

Annual report 2015

# skandia : banken

## Boligkreditt





## Page Content

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4	Board of Directors' report
7	Income statement
7	Statement of comprehensive income
8	Balance sheet
9	Statement of changes in equity
9	Statement of cash flows
10	Notes
12	Note 1 Accounting principles
16	Note 2 Critical accounting estimates and judgment in applying accounting policies
16	Note 3 The establishment of Skandiabanken Boligkredit AS
17	Note 4 Segments
17	Note 5 Capital adequacy
19	Note 6 Calculation of Leverage Ratio
19	Note 7 Financial risk management
21	Note 8 Credit risk
22	Note 9 Loans to customers
22	Note 10 Loans to customers by geographical area
23	Note 11 Credit risk exposure and collateral
24	Note 12 Loan to value (LTV) and cover pool
25	Note 13 Loans and liabilities to credit institutions
26	Note 14 Loan losses
27	Note 15 Non-performing and doubtful loans
28	Note 16 Liquidity risk
28	Note 17 LCR and NSFR
29	Note 18 Maturity analysis of liabilities
30	Note 19 Debt securities issued
31	Note 20 Market risk
32	Note 21 Repricing structure
32	Note 22 Operational risk
33	Note 23 Net interest income
33	Note 24 Administrative expenses
34	Note 25 Remuneration to the board of directors
34	Note 26 Tax expense
35	Note 27 Classification of financial instruments
35	Note 28 Fair value of financial instruments at amortised cost
37	Note 29 Related party transactions
37	Note 30 Earnings per share
38	Responsibility Statement
39	Auditor's report
41	Report of the Control Committee

# Board of Directors' report

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on a going concern basis, and that the going concern assumption applies. Pursuant to Section 3-9 of the Norwegian Accounting Act, Skandiabanken Boligkreditt AS ("Skandiabanken Boligkreditt" or "the company") prepares annual financial statements in accordance with IFRS.

Skandiabanken Boligkreditt was established in 2015 to be used as a vehicle to fund the Skandiabanken ASA group ("the Group") by issuing covered bonds based on residential mortgages. The company is a wholly owned subsidiary of Skandiabanken ASA ("the bank") with its office located in Bergen, Norway. The establishment of Skandiabanken Boligkreditt and Skandiabanken ASA is described in detail in note 3 to the financial statements.

## Operations in 2015

With effect from 5 October 2015, operations organised in Skandiabanken AB NUF were transferred to and continued in Skandiabanken ASA and the wholly owned covered bond subsidiary Skandiabanken Boligkreditt AS ("the reorganisation"). The two companies constitute the Skandiabanken Group. Skandiabanken ASA was listed on the Oslo Stock Exchange on 2 November 2015.

In connection with the reorganisation, Skandiabanken Boligkreditt issued covered bonds as redemption in kind for the covered bonds previously issued by Skandiabanken AB, related to the Norwegian business.

On 6 October 2015, Moody's assigned a long term Aaa rating for Skandiabanken Boligkreditt's covered bond programme.

The company's residential mortgage portfolio totalled NOK 15.0 billion at year-end 2015. The company had issued debt securities in the form of covered bonds of NOK 12.7 billion at year-end 2015.

## Financial review

Skandiabanken Boligkreditt recorded a net profit of NOK 20.3 million in 2015. The company had an operating income of NOK 31.2 million in 2015, consisting only of net interest income.

Operating expenses were NOK 2.0 million, and consisted mainly of administrative expenses related to the company's hire of management and administrative resources from Skandiabanken ASA as well as issuing cost.

Write-downs on the loan portfolio were NOK 1.3 million and consisted solely of collective write-downs. The loss percentage was 0.04.

The calculated income tax expense was NOK 7.5 million, which corresponds to an effective tax rate of 27.0 percent.

Loans to customers increased to NOK 15.0 billion, representing a net increase of NOK 1.5 billion from the opening balance 5 October 2015.

The increase was a result of acquisition of NOK 2.9 billion in residential mortgage portfolios from Skandiabanken ASA and ordinary repayment from customers in the period.

## Capitalisation, liquidity and financial position

Skandiabanken Boligkreditt had total booked equity of NOK 0.9 billion per 31 December 2015, equivalent to a CET1 ratio of 16.3 percent. As the company has not issued perpetual debt or subordinated debt, the total capital ratio was also 16.3 percent at year-end.

