ANNUAL REPORT 2017

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SR-Boligkreditt

Subsidiary of SpareBank 1 SR-Bank

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Annual accounts

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Annual report for 2017

SR-Boligkreditt AS (the Company) has an office in Stavanger and is a fully-owned subsidiary of SpareBank 1 SR-Bank ASA. The enterprise is a finance company that issues covered bonds. The assets consist primarily of securitised residential mortgages.

At the end of 2017, the Company's total loans to customers amounted to NOK 40.8 billion, compared to NOK 29.4 billion at the end of 2016. Debt in the form of covered bonds amounted to NOK 39.6 billion (NOK 27.3 billion).

The market

Funding opportunities by means of issuing covered bonds have been good in 2017. Covered bonds is an important asset class in the Norwegian market, and foreign investors have also shown great interest in buying covered bonds issued by Norwegian enterprises. SR-Boligkreditt AS bonds have been assigned an Aaa rating by Moody's Investor Service, and the high rating ensures access to financing on good terms.

Corporate governance

SR-Boligkreditt AS's principles and policy for corporate governance are built on the Norwegian code of practice for corporate governance issued by the Norwegian Corporate Governance Board (NCGB). The Company has adapted the code mentioned above, and SR-Boligkreditt AS's principles and policy are intended to ensure that corporate governance is in line with generally accepted perceptions and standards, and is in compliance with applicable laws and regulations. Furthermore, corporate governance shall ensure good cooperation among the various interests such as shareholders, lenders, customers, employees, governing bodies, management and society at large. It is the opinion of the Board of Directors that SR-Boligkreditt AS's corporate governance is satisfactory and in accordance with applicable principles and policy.

During 2017, 7 board meetings were held. The Board's focal areas have been following up operations, strategy, risk and capital governance and surveillance of markets and framework terms and conditions. The Board has prepared an annual schedule for its work, and emphasis is placed on ensuring sufficient knowledge and expertise among board members.

As a fully-owned subsidiary of SpareBank 1 SR-Bank ASA, SR-Boligkreditt AS is exempt from having a separate audit committee. The Company has an independent and effective external and internal audit.

Risk management and internal control is done continuously and any operational incidents that could cause disruptions and/or loss are recorded. SR-Boligkreditt AS conducts an annual review of these routines. The enterprise's risk strategy is adopted by the Board. Identified areas of risk and any significant control deviations concerning the company's financial reporting are followed up by means of the company's risk management and internal control system, and reported to the Board at each board meeting.

The Company's ethical guidelines include a duty to report in cases of blameworthy conditions, including breeches of internal guidelines, laws and regulations, as well as the method to be used to submit this information.

Major enterprises shall submit information on their handling of social responsibility, cf. Section 3-3c of the Norwegian Accounting Act. The parent bank, SpareBank1 SR-Bank ASA submits such reports for the group, which also covers subsidiaries. Reference is made to the parent bank's annual report for further information.

SR-Boligkreditt AS's activities are supervised by the Financial Supervisory Authority of Norway. The Board and administration endeavour to maintain an open and constructive dialogue with the Financial Supervisory Authority of Norway.

Review of the annual accounts

Profit and loss account

SR-Boligkreditt AS reports in accordance with the IFRS. The Company's operating result before depreciation and tax amounted to NOK 274.5 million for the 2017 accounting year, compared to NOK 115.4 million in 2016. The result after depreciation and tax was NOK 204.6 million (NOK 84.9 million). The Company's interest income and similar income in 2017 amounted to NOK 910.6 million (NOK 508.3 million). Net interest income amounted to NOK 395.7 (NOK 169.3 million) in 2016. Net losses from financial investments in 2017 amounted to NOK 93.1 million (NOK 33.4 million), which for the most part is due to value regulation of swaps related to deferral hedge accounting of financial liabilities.

The Company's operating costs and fee expenses in 2017 amounted to NOK 28.1 million (NOK 20.5 million). The Company purchases a number of services from SpareBank1 SR-Bank ASA. Purchase of services is formalised by means of various agreements and the Company is thereby ensured competencies in central professional areas, while also maintaining cost-efficient operations. The Company purchases loans from SpareBank1 SR-Bank ASA. Commissions for purchase of loans and services are based on ordinary business principles and amounted to NOK 26.1 million (NOK 15.0 million) in 2017.

For the financial year 2017, group loan write-downs amounted to NOK 1.7 million (NOK 2.3 million). There are no individual write-downs on loans in 2017. The Company had no realised losses in 2017.

Tax expense for 2017 is estimated at NOK 68.2 million (NOK 28.3 million), which represents 25.0 per cent (25.0 per cent) of the profit before tax. Net profit after tax for the year 2017 was NOK 204.6 million (NOK 84.9 million), which corresponds to a weighted return on equity of 6.5 per cent after tax.

The Board considers the result as satisfactory. Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board confirms that the accounts have been prepared on a going concern basis.

Balance sheet and capital adequacy

The total assets of SR-Boligkreditt AS at the end of the financial year amounted to NOK 44.2 billion (NOK 30.1 billion). Net lending to customers was NOK 40.8 billion (NOK 29.4 billion). Liabilities in the form of covered bonds amounted to NOK 39.6 billion (NOK 27.3 billion). The Company's outstanding debt securities amounted to NOK 39.6 billion (NOK 27.3 billion).

SR-Boligkreditt AS has authorisation from the Financial Supervisory Authority of Norway to make use of the IRB approach to calculate the Company's capital. This authorisation does not currently have any effect on SR-Boligkreditt AS's capital coverage since the authorities have also decided to continue the so-called Basel 1 floor giving residential mortgages a risk weight of 40 per cent. The company will continue to use the IRB approach, even if the standard approach utilizes 35 per cent risk weight on residential mortgages, because this provides, in the Board's opinion, better risk and capital management in the Company.

The capital adequacy ratio of SR Boligkreditt AS based on the transitional arrangements for enterprises with IRB approval, was at year end 23.2 per cent (16.3 per cent). Capital adequacy consists of common equity. All capital is provided by the parent bank.

The cash flow from operating activities was NOK 832.6 million (NOK 464.5 million), while the operating result before tax was NOK 272.8 million (NOK 113.1 million). The difference of NOK 559.8 million is primarily related to interest expenses on financing activities. Net cash flow in 2017 was positive at NOK 1.6 million.

There have been no significant subsequent events that affect the financial statements for 2017.

Risk factors

Laws and regulations for companies with a licence to issue covered bonds suggest that the level of risk is low. The Board emphasises that different types of risk are identified and measured. The Company has established guidelines and frameworks for the management and control of various risk areas. It is the Board's opinion that the overall risk exposure in the Company is low.

Credit risk

Credit risk is defined as the risk of a loan customer or counterparty failing to fulfil its obligations to SR-Boligkreditt AS. In the professional credit framework for the Company, requirements are established for loans that may be incorporated in the Company's loan portfolio. There have been no significant changes in the Company's credit risk profile throughout the fiscal year.

The mortgages in the cover pool of SR-Boligkreditt AS cannot have a loan to value above 75 per cent, average loan to value at 31.12.2017 stood at 57.6 of current value. The Board considers the quality of the loan portfolio to be good, an assessment which is reinforced by the Company's low losses. The Board expects that losses on loans and guarantees will be kept at a low level in future.

A fall in house prices will reduce the net value of the Company's cover pool. Stress tests are carried out regularly to calculate the effect of a fall in house prices. The Board is comfortable with the outcome of the stress tests.

Market risk

Market risk is defined as the risk of financial loss due to changes in observable market variables such as interest rates, exchange rates and prices of financial instruments.

SR-Boligkreditt AS has low market risk, and limits are established for maximum exposure to fluctuations in the interest and currency market.

To the extent that the Company borrows at fixed rates, and/or that the bonds are issued in foreign currency, interest rate and currency risks are eliminated by entering into swap agreements when the bonds are issued for the entire term of the loans. Swaps are entered into with counterparties of good credit quality. The agreements have been approved by the rating agency used by the Company and contribute to the good rating of the Company's covered bonds.

The Board considers both interest and currency risks and the overall market risk of the Company to be low.

Liquidity risk

Liquidity risk is the risk that the Company is unable to refinance at maturity, or unable to fund increases in assets.

All bonds are issued by SR-Boligkreditt AS based on agreements in which the Company has a unilateral right to extend the maturity of bonds by up to twelve months. This right may be used if the Company encounters difficulties refinancing by ordinary due date.

The Company has an agreement with the parent bank in which the bank is obliged to provide emergency liquidity support if necessary to ensure that outstanding bonds and associated derivatives shall receive timely settlement by the ordinary due date.

