

FOURTH QUARTER 2017

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SR-Boligkreditt

Subsidiary of SpareBank 1 SR-Bank

Interim Financial Statements Q4 2017

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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 31 December 2017

Net income totalled NOK 276.5 million as at 31 December 2017.

(Amounts in NOK millions)	01.01.17 - 31.12.17	01.01.16 - 31.12.16
Total income	276.5	121.0
Net interest income	395.7	169.3
Net commission income	-26.1	-15.0
Net income on financial investments	-93.1	-33.4

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 December 2017, total assets stood at NOK 44.2 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 39.6 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 December 2017, the company's

equity totalled NOK 4.2 billion. The capital adequacy ratio was 23.24%.

Outlook

The level of activity in the region 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 2018 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 – 31 December 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, 6 February 2018

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.17 - 31.12.17	01.01.16 - 31.12.16	Q4 2017	Q4 2016
Interest income		910.559	508.319	260.415	166.965
Interest expense		514.852	339.006	134.818	115.957
Net interest income		395.707	169.312	125.597	51.008
Commission and fee expenses		26.094	14.952	7.575	5.024
Net commission income		-26.094	-14.952	-7.575	-5.024
Net gains/losses on financial instruments	10	-93.123	-33.402	-11.734	-56.537
Net income on financial investments		-93.123	-33.402	-11.734	-56.537
Total net income		276.490	120.958	106.288	-10.553
Administrative expenses		1.444	1.485	382	415
Other operating costs		516	4.058	606	427
Total operating costs before impairment losses on loans		1.960	5.543	989	842
Operating profit before impairment losses on loans		274.530	115.415	105.300	-11.394
Impairment losses on loans and guarantees	5	1.749	2.281	638	1.135
Pre-tax profit		272.781	113.134	104.662	-12.530
Tax expense		68.201	28.284	26.171	-3.132
Profit after tax		204.580	84.851	78.491	-9.397
Other comprehensive income					
Adjustments		0	0	0	0
Comprehensive Income		204.580	84.851	78.491	-9.397

Balance sheet

NOK 1 000	Note	31.12.17	31.12.16
Assets			
Balances with credit institutions		2.202.630	552.748
Loans to customers	2, 5	40.824.596	29.357.902
Bonds		100.216	49.967
Financial derivatives	9	1.102.792	171.271
Deferred tax assets		17.983	11.935
Other assets	3	211	489
Total assets		44.248.427	30.144.313
Liabilities and equity			
Liabilities			
Listed debt securities	7	39.594.428	27.272.136
Financial derivatives	9	368.278	717.386
Taxes payable	4	74.248	40.648
Other liabilities	4	5.182	3.432
Total liabilities		40.042.135	28.033.602
Equity			
Paid-in equity capital		4.000.150	2.025.150
Retained earnings		206.141	85.561
Total equity		4.206.291	2.110.711
Total liabilities and equity		44.248.427	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	0	150.150
Capital increase 24 April 2015	150.000	0	0	150.000
Capital increase 4 September 2015	225.000	0	0	225.000
Capital increase 27 October 2015	750.000	0	0	750.000
Profit for the period	0	0	28.710	28.710
Equity as of 31 December 2015	1.275.000	150	28.710	1.303.860
Dividend 2015, resolved in 2016	0	0	-28.000	-28.000
Capital increase 18 May 2016	750.000	0	0	750.000
Profit for the period	0	0	84.851	84.851
Equity as of 31 December 2016	2.025.000	150	85.561	2.110.711
Capital increase 20 January 2017	1.000.000	0	0	1.000.000
Dividend 2016, resolved in 2017	0	0	-84.000	-84.000
Capital increase 20 October 2017	975.000	0	0	975.000
Profit for the period	0	0	204.580	204.580
Equity as of 31 December 2017	4.000.000	150	206.141	4.206.291

