

SR-BOLIGKREDITT AS

Q3 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 as at 30. September 2016

Net income totalled NOK 131.5 million as at 30. September 2016.

(Amounts in NOK millions)

Total income	131.5
Net interest income	118.3
Net other operating income	13.2

Operating expenses are kept low due to effective operation and synergies with treasury in SpareBank 1 SR-Bank ASA and totalled NOK 4.7 million as at 30. September 2016.

1.2. Balance sheet

At end of September 2016 total assets stood at NOK 28.4 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 4.3 billion.

1.3. 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 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 September 2016, the company's equity totalled NOK 2.1 billion. The capital adequacy ratio was 18.06%.

1.4. Outlook

Economic forecasts for 2016 and 2017 indicate moderate global economic growth. Economic growth is also expected in Norway, although the growth will probably slow somewhat as a result of declining oil investments and their spillover effects on the mainland economy. House prices are expected to remain 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 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 September 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, 27. October 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	Q3 2016	Q3 2015	01.01.16 - 30.09.16	17.03.15- 30.09.15	17.03.15- 31.12.15
Interest income		137.856	42.125	341.353	60.570	124.749
Interest expense		(92.601)	(25.195)	(223.049)	(37.083)	(74.416)
Net interest income		45.255	16.930	118.304	23.487	50.333
Commission and fee expenses		(4.239)	(655)	(9.928)	(1.244)	(2.941)
Net gains/losses on financial instruments	10	13.180	(8.051)	23.135	(8.051)	(1.664)
Net other operating income		8.941	(8.706)	13.207	(9.295)	(4.605)
Total operating income		54.196	8.224	131.511	14.192	45.728
Administrative expenses		(307)	(979)	(1.070)	(1.232)	(1.821)
Other operating costs		(96)	(2.959)	(3.632)	(2.983)	(4.132)
Total operating costs		(403)	(3.938)	(4.701)	(4.215)	(5.953)
Operating profit before impairment losses		53.793	4.286	126.810	9.977	39.775
Impairment losses on loans and guarantees	5	(323)	-	(1.146)	-	(493)
Pre-tax profit		53.471	4.286	125.664	9.977	39.282
Tax expense		(13.368)	(1.157)	(31.416)	(2.694)	(10.572)
Profit after tax		40.103	3.129	94.248	7.283	28.710
Adjustments		-	-	-	-	-
Comprehensive Income		40.103	3.129	94.248	7.283	28.710

4. Balance sheet

NOK 1 000	Note	30.09.16	30.09.15	31.12.15
Assets				
Balances with credit institutions		556.133	541.267	706.494
Loans to customers	2, 5	27.399.199	9.344.343	9.949.686
Bonds		49.523	-	-
Financial derivatives	9	372.223	11.704	96.103
Other assets	3	1.998	855	821
Total assets		28.379.075	9.898.169	10.753.104
Liabilities and equity				
Liabilities				
Listed debt securities	7	21.100.951	9.360.222	9.438.553
Balances with credit institutions		4.315.283	-	-
Financial derivatives	9	805.259	-	-
Taxes payable	4	31.416	2.694	10.143
Other liabilities	4	6.057	2.820	548
Total liabilities		26.258.967	9.365.736	9.449.244
Equity				
Paid-in equity capital		2.025.150	525.150	1.275.150
Retained earnings		94.959	7.283	28.710
Total equity		2.120.109	532.433	1.303.860
Total liabilities and equity		28.379.075	9.898.169	10.753.104

Stavanger, 27. October 2016

Inge Reinertsen
Chairman

Stian Helgøy

Merete Eik

Børge Henriksen

Dag Hjelle
CEO

5. Statement of changes in equity

NOK 1 000	Share-capital	Premium reserve	Other equity	Total equity
Equity as of 31. December 2014	-	-	-	-
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
Equity as of 31. December 2015	1.275.000	150	28.710	1.303.860
Dividend 2015, resolved in 2016	-	-	-28.000	-28.000
Capital increase 18. Mai 2016	750.000	-	-	750.000
Profit for the period	-	-	94.248	94.248
Equity as of 30. September 2016	2.025.000	150	94.958	2.120.108

