



SR-Boligkreditt

First Quarter 2019

Interim Financial Statements Q1 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 31 March 2019

Net income totalled NOK 108.5 million as at 31 March 2019.

(Amounts in NOK millions)	01.01.19 - 31.03.19	01.01.18 - 31.03.18
Total income	108.5	108.1
Net interest income	141.4	121.2
Net commission income	-10.6	-7.6
Net income on financial inve	-22.3	5.6

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 March 2019, total assets stood at NOK 67.4 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 60.4 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 March 2019, the company's equity totalled NOK 6.1 billion. The capital adequacy ratio was 23.1%.

Outlook

Continued growth in private consumption, increasing business investments and growth in exports is expected to contribute to a growth in mainland GDP by 2.7 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 2.3 per cent. The Central Bank of Norway increased its base rate by 0.25 percentage points in March 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, 8 May 2019

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.19 - 31.03.19	01.01.18 - 31.03.18	2018
Interest income		395.959	256.539	1.202.416
Interest expense		254.570	135.346	707.375
Net interest income		141.389	121.193	495.042
Commission and fee expenses		10.571	7.575	34.097
Net commission income		-10.571	-7.575	-34.097
Net gains/losses on financial instruments	10	-22.317	-5.566	-79.608
Net income on financial investments		-22.317	-5.566	-79.608
Total net income		108.501	108.052	381.337
Administrative expenses		418	377	1.597
Other operating costs		370	261	2.260
Total operating costs before impairment losses on loans		788	638	3.857
Operating profit before impairment losses on loans		107.713	107.414	377.480
Impairment losses on loans and guarantees	2	1.955	0	3.028
Pre-tax profit		105.758	107.414	374.451
Tax expense		23.267	26.853	86.070
Profit after tax		82.491	80.560	288.381
Other comprehensive income				
Adjustments		-	-	-
Comprehensive Income		82.491	80.560	288.381

Balance sheet

NOK 1 000	Note	31.03.19	31.03.18	31.12.18
Assets				
Balances with credit institutions		1.689.773	1.049.628	1.767.956
Loans to customers	2, 5	61.921.324	42.098.552	58.788.174
Bonds		1.930.564	100.170	1.930.511
Financial derivatives	9	1.848.998	617.544	2.344.682
Deferred tax assets		33.648	17.983	33.648
Other assets	3	-	318	-
Total assets		67.424.306	43.884.193	64.864.971
Liabilities and equity				
Liabilities				
Listed debt securities	7	60.388.500	38.788.062	55.787.432
Balances with credit institutions		602.148	31.133	3.373.100
Financial derivatives	9	248.585	696.767	305.861
Taxes payable	4	58.521	60.936	103.562
Other liabilities	4	41.818	23.873	7.772
Total liabilities		61.339.571	39.600.770	59.577.727
Equity				
Paid-in equity capital		6.000.150	4.000.150	5.000.150
Retained earnings		84.585	283.273	287.094
Total equity		6.084.735	4.283.423	5.287.244
Total liabilities and equity		67.424.306	43.884.193	64.864.971

Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
Equity as of 31 December 2016	2.025.000	150	85.561	2.110.711
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
Equity as of 31 December 2017	4.000.000	150	206.141	4.206.291
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
Equity as of 31 December 2018	4.000.000	150	1.287.094	5.287.244
Capital increase 9 February 2019	1.000.000	-	(1.000.000)	-
Dividend	-	-	(285.000)	(285.000)
Other paid-in equity (not yet registered)	1.000.000	-	-	1.000.000
Profit for the period	-	-	82.491	82.491
Equity as of 31 March 2019	6.000.000	150	84.585	6.084.735