As of 31 December 2015, Skandiabanken Boligkreditt had total liquid assets of NOK 0.5 billion, deposited with the parent bank.

## Allocation of profit and dividend

When considering the allocation of profit and dividend for 2015, the underlying targets, strategic plans and capital adequacy requirements have been taken into account. The Board of Directors has thus proposed the following allocation for 2015:

In NOK thousands	
Net profit for the year	20 343
Dividend	0
Retained earnings	20 343
<b>Total</b>	<b>20 343</b>

In the opinion of the Board of Directors, following the proposed allocations, Skandiabanken Boligkreditt will have a strong financial position and have sufficient flexibility to support the planned activities in the Group.

## Strategy

Skandiabanken Boligkreditt is Skandiabanken ASA's vehicle for funding of residential mortgages on competitive terms. The issue of covered bonds secured by the company's cover pool ensures favourable funding for the banking group. The bonds are currently offered only in the Norwegian market.

Skandiabanken Boligkreditt offers mortgages for retail customers that are secured within 75 percent of Loan to Value (LTV). New mortgages are sold through the bank's distribution channels.

Skandiabanken ASA is responsible for customer relations and customer contact, marketing and product development. Credit underwriting is also performed by the bank pursuant to its credit policy, credit strategy and credit processes.

Skandiabanken Boligkreditt acquires high-quality and eligible mortgages from the bank. The quality and risk profile of the mortgages included in the cover pool ensures that the company's Aaa rating target for its covered bonds is met.

## Corporate Governance

Skandiabanken Boligkreditt's corporate governance principles are based on Skandiabanken ASA's corporate governance policy. The Group's policy follows the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

Skandiabanken ASA's policy for corporate social responsibility sets the standards for all of the Group's work on both the observance and the further development of corporate social responsibility.

# Board of Directors' report (continued)

The Board of Directors of Skandiabanken ASA has sub-committees; the Audit Committee and the Risk Management Committee. In addition, the Board of Directors in Skandiabanken Boligkredit has a Risk Management Committee that supports the Board of Directors in the exercising of its management and supervisory responsibilities concerning risk and capital management.

The Board of Directors of Skandiabanken Boligkredit reviews the financial reporting process. The company follows the Group's policy for financial governance, which includes requirements for quality assurance of financial reporting processes to ensure relevant, timely and uniform reporting to internal stakeholders, regulators and capital market participants.

Skandiabanken Boligkredit's administration reviews the process of internal control over financial reporting, and implements adequate and effective internal processes in accordance with established requirements. Processes include control measures to ensure that the financial reporting is of high quality.

The Board of Directors approves the management's proposed financial statements for Skandiabanken Boligkredit.

## Risk management

Skandiabanken Boligkredit's core business is to issue covered bonds based on residential mortgages and thereby create value by assuming recognised and acceptable risks deriving from this. The Board of Directors defines the risk limits and principles for the risk management. These principles includes identification and assessment of material risks and reporting to the Board of Directors of any such risks, execution of risk assessment before any material changes are effectuated, and defined limits to each risk category.

The company classifies the following risk categories:

- *Credit risk*, defined as the risk of loss resulting from a counterparty not fulfilling their obligations, at the same time as the collateral pledged does not cover the outstanding claim. All mortgages owned by the company have been granted in Skandiabanken ASA pursuant to the parent bank's credit risk framework. In order to secure that mortgages sold to the company is compliant with regulation and other internal policies, the company has established a set of criteria that has to be fulfilled before a sale is concluded. The credit risk of the company is considered to be low.
- *Market risk*, defined as the risk of loss due to unfavourable changes in market variables, such as interest rates, exchange rates and credit spreads. The company does not assume any currency risk. The main source of market risk is interest rate risk, and to a lesser degree credit spread risk (related to the liquidity management of the company). Interest rate risk is managed in accordance with regulation and internal limits approved by the Board of Directors. The market risk of the company is considered to be low.

- *Liquidity risk* which is comprised of refinancing risk (the risk of the company being unable to refinance its obligations as they fall due for payment, and the risk of the company being unable to finance planned growth) and price risk (the risk of the company being unable to refinance its obligations without a material rise in costs or that financing growth will cost substantially more). The liquidity risk is managed by limits that secure a sound maturity profile of the company's bonds. A stress test of a sharp decline in housing prices is performed quarterly and presented to the Board of Directors. The liquidity risk of the company is considered to be low.