Cash flow statement

NOK 1 000	31.12.17	31.12.16
Interest receipts from lending to customers	898.892	493.710
Provisions to SR-Bank	-23.572	-14.952
Payments for operations	-2.113	-4.093
Taxes paid	-40.648	-10.143
Net cash flow relating to operations	832.559	464.522
Net purchase of loan portfolio	-11.457.118	-19.393.732
Net payments on the acquisition of bonds	-49.990	-49.892
Net investments in intangible assets	-	-
Net cash flow relating to investments	-11.507.108	-19.443.624
Debt raised by issuance of securities	10.981.817	18.407.673
Redemption of issued securities	-60.000	-
Net change in loans from credit institutions	-	-
Paid in capital equity	1.975.000	750.000
Interest payments on debt raised by issuance of securities	-488.386	-304.318
Dividend paid	-84.000	-28.000
Net cash flow relating to funding activities	12.324.431	18.825.355
Net cash flow during the period	1.649.882	-153.747
Balance of cash and cash equivalents start of period	552.748	706.494
Balance of cash and cash equivalents end of period	2.202.630	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 - 31 December 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.

New Standards that have not been adopted yet

A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. Among those SR-Boligkreditt AS has chosen not to apply early, is IFRS 9 Financial Instruments. IFRS 9 will replace IAS 39 from 1 January 2018. SR-Boligkreditt AS has, in cooperation with other SpareBank 1 banks, been working on models, as well as clarifications concerning valuation, classification, etc., for the last couple of years. The SpareBank 1 SR-Bank group has worked on preparing for, and impact assessments concerning, the effects of implementation. Preliminary calculations indicates that the increased needed for loss provisions for SR-Boligkreditt AS will be in the range of NOK 15-25 million. The effect on the capital adequacy ratio will, according to our preliminary calculations, be limited. SR-Boligkreditt AS will within the end of February 2018 decide whether to use the transitional rule for capital adequacy when implementing IFRS 9. For more information please see note 26 in the annual financial statements 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	31.12.17	31.12.16
Non-performing loans and advances		
Gross non-performing loans above 90 days	-	4.894
Provisions for Individual impairment losses	-	-
Net non-performing loans and advances	-	4.894
Loan loss provision ratio	0 %	0 %
Other problem commitments		
Problem commitments	-	-
Provisions for Individual impairment losses	-	-
Collective impairment loss provisions	4.523	2.774
Net other problem commitments	-	-
Loan loss provision ratio	0 %	0 %

Note 3 Other assets

NOK 1 000	31.12.17	31.12.16
Other assets	211	489
Total other assets	211	489

Note 4 Other liabilities

NOK 1 000	31.12.17	31.12.16
Taxes payable	74.248	40.648
Deferred taxes	-	-
Accounts payable	2.640	2
Accrued expenses and prepaid revenue	2.541	3.430
Total other liabilities	79.429	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 40,829 million. All mortgages carry a variable interest rate.

NOK 1 000	31.12.17	31.12.16
Flexible loans - retail market	11.945.762	6.751.694
Amortising loans - retail market	28.846.309	22.583.602
Accrued interest	37.049	25.381
Gross loans	40.829.119	29.360.677
Individual impairments	-	-
Impairments on groups of loans	-4.523	-2.774
Loans to customers	40.824.596	29.357.902
Liability		
Unused balances under flexible loans	3.835.770	2.094.205
Total	3.835.770	2.094.205
Defaulted loans		
Defaults*	0 %	0 %
Specified loan loss provisions	0 %	0 %
Net defaulted loans	0 %	0 %
Loans at risk for loss		
Loan not defaulted but at risk	0 %	0 %
- Write downs on loans at risk	0 %	0 %
Net other loans at risk	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	31.12.17	31.12.16
Loan loss provisions at start of period	2.774	493
Change in group loan loss provisions	1.749	2.281
Loan loss provisions at period end	4.523	2.774

Note 6 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU's capital requirements for banks and securities undertakings (CRD IV/ CRR).

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.

All capital ratio figures are based on the transitional rule (Basel 1 floor) that states that the capital requirement for using internal methods cannot be less than 80 per cent of the capital requirement according to the Basel 1 regulations.

