

Fourth Quarter 2018

SR-Boligkreditt

Interim Financial Statements Q4 2018

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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 2018

Net income totalled NOK 381.3 million as at 31 December 2018.

(Amounts in NOK millions)	01.01.18 - 31.12.18	01.01.17 - 31.12.17
Total income	381.3	276.5
Net interest income	495.0	395.7
Net commission income	-34.1	-26.1
Net income on financial investments	-79.6	-93.1

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 December 2018, total assets stood at NOK 64.9 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 55.8 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 2018, the company's equity totalled NOK 5.3 billion. The capital adequacy ratio was 21.3%.

Outlook

Continued growth in private consumption, increasing business investments and growth in exports is expected to contribute to a growth in mainland GDP by 2.3 per cent in 2019. The Norwegian Oil Directorate forecasts a 10 per cent increase in oil investments, hence the general level of activity in Norway is picking up in 2019. Wage growth is expected to be moderate and inflation is expected to be 1.8 per cent. The Central Bank of Norway increased its base rate by 0.25 percentage points in 2018 and is expected to raise rates twice in 2019, bringing the base rate up from today's 0.75 to 1.25 per cent. 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 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 2018. 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 February 2019

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.18 - 31.12.18	01.01.17 - 31.12.17	Q4 2018	Q4 2017
Interest income		1.202.416	910.559	365.268	260.415
Interest expense		707.375	514.852	219.410	134.818
Net interest income		495.042	395.707	145.858	125.597
Commission and fee expenses		34.097	26.094	9.789	7.575
Net commission income		-34.097	-26.094	-9.789	-7.575
Net gains/losses on financial instruments	10	-79.608	-93.123	-42.820	-11.734
Net income on financial investments		-79.608	-93.123	-42.820	-11.734
Total net income		381.337	276.490	93.249	106.288
Administrative expenses		1.597	1.444	389	382
Other operating costs		2.260	516	421	606
Total operating costs before impairment losses on loans		3.857	1.960	810	989
Operating profit before impairment losses on loans		377.480	274.530	92.439	105.300
Impairment losses on loans and guarantees	2	3.028	1.749	1.452	638
Pre-tax profit		374.451	272.781	90.987	104.662
Tax expense		86.070	68.201	20.873	26.171
Profit after tax		288.381	204.580	70.114	78.491
Other comprehensive income					
Adjustments		-	-	-	-
Comprehensive Income		288.381	204.580	70.114	78.491

Balance sheet

NOK 1 000	Note	31.12.18	31.12.17
Assets			
Balances with credit institutions		1.767.956	2.202.630
Loans to customers	2, 5	58.788.174	40.824.596
Bonds		1.930.511	100.216
Financial derivatives	9	2.344.682	1.102.792
Deferred tax assets		33.648	17.983
Other assets	3	0	211
Total assets		64.864.971	44.248.427
Liabilities and equity			
Liabilities			
Listed debt securities	7	55.787.432	39.594.428
Balances with credit institutions		3.373.100	-
Financial derivatives	9	305.861	368.278
Taxes payable	4	103.562	74.248
Other liabilities	4	7.772	5.182
Total liabilities		59.577.727	40.042.135
Equity			
Paid-in equity capital		4.000.150	4.000.150
Retained earnings		1.287.094	206.141
Total equity		5.287.244	4.206.291
Total liabilities and equity		64.864.971	44.248.427

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
Changes in equity IFRS 9 1 January 2018	0	0	-3.429	-3.429
Dividend 2017, resolved in 2018	0	0	-204.000	-204.000
Other paid-in equity (not yet registered)	0	0	1.000.000	1.000.000
Profit for the period	0	0	288.381	288.381
Equity as of 31 December 2018	4.000.000	150	1.287.094	5.287.244

Cash flow statement

NOK 1 000	31.12.18	31.12.17
Interest receipts from lending to customers	1.185.523	898.892
Provisions to SR-Bank	-33.362	-23.572
Payments for operations	-3.006	-2.113
Taxes paid	-71.278	-40.648
Net cash flow relating to operations	1.077.877	832.559
Net purchase of loan portfolio	-17.953.078	-11.457.118
Net payments on the acquisition of bonds	-1.827.667	-49.990
Net cash flow relating to investments	-19.780.745	-11.507.108
Debt raised by issuance of securities	14.763.682	10.981.817
Redemption of issued securities	-	-60.000
Net change in loans from credit institutions	3.373.100	-
Paid in capital equity	1.000.000	1.975.000
Interest payments on debt raised by issuance of securities	-664.589	-488.386
Dividend paid	-204.000	-84.000
Net cash flow relating to funding activities	18.268.193	12.324.431
Net cash flow during the period	-434.674	1.649.882
Balance of cash and cash equivalents start of period	2.202.630	552.748
Balance of cash and cash equivalents end of period	1.767.956	2.202.630

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 - 31 December 2018. 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 2017.

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 15- Revenue from contracts with Customers and IFRS 16- Leases. These standards are not expected to have significant impacts for SR-Boligkreditt AS.

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.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments has replaced IAS 39 from 1 January 2018. See note 27 IFRS 9 Financial Instruments in the annual accounts for 2017, note 2 and note 5 in the interim financial statement for more information on the implementation of IFRS 9.

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 2017 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 27 in the annual account 2017.