- *Operational risk*, which is defined as unexpected fluctuations in results which are attributable to inadequacies or failures in internal processes and systems, employees or external events. Operational risk is handled by the same principles that apply in the parent bank. The risk is considered to be low to moderate.

## Regulatory changes

As of 31 December 2015, the minimum capital requirement, including the buffer requirements, but excluding any Pillar 2 requirements, is 14.5 percent. Of this, 11 percentage points shall be met with CET1 capital. From 30 June 2016, the countercyclical buffer increases from 1 percent to 1.5 percent and the capital requirement thus increases accordingly. Skandiabanken Boligkredit stipulates its Pillar 2 requirement in its ICAAP process - this was performed in the first quarter of 2016, and the Pillar 2 requirement was stipulated to 0.9 percent. From 30 June 2016 the company thus expects a capital requirement of 15.9 percent of which 12.4 percentage points should be met with CET1 capital. The company plans to strengthen its capital ratio in 2016 by issuing tier 1 capital (hybrid capital) and tier 2 capital (subordinated debt).

In Norway, the Ministry of Finance has decided to introduce the Liquidity Coverage Ratio (LCR) ahead of the EU implementation schedule. Skandiabanken Boligkredit will be required to meet the 70 percent LCR requirement as from 30 June 2016.

## Subsequent events and Outlook

Henning Nordgulen, CFO in Skandiabanken ASA, was appointed CEO of Skandiabanken Boligkredit with effect from 1 January 2016.

Skandiabanken ASA lowered the interest rate level for mortgages as well as deposit products with effect from 30 March 2016. Norges Bank lowered its key policy rate from 0.75 percent to 0.50 percent on 17 March 2016.

The economic forecasts from Norges Bank document an increasing unemployment in regions with a strong connection to the petroleum sector, and indicate that unemployment is expected to increase somewhat in 2016. The growth in housing prices also weakened in 2015, but there are regional differences, and in some areas housing prices have corrected as a result of the development in the petroleum sector.





# Board of Directors' report (continued)

However, a lower interest rate level and a weakened NOK exchange rate has in isolation a stimulating effect on the mainland economy, and the low interest rate level has a stimulating effect on the housing market. The incumbent government is showing willingness to implement measures in order to stimulate the Norwegian economy.

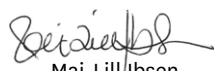
Based on implemented price changes, Skandiabanken Boligkreditt expects a relative stable development in the interest margin short term. Should Norges Bank implement further reductions to the key policy rate in 2016, the net interest margin could be reduced during the year.


Covered bonds are expected to represent an increasing part of the overall funding in the Group in the years to come.

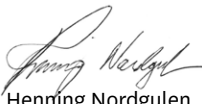
Bergen 31 March 2016

  
Petter Skouen  
(Chairman)

  
Per Morten Christiansen

  
Mai-Lill Ibsen

  
Ragnhild Wiborg

  
Henning Nordgulen  
(CEO)

# Income statement

In NOK thousands	Note	2015
Interest income	23	86 240
Interest expense	23	-55 057
<b>Net interest income</b>		<b>31 183</b>
Net gains / (losses) on financial instruments		0
Other income		0
<b>Other operating income</b>		<b>0</b>
Personnel expenses		0
Administrative expenses	24	-2 044
<b>Profit before loan losses</b>		<b>29 139</b>
Loan losses	14	-1 272
<b>Profit before tax</b>		<b>27 867</b>
Tax expense	26	-7 524
<b>Net profit</b>		<b>20 343</b>
<b>Attributable to</b>		
Attributable to shareholders		20 343
<b>Profit for the period</b>		<b>20 343</b>

Earnings per share, see note 30

# Statement of comprehensive income

In NOK thousands	2015
<b>Profit for the period</b>	<b>20 343</b>
<b>Other comprehensive income</b>	
Other comprehensive income that can be reclassified to profit or loss after tax	0
Other items that can not be reclassified to profit or loss after tax	0
<b>Total components of other comprehensive income (after tax)</b>	<b>0</b>
<b>Total comprehensive income for the period</b>	<b>20 343</b>
<b>Attributable to</b>	
Attributable to shareholders	20 343
<b>Total comprehensive income for the period</b>	<b>20 343</b>