6. Cash flow statement

NOK 1 000	30.09.16	17.03.15- 30.09.15	17.03.15- 31.12.15
Interest receipts from lending to customers	329.408	50.250	113.976
Payments for operations	(12.790)	(3.500)	(8.716)
Taxes paid	(10.143)	-	-
Net cash flow relating to operations	306.475	46.750	105.260
Net purchase of loan portfolio	(17.438.713)	(9.334.023)	(9.939.407)
Net payments on the acquisition of bonds	(49.892)	-	-
Net investments in intangible assets	-	(880)	(880)
Net cash flow relating to investments	(17.488.605)	(9.334.903)	(9.940.287)
Debt raised by issuance of securities	12.189.437	9.333.571	9.333.893
Receipts from borrowing from financial institutions	4.315.283	-	-
Paid in capital equity	750.000	525.150	1.275.150
Net interest payments on funding activities	(194.952)	(29.301)	(67.522)
Dividend paid	(28.000)	-	-
Net cash flow relating to funding activities	17.031.768	9.829.420	10.541.521
Net cash flow during the period	(150.362)	541.267	706.494
Balance of cash and cash equivalents start of period	706.494	-	-
Balance of cash and cash equivalents end of period	556.132	541.267	706.494

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 September 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 recognised 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

	30.09.16	30.09.15	31.12.15
Non-performing loans and advances			
Gross non-performing loans above 90 days	0	0	0
Provisions for Individual impairment losses	0	0	0
Net non-performing loans and advances	0	0	0
Loan loss provision ratio	0 %	0 %	0 %
Other problem commitments			
Problem commitments	0	0	0
Provisions for Individual impairment losses	0	0	0
Collective impairment loss provisions	0	0	0
Net other problem commitments	0	0	0
Loan loss provision ratio	0 %	0 %	0 %

Note 3 – Other assets

	30.09.16	30.09.15	31.12.15
Intangible assets	561	855	781
Other assets	1.437	-	40
Total other assets	1.998	855	821

Note 4 – Other liabilities

	30.09.16	30.06.15	31.12.15
Taxes payable	31.416	2.694	10.143
Deferred taxes	429	-	429
Accounts payable	1.437	2.324	40
Accrued expenses and prepaid revenue	4.192	496	79
Total other liabilities	37.474	5.514	10.691

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 27.399 million. All mortgages carry a variable interest rate.

	30.09.16	30.09.15	31.12.15
Flexible loans - retail market	5.928.741	735.532	896.941
Amortising loans - retail market	21.449.379	8.598.491	9.042.466
Accrued interest	22.718	10.320	10.773
Total loans before specified and unspecified loss provisions	27.400.838	9.344.343	9.950.180
Specified loan loss provisions	-	-	-
Unspecified loan loss provisions	-1.639	-	-493
Total net loans and claims with customers	27.399.199	9.344.343	9.949.687
Liability			
Unused balances under customer revolving credit lines (flexible loans)	1.878.618	163.984	220.634
Total	1.878.618	163.984	220.634
Defaulted loans			
Defaults*	0,0 %	0,0 %	0,0 %
Spcified loan loss provisions	0,0 %	0,0 %	0,0 %
Net defaulted loans	0,0 %	0,0 %	0,0 %
Loans at risk for loss			
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 %
Net other loans at risk of loss	0,0 %	0,0 %	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	30.09.16	30.09.15	31.12.15
Loan loss provisions starting balance	493	-	-
Change in group loan loss provisions	1.146	-	493
Loan loss provisions ending balance	1.639	-	493

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.

