SR-BOLIGKREDITT AS

Q2 2015

SR-Boligkreditt

Subsidiary of SpareBank 1 SR-Bank

Contents

1. Statement of the Board of Directors

SR-Boligkreditt AS is a wholly owned subsidiary of SpareBank 1 SR-Bank. The company issues covered bonds backed by home mortgages acquired from SpareBank 1 SR-Bank. Moody's rates SR-Boligkreditt AS's covered bond programme Aaa.

1.1. Income statement for the first half 2015

Net income totalled NOK 6.6 million in the second quarter of 2015.

(Amounts in NOK millions)

Total income	6.6
Net interest income	6.6
Net commission and fee income	0

Operating expenses are kept low due to effective operation and synergies with treasury in SpareBank 1 SR-Bank ASA and totalled NOK 0.9 million for the second quarter of 2015.

1.2. Balance sheet

At end of June 2015 total assets stood at NOK 5,461 million. SR-Boligkreditt AS has issued NOK 5 billion in two benchmarks in the Norwegian market. Liabilities to financial institutions (credit facility with parent bank) stood at NOK 155 million.

1.3. Risk

SR-Boligkreditt AS has established guidelines and limits for the management and control of the different types of risk. Currency and interest rate risk is eliminated through the use of derivatives. Liquidity risk is managed in accordance with regulatory requirements and limits approved by the board. The company's overall financial risk is considered to be low. The servicing agreement with SpareBank 1 SR-Bank ASA comprises administration, bank production, IT operations, and financial and liquidity management. Operational risk is assessed as low. Negative developments in the housing market will affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate effects of a negative development in housing prices. One short-term measure to meet a significant fall in housing prices would be to supply SR-Boligkreditt with home mortgages from SpareBank 1 SR-Bank. The board considers the company's total risk exposure to be low. At the end of June 2015, the company's equity totalled NOK 304 million. The capital adequacy ratio was 15,66 %.

1.4. Outlook

Economic forecasts for 2015 indicate moderate global economic growth. Economic growth is also expected in Norway, although the growth will probably slow somewhat in 2015 as a result of declining oil investments and their spillover effects on the mainland economy. House prices are expected to remain stable in SpareBank 1 SR-Bank's region. SR-Boligkreditt will continue to build the company's funding curve and to provide funding diversification for the parent bank. The volume of covered bond issues in 2015 is expected to be close to NOK 8 billion and to provide a sound basis for SpareBank 1 SR-Bank's lending activities.

2. Statement pursuant to the Securities Trading Act

Statement pursuant to Section 5-6 of the Securities Trading Act.

We hereby confirm that the half-yearly financial statements for the company for the period 17 March through 30 June 2015 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole. To the best of our knowledge, the half-yearly report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties

Stavanger, 6 August 2015

The Board of Directors of SR-Boligkreditt AS

Inge Reinertsen
(Chairman)

Merete Eik

Stian Helgøy

Børge Henriksen

Dag Hjelle
(CEO)

3. Income statement

NOK 1 000	Note	17.03.15-30.06.15
Interest income		18.445
Interest expense		11.888
Net interest income		**6.557**
Total operating income		**6.557**
Administrative expenses		842
Other operating costs		24
Total operating costs		**866**
Operating profit before impairment losses		**5.691**
Impairment losses on loans and guarantees	5	-
Pre-tax profit		**5.691**
Tax expense		1.537
Profit after tax		**4.154**
Adjustments		-
Comprehensive Income		**4.154**

4. Balance sheet

NOK 1 000	Note	30.06.2015
Assets		
Balances with credit institutions		290.859
Loans to customers		5.171.133
Total assets		**5.461.992**
Liabilities and equity		
Liabilities		
Listed debt securities	8	5.000.627
Balances with credit institutions		154.652
Taxes payable	6	1.537
Other liabilities	6	872
Total liabilities		**5.157.688**
Equity		
Paid-in equtiy capital		300.150
Retained earnings		-
Net profit		4.154
Total equity		**304.304**
Total liabilities and equtiy		**5.461.992**