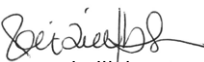
# Balance sheet

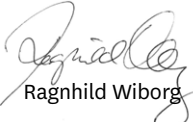
In NOK thousands	Note	31.12.15
<b>Assets</b>		
Loans to and receivables from credit institutions	13	491 146
Loans to customers	8,9,10,11,14	14 985 711
<b>Net loans to customers and credit institutions</b>		<b>15 476 857</b>
Other assets		0
Advance payment and accrued income		15 354
<b>Total assets</b>		<b>15 492 210</b>
<b>Liabilities</b>		
Loans and deposits from credit institutions	13,29	1 853 330
Debt securities issued	19	12 672 989
Taxes payable	26	7 524
Other liabilities		37 994
<b>Total liabilities</b>		<b>14 571 837</b>
<b>Equity</b>		
Share capital		60 030
Share premium		840 000
Other equity		20 343
<b>Total equity</b>		<b>920 373</b>
<b>Total liabilities and equity</b>		<b>15 492 210</b>

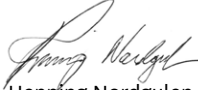
Bergen 31 March 2016

  
Petter Skouen  
(Chairman)

  
Per Morten Christiansen

  
Mai-Lill Ibsen

  
Ragnhild Wiborg

  
Henning Nordgulen  
(CEO)

# Statement of changes in equity

In NOK thousands	Share capital	Share premium	Other equity	Total equity
Paid share capital in connection with the foundation 17.04.15	30	0	0	30
Capital increase 05.10.2015, with transfer of assets (non-cash contribution)	60 000	840 000	0	900 000
Profit for the period	0	0	20 343	20 343
<b>Balance sheet as at 31.12.15</b>	<b>60 030</b>	<b>840 000</b>	<b>20 343</b>	<b>920 373</b>

Skandiabanken Boligkredit is a wholly owned subsidiary of Skandiabanken ASA.

# Statement of cash flows

In NOK thousands	Note	2015
<b>Cash flows from operating activities</b>		
Net payments on loans to customers*	9, EQ	-14 086 953
Interest received on loans to customers	23	70 730
Interest paid on loans and deposits from credit institution	23	-10 360
Payments related to administrative expense		0
Taxes paid		0
Other receipts/payments		-448
<b>Net cash flows from operating activities</b>		<b>-14 027 031</b>
<b>Cash flows from investment activities</b>		
<b>Net cash flows from investment activities</b>		<b>0</b>
<b>Cash flows from funding activities</b>		
Receipts on issued covered bonds*	3, 19	13 437 989
Payments on matured and redeemed covered bonds	19	-765 000
Interest paid on subordinated loan capital		-8 142
Receipts on loans and deposits from credit institution	13	1 853 330
<b>Net cash flows from financing activities</b>		<b>14 518 177</b>
<b>Total net cash flows</b>		<b>491 146</b>
Cash at the beginning of the period		0
Cash at the end of the period		491 146
<b>Change in cash</b>		<b>491 146</b>
<b>Cash</b>		
Loans to credit institutions		491 146
<b>Total cash</b>		<b>491 146</b>

\* The changes are mainly related to transfer of loans and covered bonds between Skandiabanken ASA and Skandiabanken Boligkredit on the 5 October 2015, also see note 3.  
EQ = Statement of changes in equity.

# 10

Notes



# Note 1 Accounting principles

## 1. General information

Skandiabanken Boligkreditt AS ("Skandiabanken Boligkreditt" or "the company") is incorporated in Norway. Its registered office is Folke Bernadottesvei 38 in Bergen, Norway. The company's principal activity is to provide and acquire residential mortgages and finance lending activities by issuing covered bonds.

Skandiabanken Boligkreditt was incorporated on 17 April 2015. Operations started on 5 October 2015, after a transaction where Skandiabanken AB NUF (branch of Skandiabanken AB in Sweden) was reorganised into Skandiabanken ASA and Skandiabanken Boligkreditt AS. The reorganisation is accounted for as a capital reorganisation. Reference is made to note 3 for a description of the transaction and the accounting treatment. The parent company Skandiabanken ASA was listed on Oslo Stock Exchange on 2 November 2015.