The Board considers the Company's liquidity risk as low.

Operational risk

Operational risk is the risk of loss due to errors and irregularities in the handling of transactions, lack of internal control or irregularities in the IT-systems that the Company uses.

Identification of operational risk is done through assessments and management confirmations that are part of the internal control in the Company. A management agreement has been signed with SpareBank1 SR-Bank ASA that comprises administration, bank production, IT operations, finance and risk management. According to the agreement, the bank must compensate the Company's expenses arising from any errors in the deliveries and services that the bank should provide. The operational risk is assessed continually. The Company uses EY as internal auditor, and any discrepancies are reported to the Board. The Board considers the Company's operational risk to be low.

Employees and the working environment

The CEO is formally employed by the parent bank and leased to SR-Boligkreditt AS as general manager. Other resources for operation of the company are supplied by various departments in SpareBank1 SR-Bank ASA based on agreements between the Company and the parent bank. No serious workplace accidents have occurred or been reported over the year. The working environment in the Company is considered good, and the Company activities do not pollute the environment.

The Board of Directors consists of four people, of which one is a woman. Three of the Board members are employed in leading positions in SpareBank1 SR-Bank ASA. The other Board member is independent of the SpareBank1 SR-Bank ASA group. There have been no changes in Board membership during 2017.

Regulatory framework

The Ministry of Finance increased the buffer requirement from 1.5 to 2.0 percentage points from 31 December 2017. The minimum requirement for common equity thus increased to 12.0 per cent at year-end 2017 and capital adequacy ratio increased to at least 15.5 per cent. SR-Boligkreditt's common equity stood at 23.2 per cent at year end.

The Ministry of Finance introduced March 2017 a requirement for over-collateralization of 2 per cent. The LCR requirements raises from 80 per cent to 100 per cent by December 2017. SR-Boligkreditt reported 138 per cent per 31 December 2017.

Economic development and future prospects

Moderate to increasing growth is expected in the global economy in 2018 and 2019. Growth in the Norwegian economy is good and activities in oil-related operations are showing signs of improvement. Investments in the petroleum sector fell by around 10% in 2017. The Norwegian Petroleum Directorate is expecting a weak increase in oil investments of around 1.5% in 2018 and a further marked increase of 13% in 2019.

The total level of activity in Rogaland was subdued in 2017 but is expected to rise in coming years. Both oil companies and the supply industry are now reporting better prospects with higher sales, new investments and more hiring. Export-oriented industries are experiencing growth due to a weak Norwegian kroner and greater competitiveness. The building and construction industry is seeing the positive effects of an improving local housing market and moderately increasing activity is expected in this sector going forward. Continued, stable activity is expected within most sectors in Hordaland and the Agder counties.

Unemployment in Norway has been gradually falling and was 2.4% at year end 2017. In Rogaland, unemployment has fallen from 4.5% a year ago to 3.2% at year end 2017. Unemployment also fell in Hordaland and Agder. EiendomsMegler 1 is reporting higher activity in the housing market, with the total market in Rogaland growing by 7.7% in the last year. The market was stable in Agder and fell slightly in Hordaland. The figure for the rise in house prices in Norway over the last 12 months turned from 12.8% as per December 2016 to -2.1% as per December 2017, while the fall in prices in Stavanger turned from -2.6% as per December 2016 into growth of 0.0% as per December 2017. Some uncertainty is expected concerning the development of transaction volumes and house prices in the total market going forward. The combination of lower unemployment in the group's market area and the fact that the fall in house prices seen in the Stavanger region has now turned around means that going forward the group expects lending volumes to rise moderately by 4-6% in 2018.

Defaults are expected to continue to be low and at the same rate as in 2017. SR-Boligkreditt AS's activities are expected to generate satisfactory profitability in 2018 and will contribute to the parent bank's competitiveness in the mortgage market.
The board would like to emphasise that there is considerable uncertainty associated with all assessments of future conditions.

Allocations

Profit after depreciation and tax for the year 2017 amounted to NOK 204.6 million (84.9 million), and the Board of Directors proposes to issue a NOK 204 million dividend to SpareBank1 SR-Bank ASA, the residual is added to the Company's equity. The dividend is considered justifiable as the Board finds that the parent bank will increase the Company's capital should this be needed.

Stavanger, 20 April 2018

Inge Reinertsen, Chairman

Merete Eik

Stian Helgøy

Børge Henriksen

Dag Hjelle, CEO

Income statement

NOK 1 000	Note	2017	2016
Interest income	15	910.559	508.319
Interest expense	15	514.852	339.006
Net interest income		**395.707**	**169.312**
Commission and fee expenses		26.094	14.952
Net commission income		**-26.094**	**-14.952**
Net gains/losses on financial instruments	16	-93.123	-33.402
Net income on financial investments		**-93.123**	**-33.402**
Total net income		**276.490**	**120.958**
Administrative expenses	17	1.444	1.485
Other operating costs	17	516	4.058
Total operating costs before impairment losses on loans		**1.960**	**5.543**
Operating profit before impairment losses on loans		**274.530**	**115.415**
Impairment losses on loans and guarantees	5	1.749	2.281
Pre-tax profit		**272.781**	**113.134**
Tax expense	18	68.201	28.284
Profit after tax		**204.580**	**84.851**
Other comprehensive income			
Adjustments		-	-
Comprehensive Income		**204.580**	**84.851**

Balance sheet

NOK 1 000	Note	2017	2016
Assets			
Balances with credit institutions		2.202.630	552.748
Loans to customers	6,7,8,9	40.824.596	29.357.902
Bonds	19	100.216	49.967
Financial derivatives	19, 20	1.102.792	171.271
Deferred tax assets	18	17.983	11.935
Other assets	21	211	489
Total assets		**44.248.427**	**30.144.313**
Liabilities and equity			
Liabilities			
Listed debt securities	22, 23	39.594.428	27.272.136
Financial derivatives	19, 20	368.278	717.386
Taxes payable	18	74.248	40.648
Other liabilities	24	5.182	3.432
Total liabilities		**40.042.135**	**28.033.602**
Equity			
Paid-in equtiy capital	26	4.000.150	2.025.150
Retained earnings		206.141	85.561
Total equity		**4.206.291**	**2.110.711**
Total liabilities and equtiy		**44.248.427**	**30.144.313**

Stavanger, 20 april 2018

Inge Reinertsen, Chairman

Merete Eik

Stian Helgøy

Børge Henriksen

Dag Hjelle, CEO

Statement of changes in equity

NOK 1 000	Share-capital	Premium reserve	Other equity	Total equity
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 May 2016	750.000	-	-	750.000
Profit for the period	-	-	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	-	-	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**

Statement of cash flow

NOK 1 000	Note	31.12.17	31.12.16
Interest receipts from lending to customers	15	898.892	493.710
Provisions to SR-Bank	25	-23.572	-14.952
Payments for operations	17	-2.113	-4.093
Taxes paid	18	-40.648	-10.143
Net cash flow relating to operations		**832.559**	**464.522**
Net purchase of loan portfolio	6	-11.457.118	-19.393.732
Net payments on the acquisition of bonds		-49.990	-49.892
Net investments in intangable assets		-	-
Net cash flow relating to investments		**-11.507.108**	**-19.443.624**
Debt raised by issuance of securities	22	10.981.817	18.407.673
Redemption of issued securities		-60.000	-
Net change in loans from credit institutions		-	-
Paid in capital equity	26	1.975.000	750.000
Interest payments on debt raised by issuance of securititees	15	-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 General information

SR-Boligkreditt AS is a wholly owned subsidiary of SpareBank 1 SR-Bank ASA and was established in accordance with the special banking principle in Norwegian legislation concerning the issuing of covered bonds.

The purpose of the company is to acquire home mortgages from SpareBank 1 SR-Bank ASA and fund lending activities, primarily through issuing covered bonds.

Note 2 – Accounting principles

Basis for the preparation of the annual financial statements for SR-Boligkreditt AS
The annual financial statements cover the period 1 January - 31 December 2017.

The annual financial statements of SR-Boligkreditt AS ("the company") have been prepared in accordance with International Finance Reporting Standards (IFRS) as adopted by the EU. This includes interpretations from the IFRS Interpretations Committee and its predecessor the Standing Interpretations Committee (SIC).

SR-Boligkreditt AS is a limited company registered as based in Norway with its head office in Stavanger.

The basis for measurement used in the company's financial statements is acquisition cost, with the following modifications: financial derivatives and some financial liabilities are recognized at fair value with value changes through profit or loss.

