



Second Quarter 2019



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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 30 June 2019

Net income totalled NOK 319.6 million as at 31 June 2019.

(Amounts in NOK millions)	01.01.19 - 30.06.19	01.01.18 - 30.06.18
Total income	319.6	185.0
Net interest income	289.5	226.6
Net commission income	-21.2	-15.6
Net income on financial investm	51.2	-26.0

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 June 2019, total assets stood at NOK 69.0 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 60.9 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 June 2019, the company's equity totalled NOK 6.2 billion. The capital adequacy ratio was 22.5%.

## Outlook

Continued high consumer consumption rates, increasing business investments and export growth are expected to contribute to a growth in mainland GDP by 2.7 per cent in 2019. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to grow by 10 per cent in 2019, up from a 2 per cent increase in 2018. Wage growth is expected to be moderate and inflation is expected to be 2.5 per cent. The Central Bank of Norway increased its base rate by 0.25 percentage points both in March and June and is expected to raise rates further in 2019. Norwegian house prices are expected to be stable.

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 2019 is expected to be approximately NOK 15 billion and to provide a sound basis for SpareBank 1 SR-Bank's lending activities. Defaults are expected to be low and SR-Boligkreditt AS's activities are expected to generate satisfactory profitability in 2019.

The board would like to emphasise that there is considerable uncertainty associated with all assessments of future conditions.

## 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 March 2019. 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, 7 August 2019

The Board of Directors of SR-Boligkreditt AS

## Income statement

NOK 1 000	Note	01.01.19 - 30.06.19	01.01.18 - 30.06.18	Q2 2019	Q2 2018	2018
Interest income		818.112	532.292	422.153	275.753	1.202.416
Interest expense		528.603	305.700	274.033	170.354	707.375
<b>Net interest income</b>		<b>289.508</b>	<b>226.592</b>	<b>148.120</b>	<b>105.399</b>	<b>495.042</b>
Commission and fee expenses		21.154	15.625	10.583	8.050	34.097
<b>Net commission income</b>		<b>-21.154</b>	<b>-15.625</b>	<b>-10.583</b>	<b>-8.050</b>	<b>-34.097</b>
Net gains/losses on financial instruments	10	51.216	-25.982	73.533	-20.416	-79.608
<b>Net income on financial investments</b>		<b>51.216</b>	<b>-25.982</b>	<b>73.533</b>	<b>-20.416</b>	<b>-79.608</b>
<b>Total net income</b>		<b>319.571</b>	<b>184.984</b>	<b>211.070</b>	<b>76.932</b>	<b>381.337</b>
Administrative expenses		847	795	428	418	1.597
Other operating costs		842	1.364	472	1.103	2.260
<b>Total operating costs before impairment losses on loans</b>		<b>1.688</b>	<b>2.159</b>	<b>900</b>	<b>1.521</b>	<b>3.857</b>
<b>Operating profit before impairment losses on loans</b>		<b>317.882</b>	<b>182.825</b>	<b>210.170</b>	<b>75.411</b>	<b>377.480</b>
Impairment losses on loans and guarantees	2	3.465	4.147	1.511	4.147	3.028
<b>Pre-tax profit</b>		<b>314.417</b>	<b>178.678</b>	<b>208.659</b>	<b>71.264</b>	<b>374.451</b>
Tax expense		69.172	41.096	45.905	14.242	86.070
<b>Profit after tax</b>		<b>245.245</b>	<b>137.582</b>	<b>162.754</b>	<b>57.022</b>	<b>288.381</b>
Other comprehensive income						
Adjustments		-	-	-	-	-
<b>Comprehensive Income</b>		<b>245.245</b>	<b>137.582</b>	<b>162.754</b>	<b>57.022</b>	<b>288.381</b>