Cash flow statement

NOK 1 000	31.03.19	31.03.18	31.12.18
Interest receipts from lending to customers	390.183	254.447	1.185.523
Provisions to SR-Bank	(10.571)	(7.574)	(33.362)
Payments for operations	(828)	(530)	(3.006)
Taxes paid	(34.154)	(19.511)	(71.278)
Net cash flow relating to operations	344.630	226.832	1.077.877
Net purchase of loan portfolio	(3.129.382)	(1.274.965)	(17.953.078)
Net payments on the acquisition of bonds	1.750	-	(1.827.667)
Net cash flow relating to investments	(3.127.632)	(1.274.965)	(19.780.745)
Debt raised by issuance of securities	4.998.157	-	14.763.682
Redemption of issued securities	-	-	-
Net change in loans from credit institutions	(2.770.952)	31.132	3.373.100
Paid in capital equity	1.000.000	-	1.000.000
Interest payments on debt raised by issuance of securities	(237.387)	(136.001)	(664.589)
Dividend paid	(285.000)	-	(204.000)
Net cash flow relating to funding activities	2.704.818	(104.869)	18.268.193
Net cash flow during the period	(78.184)	(1.153.002)	(434.674)
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	1.689.773	1.049.628	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 - 31 March 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	2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost				
Balance sheet 1 January 2019	4.245	7.167	711	12.123
Transfer to/ from stage 1	(1.560)	1.560	-	-
Transfer to/ from stage 2	110	600	(711)	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	1.721	(46)	(0)	1.675
New financial assets originated or purchased	752	723	0	1.474
Change due to reduced portfolio	(309)	(885)	0	(1.194)
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 March 2019	4.959	9.119	-	14.078

Note 3 Other assets

NOK 1 000	31.03.19	31.03.18	31.12.18
Other assets	-	318	-
Total other assets	-	318	-

Note 4 Other liabilities

NOK 1 000	31.03.19	31.03.18	31.12.18
Taxes payable	58.521	60.936	103.562
Accounts payable	37.867	19.708	-
Expected credit loss on remaining credit lines (flexible loans)	171	286	117
Accrued expenses and prepaid revenue	3.780	3.878	7.655
Total other liabilities	100.339	84.809	111.334

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	31.03.19	31.03.18	31.12.18	
Flexible loans - retail market	16.215.620	12.073.337	15.462.005	
Amortising loans - retail market	45.659.892	29.994.883	43.284.234	
Accrued interest	59.718	39.140	53.941	
Gross loans	61.935.230	42.107.361	58.800.180	
Individual impairments	N/A	N/A	N/A	
Impairments on groups of loans	N/A	N/A	N/A	
Impairment losses after amortised cost	(13.907)	(8.809)	(12.006)	
Loans to customers	61.921.324	42.098.552	58.788.174	
Liability				
Remaining credit lines (flexible loans)	5.357.725	3.979.966	5.107.530	
Total	5.357.725	3.979.966	5.107.530	
Expected credit loss on remaining credit lines	(171)	(286)	(117)	
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	(460.473)	460.473	-	-
Transfer to stage 2	543.656	(538.544)	(5.112)	-
Transfer to stage 3	-	-	-	-
Net increase/ (decrease) balance existing loans	(1.382.928)	14.257	-	(1.368.671)
Originated or purchased during the period	8.125.786	161.721	-	8.287.508
Loans that have been derecognised	(3.449.533)	(334.254)	-	(3.783.787)
Balance 31.03.19	59.934.119	2.001.111	-	61.935.230