Preparing financial statements in accordance with IFRS requires the use of estimates. Furthermore, applying international reporting standards requires management to use its judgement. Areas that involve a great deal of discretionary estimates, a high degree of complexity, or areas where assumptions and estimates are significant for the company's financial statements are described in note 3.

New standards and interpretations that have not been adopted yet.
A number of new standards, amendments to standards and interpretations will be compulsory in future annual financial statements. The most important of these that the company has chosen not to implement early are described below:

IFRS 9 replaces the classification and measurement models in IAS 39 Financial Instrument: Recognition and measurement with one simple model, which basically only has two categories: amortized cost and fair value. The classification of loans depends on the unit's business model for managing its financial assets and the attributes of the individual asset's cash flows.

Note 27 provides a more exhaustive account of the assessments regarding IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with recognizing revenue. This will replace IAS 18 which applies to contracts for goods and services and IAS 11 which applies to construction contracts. The new standard is based on the principle that income recognition takes place when control over a good or service is transferred to a customer – so the principle of control will replace the existing principle of risk and return.

The company is currently assessing the effects of IFRS 15.

There are no other standards or interpretations which are not currently in effect and would be expected to have a material effect on the company's financial statements.

Presentation currency

The presentation currency is Norwegian kroner (NOK), which is also the company's functional currency. All figures are in NOK 1 000 unless otherwise stated.

Lending and losses on loans

Loans with variable rates are measured at amortized cost in accordance with IAS 39. The amortized cost is the acquisition cost minus repayments on the principal, taking into account transaction costs, plus or minus cumulative amortization using the effective interest method, and less any amount for impairment in value or exposure to loss. The effective interest rate is the interest that exactly discounts estimated future cash receipts and payments over the expected life of the financial instrument.

Purchase of loans

The company has concluded an agreement concerning the purchase of loans with good security and collateral in real estate from SpareBank 1 SR-Bank ASA. In accordance with the management agreement between the company and SpareBank 1 SR-Bank ASA, SpareBank 1 SR-Bank ASA will be responsible for the management of loans and maintaining customer contact. The company pays a fee for the services included in the management of the loans. This remuneration is in the form of a fixed commission per loan where interest and instalments are paid in accordance with the loan agreement.

SpareBank 1 SR-Bank ASA guarantees the legal status of the purchased loans at the time they are purchased. The company has assumed the risk and returns associated with the purchased loans and records these as loans to customers in the company's balance sheet.

Assessment of impairment of financial assets

On each balance sheet date, the company assesses whether there is any objective evidence that the cash flow expected when the item was initially recorded will not be realized and that the value of the financial asset or group of financial assets has been reduced. An impairment in value of a financial asset assessed at amortized cost or group of financial assets assessed at amortized cost has been incurred if, and only if, there is objective evidence of impairment that could result in a reduction in future cash flows to service the commitment. The impairment must be the result of one or more events that have occurred after the initial recognition (a loss event) and it must be possible to measure the result of the loss event (or events) in a reliable manner. Objective evidence that the value of a financial asset or group of financial assets has been reduced includes observable data that is known to the company relating to the following loss events:

- The issuer or borrower is experiencing significant financial difficulties
- Breach of contract, such as a default or delinquency in payment of instalments and interest
- The company granting the borrower special terms for financial or legal reasons relating to borrower's financial situation
- Likelihood of the debtor entering into debt negotiations or other financial reorganization
- Disappearance of an active market for the financial asset because of financial difficulties
- Observable data indicating that there is a measurable decline in future cash flows from a group of financial assets since the initial recognition of those assets, even though the decline cannot yet be fully identified with the individual financial assets in the group including:
    - adverse changes in the payment status of the borrowers in the group
    - national or local economic conditions that correlate with defaults of the assets in the group

The company first considers whether there is individual objective evidence of impairment of financial assets that are significant individually. For financial assets that are not individually significant, the objective evidence of impairment is considered individually or collectively. If the company decides that there is no objective evidence of impairment of an individually assessed financial asset, significant or not, the asset is included in a portfolio of financial assets with the same credit risk characteristics. The group is tested for any impairment on a portfolio basis. Assets that are assessed individually with respect to impairment, and where an impairment is identified or continues to be identified, are not included in a general assessment of impairment. See note 5.

If there is objective evidence that impairment has occurred, the amount of the loss is calculated as the difference between the asset's book (carrying) value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's latest effective interest rate. The book value of the asset is reduced using an allowance account and the loss is recorded in the income statement.

Future cash flows from a group of financial assets that are tested for impairment on a portfolio basis are estimated on the basis of the contractual cash flows for the group and historical losses on assets with a similar credit risk. Historical losses are adjusted for existing observable data in order to take into account the effects of existing circumstances that were not present at the time of the historical losses and to adjust for the effect of earlier circumstances that do not exist today.

Non-performing and loss exposed commitments

The total commitment to a customer is considered to be in default (non-performing) and included in the company's summaries of defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. Loans and other commitments that are not in default, but where the customer's financial situation makes it likely that the company will incur a loss, are classified as loss exposed commitments.

Realized losses

When it is highly probable that the losses are final, the losses are classified as realized losses. Realized losses that are covered by earlier specific loss provisions are recorded against the provisions. Realized losses without cover by way of impairment losses on loans and over or under coverage in relation to previous impairment losses on loans are recognized through profit or loss.

Repossessed assets

As part of the handling of non-performing loans and guarantees, the company acquires, in some cases, assets that have been lodged as security for such commitments. At the time of takeover, the assets are valued at their assumed realization value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realized are classified as operations that will be sold, holdings or fixed assets held for sale and recorded in accordance with the relevant IFRS standards (normally IAS 16, IAS 38, IAS 39 or IFRS 5). This has not happened during 2016.

Securities

Securities consists of certificates and bonds. These are either financial assets at fair value through profit or loss or held to maturity investments. All financial instruments that are classified at fair value with value change through profit or loss, are measured at fair value, and changes in the value from the opening balance are recorded as income from financial investments.

Certificates and bonds that are classified as held to maturity are measured at amortized cost using an effective interest rate method. See description of this method in the section on lending.

Derivatives and hedging

Derivatives consist of currency and interest rate instruments. Derivatives are recognized at fair value through profit or loss.

The company uses derivatives for operational and accounting (funding) hedging purposes to minimize the interest rate risk in fixed rate instruments (fixed rate funding and fixed rate loans), bonds (assets and liabilities), and certificates (assets and liabilities). The efficiency of the hedging is assessed and documented both when the initial classification is made and on an ongoing basis. According to fair value hedging the hedging instrument is recognized at fair value, but as far as the hedging object is concerned changes in fair value linked to the hedged risk are recognized in profit and loss.

Funding

Funding is initially recorded at the cost at which it is raised, which is fair value of the proceeds received after deducting transaction costs. Loans raised with variable interest rates are thereafter measured at amortized cost, and any discount/premium is accrued over the term of the loan. Borrowing at fixed interest rates is subject to hedge accounting for the NIBOR/LIBOR component of the fixed rate.

Contingent liabilities

Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialize and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recording if they are significant.

Provisions are made for restructuring costs when the company has a contractual or legal obligation, payment is probable and the amount can be estimated, and the size of the obligation can be estimated with sufficient reliability.

Dividends

Dividends are recognized as equity in the period prior to being approved by the company's annual general meeting.

Interest income and interest costs

Interest income and interest costs related to assets and liabilities that are measured at amortized cost are recorded continuously in the income statement in accordance with the effective interest rate method. The effective interest rate is the interest rate that results in the present value of the expected cash flow over the expected life of a financial asset or liability being equal to the book value (carrying value) of the respective financial asset or liability. When calculating an effective interest rate, the cash flow effect inherent in the agreement is estimated, without taking into account future impairment. The calculations take therefore into account inter alia fees, transaction costs, premiums and discounts.

Commissions and commission costs

Commissions and commission costs are generally accrued in line with the delivery/receipt of a service.

The same applies to day-to-day management services. Fees and charges related to the sale or brokerage of financial instruments, properties or other investment objects that do not generate balance sheet items in the company's financial statements, are recognized when the transaction is completed.

Transactions and balance sheet items in foreign currency

Transactions involving foreign currencies are converted into Norwegian kroner using the exchange rates at the time of the transactions. Gains and losses linked to executed transactions, or to the conversion of holdings of balance sheet items, in foreign currency are recognized on the balance sheet date. Gains and losses on non-monetary items are included in the income statement in the same way as the corresponding balance sheet item. The exchange rate on the balance sheet date is used when converting balance sheet items.

Taxes

Taxes consist of payable tax and deferred tax. Payable tax is the estimated tax on the year's taxable profit.