5. Statement of changes in equity

NOK 1 000	Share-capital	Premium reserve	Other equtiy	Reserve for unrealised gains	Total equity
Equtiy as of 31. December 2014	**-**	**-**	**-**	**-**	**-**
Incorporation 17. March 2015	150.000	150	-	-	150.150
Capital increase 24. April 2015	150.000	-	-	-	150.000
Profit for the period	-	-	4.154	-	4.154
Equtiy as of 30. juni 2015	**300.000**	**150**	**4.154**	**-**	**304.304**

6. Cash flow statement

NOK 1.000	17.03.2015-30.06.2015
Interest receipts from lending to customers	12.132
Payments for operations	-146
Net cash flow relating to operations	**11.986**
Net purchase of loan portfolio	-5.164.820
Net cash flow relating to investments	**-5.164.820**
Debt raised by issuance of securities	4.996.710
Receipts from borrowing from financial institutions	154.652
Paid in capital equity	300.150
Net interest payments on funding activities	-7.819
Net cash flow relating to funding activities	**5.443.693**
Net cash flow during the period	**290.859**
Balance of cash and cash equivalents start of period	-
Balance of cash and cash equivalents end of period	290.859

7. Notes

These interim financial statements for SR-Boligkreditt AS cover the period 17 March - 30 June 2015. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements are unaudited. All amounts are stated in NOK thousands unless stated otherwise.

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 interim financial statements for SR-Boligkreditt AS

The interim financial statements cover the period 17 March - 30 June 2015. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements are unaudited. These interim financial statements were prepared in accordance with the applicable IFRS standards and IFRIC interpretations. Interim financial statements do not disclose all of the information required in complete annual financial statements, but since these interim financial statements are the first time the company has reported, the policies will be stated in full. The company was founded on 17 March 2015 and comparable figures have consequently not been prepared.

The interim 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 International Financial Reporting Interpretations Committee (IFRIC) and its predecessor the Standing Interpretations Committee (SIC).

SR-Boligkreditt 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, financial assets and financial liabilities are recognised 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 4.

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 Financial Instruments deals with the classification, measurement and recognition of financial assets and obligations, as well as hedge accounting. The complete version of IFRS 9 was issued in July 2014. It replaces those parts of IAS 39 that deal with equivalent issues. Under IFRS 9, financial assets must be classified into three categories: fair value through other comprehensive income, fair value through profit or loss and measured at amortised cost. The measurement category must be determined upon the initial recognition of the asset. Classification depends on the unit's business model for managing financial instruments and the attributes of the individual instrument's cash flows. Equity instruments should basically be measured at fair value through profit or loss. However, an undertaking can choose to present changes in value through other comprehensive income, but the choice is binding and in the event of a subsequent sale the gain/loss cannot be reclassified through profit or loss. Falls in value due to credit risk must now be recognised on the basis of expected loss instead of the current model where losses must be incurred. The standard largely continues the requirements of IAS 39 as far as financial liabilities are concerned. The biggest change occurs in cases where the fair value option is used for a financial liability where changes in fair value due to changes in own credit risk are recognised in other comprehensive income. 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. At the same time, hedging documentation is still required. The standard comes into effect for the 2018 financial year, but early application is permitted. The company has still not assessed the full effect of IFRS 9.

IFRS 15 Revenue from Contracts with Customers deals with recognising revenue. The standard requires the division of the customer contract into the individual performance obligations. A performance obligation can be a good or a service. Revenue is recognised when a customer achieves control over a good or service and is thus able to determine the use of, and benefit from, the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and pertinent interpretations. The standard comes into effect for the 2017 financial year, but early application is permitted. 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 million unless otherwise stated.

Lending and losses on loans
Loans with variable rates are measured at amortised cost in accordance with IAS 39. The amortised cost is the acquisition cost minus repayments on the principal, taking into account transaction costs, plus or minus cumulative amortisation 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.

Fixed rate loans to customers are earmarked upon initial recognition at fair value, with value changes through profit or loss, in accordance with IAS 39.9 Gains and losses resulting from changes in fair value are recorded through profit or loss as a change in value. Accrued interest and premiums/discounts are recorded as interest. The company uses the fair value option for measuring fixed rate loans, as this largely eliminates inconsistencies in measuring other comparable instruments in the balance sheet.