## Balance sheet

NOK 1 000	Note	30.06.19	30.06.18	31.12.18
<b>Assets</b>				
Balances with credit institutions		1.612.703	1.499.759	1.767.956
Loans to customers	2, 5	63.091.337	47.521.270	58.788.174
Bonds		1.928.819	150.226	1.930.511
Financial derivatives	9	2.331.515	399.264	2.344.682
Deferred tax assets		33.648	17.983	33.648
Other assets	3	-	760.233	-
<b>Total assets</b>		<b>68.998.022</b>	<b>50.348.735</b>	<b>64.864.971</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Listed debt securities	7	60.866.057	45.562.078	55.787.432
Balances with credit institutions		1.618.059	-	3.373.100
Financial derivatives	9	189.545	599.956	305.861
Taxes payable	4	69.172	42.923	103.562
Other liabilities	4	7.701	7.334	7.772
<b>Total liabilities</b>		<b>62.750.533</b>	<b>46.212.291</b>	<b>59.577.727</b>
<b>Equity</b>				
Paid-in equity capital		6.000.150	4.000.150	5.000.150
Retained earnings		247.339	136.295	287.094
<b>Total equity</b>		<b>6.247.489</b>	<b>4.136.445</b>	<b>5.287.244</b>
<b>Total liabilities and equity</b>		<b>68.998.022</b>	<b>50.348.735</b>	<b>64.864.971</b>

## Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
<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
Capital increase 20 October 2017	975.000	-	-	975.000
Profit for the period	-	-	204.580	204.580
<b>Equity as of 31 December 2017</b>	<b>4.000.000</b>	<b>150</b>	<b>206.141</b>	<b>4.206.291</b>
Changes in equity IFRS 9 1 January 2018	-	-	-3.429	-3.429
Dividend 2017, resolved in 2018	-	-	-204.000	-204.000
Other paid-in equity (not yet registered)	-	-	1.000.000	1.000.000
Profit for the period	-	-	288.381	288.381
<b>Equity as of 31 December 2018</b>	<b>4.000.000</b>	<b>150</b>	<b>1.287.094</b>	<b>5.287.244</b>
Capital increase 9 February 2019	1.000.000	-	-1.000.000	-
Dividend	-	-	-285.000	-285.000
Capital increase 4 June 2019	1.000.000	-	-	1.000.000
Profit for the period	-	-	245.245	245.245
<b>Equity as of 30 June 2019</b>	<b>6.000.000</b>	<b>150</b>	<b>247.339</b>	<b>6.247.489</b>

## Cash flow statement

NOK 1 000	30.06.19	30.06.18	31.12.18
Interest receipts from lending to customers	810.758	528.833	1.185.523
Provisions to SR-Bank	-21.154	-15.625	-33.362
Payments for operations	-1.464	-1.906	-3.006
Taxes paid	-103.562	-71.278	-71.278
<b>Net cash flow relating to operations</b>	<b>684.579</b>	<b>440.024</b>	<b>1.077.877</b>
Net purchase of loan portfolio	-4.299.556	-6.699.914	-17.953.078
Net payments on the acquisition of bonds	3.519	-50.044	-1.827.667
<b>Net cash flow relating to investments</b>	<b>-4.296.037</b>	<b>-6.749.958</b>	<b>-19.780.745</b>
Debt raised by issuance of securities	4.998.157	6.098.802	14.763.682
Redemption of issued securities	-	-	-
Net change in loans from credit institutions	-1.755.041	-	3.373.100
Paid in capital equity	1.000.000	-	1.000.000
Interest payments on debt raised by issuance of securities	-501.912	-287.739	-664.589
Dividend paid	-285.000	-204.000	-204.000
<b>Net cash flow relating to funding activities</b>	<b>3.456.204</b>	<b>5.607.063</b>	<b>18.268.193</b>
<b>Net cash flow during the period</b>	<b>-155.253</b>	<b>-702.871</b>	<b>-434.674</b>
Balance of cash and cash equivalents start of period	1.767.956	2.202.630	2.202.630
Balance of cash and cash equivalents end of period	1.612.703	1.499.759	1.767.956

# *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 2019. 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 2018.

#### **New Standards that have not been adopted yet**

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

#### **New Standards that have been adopted**

IFRS 16- Leases have been adopted from 1 January 2019. This standard does not have any significant impacts for SR-Boligkreditt AS.

### **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 recognised as assets, liabilities, income and costs. Note 3 of the annual accounts for 2018 explains in more detail the use of critical estimates and judgements when applying the accounting policies.