Payable tax for the period is calculated according to the tax laws and regulations enacted or substantively enacted on the balance sheet date.

Deferred taxes are accounted for using the liability method in accordance with IAS 12. Deferred tax assets or liabilities are calculated based on all the temporary differences, which are the differences between the book values of assets and liabilities for accounting purposes and for taxation purposes. Nonetheless, no deferred tax liability or benefit is calculated on goodwill that does not provide tax-related deductions, or on initially recognized items that affect either the accounting or taxable result.

Deferred tax assets are calculated for tax loss carry forwards. Assets with deferred tax are included only to the extent that future taxable profits are expected to make it possible to exploit the related tax benefit.

The statement of cash flow

The statement of cash flow shows cash flows grouped by source and application area. Cash is defined as cash, deposits in central banks, and deposits in financial institutions with no period of notice. The statement of cash flow is prepared using the direct method.

Segment reporting

The company only has one segment, the retail segment. The segment consists of loans to retail customers and all loans are purchased from SpareBank 1 SR-Bank. The company's total comprehensive income thus represents the entire retail segment.

Events after the balance sheet date

The financial statements are published after the board of directors has approved them. The supervisory board, the annual general meeting and the regulatory authorities may refuse to approve the published financial statements subsequent to this but they cannot change them.

Events that take place before the date on which the financial statements are approved for publication, and which affect conditions that were already known on the balance sheet date, will be incorporated into the pool of information that is used when making accounting estimates and are thereby fully reflected in the financial statements. Events that were not known on the balance sheet date will be reported if they are significant.

Note 3 – Critical estimates and judgements concerning use of the accounting policies

The preparation of financial information pursuant to IFRS entails the executive management using estimates, judgements and assumptions that affect the effect of the application of the accounting policies and thus the amounts recognised for assets, liabilities, income and costs.

Losses on loans and guarantees
The company makes write-downs if there is objective evidence that can be identified for an individual commitment, and the objective evidence entails a reduction in future cash flows for servicing the commitment. Objective evidence may be default, bankruptcy, insolvency or other significant financial difficulties. Individual write-downs are calculated as the difference between the loan's book (carrying) value and the present value of future cash flows based on the effective interest rate at the time of the calculation of the initial individual write-down. Subsequent changes in interest rates are taken into account for loan agreements with variable rates if these changes affect the expected cash flow.

Collective write-downs are calculated on groups of loans where there is objective evidence indicating that a loss event has occurred after the initial recording of the loans. Objective evidence includes observable data that leads to a measurable reduction in estimated future cash flows from the group of loans. The development of probability for default is one such objective evidence that is used to identify a possible need to make a write-down. Where a need to make collective write-downs has been identified, loan losses shall be calculated as the difference between the carrying value (book value) and the present value of the estimated future cash flows, discounted at the effective interest rate. The basis for calculating this difference (which corresponds to the level of the collective write-downs) is based on the loans' expected losses.

The assessment of individual and collective write-downs will always call for a considerable degree of discretionary judgement. Predictions based on historical data may prove to be incorrect because of the uncertainty of the relevance of historical data as a decision-making basis. When the value of assets pledged as collateral is linked to special objects or industrial sectors in a crisis, it may be necessary to realize the collateral in markets that are rather illiquid and, therefore, the assessment of collateral securities' values may be subject to considerable uncertainty.

Fair value of financial instruments
The fair value of financial instruments that are not traded in an active market is determined using various evaluation techniques. The company uses methods and assumptions that, insofar as it is possible, are based on observable market data and reflect the market conditions on the balance sheet date. When evaluating financial instruments for which observable market data is not available, the company makes assumptions with regard to what it expects the market to use as a basis for evaluating equivalent financial instruments.

Note 4 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 organisation, 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	-	-
Deducion 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 equtiy 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 5 – Risk management

SR-Boligkreditt AS is part of the SpareBank 1 SR-Bank Group (the "Group") and purchases home mortgages from SpareBank 1 SR-Bank ASA. This activity is primarily financed by issuing covered bonds. This means that the company is subject to the Norwegian legislation on covered bonds and the requirements this stipulates with regard to risk exposure. The company wishes to maintain an AAA/Aaa rating for covered bonds, which requires a heavy focus on risk management and low risk exposure.

The purpose of the risk and capital management in SR-Boligkreditt AS is to ensure satisfactory capital adequacy and prudent asset management in relation to the adopted business strategies and risk profile. These are ensured through an appropriate process for risk management and planning and monitoring the company's raising of capital and capital adequacy. The company's risk and capital management must comply with best practice. This is achieved by:
• A strong risk culture characterised by a high awareness of risk management
• A qualified control environment
• A good understanding of the material risks faced by the company

Organisation and organisational structure
SR-Boligkreditt purchases corporate services from SpareBank 1 SR-Bank as further regulated in service level agreements entered into between the parties.

SR-Boligkreditt AS aims to maintain a strong, healthy organisational culture characterised by a high level of risk management awareness.

SR-Boligkreditt AS focuses on independence in management and control, and this responsibility is divided between the different roles in the organisation:

The board approves the general principles for risk management, including specifying risk profiles, limits and guidelines. The board is also responsible for ensuring that the company has adequate primary capital given the adopted risk profile and regulatory requirements.

The chief executive is responsible for the day-to-day management of the company's activities in accordance with the law, by-laws, powers of attorney and instructions. Matters that are unusual in nature or of material importance to the company must be submitted to the board. The chief executive may, however, decide a matter with the authorization of the board. The chief executive shall implement the company's strategy and develop the strategy further in partnership with the board.

The Group risk manager reports directly to both the chief executive and the board. The risk manager is responsible for the ongoing development of the framework for risk management, including risk models and risk management systems. The post is also responsible for independently monitoring and reporting risk exposure and for ensuring the company complies with current laws and regulations. The chief executive has been delegated the necessary authority by the board to make decisions concerning lines of credit for counterparties and for individual commercial papers.

Financial risk management
The core purpose of the banking industry is to create value by assuming deliberate and acceptable risk. The Group therefore invests significant resources in the further development of risk management systems and processes in line with leading international practice. SR-Boligkreditt AS is exposed to various types of risk:

- Credit risk: the risk of loss resulting from the customer's inability or unwillingness to fulfil his obligations
- Liquidity risk: is the risk that the Company is unable to refinance at maturity, or unable to fund increases in assets.
- Market risk: the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets

- Operational risk: the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents
- Compliance risk: the risk of incurring public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations
- Business risk: the risk of unexpected income and cost variations due to changes in external factors such as market conditions or government regulations
- Reputation risk: the risk of a failure in earnings and access to capital because of lack of trust and reputation in the market, i.e. customers, counterparties, stock market and authorities
- Strategic risk: the risk of losses resulting from the wrong strategic decisions
- Concentration risk: the risk of an accumulation of exposure to an individual customer, sector or geographical area arising. Sectoral concentration risk is exposure that can arise across different types of risk or business areas in the company's, e.g. due to common underlying risk drivers such as the price of oil.

Risk exposure
SR-Boligkreditt AS is exposed to various types of risk and the most important risk groups are described below:

SR-Boligkreditt AS is exposed to credit risk. The company only provides credit to the private market and the credit policy stipulates criteria such as first priority loans only and a maximum LTV of 75%. The credit risk is considered to be low.

Liquidity risk is managed via the company's general liquidity strategy, which is reviewed and adopted by the board at least once a year. Liquidity management is based on conservative limits and reflects the company's moderate risk profile. The Group's treasury department is responsible for liquidity management, while the Group's risk management and compliance department monitors and reports on the utilisation of limits in accordance with the liquidity strategy. The company's lending is mainly funded by long-term security debt. Liquidity risk is minimised by diversifying the securities issued in terms of markets, funding sources, instruments and maturity periods.

Market risk is managed through the market risk strategy, which defines the company's willingness to assume risk. The strategy and the associated specification of the necessary risk ceilings, reporting procedures and authorities are reviewed and adopted by the board at least once a year. The market risk in SR-Boligkreditt AS primarily relates to the company's long-term investments in securities. The company's market risk is measured and monitored on the basis of conservative limits that are renewed and approved by the board at least once a year. The size of the limits is determined on the basis of stress tests and analyses of negative market movements. The company's exposure to market risk is low.

Interest rate risk is the risk of losses incurred due to changes in interest rates. The company's interest rate risk is regulated by limits for maximum value change following a change in the interest rate level of 1%. The interest rate commitments for the company's instruments are mostly short-term and the company's interest rate risk is low.

