265	9.042.466
Accrued interest	18.182	6.313	10.773
<b>Total loans before specified and unspecified loss provisions</b>	<b>21.598.000</b>	<b>5.171.133</b>	<b>9.950.180</b>
Specified loan loss provisions	-	-	-
Unspecified loan loss provisions	-1.316	-	-493
<b>Total net loans and claims with customers</b>	<b>21.596.684</b>	<b>5.171.133</b>	<b>9.949.687</b>
<b>Liability</b>			
Unused balances under customer revolving credit lines (flexible loans)	1.296.959	74.779	220.634
<b>Total</b>	<b>1.296.959</b>	<b>74.779</b>	<b>220.634</b>
<b>Defaulted loans</b>			
Defaults*	0,0 %	0,0 %	0,0 %
Specified loan loss provisions	0,0 %	0,0 %	0,0 %
<b>Net defaulted loans</b>	<b>0,0 %</b>	<b>0,0 %</b>	<b>0,0 %</b>
<b>Loans at risk for loss</b>			
Loan not defaulted but at risk of loss	0,0 %	0,0 %	0,0 %
- Write downs on loans at risk of loss	0,0 %	0,0 %	0,0 %
<b>Net other loans at risk of loss</b>	<b>0,0 %</b>	<b>0,0 %</b>	<b>0,0 %</b>

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

<b>Changes to loan loss provisions</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
<b>NOK 1 000</b>			
Loan loss provisions starting balance	493	-	-
Change in group loan loss provisions	823	-	493
<b>Loan loss provisions ending balance</b>	<b>1.316</b>	<b>-</b>	<b>493</b>

## Note 6 – Capital adequacy

On 22 August 2014, the Ministry of Finance issued amendments to the capital requirements regulations that came into effect on 30 September 2014. The amendments were adjustments implemented to comply with the EU's new capital adequacy regulations for banks and securities undertakings (CRD IV/CRR) and entail the minimum requirement for common equity tier 1 capital ratio gradually increasing in the run up to 1 July 2016.

SR-Boligkreditt AS has permission from the Financial Supervisory Authority of Norway to use internal measurement methods (Internal Rating Based Approach) for quantifying credit risk. The use of IRB requires the company to comply with extensive requirements relating to organisation, expertise, risk models and risk management systems.

<b>NOK 1 000</b>	<b>30.06.16</b>	<b>30.06.15<sup>1</sup></b>	<b>31.12.15</b>
Share capital	2.025.000	300.000	1.275.000
Premium reserve	150	150	150
Other equity	710	-	28.710
<b>Total Common equity Tier 1 capital</b>	<b>2.025.860</b>	<b>300.150</b>	<b>1.303.860</b>
Intangible assets	-634	-	-781
Deduction for proposed dividend	-	-	-28.000
Deduction for expected losses on IRB, net of write-downs	-35.029		-16.784
Value of derivative liabilities at fair value	-152		-96
<b>Total Tier 1 capital</b>	<b>1.990.045</b>	<b>300.150</b>	<b>1.258.199</b>
<b>Net primary capital</b>	<b>1.990.045</b>	<b>300.150</b>	<b>1.258.199</b>
Credit risk	5.368.711	1.883.025	2.311.343
Operational risk	94.376	33.872	33.872
Transitional scheme	3.660.841	-	1.682.429
<b>Risk weighted balance</b>	<b>9.123.928</b>	<b>1.916.897</b>	<b>4.027.644</b>
Minimum requirement for common equity Tier 1 capital ratio 4,5 %	410.577	86.260	181.244
Buffer requirements:			
Capital conservation buffer 2,5 %	228.098	47.922	100.691
Systemic risk buffer 3 %	273.718	57.507	120.829
Countercyclical capital buffer 1,5 % <sup>2)</sup>	136.859	19.169	40.276
Total buffer requirement to common equity Tier 1 capital ratio	638.675	124.598	261.797
Available common equity Tier 1 capital ratio after buffer requirement	940.793	89.291	815.158
Capital ratio	21,81 %	15,66 %	31,24 %
Tier 1 capital ratio	21,81 %	15,66 %	31,24 %
Common equity Tier 1 capital ratio	21,81 %	15,66 %	31,24 %
Leverage Ratio	7,72 %	5,42 %	11,20 %

<sup>1)</sup> For the second quarter 2015 the capital requirements were calculated using the standard method

<sup>2)</sup> The countercyclical capital buffer 30.06.16 is calculated to 1,5 % . Comparable figures are calculated to 1 %