	30.09.16	30.09.15 ¹	31.12.15
Share capital	2.025.000	525.000	1.275.000
Premium reserve	150	150	150
Other equity	710	-	28.710
Total Common equity Tier 1 capital	2.025.860	525.150	1.303.860
Intangible assets	-561	-855	-781
Deduction for proposed dividend	-	-	-28.000
Deduction for expected losses on IRB, net of write-downs	-46.366	-	-16.784
Value of derivative liabilities at fair value	-1.178	-12	-96
Total Tier 1 capital	1.977.755	524.283	1.258.199
Net primary capital	1.977.755	524.283	1.258.199
Credit risk	5.850.824	3.470.613	2.311.343
Operational risk	94.376	33.872	33.872
Transitional scheme	5.004.606	-	1.682.429
Risk weighted balance	10.949.806	3.504.485	4.027.644
Minimum requirement for common equity Tier 1 capital ratio 4,5 %	492.741	157.702	181.244
Buffer requirements:			
Capital conservation buffer 2,5 %	273.745	87.612	100.691
Systemic risk buffer 3 %	328.494	105.135	120.829
Countercyclical capital buffer 1,5 % ²⁾	164.247	35.045	40.276
Total buffer requirement to common equity Tier 1 capital ratio	766.486	227.792	261.797
Available common equity Tier 1 capital ratio after buffer requirement	718.527	138.790	815.158
Capital ratio	18,06 %	14,96 %	31,24 %
Tier 1 capital ratio	18,06 %	14,96 %	31,24 %
Common equity Tier 1 capital ratio	18,06 %	14,96 %	31,24 %
Leverage Ratio	6,51 %	5,42 %	11,20 %

¹⁾ For the third quarter 2015 the capital requirements were calculated using the standard method.

²⁾ The countercyclical capital buffer 30.09.16 is calculated to 1,5 % . Comparable figures are calculated to 1 % .

Note 7 – Securities issued

	30.09.16	30.09.15	31.12.15
Covered bonds	21.071.819	9.356.920	9.429.274
Accrued interests	29.132	3.303	9.279
Total securities issued	21.100.951	9.360.223	9.438.553

	30.09.16	30.09.15	31.12.15
Change in debt raised through issuance of securities	30.09.16	30.09.15	31.12.15
Covered bonds	12.187.825	9.337.400	9.337.400
Total debt raised through issuance of securities	12.187.825	9.337.400	9.337.400

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

Securities issued by maturity date (principal)

Public covered bonds	Year	30.09.16	30.09.15	31.12.15
	2017	2.500.000	2.500.000	2.500.000
	2018	-	-	-
	2019	-	-	-
	2020	6.837.400	6.837.400	6.837.400
	2021	6.968.775	-	-
	2022	-	-	-
	2023	4.819.050	-	-
	2032	400.000	-	-
Sum		21.525.225	9.337.400	9.337.400

Liabilities by currency (book value at end of quarter)

	30.09.16	30.09.15	31.12.2015
NOK	4.997.267	4.600.386	4.600.521
EUR	16.103.684	4.759.837	4.838.032
Sum	21.100.951	9.360.223	9.438.553

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 September 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.

	30.09.16	30.09.15	31.12.15
Covered bonds	21.906.210	9.348.519	9.438.553
Total covered bonds	21.906.210	9.348.519	9.438.553
Loans to customers	26.923.465	9.333.309	9.873.033
Substitute collateral	977.878	541.267	802.597
Total cover pool	27.901.343	9.874.576	10.675.630
Asset coverage	127,4 %	105,6 %	113,1 %

Note 9 – Financial derivatives

At fair value through profit and loss	Contract amount	Fair value at 30.09.16	
	30.09.16	Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	32.682.050	348.836	780.029
Total hedging / Interest and exchange rate instruments	32.682.050	348.836	780.029

Total currency and interest rate instruments	Contract amount	Assets	Liabilities
	30.09.16	30.09.2016	30.09.2016
Total interest and exchange rate instruments	32.682.050	348.836	780.029
Total accrued interests	-	23.386	25.230
Total financial derivatives	32.682.050	372.222	805.259

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

	30.09.16	30.09.15	31.12.15
Net gains for bonds and certificates	-	-	-
Net change in value, basis swap spread	25.310	-5.727	2.998
Net change in value, other financial investments	-2.168	-2.279	-4.602
Net gain currency	-7	-45	-59
Net income from financial instruments	23.135	-8.051	-1.664

Note 11 – Events after the balance sheet date

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

8. Contact Information

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