Currency rate risk is the risk of losses due to fluctuations in foreign exchange rates. The company measures currency risk on the basis of net positions in the different currencies in which the company has exposure. Currency risk is regulated by nominal limits for maximum aggregate currency positions and maximum positions within individual currencies. The scope of the company's trading in foreign currency is modest and the currency rate risk is considered to be low.

Price risk is the risk of losses that arise following changes in the value of the company's commercial paper, bonds and equity instruments. Spread risk is defined as the risk of changes in the market value of bonds as a result of general changes in the credit spreads. In other words, credit spread risk expresses the potential loss in the bond portfolios beyond the bankruptcy risk. Quantification of the risk-adjusted capital for spread risk in the bond portfolios is calculated based on the Financial Supervisory Authority of Norway's model for risk-based supervision of market risk in insurance companies. The company's risk exposure to this type of risk is regulated through limits for maximum investments in the different portfolios.

Operational risk is managed via the risk strategy, which is set annually. According to this strategy, the company will maintain a low risk profile. This will be achieved through a very good corporate risk culture, continuously learning from adverse events, and developing leading methods for identifying, quantifying and balancing risk based on a cost/benefit assessment. This requires the company to strive for a good balance between trust and control that ensures efficiency is safeguarded, at the same time as ensuring it is not exposed to unnecessary risk.

Compliance risk is managed via the framework regulations for compliance that are primarily based on EBA Internal Governance GL44, Basel Committee on Banking Supervision, 'Compliance and the compliance function in banks', ESMA 'Guidelines on certain aspects of the MiFID compliance function requirements ESMA/2012/388', and the Financial Supervisory Authority of Norway's 'Module for evaluating overriding management and control'. The Group’s compliance policy is intended to ensure that the company does not incur any public sanctions/penalties, or any financial loss, due to a failure to implement or comply with legislation and regulations. The Group's compliance policy is adopted by the board and describes the main principles for responsibility and organisation. SR-Boligkreditt AS stresses the importance of good processes to ensure compliance with the current laws and regulations. Focus areas are continuous monitoring of compliance with the current regulations and ensuring that the company has adapted to future regulatory changes as best as it can. SR-Boligkreditt AS's compliance function is performed by the Group’s risk management and compliance department, which is organised independently of the business units. The department bears overall responsibility for the framework, monitoring and reporting within the area.

Note 6 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		
Flexible loans - unused credit lines	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		
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 flexible 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**

Gross loans by geographic area	**31.12.17**	**31.12.16**
Rogaland	31.163.940	22.539.406
Agder counties	3.851.292	2.740.638
Hordaland	4.525.353	3.247.828
International	54.127	2.161
Other	1.234.406	830.645
Total	**40.829.119**	**29.360.677**

Note 7 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 8 Credit risk exposure for each internal risk class

NOK 1 000	Average unsecured exposure [2] 2017	Total commitment 2017	Average unsecured exposure [2] 2016	Total commitment 2016
PD in % [1]				
0,00 - 0,50	6,0 %	37.595.594	5,2 %	26.329.920
0,50 - 2,50	9,8 %	6.272.032	8,2 %	4.601.113
2,50 - 10,00	11,2 %	594.117	8,2 %	367.636
10,00 - 99,9	6,1 %	197.220	6,9 %	148.310
Non-performance and written down	2,3 %	5.927	2,2 %	7.903
Total	**6,6 %**	**44.664.889**	**5,7 %**	**31.454.882**

[1] PD = Probability of Default

[2] Average unsecured exposure is the difference between the exposure at default (EAD) and the risk adjusted value of the property.

	LTV in Percentage of total commitment [3] 2017	LTV in Percentage of total commitment [3] 2016
LTV 0-70	72,1 %	71,9 %
LTV 70-85	25,3 %	25,7 %
LTV 85-100	2,3 %	2,0 %
LTV >100	0,3 %	0,4 %
	100,0 %	100,0 %

[3] LTV= Loan-to-value, the ratio of the loan as a percentage of the appraised value of the property.

Note 9 Maximum credit risk exposure

Maximum exposure to credit risk for balance sheet components, including derivatives. Exposure is shown gross before assets pledged as security and permitted offsetting.

NOK 1000	2017	2016
Assets		
Loans to and receivables from financial institutions	2.202.630	552.748
Loans to and receivables from custumers	40.829.119	29.360.677
Certificates and bonds	100.216	49.967
Derivatives	1.102.792	171.271
Total credit risk exposure balance sheet items	**44.234.757**	**30.134.663**
Financial guarantees and loan commitments		
Unused credit lines	3.835.770	2.094.205
Loan commitments	-	-
Total financial guarantees and loan commitments	**3.835.770**	**2.094.205**
Total credit risk exposure	**48.070.527**	**32.228.868**

Banking operations	2017	2016
Rogaland	36.294.327	24.699.818
Agder counties	4.213.109	2.936.119
Hordaland	4.950.496	3.479.485
International	59.212	2.315
Other	1.350.376	889.892
Total banking operations	**46.867.520**	**32.007.630**
Certificates and bonds	100.216	49.967
Derivatives	1.102.792	171.271
Total by geographic area	**48.070.527**	**32.228.868**

Note 10 Credit quality per class of financial asset

The company manages the credit quality of financial assets in accordance with it's internal credit rating guidelines. The table shows the credit quality per class of asset for loan-related assets in the balance sheet, based on the customer's probability of default (PD).

2017	**0,00 - 0,50 %**	**0,50 - 2,50 %**	**2,50 - 10,0 %**	**10,0 - 99,9%**	**Commitments in default**	**Total**
Loans						
Loans to and recievables from financial institutions	2.202.630	-	-	-	-	2.202.630
Loans to and recievables from customers						
- Retail market	33.779.818	6.254.453	591.738	203.110	-	40.829.119
Total loans	**35.982.448**	**6.254.453**	**591.738**	**203.110**	**-**	**43.031.749**

2016	**0,00 - 0,50 %**	**0,50 - 2,50 %**	**2,50 - 10,0 %**	**10,0 - 99,9%**	**Commitments in default**	**Total**
Loans						
Loans to and recievables from financial institutions	552.748	-	-	-	-	552.748
Loans to and recievables from customers						
- Retail market	24.243.560	4.593.427	367.611	151.185	4.894	29.360.677
Total loans	**24.796.308**	**4.593.427**	**367.611**	**151.185**	**4.894**	**29.913.425**

Note 11 Market risk related to interest rate risk

The table shows the effect on earnings of a positive parallel shift in the yield curve of one percentage point at the end last year, before tax, if all financial instruments were measured at fair value.

NOK 1 000	**2017**	**2016**
Other loans and deposits	-44.117	-28.105
Securities issued	54.669	40.141
Other	-147	-86
Total interest rate risk	**10.405**	**11.950**
Maturity bonds		
0 - 3 months	10.405	11.950
Total interest rate risk	**10.405**	**11.950**
Currency		
NOK	10.405	11.950
EUR	-	-
Total interest rate risks	**10.405**	**11.950**

Interest rate risk arises because the company's assets and liabilities may be subject to different fixed rate periods. Interest rate instrument trading must at all times comply with the adopted limits and authorities. The company's limits define quantitative targets for the maximum potential loss.

The company shall not have a net interest rate exposure (exposure assets - exposure debt) in excess of 1,25 % of total capital. The potential for gain / loss is calculated from a parallel shift of the yield curve by 1 percentage point.

Note 12 Market risk related to currency risk

The table shows the net foreign currency exposure including financial derivatieves as at 31 December as defined by the Capital Requirements Regulations.

NOK 1000	2017	2016
Currency		
EUR	-	-
USD	-	-
Other	-	-
Total	**-**	**-**

Currency risk arises when differences exist between the company's assets and liabilities in the individual currency.
Currency trading must at all times comply with the adopted limits and authorities.
The company's limits define quantitative targets for the maximum net exposure in currency, measured in NOK.

Note 13 Liquidity risk

The tables shows cash flows including contractual interest maturity. Also see note 5 Risk Management for information about liquidity risk management.