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	31.03.19	31.03.18	31.12.18
Share capital	6.000.000	4.000.000	4.000.000
Premium reserve	150	150	150
Other equity	2.094	202.712	287.094
Total Common Equity Tier 1 capital	6.002.244	4.202.862	4.287.244
Deduction for proposed dividend	-	(204.000)	-
Deduction for expected losses on IRB, net of write-downs	-99.304	-69.022	-96.106
Value of derivative liabilities at fair value	-3.026	-1.535	-3.706
Total Tier 1 capital	5.899.914	3.928.305	4.187.432
Paid-in share capital, not yet registered	-	-	1.000.000
Net primary capital	5.899.914	3.928.305	5.187.432
Credit risk	15.045.668	9.049.405	15.533.840
Operational risk	615.574	384.596	384.596
Transitional scheme	9.924.141	7.584.250	8.473.100
Risk weighted balance	25.585.383	17.018.251	24.391.536
Minimum requirement for Common Equity Tier 1 capital ratio 4,5 %	1.151.342	765.821	1.097.619
Buffer requirements:			
Capital conservation buffer 2,5 %	639.635	425.456	609.788
Systemic risk buffer 3 %	767.561	510.548	731.746
Countercyclical capital buffer 2 %	511.708	340.365	487.831
Total buffer requirement to Common Equity Tier 1 capital ratio	1.918.904	1.276.369	1.829.365
Available common equity Tier 1 capital ratio after buffer requirement	2.829.668	1.886.115	1.260.448
Capital ratio	23,06 %	23,08 %	21,27 %
Tier 1 capital ratio	23,06 %	23,08 %	17,17 %
Common Equity Tier 1 capital ratio	23,06 %	23,08 %	17,17 %
Leverage Ratio	8,17 %	8,77 %	6,12 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	58.295.395	21.019.433	37.275.962
Value adjustments	1.830.922	(22.799)	1.853.721
Accrued interests	262.183	45.450	216.733
Total securities issued	60.388.500	21.042.084	39.346.416

Securities issued by maturity date

Public covered bonds	Total	NOK	Currency
2019	5.007.172	5.007.172	-
2020	9.904.616	4.999.838	4.904.778
2021	7.306.380	-	7.306.380
2022	10.254.846	5.007.299	5.247.547
2023	10.963.660	5.003.898	5.959.762
2024	4.938.083	-	4.938.083
2025	7.545.694	-	7.545.694
2029	151.265	-	151.265
2031	101.312	-	101.312
2032	1.023.877	1.023.877	-
2038	2.988.837	-	2.988.837
2041	202.759	-	202.759
Total debt	60.388.500	21.042.084	39.346.416

Change in debt raised through issuance of securities

	Balance 31.03.19	Issued 2019	Matured/ redeemed 2019	Exchange rate and other changes 2019	Balance 31.12.18
Covered bonds, nominal value	58.295.395	5.000.000	-	5.450	53.289.945
Adjustments	1.830.922	-	-	(451.626)	2.282.547
Accrued interests	262.183	-	-	47.243	214.940
Total debt raised through issuance of securities	60.388.500	5.000.000	-	(398.932)	55.787.432

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

NOK 1 000	31.03.19	31.03.18	31.12.18
Covered bonds	60.388.500	38.788.062	55.787.432
Total covered bonds	60.388.500	38.788.062	55.787.432
Loans to customers	61.131.511	41.613.125	58.237.977
Substitute collateral	4.711.366	968.899	4.709.670
Total cover pool	65.842.877	42.582.024	62.947.647
Asset coverage	109,0 %	109,8 %	112,8 %

Note 9 Financial derivatives

At fair value through profit and loss	Contract amount	Fair value at 31.03.19	
NOK 1 000	31.03.19	Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	77.809.230	1.734.663	260.103
Total hedging / Interest and exchange rate instruments	77.809.230	1.734.663	260.103
Total currency and interest rate instruments			
Total interest and exchange rate instruments	77.809.230	1.734.663	260.103
Total accrued interests	-	114.336	(11.519)
Total financial derivatives	77.809.230	1.848.998	248.585

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	31.03.19	31.03.18	31.12.18
Net gains for bonds and certificates	1.558	(42)	(700)
Net change in value, basis swap spread	(23.474)	(2.047)	(62.344)
Net change in value, other financial investments	(402)	(3.478)	(16.582)
Net change in value, currency effect	-	-	17
Net income from financial instruments	(22.317)	(5.566)	(79.608)

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 March 2019.

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