

THIRD QUARTER 2017

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**SR-Boligkreditt**

Subsidiary of SpareBank 1 SR-Bank

## **Interim Financial Statements Q3 2017**

Statement of the Board of Directors .....	3
Income statement .....	4
Balance sheet .....	5
Statement of changes in equity .....	6
Cash flow statement .....	6
Notes to The Financial statements .....	7
Note 1 Accounting policies .....	7
Note 2 Non-performing and impaired loans .....	8
Note 3 Other assets .....	8
Note 4 Other liabilities.....	8
Note 5 Lending to Customers .....	9
Note 6 Capital adequacy.....	10
Note 7 Debt securities issued .....	11
Note 8 Asset coverage .....	12
Note 9 Financial derivatives .....	12
Note 10 Net income from financial instruments .....	13
Note 11 Events after the balance sheet date .....	13
Contact Information.....	14

## 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.

## Income statement as at 30 September 2017

Net income totalled NOK 170.2 million as at 30 September 2017.

(Amounts in NOK millions)	01.01.17 - 30.09.17	01.01.16 - 30.09.16
Total income	170.2	131.5
Net interest income	270.1	118.3
Net commission income	-18.5	-9.9
Net income on financial investments	-81.4	23.1

Operating expenses are kept low due to effective operation and synergies with treasury in SpareBank 1 SR-Bank. Net income on financial investments is volatile due to changes in value of basis swaps.

## Balance sheet

At end of September 2017, total assets stood at NOK 46.7 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 38.5 billion.

## Risk

SR-Boligkreditt AS has established guidelines and limits for 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 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 September 2017, the company's

equity totalled NOK 3.2 billion. The capital adequacy ratio was 18.01%.

## Outlook

The level of activity in the region will be moderate in the last part of 2017, but is expected to improve in the years ahead. Both oil companies and the supply industry have rationalized operations and reduced costs to adapt to the new level of turnover. Export-oriented industries are experiencing growth due to a weak Norwegian krone and greater competitiveness. The building and construction industry is seeing the positive effects of an improving local housing market and moderate to increasing activity is expected in this sector going forward. House prices are expected to be stable 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 2017 is expected to be close to NOK 10 billion and to provide a sound basis for SpareBank 1 SR-Bank's lending activities.

## Statement pursuant to the Securities Trading Act

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

These interim financial statements for SR-Boligkreditt AS cover the period 1 January – 30 September 2017. The financial statements were 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 fourth 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, 25 October 2017

The Board of Directors of SR-Boligkreditt AS

## Income statement

NOK 1 000	Note	01.01.17 - 30.09.17	01.01.16 - 30.09.16	Q3 2017	Q3 2016	2016
Interest income		650.144	341.353	235.223	137.856	508.319
Interest expense		380.034	223.049	126.446	92.601	339.006
<b>Net interest income</b>		<b>270.110</b>	118.304	<b>108.777</b>	45.255	169.312
Commission and fee expenses		-18.520	-9.928	-6.791	-4.239	-14.952
<b>Net commission income</b>		<b>-18.520</b>	-9.928	<b>-6.791</b>	-4.239	-14.952
Net gains/losses on financial instruments	10	-81.389	23.135	543	13.180	-33.402
<b>Net income on financial investments</b>		<b>-81.389</b>	23.135	<b>543</b>	13.180	-33.402
<b>Total net income</b>		<b>170.202</b>	131.511	<b>102.528</b>	54.196	120.958
Administrative expenses		1.062	1.070	350	307	1.485
Other operating costs		-91	3.632	676	96	4.058
<b>Total operating costs before impairment losses on loans</b>		<b>972</b>	4.701	<b>1.027</b>	403	5.543
<b>Operating profit before impairment losses on loans</b>		<b>169.230</b>	126.810	<b>101.502</b>	53.793	115.415
Impairment losses on loans and guarantees	5	1.110	1.146	-91	323	2.281
<b>Pre-tax profit</b>		<b>168.119</b>	125.664	<b>101.593</b>	53.471	113.134
Tax expense		42.030	31.416	25.398	13.368	28.284
<b>Profit after tax</b>		<b>126.090</b>	94.248	<b>76.195</b>	40.103	84.851
<b>Other comprehensive income</b>						
Adjustments		-	-	-	-	-
<b>Comprehensive Income</b>		<b>126.090</b>	94.248	<b>76.195</b>	40.103	84.851