## 2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The company has applied all standards and interpretations approved by International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), as endorsed by EU, that are relevant to the business of the company and that are mandatory for accounting periods starting 1 January 2015.

The financial statements have been prepared for the period 17 April 2015 to 31 December 2015. As the company had no operations prior to 5 October 2015, that date is used for presentation purposes.

These financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value through profit or loss.

Management prepared these financial statements on a going concern basis, and the financial statements were approved by the Board of Directors 31 March 2016.

## 3. New or revised standards and interpretations effective from 1 January 2015

The company has not adopted any new standards, revised standards or interpretations effective from 1 January 2015 that have had a material impact on the financial statements.

In addition, IFRS 8 Operating segments, is mandatory for the company. Skandiabanken Boligkreditt consider its business to be one operating segment, "Private consumer market".

## 4. New and revised standards effective from 1 January 2016 or later

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the company has not early adopted.

### *IFRS 15 Revenue from contracts with customers*

IFRS 15 will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. Management is yet to assess the full effects of the standard, but the preliminary view is that the impact will be limited except for increased disclosure requirements.

### *IFRS 9 Financial instruments: Classification and measurement*

IFRS 9 Financial instruments introduce new features of categorising financial instruments and measurement. IFRS 9 is effective for accounting periods starting on 1 January 2018 or later.

The key features of IFRS 9 are as follows:

Financial assets are required to be classified into three categories: fair value through other comprehensive income, fair value through profit or loss and amortised cost. The decision is to be made at initial recognition, and the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other financial instruments are to be measured at fair value through profit or loss.

IFRS 9 also introduces the expected loss model, in which the entity will recognise expected loss for the next twelve months on initial recognition rather than today's practice of recognising loss when it is incurred.

Hedge accounting requirements were amended to align accounting more closely with risk management.

Managements is yet to quantify the effects of the standard, but expects a change in recognised loss provisions.

### *IFRS 16 Leases*

IFRS 16 will be effective as of 1 January 2019. The standard is not yet endorsed by EU. In accordance with IFRS 16, all future lease payment obligations under material lease agreements with a lease term of more than 12 months, shall be recognised in the balance sheet as a liability. Accordingly, the future right to use the leased assets shall be recognised in the balance sheet as an asset.

## 5. Revenue recognition

Interest income is recognised on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability.

## 6. Foreign currency translation

The presentation currency and functional currency of Skandiabanken Boligkreditt is NOK. Transactions in foreign currency are translated into the functional currency at the exchange rate on the date of transaction. Realised currency gains or losses arising from the settlement of transactions and from the translation of monetary assets and liabilities at the end of the period exchange rates are recognised in profit or loss.

## 7. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Skandiabanken Boligkredit and that the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

## 8. Intangible non-current assets

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Skandiabanken Boligkredit are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- The expenditure attributable to the software during its development can be reliably measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

## 9. Financial instruments

### *Recognition and derecognition*

Financial instruments are recognised when the entity becomes a party to the contractual provisions of the instrument. All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("ordinary way" purchases and sales) are recorded at trade date, which is the date on which Skandiabanken Boligkredit commits to deliver a financial asset. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

Skandiabanken Boligkredit derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) Skandiabanken Boligkredit has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Financial assets are on initial recognition classified in one of the following categories:

- Trading
- Loans and receivables
- Financial assets at fair value through profit or loss
- Available-for-sale
- Investments held to maturity

### *Trading*

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or that on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with cash flows that are fixed or determinable that are not quoted in an active market

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial assets and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If Skandiabanken Boligkredit determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

### *Investment securities available for sale*

This classification includes investment securities which Skandiabanken Boligkredit intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available for sale are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when Skandiabanken Boligkredit's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.



## >> Note 1 Accounting principles (continued)

### *Investments held to maturity*

Held-to-maturity investments are non-derivate financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than:

- Those that the entity upon initial recognition designates as at fair value through profit or loss
- Those that the entity designates as available for sale; and
- Those that meet the definition of loans and receivables.

Investments held to maturity is recognised at amortised cost using the effective interest method.

### **10. Financial debt**

The company's financial debt consist of debt to other banks and issued securities (covered bonds).

### *Due to other banks*

Amount due to banks are recorded at fair value on initial recognition, and subsequently carried at amortised cost using the effective interest rate method.