2017 NOK 1 000	Upon request	Less than 3 months	3-12 months	1 - 5 years	More than 5 years	Total
Securities issued	-	-75.126	-286.657	-28.158.284	-12.610.016	-41.130.083
Total liabilities	**-**	**-75.126**	**-286.657**	**-28.158.284**	**-12.610.016**	**-41.130.083**
Derivatives						
Contractual cash outflow	-	-133.885	-400.036	-18.635.594	-10.936.584	-30.106.459
Contractual cash inflow	-	75.104	286.441	18.575.849	11.490.796	30.428.190

2016 NOK 1 000	Upon request	Less than 3 months	3-12 months	1 - 5 years	More than 5 years	Total
Securities issued	-	-71.553	-226.987	-22.043.323	-5.862.320	-28.204.183
Total liabilities	**-**	**-71.553**	**-226.987**	**-22.043.323**	**-5.862.320**	**-28.204.183**
Derivatives						
Contractual cash outflow	-	-55.795	-251.098	-12.899.625	-5.229.318	-18.435.836
Contractual cash inflow	-	671	54.252	11.660.390	4.882.324	16.597.637

Note 14 Maturity analysis of assets and debt/ liabilities

2017 NOK 1 000	Upon request	Less than 3 months	3-12 months	1 - 5 years	More than 5 years	Total
Assets						
Balances with credit institutions	2.202.630	-	-	-	-	2.202.630
Loans to customers	37.049	222.133	676.733	3.758.788	36.129.894	40.824.596
Bonds	-	-	-	100.216	-	100.216
Financial derivatives	72.742	-	-	459.327	570.722	1.102.792
Deferred tax assets	17.983	-	-	-	-	17.983
Othe assets	211	-	-	-	-	211
Total assets	**2.330.615**	**222.133**	**676.733**	**4.318.331**	**36.700.616**	**44.248.428**
Liabilities						
Listed debt securities	165.889	-	-	27.173.648	12.254.891	39.594.428
Financial derivatives	-24.106	-	-	267.171	125.213	368.278
Taxes payable	74.248	-	-	-	-	74.248
Other liabilities	5.182	-	-	-	-	5.182
Total liabilities	**221.213**	**-**	**-**	**27.440.819**	**12.380.104**	**40.042.136**

2016 NOK 1 000	Upon request	Less than 3 months	3-12 months	1 - 5 years	More than 5 years	Total
Assets						
Balances with credit institutions	552.748	-	-	-	-	552.748
Loans to customers	22.607	174.571	517.396	3.639.170	25.004.158	29.357.902
Bonds	-	-	-	49.967	-	49.967
Financial derivatives	37.566	-	-	47.728	85.977	171.271
Deferred tax assets	11.935	-	-	-	-	11.935
Othe assets	489	-	-	-	-	489
Total assets	**625.346**	**174.571**	**517.396**	**3.736.865**	**25.090.135**	**30.144.313**
Liabilities						
Listed debt securities	61.862	-	59.988	21.407.699	5.742.587	27.272.136
Financial derivatives	18.300	-	-	362.259	336.827	717.386
Taxes payable	40.648	-	-	-	-	40.648
Other liabilities	3.432	-	-	-	-	3.432
Total liabilities	**124.242**	**-**	**59.988**	**21.769.958**	**6.079.414**	**28.033.602**

Note 15 Net interest income

	2017			2016		
NOK 1000	Total	Measured at amortised cost	Measured at fair value	Total	Measured at amortised cost	Measured at fair value
Interest income						
Interest on recievables from financial institutions	8.782	8.782	-	5.909	5.909	-
Interest on lending to customers	900.959	900.959	-	502.410	502.410	-
Interest on certificates and bonds	818	-	818	-	-	-
Total interest income	**910.559**	**909.741**	**818**	**508.319**	**508.319**	**-**
Interest costs						
Interest on debs to financial institutions	5.228	5.228	-	21.474	21.474	-
Interest on securities issued	509.624	328.444	181.180	317.532	137.458	180.074
Total interest costs	**514.852**	**333.672**	**181.180**	**339.006**	**158.932**	**180.074**
Net interest income	**395.707**	**576.069**	**-180.362**	**169.313**	**349.387**	**-180.074**

Note 16 Net income from financial instruments

	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 17 Other operating costs

	2017	2016
IT costs	264	216
Other administrative costs	1.180	1.269
Depreciation (note 21)	293	293
External fees	222	3.765
Other operative costs	-	-
Total operating costs	**1.960**	**5.543**
Fees for external auditor - specification of audit fees		
Statutory audit	275	310
Tax advice [1)]	-	-
Other certification services	307	515
Other non-auditing services [1)]	-	40
Total	**582**	**865**

[1)] Fees to the law firm PricewaterhouseCoopers included in tax advice and other non-auditing services

All figures include VAT

Note 18 Tax

NOK 1 000	2017	2016
Pre-tax profit	272.781	113.134
Permanent differences	22	-
Group contribution	-	-
Change in temporary differences	24.188	49.458
Tax base/ taxable income for the year	**296.991**	**162.592**
Of which payable tax 25 %	74.248	40.648
Tax effect of group contribution	-	-
Change in deferred tax	-6.047	-12.364
Total tax cost	**68.201**	**28.284**
Deferred tax asset		
- deferred tax asset that reverses in more than 12 months	-17.983	-11.935
- deferred tax asset that reverses within 12 months	-	-
Total deferred tax asset	**-17.983**	**-11.935**
Deferred tax		
- deferred tax that reverses in more than 12 months	-	-
- deferred tax that reverses within 12 months	-	-
Total deferred tax	**-**	**-**
Net deferred tax/ deferred tax asset	**-17.983**	**-11.935**
Specification of temporary differences		
Differences related to financial items	-71.930	-47.742
Group contribution paid	-	-
Losses carried forward	-	-
Total temporary differences	**-71.930**	**-47.742**

Note 19 Classification of financial instruments

2017	Financial instruments at fair value through profit or loss Financial derivatives as hedging instruments	Financial assets and liabilities assessed at amortised cost and accrued interest	Total
Assets			
Loans to and receivables from financial institutions	-	2.202.630	2.202.630
Loans to customers [1)]	-	40.824.596	40.824.596
Certificates and bonds at fair value	100.216	-	100.216
Financial derivatives	1.102.792	-	1.102.792
Other assets	-	-	-
Total assets	**1.203.008**	**43.027.226**	**44.230.234**
Liabilities			
Debt to financial institutions	-	-	-
Debt securities issued [2)]	-	39.594.428	39.594.428
Financial derivatives	368.278	-	368.278
Other liabilities	-	-	-
Total liabilities	**368.278**	**39.594.428**	**39.962.706**
2016			
Assets			
Loans to and receivables from financial institutions	-	552.748	552.748
Loans to customers [1)]	-	29.357.902	29.357.902
Certificates and bonds at fair value	49.967	-	49.967
Financial derivatives	171.271	-	171.271
Other assets	-	-	-
Total assets	**221.238**	**29.910.650**	**30.131.888**
Liabilities			
Debt to financial institutions	-	-	-
Debt securities issued [2)]	-	27.272.136	27.272.136
Financial derivatives	717.386	-	717.386
Other liabilities	-	-	-
Total liabilities	**717.386**	**27.272.136**	**27.989.522**

1) Fair value of loans to customers approximates book value due to the floating interest rate

2) Debt securities issued contain secured debt.

Information about fair value

The table below shows financial instruments at fair value according to their valuation method. The different levels are defined as follows:

Listed price in an active market for an identical asset or liability (level 1).
Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices) for the asset or liability (level 2).
Valuation based on factors not obtained from observable markets (non-observable assumptions) (level 3).

2017	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Certificates and bonds at fair value	-	100.216	-	**100.216**
Financial derivatives	-	1.102.792	-	**1.102.792**
Liabilities				
Financial derivatives	-	368.278	-	**368.278**

2016	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Certificates and bonds at fair value	-	49.967	-	**49.967**
Financial derivatives	-	171.271	-	**171.271**
Liabilities				
Financial derivatieves	-	717.386	-	**717.386**

Note 20 Financial derivatives

At fair value through profit and loss	Contract amount 31.12.17	Fair value at 31.12.17 Assets	Liabilities	Contract amount 31.12.16	Fair value at 31.12.16 Assets	Liabilities
Hedging / Interest and exchange rate instruments						
Interest rate swaps (including cross currency)	57.149.053	1.030.049	392.383	33.872.051	133.705	699.086
Total hedging / Interest and exchange rate instruments	**57.149.053**	**1.030.049**	**392.383**	**33.872.051**	**133.705**	**699.086**
Total currency and interest rate instruments						
Total interest and exchange rate instruments	57.149.053	1.030.049	392.383	33.872.051	133.705	699.086
Total accrued interests	-	72.742	-24.106	-	37.566	18.300
Total financial derivatives	**57.245.900**	**1.102.792**	**368.278**	**33.872.051**	**171.271**	**717.386**