## Note 2 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 2 in the annual account 2018.

NOK 1 000	2019			Total
	Stage 1	Stage 2	Stage 3	
<b>Loans and advances to customers at amortized cost</b>				
<b>Balance sheet 1 January 2019</b>	<b>4.245</b>	<b>7.167</b>	<b>711</b>	<b>12.123</b>
Transfer to/ from stage 1	-2.740	2.740	-	-
Transfer to/ from stage 2	146	566	-711	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	2.816	400	2	3.218
New financial assets originated or purchased	1.192	1.191	92	2.475
Change due to reduced portfolio	-598	-1.534	-94	-2.227
Change in models/risk parameters	-	-	-	-
Other movements	-	-	-	-
<b>Balance sheet 30 June 2019</b>	<b>5.060</b>	<b>10.529</b>	<b>-</b>	<b>15.589</b>

## Note 3 Other assets

NOK 1 000	30.06.19	30.06.18	31.12.18
Unsettled securities		760.161	
Other assets	-	73	-
<b>Total other assets</b>	<b>-</b>	<b>760.233</b>	<b>-</b>

## Note 4 Other liabilities

NOK 1 000	31.03.19	31.03.18	31.12.18
Taxes payable	69.172	42.923	103.562
Accounts payable	274	3.108	-
Expected credit loss on remaining credit lines (flexible loans)	183	161	117
Accrued expenses and prepaid revenue	7.244	4.064	7.655
<b>Total other liabilities</b>	<b>76.873</b>	<b>50.257</b>	<b>111.334</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 61.9 billion. All mortgages carry a variable interest rate.

NOK 1 000	30.06.19	30.06.18	31.12.18
Flexible loans - retail market	17.670.826	12.798.549	15.462.005
Amortising loans - retail market	45.374.622	34.695.295	43.284.234
Accrued interest	61.295	40.507	53.941
<b>Gross loans</b>	<b>63.106.743</b>	<b>47.534.351</b>	<b>58.800.180</b>
Individual impairments	N/A	N/A	N/A
Impairments on groups of loans	N/A	N/A	N/A
Impairment losses after amortised cost	-15.406	-13.081	-12.006
<b>Loans to customers</b>	<b>63.091.337</b>	<b>47.521.270</b>	<b>58.788.174</b>
<b>Liability</b>			
Remaining credit lines (flexible loans)	6.014.705	4.345.919	5.107.530
<b>Total</b>	<b>6.014.705</b>	<b>4.345.919</b>	<b>5.107.530</b>
<b>Expected credit loss on remaining credit lines</b>	<b>-183</b>	<b>-161</b>	<b>-117</b>

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 01.01.19	56.557.611	2.237.457	5.112	58.800.180
Transfer to stage 1	(789.618)	789.618	-	-
Transfer to stage 2	478.543	(473.431)	(5.112)	-
Transfer to stage 3	-	-	-	-
Net increase/ (decrease) balance existing loans	(1.335.552)	24.388	-	(1.311.165)
Originated or purchased during the period	12.598.108	344.803	-	12.942.910
Loans that have been derecognised	(6.833.018)	(492.165)	-	(7.325.183)
<b>Balance 30.06.19</b>	<b>60.676.074</b>	<b>2.430.669</b>	<b>-</b>	<b>63.106.743</b>

## 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	30.06.19	30.06.18	31.12.18
Share capital	6.000.000	4.000.000	4.000.000
Premium reserve	150	150	150
Other equity	2.094	-1.287	287.094
<b>Total Common Equity Tier 1 capital</b>	<b>6.002.244</b>	<b>3.998.863</b>	<b>4.287.244</b>
Deduction for proposed dividend	-	-	-
Deduction for expected losses on IRB, net of write-downs	-95.873	-70.041	-96.106
Value of derivative liabilities at fair value	-3.576	-1.158	-3.706
<b>Total Tier 1 capital</b>	<b>5.902.795</b>	<b>3.927.664</b>	<b>4.187.432</b>
Paid-in share capital, not yet registered	-	-	1.000.000
<b>Net primary capital</b>	<b>5.902.795</b>	<b>3.927.664</b>	<b>5.187.432</b>
Credit risk	15.234.009	10.094.481	15.533.840
Operational risk	615.574	384.596	384.596
Transitional scheme	10.443.198	8.823.010	8.473.100
<b>Risk weighted balance</b>	<b>26.292.781</b>	<b>19.302.087</b>	<b>24.391.536</b>
Minimum requirement for Common Equity Tier 1 capital ratio 4,5 %	1.183.175	868.594	1.097.619
Buffer requirements:			
Capital conservation buffer 2,5 %	657.320	482.552	609.788
Systemic risk buffer 3 %	788.783	579.063	731.746
Countercyclical capital buffer 2 %	525.856	386.042	487.831
Total buffer requirement to Common Equity Tier 1 capital ratio	1.971.959	1.447.657	1.829.365
Available common equity Tier 1 capital ratio after buffer requirement	2.747.661	1.611.414	1.260.448
Capital ratio	22,45 %	20,35 %	21,27 %
Tier 1 capital ratio	22,45 %	20,35 %	17,17 %
Common Equity Tier 1 capital ratio	22,45 %	20,35 %	17,17 %
Leverage Ratio	7,96 %	7,73 %	6,12 %

## Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	58.303.073	21.021.374	37.281.699
Value adjustments	2.356.940	-8.441	2.365.380
Accrued interests	206.044	54.792	151.252
<b>Total securities issued</b>	<b>60.866.057</b>	<b>21.067.725</b>	<b>39.798.331</b>

### Securities issued by maturity date

Public covered bonds	Total	NOK	Currency
2019	5.008.490	5.008.490	-
2020	9.919.816	5.000.937	4.918.879
2021	7.344.775	-	7.344.775
2022	10.177.224	5.008.589	5.168.635
2023	11.024.565	5.005.263	6.019.303
2024	5.015.234	-	5.015.234
2025	7.691.854	-	7.691.854
2029	156.311	-	156.311
2031	105.674	-	105.674
2032	1.044.446	1.044.446	-
2038	3.159.742	-	3.159.742
2041	217.923	-	217.923
<b>Total debt</b>	<b>60.866.057</b>	<b>21.067.725</b>	<b>39.798.331</b>

### Change in debt raised through issuance of securities

	Balance 30.06.19	Issued 2019	Matured/ redeemed 2019	Exchange rate and other changes 2019	Balance 31.12.18
Covered bonds, nominal value	58.303.073	5.000.000	-	13.129	53.289.945
Adjustments	2.356.940	-	-	74.392	2.282.547
Accrued interests	206.044	-	-	-8.896	214.940
<b>Total debt raised through issuance of securities</b>	<b>60.866.057</b>	<b>5.000.000</b>	<b>-</b>	<b>78.625</b>	<b>55.787.432</b>

## Note 8 Asset coverage

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 30 June 2019), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	30.06.19	30.06.18	31.12.18
Covered bonds	60.866.057	45.562.078	55.787.432
<b>Total covered bonds</b>	<b>60.866.057</b>	45.562.078	55.787.432
Loans to customers	62.508.740	47.241.440	58.237.977
Substitute collateral	5.335.498	1.299.068	4.709.670
<b>Total cover pool</b>	<b>67.844.238</b>	48.540.508	62.947.647
<b>Asset coverage</b>	<b>111,5 %</b>	106,5 %	112,8 %

## Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 30.06.19	Fair value at 30.06.19	
		Assets	Liabilities
<b>Hedging / Interest and exchange rate instruments</b>			
Interest rate swaps (including cross currency)	77.751.385	2.301.884	219.747
<b>Total hedging / Interest and exchange rate instruments</b>	<b>77.751.385</b>	2.301.884	219.747
<b>Total currency and interest rate instruments</b>			
Total interest and exchange rate instruments	77.751.385	2.301.884	219.747
Total accrued interests	-	29.631	-30.202
<b>Total financial derivatives</b>	<b>77.751.385</b>	2.331.515	189.545

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>30.06.19</b>	<b>30.06.18</b>	<b>31.12.18</b>
Net gains for bonds and certificates	1.211	-102	-700
Net change in value, basis swap spread	50.452	-11.758	-62.344
Net change in value, other financial investments	-447	-14.151	-16.582
Net change in value, currency effect	-	29	17
<b>Net income from financial instruments</b>	<b>51.216</b>	<b>-25.982</b>	<b>-79.608</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 2019.

## Contact Information

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