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 realised 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 amortised cost or group of financial assets assessed at amortised 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 reorganisation
- 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.

Realised losses
When it is highly probable that the losses are final, the losses are classified as realised losses. Realised losses that are covered by earlier specific loss provisions are recorded against the provisions. Realised

losses without cover by way of impairment losses on loans and over or under coverage in relation to previous impairment losses on loans are recognised 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 realisation value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realised 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).

Securities
Securities comprise equities and units, commercial paper and bonds. Equities and units are recognised either as held for sale or at fair value with change in value through profit or loss. Certificates papers and bonds are classified either as held for sale, at fair value with value change through profit or loss, as held to maturity or as a receivable. The company uses the price on the trade date upon initial recognition of securities.

All financial instruments that are classified as held for sale or 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. The company is of the opinion that financial instruments classified at fair value with value change through profit or loss provide more relevant information about the values of these items in the balance sheet than if they were assessed at amortised cost. The financial instruments included in this category are regularly reported and managed based on fair value.

Certificates and bonds that are classified as held to maturity or as a receivable are measured at amortised 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 recognised at fair value through profit or loss.

The company uses derivatives for operational and accounting (funding) hedging purposes to minimise 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. When fair value hedging is used the hedging instrument is recognised at fair value, but as far as the hedging object is concerned changes in fair value linked to the hedged risk are recognised.

Tangible fixes assets
Tangible fixed assets comprise buildings, plots of land and operating equipment. Buildings and operating equipment are recognised at cost less depreciation and write-downs. Plots of land are recorded at cost price less write-downs. Plots of land are not depreciated. The cost price includes all direct costs related to the acquisition of the asset. Depreciation is on a straight-line basis in order to allocate the cost price, less possible residual value, over the useful life of the operating equipment.

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 rates are thereafter measured at amortised cost, and any discount/premium is accrued over the term of the loan. Borrowing at fixed 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 materialise 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.

Subordinated loans and hybrid Tier 1 capital
Subordinated loans have a lower priority than all other debt. 50 % of the dated subordinated loans can be regarded as tier 1 capital in the capital ratio, whilst 100 % of perpetual subordinated loans can be included in tier 1 capital. Subordinated loans are classified as subordinated loan capital in the balance sheet and are measured at fair value with value change through profit or loss or amortised cost in the same way as other long-term borrowing. The company uses fair value hedging for measuring fixed-rate loans.

Hybrid tier 1 capital are bonds with nominal interest, but the company is not obliged to pay any interest in periods when no dividend is paid and the investor cannot later claim any interest that has not been paid, i.e. interest is not accumulated. Hybrid instruments are approved as tier 1 capital elements limited upward to 15 % or 35 % of the total tier 1 capital depending on the type of hybrid tier 1 capital. The Financial Supervisory Authority of Norway (Finanstilsynet) can demand that hybrid instruments be written down proportionally with equity if the company's tier 1 capital ratio falls below 5 %, or the capital ratio falls below 8 %. The written down amount relating to the hybrid tier 1 capital shall be written up before dividends can be disbursed to shareholders. Hybrid tier 1 capital is classified as subordinated loan capital in the balance sheet and is measured at fair value with changes in value through profit or loss.

Dividends
Dividends are recognised 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 amortised 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.

If a financial asset is written down due to impairment, a new effective interest rate is calculated based on adjusted estimated cash flows.

Interest income and costs for financial instruments measured at fair value are classified as interest income and interest costs respectively. Other changes in value are classified as income from financial instruments.

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

Fees in conjunction with interest-bearing instruments are not recorded as commissions, but are included in calculating the effective interest rate and recognised through profit or loss accordingly. Advisory/consultancy fees are accrued in accordance with the signed agreement, typically at the time the service is delivered.

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 recognised 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 recognised 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 recognised 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 – Risk management

SR-Boligkreditt AS is an institution that 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 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 authorisation of the board. The chief executive shall implement the company's strategy and develop the strategy further in partnership with the board.