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 21 Other assets

NOK 1 000	**2017**	**2016**
Tangible fixed assets*	195	489
Other assets	16	-
Total other assets	**211**	**489**
* Tangible fixed assets:		
Acquisition cost 1 Jan	880	880
Additions	-	-
Disposals	-	-
Acquisition cost 31 Dec	**880**	**880**
Accumulated depreciation and write-downs 1. Jan	392	99
Year's disposals	293	292
Year's depreciation and write downs	-	-
Accumulated depreciation and write-downs 31 Dec	**685**	**391**
Carrying amount 31 Dec	**195**	**489**
Financial lifespan	3 years	3 years
Depreciation schedule	linear	linear

Note 22 Debt securities issued

	Carrying amount	
NOK 1 000	**31.12.17**	**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**

	Nominal amount	
Change in debt raised through issuance of securities	**31.12.17**	**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

		Nominal amount	
Public covered bonds		**31.12.17**	**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**

	Carrying amount	
Liabilities by currency	**31.12.17**	**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 23 Asset coverage

The asset coverage is calculated according to the Financial Institutions Act, 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 in excess of 75 % and use of 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 24 Other liabilities

NOK 1 000	31.12.17	31.12.16
Taxes payable	74.248	40.648
Accounts payable	2.640	2
Accrued expenses and prepaid revenue	2.541	3.430
Total other liabilities	**79.429**	**44.080**

Note 25 Material transactions with related parties

SR-Boligkreditt AS uses SpareBank 1 SR-Bank ASA, the parent, as counterparty for a large number of banking transactions including loans, deposits and financial derivatives. All transactions are carried out at market terms and are regulated in the "Transfer and Servicing agreement" and service level agreements. The Transfer and Servicing agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds, while the servicing level agreements regulates purchase of services, including bank production, distibution, customer contact, IT-operations and financial and liquidity management.

The most important transactions with SpareBank 1 SR-Bank ASA

2017	Deposits in SR-Bank	Financial derivatives	Covered bonds	Interest income	Interest costs	Operating costs	Management fee
SpareBank 1 SR-Bank ASA	2.202.630	857.893	404.623	8.782	10.837	1.171	26.094
Total	**2.202.630**	**857.893**	**404.623**	**8.782**	**10.837**	**1.171**	**26.094**

2016	Deposits in SR-Bank	Financial derivatives	Covered bonds	Interest income	Interest costs	Operating costs	Management fee
SpareBank 1 SR-Bank ASA	552.748	-521.727	1.057.388	5.909	43.484	1.229	14.952
Total	**552.748**	**-521.727**	**1.057.388**	**5.909**	**43.484**	**1.229**	**14.952**

Note 26 Share Capital

The share capital consists of 4 000 000 shares each with a nominal value of NOK 1 000. All shares and voting rights of the company are owned by SpareBank1 SR-Bank ASA. SR-Boligkreditt AS is included in the consolidated financial statements of SpareBank1 SR-Bank ASA, the consolidated financial statement is available on www.sr-bank.no.

	2017	2016
Total number of shares 1 January	2.025.000	1.275.000
Issue of new shares	1.975.000	750.000
Total number of shares 31 December	**4.000.000**	**2.025.000**

Note 27.1 IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will replace the current IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 deals with the recognition, classification, measurement, impairment and derecognition of financial assets and obligations, as well as hedge accounting. IFRS 9 will apply from 1 January 2018 and has been approved by the EU. The standard may be applied early. SR-Boligkreditt AS will not avail itself of this option.

In 2015, the SpareBank 1 Alliance put together a multidisciplinary implementation team with participants from all of the banks that use IFRS, which has prepared for the implementation of IFRS 9 ("the Project"). The Project is a steering group with the following sub-groups:

1. Models and methodology
   Development of calculation solutions and models for establishing unbiased forward-looking estimates of expected losses
2. Strategy, organisation and processes
   Defining how the organisation of the ongoing work of accounting in accordance with IFRS 9 will be organised between the cooperating banks
3. Accounts and reporting
   Concretising the actual accounting and notes, including policy notes and note templates
4. Classification and measurement
   Analysing the group's financial instruments and classifying instruments in various categories

At the same time, SpareBank 1 SR-Bank Group has established a local project for resolving the technical adaptations of new regulations, as well as discussing and deciding on adaptations and the effects of new regulations.

A description of the new requirements in IFRS 9 and changes from the earlier standard is provided below, Following is a description of the choices SR-Boligkreditt AS has made and the status of the implementation project.

Transition rules

IFRS 9 shall be applied retrospectively, except for hedge accounting. Retrospective application means that SR-Boligkreditt AS will create the opening balance as at 1 January 2018 as if they have always applied the new principles. This does not mean that the comparative figures for 2017 need to be reworked according to the new principles. The standard states that it is also not allowed to revise comparisons unless this can be done without the need for hindsight. SR-Boligkreditt AS will not show comparable figures for earlier periods upon implementation of the standard on 1 January 2018. The effects of new principles in the opening balance for 2018 are recognized against equity.

SR-Boligkreditt AS has chosen to introduce hedge accounting under IFRS 9. This implies that hedge accounting is to be conducted in accordance with the principles of IFRS 9 prospectively from date of transition to IFRS 9.

Classification and measurement

Financial assets

According to IFRS 9, financial assets must be classified into three measurement categories: fair value with value changes through profit or loss, fair value with value changes through other comprehensive income (OCI) and amortised cost. The measurement category must be determined upon initial recognition of the asset. Financial assets are classified on the basis of the contractual terms and conditions for the financial assets and the business model used to manage the portfolio of which the assets are a part.

Financial assets with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows should initially be measured at amortised cost. Instruments with contractual cash flows that are only payments of interest and the principal on given dates and that are held in a business model for the purpose of receiving contractual cash flows and sales, should initially be measured at fair value with value changes through OCI, with interest income, currency translation effects, and any impairments presented in the ordinary income statement. Value changes recognised through OCI must be reclassified to the income statement upon the sale or other disposal of the assets.

Instruments that are initially measured at amortized cost or at fair value with changes in value over the OCI can be designated at fair value through profit or loss if this eliminates or substantially reduces an accounting mismatch.

Other financial assets must be measured at fair value with value changes through profit or loss. This includes derivatives equity instruments and other cash flow instruments that are not only payments of normal interest (time value of money, credit spread and other normal margins linked to loans and receivables) and the principal, and instruments that are held in a business model in which the main purpose is not the reception of contractual cash flows.

Financial liabilities

The rules on financial liabilities are generally the same as those in today's IAS 39. As a general rule, financial liabilities should still be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments included in a trading portfolio, and financial liabilities it has been decided to recognise at fair value with value changes through profit or loss.

Hedge accounting

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management and provides greater room for judgement. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. According to IFRS 9, a prospective (forward-looking) effectiveness test is sufficient, while hedge effectiveness pursuant to IAS 39 must be assessed both prospectively and retrospectively (backwards-looking). Hedging documentation is still required. SR-Boligkreditt AS has the option to continue the hedge accounting to the same extent as previous years.

Impairment losses on loans

According to the rules under IAS 39, impairment losses must only be made when objective evidence exists that a loss event has happened after initial recognition. According to IFRS 9, impairment losses must be recognised based on expected credit losses (ECL). The general model for impairment of financial assets in IFRS 9 will apply to financial assets measured at amortized cost or at fair value with changes in value over the OCI and which did not have any losses on initial recognition. In addition, there are also loan commitments, financial guarantee contracts that are not measured at fair value through profit or loss and lease agreements are included.

The measurement of the provisions for expected losses in the general model depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. 12-month expected loss is the loss that is expected to occur over the life of the instrument, but which can be linked to events occurring in the first 12 months. If the credit risk has increased substantially after initial recognition, provisions must be made for expected losses over the entire lifetime. Expected credit losses are calculated based on the present value of all cash flows over the remaining life expectancy, i.e. the difference between the contractual cash flows under the contract and the cash flow that the company expects to receive, discounted at the effective interest rate on the instrument.

In addition to the general model, there are own principles for issued, including renegotiated loans treated as new ones, and purchased loans with accrued credit losses upon initial recognition. For these, an effective interest rate shall be calculated taking into account the expected credit loss, and for changes in expected cash flows, the change shall be discounted with the initially fixed effective interest rate and recognized in the income statement. For these assets, there is no need to monitor whether there has been a significant increase in credit risk after initial capitalization, as expected losses over the entire life span will nevertheless be considered.

The method in the IFRS 9 standard entails somewhat greater volatility in impairments and it is expected that impairments will be made earlier than is the case with the current practice. This will be especially noticeable at the start of an economic downturn.