NOK 1 000	31.12.17	31.12.16
Share capital	4.000.000	2.025.000
Premium reserve	150	150
Other equity	206.141	85.561
Total Common equity Tier 1 capital	4.206.291	2.110.711
Intangible assets	-	-
Deduction for proposed dividend	-204.000	-84.000
Deduction for expected losses on IRB, net of write-downs	-66.807	-52.014
Value of derivative liabilities at fair value	-1.523	-883
Total Tier 1 capital	3.933.961	1.973.814
Net primary capital	3.933.961	1.973.814
Credit risk	9.828.325	6.355.116
Operational risk	168.738	94.376
Transitional scheme	6.927.742	5.639.503
Risk weighted balance	16.924.805	12.088.995
Minimum requirement for common equity Tier 1 capital ratio 4,5 %	761.616	544.005
Buffer requirements:		
Capital conservation buffer 2,5 %	423.120	302.225
Systemic risk buffer 3 %	507.744	362.670
Countercyclical capital buffer 2 % (1,5 % per 31.12.2016)	338.496	181.335
Total buffer requirement to common equity Tier 1 capital ratio	1.269.360	846.230
Available common equity Tier 1 capital ratio after buffer requirement	1.902.984	498.729
Capital ratio	23,24 %	16,33 %
Tier 1 capital ratio	23,24 %	16,33 %
Common equity Tier 1 capital ratio	23,24 %	16,33 %
Leverage Ratio	8,50 %	6,49 %

Note 7 Debt securities issued

NOK 1 000	31.12.17	Carrying amount 31.12.16
Covered bonds nominal amount	38.679.008	27.757.191
Adjustments	749.307	-547.526
Accrued interests	166.113	62.471
Total securities issued	39.594.428	27.272.136

Change in debt raised through issuance of securities	31.12.17	Nominal amount 31.12.16
Covered bonds start of period	27.757.191	9.337.400
Covered bonds issued	10.981.817	18.419.791
Covered bonds matured	-60.000	-
Total debt raised through issuance of securities	38.679.008	27.757.191

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

Securities issued by maturity date

Public covered bonds	31.12.17	Nominal amount 31.12.16
2017	-	60.000
2019	5.000.000	5.000.000
2020	9.737.400	9.737.400
2021	6.968.775	6.968.775
2022	5.161.200	-
2023	5.701.410	4.819.050
2024	4.640.950	-
2029	137.307	-
2031	90.918	90.918
2032	1.060.000	900.000
2041	181.048	181.048
Sum	38.679.008	27.757.191

Liabilities by currency	31.12.17	Carrying amount 31.12.16
NOK	11.006.915	10.906.062
EUR	23.400.353	16.366.075
USD	5.187.159	-
Sum	39.594.428	27.272.136

Note 8 Asset coverage

The asset coverage is calculated according to the Act on Financial Institutions, section 11-11. 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 31 December 2017), loans with a loan-to-value ratio in excess of 75 % and use market values.

NOK 1 000	31.12.17	31.12.16
Covered bonds	39.594.428	27.989.523
Total covered bonds	39.594.428	27.989.523
Loans to customers	40.501.323	29.134.271
Substitute collateral	2.613.014	773.986
Total cover pool	43.114.337	29.908.257
Asset coverage	108,9 %	106,9 %

Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 31.12.17	Fair value at 31.12.17	
		Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	57.149.053	1.030.049	392.383
Total hedging / Interest and exchange rate instruments	57.149.053	1.030.049	392.383
Total currency and interest rate instruments			
Total interest and exchange rate instruments	57.149.053	1.030.049	392.383
Total accrued interests	-	72.742	-24.106
Total financial derivatives	57.245.900	1.102.792	368.278

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

NOK 1 000	31.12.17	31.12.16
Net gains for bonds and certificates	235	23
Net change in value, basis swap spread	-98.991	-27.386
Net change in value, other financial investments	5.591	-6.042
Net gain currency	42	3
Net income from financial instruments	-93.123	-33.402

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 December 2017.

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