## Balance sheet

NOK 1 000	Note	30.09.17	30.09.16	31.12.16
<b>Assets</b>				
Balances with credit institutions		908.687	556.132	552.748
Loans to customers	2, 5	40.758.499	27.399.199	29.357.902
Bonds		100.123	49.523	49.967
Financial derivates	9	283.037	372.223	171.271
Deferred tax assets		11.935	-	11.935
Other assets	3	4.641.468	1.998	489
<b>Total assets</b>		<b>46.703.748</b>	28.379.075	30.144.313
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Listed debt securities	7	38.476.696	21.100.951	27.272.136
Balances with credit institutions		4.327.997	4.315.283	-
Financial derivates	9	700.612	805.259	717.386
Taxes payable	4	42.030	31.416	40.648
Other liabilities	4	3.612	6.057	3.432
<b>Total liabilities</b>		<b>43.550.948</b>	26.258.966	28.033.602
<b>Equity</b>				
Paid-in equity capital		3.025.150	2.025.150	2.025.150
Retained earnings		127.651	94.959	85.561
<b>Total equity</b>		<b>3.152.801</b>	2.120.109	2.110.711
<b>Total liabilities and equity</b>		<b>46.703.748</b>	28.379.075	30.144.313

## Statement of changes in equity

NOK 1 000	Share-capital	Premium reserve	Other equity	Total equity
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 May 2016	750.000	-	-	750.000
Profit for the period	-	-	84.851	84.851
<b>Equity as of 31 December 2016</b>	<b>2.025.000</b>	<b>150</b>	<b>85.561</b>	<b>2.110.711</b>
Capital increase 20 January 2017	1.000.000	-	-	1.000.000
Dividend 2016, resolved in 2017	-	-	-84.000	-84.000
Profit for the period	-	-	126.090	126.090
<b>Equity as of 30 September 2017</b>	<b>3.025.000</b>	<b>150</b>	<b>127.651</b>	<b>3.152.801</b>

## Cash flow statement

NOK 1 000	30.09.17	30.09.16	31.12.16
Interest receipts from lending to customers	640.791	329.408	493.710
Provisions to SR-Bank	-16.247	-9.928	-14.952
Payments for operations	-1.443	-2.862	-4.093
Taxes paid	-40.648	-10.143	-10.143
<b>Net cash flow relating to operations</b>	<b>582.453</b>	<b>306.475</b>	<b>464.522</b>
Net purchase of loan portfolio	-11.394.004	-17.438.713	-19.393.732
Net payments on the acquisition of bonds	-49.990	-49.892	-49.892
Net investments in intangible assets	-	-	-
<b>Net cash flow relating to investments</b>	<b>-11.443.994</b>	<b>-17.488.605</b>	<b>-19.443.624</b>
Debt raised by issuance of securities	6.340.867	12.189.437	18.407.673
Receipts from borrowing from financial institutions	4.327.997	4.315.283	-
Paid in capital equity	1.000.000	750.000	750.000
Net interest payments on funding activities	-367.384	-194.952	-304.318
Dividend paid	-84.000	-28.000	-28.000
<b>Net cash flow relating to funding activities</b>	<b>11.217.480</b>	<b>17.031.768</b>	<b>18.825.355</b>
<b>Net cash flow during the period</b>	<b>355.939</b>	<b>-150.362</b>	<b>-153.747</b>
Balance of cash and cash equivalents start of period	552.748	706.494	706.494
Balance of cash and cash equivalents end of period	908.687	556.132	552.748

# *Notes to The Financial statements*

## *Note 1 Accounting policies*

### **1. Basis of preparation**

These interim financial statements for SR-Boligkreditt AS cover the period 1 January - 30 September 2017. 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 2016.

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.