NOK 1 000	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost				
Balance sheet 1 January 2018	3.536	5.359	200	9.095
Transfer to/ from stage 1	- 2.082	1.803	279	-
Transfer to/ from stage 2	121	- 343	222	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	1.351	- 7.227	- 48	- 5.924
New financial assets originated or purchased	2.247	2.912	209	5.368
Change due to reduced portfolio	- 928	4.663	- 151	3.584
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Net change	709	1.808	511	3.028
Balance sheet 31 December 2018	4.245	7.167	711	12.123

Note 3 Other assets

NOK 1 000	31.12.18	31.12.17
Other assets	-	211
Total other assets	-	211

Note 4 Other liabilities

NOK 1 000	31.12.18	31.12.17
Taxes payable	103.562	74.248
Deferred taxes	-	-
Accounts payable	-	2.640
Expected credit loss unused credit lines (flexible loans)	117	-
Accrued expenses and prepaid revenue	7.655	2.541
Total other liabilities	111.334	79.429

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 58,800 million. All mortgages carry a variable interest rate.

NOK 1 000	31.12.18	31.12.17
Flexible loans - retail market	15.462.005	11.945.762
Amortising loans - retail market	43.284.234	28.846.309
Accrued interest	53.941	37.049
Gross loans	58.800.180	40.829.119
Individual impairments	N/A	-
Impairments on groups of loans	N/A	-4.523
Impairment losses after amortised cost	-12.006	N/A
Loans to customers	58.788.174	40.824.596
Liability		
Flexible loans - unused credit lines	5.107.530	3.835.770
Total	5.107.530	3.835.770
Expected credit loss on unused credit lines	-117	N/A

Gross loans	2018			Total
	Stage 1	Stage 2	Stage 3	
Balance 01.01.18	39.307.948	1.517.035	4.136	40.829.119
Transfer to stage 1	657.611	(655.135)	(2.476)	-
Transfer to stage 2	(633.213)	635.095	(1.882)	-
Transfer to stage 3	740	-	(740)	-
Net increase/ (decrease) balance existing loans	200.804	(10.511)	(718)	189.575
Originated or purchased during the period	26.525.947	1.014.194	4.360	27.544.501
Loans that have been derecognised	(9.502.226)	(263.221)	2.432	-9.763.015
Balance 31.12.18	56.557.611	2.237.457	5.112	58.800.180

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	31.12.18	31.12.17
Share capital	4.000.000	4.000.000
Premium reserve	150	150
Other equity	287.094	206.141
Total Common Equity Tier 1 capital	4.287.244	4.206.291
Deduction for proposed dividend	0	-204.000
Deduction for expected losses on IRB, net of write-downs	-96.106	-66.807
Value of derivative liabilities at fair value	-3.706	-1.523
Total Tier 1 capital	4.187.432	3.933.961
Other paid in capital	1.000.000	0
Net primary capital	5.187.432	3.933.961
Credit risk	15.533.840	9.828.325
Operational risk	384.596	168.738
Transitional scheme	8.473.100	6.927.742
Risk weighted balance	24.391.536	16.924.805
Minimum requirement for common equity Tier 1 capital ratio 4,5 %	1.097.619	761.616
Buffer requirements:		
Capital conservation buffer 2,5 %	609.788	423.120
Systemic risk buffer 3 %	731.746	507.744
Countercyclical capital buffer 2 %	487.831	338.496
Total buffer requirement to common equity Tier 1 capital ratio	1.829.365	1.269.360
Available common equity Tier 1 capital ratio after buffer requirement	1.260.448	1.902.984
Capital ratio	21,27 %	23,24 %
Tier 1 capital ratio	17,17 %	23,24 %
Common equity Tier 1 capital ratio	17,17 %	23,24 %
Leverage Ratio	6,12 %	8,50 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	53.289.945	16.019.472	37.270.473
Value adjustments	2.282.547	-40.420	2.322.967
Accrued interests	214.940	30.715	184.224
Total securities issued	55.787.432	16.009.767	39.777.665

Securities issued by maturity date

Public covered bonds	Total	NOK	Currency
2019	5.006.799	5.006.799	-
2020	10.031.865	4.999.160	5.032.705
2021	7.489.717	-	7.489.717
2022	5.200.974	-	5.200.974
2023	11.132.995	5.003.659	6.129.336
2024	4.999.873	-	4.999.873
2025	7.598.911	-	7.598.911
2029	151.533	-	151.533
2031	99.315	-	99.315
2032	1.000.151	1.000.151	-
2038	2.881.455	-	2.881.455
2041	193.845	-	193.845
Sum	55.787.432	16.009.767	39.777.665

Change in debt raised through issuance of securities

	Balance 31.12.18	Issued 2018	Exchange rate and other changes 2018	Balance 31.12.2017
Covered bonds, nominal value	53.289.945	14.763.683	-26.040	38.552.302
Adjustments	2.282.547	-	1.406.535	876.012
Accrued interests	214.940	-	48.826	166.114
Total debt raised through issuance of securities	55.787.432	14.763.683	1.429.321	39.594.428

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 2018), loans with a loan-to-value ratio in excess of 75 % and use market values.

NOK 1 000	31.12.18	31.12.17
Covered bonds	55.787.432	39.594.428
Total covered bonds	55.787.432	39.594.428
Loans to customers	58.237.977	40.501.323
Substitute collateral	4.709.670	2.613.014
Total cover pool	62.947.647	43.114.337
Asset coverage	112,8 %	108,9 %

Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 31.12.18	Fair value at 31.12.18	
		Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	79.640.715	2.313.924	371.213
Total hedging / Interest and exchange rate instruments	79.640.715	2.313.924	371.213
Total currency and interest rate instruments			
Total interest and exchange rate instruments	79.640.715	2.313.924	371.213
Total accrued interests	-	30.759	-65.352
Total financial derivatives	79.640.715	2.344.682	305.861

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	31.12.18	31.12.17
Net gains for bonds and certificates	-700	235
Net change in value, basis swap spread	-62.344	-98.991
Net change in value, other financial investments	-16.582	5.591
Net change in value, currency effect	17	42
Net income from financial instruments	-79.608	-93.123

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 December 2018.

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