The 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. SR-Boligkreditt AS 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: the risk of being unable to refinance its debt or not having the ability to fund increases in assets without significant additional costs
- 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 70%. 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 company's Treasury Department is responsible for liquidity management, while the 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'. SR-Boligkreditt AS's compliance policy is intended to ensure 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 company'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 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 4 – 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 realise 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.

Income tax

A considerable degree of discretion is required when calculating income tax. There will be some uncertainty associated with the final tax liability with regard to many transactions and calculations. SR-Boligkreditt AS records tax liabilities linked to future decisions in tax cases and disputes based on the additional tax liability that will accrue. If the final outcome of a case differs from the amount originally allocated, the difference will affect the recorded tax costs and allocations for deferred tax in the period the difference is established.

Note 5 – Non-performing and impaired loans

NOK 1 000	30.06.15
Non-performing loans and advances	
Gross non-performing loans above 90 days	0
Provisions for Individual impairment losses	0
Net non-performing loans and advances	**0**
Loan loss provision ratio	**0 %**
Other problem commitments	
Problem commitments	0
Provisions for Individual impairment losses	0
Net other problem commitments	**0**
Loan loss provision ratio	**0 %**

Note 6 – Other liabilities

NOK 1 000	30.06.15
Taxes payable	1.536
Accrued expenses and prepaid revenue	873
Total other liabilities	**2.409**

Note 7 – Capital adequacy

On 22 August 2014, the Ministry of Finance stipulated amendments to the capital requirements regulations that came into effect on 30 September 2014. The amendments were adjustments implemented to comply with the EU's new capital adequacy regulations for banks and securities undertakings (CRD IV/CRR) and entail the minimum requirement for common equity tier 1 capital ratio gradually increasing in the run up to 1 July 2016.

SR-Boligkreditt AS calculates capital requirements using the standard method.

NOK 1 000	30.06.15
Share capital	300.000
Premium reserve	150
Total Common equity Tier 1 capital	**300.150**
Total Tier 1 capital	**300.150**
Net primary capital	**300.150**
Credit risk	1.883.025
Operational risk	33.872
Risk weighted balance	**1.916.897**
Minimum requirement for common equtiy Tier 1 capital ratio 4,5 %	86.260
Buffer requirement	
Capital conservation buffer 2,5 %	47.922
Systemic risk buffer 3 %	57.507
Total buffer requirement to common equity Tier 1 capital ratio	105.429
Available common equity Tier 1 capital ratio after buffer requirement	108.460
Capital ratio	15,66 %
Tier 1 capital ratio	15,66 %
Common equity Tier 1 capital ratio	15,66 %
Leverage Ratio	5,42 %

Note 8 – Issuance of cover bonds

NOK 1 000	30.06.15
Covered bonds	4.996.710
Accrued interests	3.917
Total securities issued	**5.000.627**

	Nominal amount
Change in debt raised through issuance of securities	**30.06.15**
Covered bonds	5.000.000
Total debt raised through issuance of securities	**5.000.000**

Securities issued by maturity date (principal)

Public covered bonds		Nominal amount
	Year	**30.06.15**
	2017	2.500.000
	2018	-
	2019	-
	2020	2.500.000
Sum		**5.000.000**

Note 9 – Asset coverage

The asset coverage is calculated according to the Financial Services Act, section 2-31. There can be a discrepancy between the balance sheet amounts, partly because lending will be reduced due to non-performing loans (no other occurrences of non-performance as of 30 June 2015) and loans subject to a change in the loan-to-collateral value ratio in excess of 75%. Market values for all elements in asset coverage are also used.

NOK 1 000	30.06.15
Covered bonds	5.003.917
Total covered bonds	5.003.917
Loans to customers	5.169.748
Substitute collateral	290.859
Total cover pool	5.460.607
Asset coverage	109,1 %

Note 10 – Events after the balance sheet date

No material events that have influence on the prepared interim financial statements have been recorded after 30 June 2015.

8. Contact Information

Address

Bjergsted Terasse 1
Postboks 250
N-4066 Stavanger

Tel. (+47) 915 02 002

www.sr-bank.no/sr-boligkreditt

Chief executive officer

Dag Hjelle
Tel. (+47) 51 50 94 37
(+47) 909 500 88

Email: dag.hjelle@sr-bank.no