### **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 recognised as assets, liabilities, income and costs. Note 3 of the annual accounts for 2016 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	30.09.17	30.09.16	31.12.16
<b>Non-performing loans and advances</b>			
Gross non-performing loans above 90 days	-	-	4.894
Provisions for Individual impairment losses	-	-	-
<b>Net non-performing loans and advances</b>	-	-	4.894
<b>Loan loss provision ratio</b>	<b>0 %</b>	0 %	0 %
<b>Other problem commitments</b>			
Problem commitments	-	-	-
Provisions for Individual impairment losses	-	-	-
<b>Collective impairment loss provisions</b>	<b>3.885</b>	1.639	2.774
<b>Net other problem commitments</b>	-	-	-
<b>Loan loss provision ratio</b>	<b>0 %</b>	0 %	0 %

## Note 3 Other assets

NOK 1 000	30.09.17	30.09.16	31.12.16
Unsettled securities	4.640.950	-	-
Other assets	518	1.998	489
<b>Total other assets</b>	<b>4.641.468</b>	1.998	489

## Note 4 Other liabilities

NOK 1 000	30.09.17	30.09.16	31.12.16
Taxes payable	42.030	31.416	40.648
Deferred taxes	-	429	-
Accounts payable	2.514	1.437	2
Accrued expenses and prepaid revenue	1.098	4.192	3.430
<b>Total other liabilities</b>	<b>45.642</b>	37.474	44.080



## 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 40,762 million. All mortgages carry a variable interest rate.

NOK 1 000	30.09.17	30.09.16	31.12.16
Flexible loans - retail market	11.813.750	5.928.741	6.751.694
Amortising loans - retail market	28.913.899	21.449.379	22.583.602
Accrued interest	34.735	22.718	25.381
<b>Total loans before specified and unspecified loss provisions</b>	<b>40.762.384</b>	27.400.838	29.360.677
Individual impairments	-	-	-
Impairments on groups of loans	-3.885	-1.639	-2.774
<b>Total net loans and claims with customers</b>	<b>40.758.499</b>	27.399.199	29.357.902
<b>Liability</b>			
Unused balances under customer revolving credit lines (flexible loans)	3.718.236	1.878.618	2.094.205
<b>Total</b>	<b>3.718.236</b>	1.878.618	2.094.205
<b>Defaulted loans</b>			
Defaults*	0 %	0 %	0 %
Specified loan loss provisions	0 %	0 %	0 %
<b>Net defaulted loans</b>	<b>0 %</b>	0 %	0 %
<b>Loans at risk for loss</b>			
Loan not defaulted but at risk of loss	0 %	0 %	0 %
- Write downs on loans at risk of loss	0 %	0 %	0 %
<b>Net other loans at risk of loss</b>	<b>0 %</b>	0 %	0 %

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

Changes to loan loss provisions NOK 1 000	30.09.17	30.09.16	31.12.16
Loan loss provisions starting balance	2.774	493	493
Change in group loan loss provisions	1.111	1.146	2.281
<b>Loan loss provisions ending balance</b>	<b>3.885</b>	1.639	2.774

## 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 31 December 2017.

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 organization, expertise, risk models and risk management systems.

<b>NOK 1 000</b>	<b>30.09.17</b>	<b>30.09.16</b>	<b>31.12.16</b>
Share capital	3.025.000	2.025.000	2.025.000
Premium reserve	150	150	150
Other equity	1.561	710	85.561
<b>Total Common equity Tier 1 capital</b>	<b>3.026.711</b>	2.025.860	2.110.711
Intangible assets	-	-561	-
Deduction for proposed dividend	-	-	-84.000
Deduction for expected losses on IRB, net of write-downs	-61.850	-46.366	-52.014
Value of derivative liabilities at fair value	-1.022	-1.178	-883
<b>Total Tier 1 capital</b>	<b>2.963.839</b>	1.977.755	1.973.814
<b>Net primary capital</b>	<b>2.963.839</b>	1.977.755	1.973.814
Credit risk	8.456.766	5.850.824	6.355.116
Operational risk	168.738	94.376	94.376
Transitional scheme	7.828.518	5.004.606	5.639.503
<b>Risk weighted balance</b>	<b>16.454.022</b>	10.949.806	12.088.995
Minimum requirement for common equity Tier 1 capital ratio 4,5 %	740.431	492.741	544.005
Buffer requirements:			
Capital conservation buffer 2,5 %	411.351	273.745	302.225
Systemic risk buffer 3 %	493.621	328.494	362.670
Countercyclical capital buffer 1,5 %	246.810	164.247	181.335
Total buffer requirement to common equity Tier 1 capital ratio	1.151.782	766.486	846.230
Available common equity Tier 1 capital ratio after buffer requirement	1.071.626	718.527	498.729
Capital ratio	18,01 %	18,06 %	16,33 %
Tier 1 capital ratio	18,01 %	18,06 %	16,33 %
Common equity Tier 1 capital ratio	18,01 %	18,06 %	16,33 %
Leverage Ratio	6,18 %	6,51 %	6,49 %