## Note 7 – Securities issued

<b>NOK 1 000</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
Covered bonds	21.610.616	4.996.710	9.429.274
Accrued interests	36.562	3.917	9.279
<b>Total securities issued</b>	<b>21.647.178</b>	<b>5.000.627</b>	<b>9.438.553</b>

			Nominal amount
<b>Change in debt raised through issuance of securities</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
Covered bonds	12.187.825	5.000.000	9.337.400
<b>Total debt raised through issuance of securities</b>	<b>12.187.825</b>	<b>5.000.000</b>	<b>9.337.400</b>

\* The nominal amount is the principal at the exchange rate when the new loan is raised (EUR/NOK)

Securities issued by maturity date (principal)

<b>Public covered bonds</b>			Nominal amount
	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
2017	2.500.000	2.500.000	2.500.000
2018	-	-	-
2019	-	-	-
2020	6.837.400	2.500.000	6.837.400
2021	6.968.775	-	-
2022	-	-	-
2023	4.819.050	-	-
2032	400.000	-	-
<b>Sum</b>	<b>21.525.225</b>	<b>5.000.000</b>	<b>9.337.400</b>

Liabilities by currency (book value at end of quarter)

	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.2015</b>
NOK	5.001.684	5.000.627	4.600.521
EUR	16.645.494	-	4.838.032
<b>Sum</b>	<b>21.647.178</b>	<b>5.000.627</b>	<b>9.438.553</b>

## Note 8 – Asset coverage

The asset coverage is calculated according to the Financial Services Act, section 2-31. There is a discrepancy between the balance sheet amounts, partly because lending will be reduced due to non-performing loans (no occurrences of non-performance as of 30 June 2016) and loans subject to a change in the loan-to-collateral value ratio in excess of 75%. Market values for all elements in asset coverage are also used.

<b>NOK 1 000</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
Covered bonds	21.647.178	5.003.917	9.438.553
<b>Total covered bonds</b>	<b>21.647.178</b>	<b>5.003.917</b>	<b>9.438.553</b>
Loans to customers	21.574.405	5.169.748	9.873.033
Substitute collateral	1.749.685	290.859	802.597
<b>Total cover pool</b>	<b>23.324.090</b>	<b>5.460.607</b>	<b>10.675.630</b>
Asset coverage	107,7 %	109,1 %	113,1 %

## Note 9 – Financial derivatives

<b>At fair value through profit and loss</b>	<b>Contract amount 30.06.16</b>	<b>Fair value at 30.06.16</b>	
		<b>Assets</b>	<b>Liabilities</b>
<b>Hedging / Interest and exchange rate instruments</b>			
Interest rate swaps (including cross currency)	32.855.000	328.663	234.584
<b>Total hedging / Interest and exchange rate instruments</b>	<b>32.855.000</b>	<b>328.663</b>	<b>234.584</b>

<b>Total currency and interest rate instruments</b>	<b>Contract amount 30.06.16</b>	<b>Assets 30.06.2016</b>	<b>Liabilities 30.06.2016</b>
Total interest and exchange rate instruments	32.855.000	328.663	234.584
Total accrued interests	-	24.761	16.991
<b>Total financial derivatives</b>	<b>32.855.000</b>	<b>353.424</b>	<b>251.575</b>

SR-Boligkreditt AS has an ISDA agreement with a CSA supplement with the counterparty for derivatives. The agreement is one-way, which means only the counterparty has to pledge security when the market value of derivatives fluctuates.

## Note 10 – Net income from financial instruments

<b>NOK 1 000</b>	<b>30.06.16</b>	<b>30.06.15</b>	<b>31.12.15</b>
Net gains for bonds and certificates	18	-	-
Net change in value, basis swap spread	17.332	-	2.998
Net change in value, other financial investments	-7.395	-	-4.602
Net gain currency	-	-	-59
<b>Net income from financial instruments</b>	<b>9.955</b>	<b>-</b>	<b>-1.664</b>

## Note 11 – Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 30 June 2016.

## 8. Contact Information

### Address

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Bjergsted Terrasse 1  
Postboks 250  
N-4066 Stavanger

Tel. (+47) 915 02 002

[www.sr-bank.no/sr-boligkreditt](http://www.sr-bank.no/sr-boligkreditt)

### Chief executive officer

---

Dag Hjelle  
Tel. (+47) 51 50 94 37  
(+47) 909 500 88

Email: [dag.hjelle@sr-bank.no](mailto:dag.hjelle@sr-bank.no)