More detailed description of the company's future impairment model

An estimate of losses will be made each quarter based on data in the data warehouse, which contains a history of account and customer data for the entire credit portfolio. The loss estimates will be calculated on the basis of the 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains a history of observed PD and observed LGD. This will provide the basis for producing good estimates of future values for PD and LGD. In line with IFRS 9, the company groups its loans into three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have a significantly higher credit risk than they did upon initial recognition will have a loss provision equal to 12 months' expected losses. This category will contain all assets that have not be transferred to stages 2 or 3.

Stage 2:

In stage 2 the loss model is assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the lifetime. This group contains accounts with a significant degree of credit deterioration, but which on the balance sheet data belong to customers that are classified as healthy. As far as the demarcation with stage 1 is concerned, the company bases its definition of a significant degree of credit deterioration on the extent to which the commitments calculated probability of default (PD) has increased significantly.

Stage 3:

In stage 3 the loss model is assets that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. For these assets the loss provision must cover expected losses over the lifetime. These are assets that are defined under the current regulations as non-performing and impaired.

Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the trading day, that is, when the company becomes a party to the instruments' contractual terms.

Financial assets are derecognised when the contractual rights to cash flows from the financial asset have expired or when the rights to the cash flows from the asset have been transferred in such a way that the risk and return on ownership are substantially transferred.

Financial liabilities are derecognised when the contractual terms have been settled, cancelled or expired.

Modified assets and liabilities

If modifications or changes to the terms of an existing financial asset or liability are made, the instrument is treated as a new financial asset if the renegotiated terms differ materially from the old terms. If the terms differ significantly, the old financial asset or liability is derecognised and a new financial asset or liability is recognized. In general, a loan is considered to be a new financial asset if new loan documentation is issued, while a new credit process is being issued with new loan terms.

If the modified instrument is not considered to be significantly different from the existing instrument, the instrument is considered to be a continuation of the existing instrument. In the case of a modification recognized as a continuation of existing instruments, the new cash flows are discounted using the instrument's original effective interest rate and any difference between the existing book value is recognized in profit and loss.

Effect on financial reporting

Any implementation effects will be recognised against equity upon the switch to IFRS 9 on 1 January 2018. The provisional review of the future disclosure requirements indicates there will be some changes in disclosure requirements relating to impalement losses, but little effect in relation to notes for financial instruments.

The introduction of IFRS 9 has resulted in the following principles and effects

A description of the various financial instruments and how they are classified in accordance with IAS 39 and IFRS 9 are described below, with a description of the ratings that have been taken into account in the classification.

Detailed description of the loss model according to IFRS 9 follows in the tables below.

Note 27.2 IFRS 9 Financial Instruments

The following table shows the effects of implementing IFRS 9

	Balance sheet according to IAS 39 31 December 2017	Change due to reclassification	Change due to new measurement	Balance sheet according to IFRS 9 1 January 2018
Amortised cost				
Balances with credit institutions	2.202.630	-	-	2.202.630
Loans to customers	40.824.596	-	(4.572)	40.820.024
Deferred tax assets	17.983			17.983
Other assets	211	-	-	211
Total effect amortized cost	**43.045.420**	**-**	**(4.572)**	**43.040.848**
Fair value through profit or loss				
Bonds	1.102.792	-	-	1.102.792
Financial derivatives	100.216	-	-	100.216
Total fair value through profit or loss	1.203.007	-	-	1.203.007
Total assets	**44.248.427**	**-**	**(4.572)**	**44.243.855**
Financial liabilities				
Amortised cost				
Listed debt securities	39.594.428	-	-	39.594.428
Taxes payable	74.248	-	(1.143)	73.105
Other liabilities	5.182	-	-	5.182
Total effect amortized cost	**39.673.858**	**-**	**(1.143)**	**39.672.715**
Fair value through profit or loss				
Financial derivatives	368.278	-	-	368.278
Total fair value through profit or loss	368.278	-	-	368.278
Total Liabilities	**40.042.135**	**-**	**(1.143)**	**40.040.993**
Equity				
Paid-in equity capital	4.000.150	-	-	4.000.150
Retained earnings	206.141	-	(3.429)	202.712
Totale equity	**4.206.291**	**-**	**(3.429)**	**4.202.862**
Total liabilities and equity	**44.248.427**	**-**	**(4.572)**	**44.243.855**

Note 27.3 IFRS 9 Financial Instruments

The following table shows loss provisions when implementing IFRS 9.

Change in loss provisions	**Losses according to IAS 39 31 December 2017**	**Change due to reclassification**	**Change due to new measurement**	**Losses according to IFRS 9 1 January 2018**
Loans under IAS 39 to be measured at amortized cost under IFRS 9	4.523		4.572	9.095
Total change loss provisions	**4.523**	**-**	**4.572**	**9.095**

	2018				**2017**		
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Individual**	**Group**	**Total**
Balance sheet on 31 December 2017	**-**	**-**	**-**	**-**	**-**	**4.523**	**4.523**
Transferred to 12 month ECL	3.536	-	-	3.536	-	-	-
Transferred to lifetime ECL - No objective evidence of loss	-	5.359	-	5.359	-	-	-
Transferred to lifetime ECL - objective proof of loss	-	-	200	200	-	-	-
Balance sheet on 1 January 2018	**3.536**	**5.359**	**200**	**9.095**	**-**	**-**	**-**

Note 28 Events after the balance sheet date

No material events that have influence on the financial statement for 2017 have been registered after the reporting day. The company is not involved in any legal proceedings. The proposed dividend is NOK 51 per share and will total NOK 204 million.

Statement by the Board of Directors and Chief Executive Officer

We hereby confirm that the financial statements for the period 1 January to 31 December 2017 have, to the best of our knowledge, been prepared pursuant to applicable accounting standards, and that the information provided presents a true and fair picture of the company's assets, liabilities, financial positions and profit as a whole.

We also confirm that the Report of the Board of Directors provides a true and fair presentation of the performance, result and position of the company, together with a description of the most important risk and uncertainty factors that the company face.

Stavanger, 20 April 2018

Inge Reinertsen, Chairman

Merete Eik

Stian Helgøy

Børge Henriksen

Dag Hjelle, CEO

To the General Meeting of SR-Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SR-Boligkreditt AS which comprise the balance sheet as at 31 December 2017, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new Key Audit Matters for our audit of the 2017 financial statements. In this light, our areas of focus have been the same in 2017 as the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to customers	
The mortgage company has loans to private individuals amounting to NOK 40 829 million with collateral in residential property and has issued covered bonds. Processes and controls have been established to ensure that the entity complies with the various requirements mortgage companies are subject to.	In order to comply with the requirements in the regulations applicable to issuing covered bonds, the company had established controls in the process of granting and transferring loans. The process included formal controls and segregation of duties, directed at ensuring that the controls were performed before loan approval or transfer of loans from Sparebank 1 SR-Bank ASA to the mortgage company. Further, in accordance with applicable regulations the

The value of the collateral at any time should be above 75 % of the loan value and above 60 % of the loan value for vacation property. The company has realized only limited losses on loans in 2017. As compliance with these requirements and the established processes and controls are fundamental to the company's operation, we have focused our attention on this subject.

We also refer to note 6, 7, 8 and 9 in the annual report for a description of the company's loans to customers.

company had engaged us as Independent Inspector to control, on a quarterly basis that the company complied with the various requirements, including the required coverage over the loan portfolio of the value of the collateral.

Our work included obtaining documentation and examining whether the controls were conducted appropriately and timely. Our examination included an assessment of whether the underlying documentation the company had collected supported the conclusions drawn by the company regarding compliance with the requirements in legislation and regulation.

Our testing substantiated that the company's inspection and processes supported that the laws and regulations in this area were followed.

We evaluated the appropriateness of the related disclosures in the notes and found that they satisfied the requirements in IFRS.

IT systems supporting processes over financial reporting

We have addressed this area because it is important for the mortgage company's financial reporting systems, and their business model is dependent on complex IT systems. Weaknesses in automated processes and controls can potentially lead to a significant risk in the daily operations and risk of misstatements.

The mortgage company used external service providers to operate some of the important IT systems. The auditor at the relevant service organisation evaluated the design and efficiency of the established control systems, and tested the controls designed to ensure the integrity of the IT system and cash handling that were relevant to financial reporting.

We satisfied ourselves regarding the auditor's objectivity and competence and examined the reports, and evaluated possible misstatement and improvements. Furthermore, our own IT specialists tested access controls to the IT systems and the segregation of duties where necessary for our audit.

Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and the going concern assumption, and the proposal for the allocation of profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Stavanger, 20 April 2018

PricewaterhouseCoopers AS

Arne Birkeland

State Authorised Public Accountant