## Note 7 Debt securities issued

NOK 1 000	30.09.17	30.09.16	31.12.16
Covered bonds	38.372.197	21.071.819	27.209.665
Accrued interests	104.499	29.132	62.471
<b>Total securities issued</b>	<b>38.476.696</b>	21.100.951	27.272.136

	30.09.17	30.09.16	Nominal amount 31.12.16
<b>Change in debt raised through issuance of securities</b>	<b>30.09.17</b>	<b>30.09.16</b>	<b>31.12.16</b>
Covered bonds start of period	27.757.191	9.337.400	9.337.400
Covered bonds issued	10.981.817	12.187.825	18.419.791
<b>Total debt raised through issuance of securities</b>	<b>38.739.008</b>	21.525.225	27.757.191

\* The nominal amount is the principal at the exchange rate when the new loan is raised

Securities issued by maturity date (principal)

Public covered bonds	30.09.17	30.09.16	Nominal amount 31.12.16
2017	60.000	2.500.000	60.000
2018	-	-	-
2019	5.000.000	-	5.000.000
2020	9.737.400	6.837.400	9.737.400
2021	6.968.775	6.968.775	6.968.775
2022	5.161.200	-	-
2023	5.701.410	4.819.050	4.819.050
2014	4.640.950		
2029	137.307		
2031	90.918	-	90.918
2032	1.060.000	400.000	900.000
2041	181.048	-	181.048
<b>Sum</b>	<b>38.739.008</b>	21.525.225	27.757.191

Liabilities by currency (book value at end of quarter)

NOK	11.053.069	4.997.267	10.906.062
EUR	22.593.355	16.103.684	16.366.075
USD	4.830.272	-	-
<b>Sum</b>	<b>38.476.696</b>	21.100.951	27.272.136

## Note 8 Asset coverage

The asset coverage is calculated according to the Act on Financial Institutions, section 11-11, and Regulations to the Act on Financial Institutions, section 11-7. 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 September 2017) 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.

NOK 1 000	30.09.17	30.09.16	31.12.16
Covered bonds	39.177.308	21.906.210	27.989.523
<b>Total covered bonds</b>	<b>39.177.308</b>	21.906.210	27.989.523
Loans to customers	41.143.906	26.923.465	29.134.271
Substitute collateral	1.191.724	977.878	773.986
<b>Total cover pool</b>	<b>42.335.630</b>	27.901.343	29.908.257
<b>Asset coverage</b>	<b>108,1 %</b>	127,4 %	106,9 %

## Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 30.09.17	Fair value at 30.09.17	
		Assets	Liabilities
<b>Hedging / Interest and exchange rate instruments</b>			
Interest rate swaps (including cross currency)	55.980.356	227.576	694.122
<b>Total hedging / Interest and exchange rate instruments</b>	<b>55.980.356</b>	227.576	694.122
<b>Total currency and interest rate instruments</b>			
Total interest and exchange rate instruments	55.980.356	227.576	694.122
Total accrued interests	48.972	55.461	6.490
<b>Total financial derivatives</b>	<b>56.029.327</b>	283.037	700.612

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>30.09.17</b>	<b>30.09.16</b>	<b>31.12.16</b>
Net gains for bonds and certificates	145	-	23
Net change in value, basis swap spread	-85.570	25.310	-27.386
Net change in value, other financial investments	3.979	-2.168	-6.042
Net gain currency	57	-7	3
<b>Net income from financial instruments</b>	<b>-81.389</b>	23.135	-33.402

## *Note 11 Events after the balance sheet date*

No material events that affect the prepared interim financial statements have been recorded after 30 September 2017.

## 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

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

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