### *Debt securities issued*

Skandiabanken Boligkreditt issues covered bonds. The covered bonds are recognised initially at fair value adjusted for transaction costs. Subsequently, the covered bonds are carried at amortised cost using the effective interest rate method.

### **11. Fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For financial assets with quoted prices in an active market place, fair value is determined to be the quoted price on the last trade date prior to the measurement date.

When a price for an asset or liability is not observable in an active market, Skandiabanken Boligkreditt measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Valuation techniques include discounted cash flow models and option pricing models.

### **12. Dividends**

Dividends from investments are recognised when the company has an unconditional right to receive the dividend.

### **13. Liabilities accruals**

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when Skandiabanken Boligkreditt has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

### **14. Income tax**

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax losses carried forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill, and subsequently for goodwill which is not deductible for tax purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

### **15. Operating segments**

Skandiabanken Boligkreditt has only one reporting segment, which comprises mortgages to private individuals. Management follows up the company only in relation to this segment.

## Note 2 Critical accounting estimates and judgment in applying accounting policies

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying Skandiabanken Boligkredit's accounting policies. This note provides an overview of the areas that involve a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be incorrect.

Skandiabanken Boligkredit makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

### 1. Fair value of financial assets and financial liabilities

There is an inherent uncertainty related to the fair value of financial instruments that are not quoted in an active market, in particular securities that are recognised at fair value using unobservable inputs (Level 3 in the fair value hierarchy).

Financial assets and debt recognised at fair value, either due to classification as held for trade, designated at fair value through profit or loss on initial recognition (fair value option) or held for sale, shall be classified in a fair value hierarchy depending on the reliability of the fair value estimate. Level 1 is assets or liabilities priced in an active market, level 2 are prices determined based on observable input data from similar assets (either directly or indirectly) and level 3 is fair value based on unobservable input data.

#### *Fair value hierarchy*

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has access to at the reporting date. Active market is a market where quoted prices are easily accessible at a stock exchange or similar trading place, a broker or other entity that publish price information. Quoted prices shall represent actual and frequent transactions.

Level 2: Other prices than the quoted prices in level 1 and that are observable either directly or indirectly. Interest-bearing bonds that are valued based on prices sourced from trading places, brokers or other entities that publish price information, but where there are no active market since no official prices are available, are categorised as level 2. When using valuation methods, external data are applied to discounted cash flows (e.g. prices quoted by third-parties or prices for similar instruments). The discount rate is implicit in the market interest rate with respect to credit- and liquidity risk. For all financial instruments on level 2, fair value is determined by discounted cash flow models.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

### 2. Impairment losses

Loans and advances carried at amortised cost are assessed for impairment at each balance sheet date. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If Skandiabanken Boligkredit determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factors that Skandiabanken Boligkredit considers when determining whether a financial asset is impaired are its overdue status and whether the collateral cover the outstanding claim. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that Skandiabanken Boligkredit obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.



## >> **Note 2 Critical accounting estimates and judgment in applying accounting policies (continued)**

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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## **Note 3 The establishment of Skandiabanken Boligkreditt AS**

### **Background**

In January 2015, Livförsäkringsbolaget Skandia, ömsesidigt announced that it was considering a listing of Skandiabanken AB's Norwegian banking business (Skandiabanken AB NUF to facilitate continued growth. Skandiabanken ASA was floated on the Oslo Stock Exchange on 2 November 2015. Skandiabanken AB's Norwegian business was organised as a branch of Skandiabanken AB, and legally registered in Norway as Skandiabanken AB NUF. In order to spin the business off as an independent listed company, a number of transactions were carried out in advance of the flotation.

Skandiabanken Boligkreditt was incorporated on 17 April 2015 as Midgard Prosjekt II AS, a wholly owned subsidiary of Midgard Prosjekt I ASA (which later changed its name to "Skandiabanken ASA"). The company's objective is to act as a Covered Bond company for the Group in Norway. On 5 October 2015, the business belonging to Skandiabanken AB NUF was transferred in a cross-border demerger/merger (pursuant to § 14-12(4) of the Public Limited Companies Act and Chapter 11 of the Taxation Act) to Midgard Prosjekt I ASA. Simultaneously, residential mortgages were transferred from Skandiabanken AB to Skandiabanken Boligkreditt, enabling the issuance of Covered Bonds in the Norwegian market to be used as "redemption-in-kind" to the Covered Bonds formerly issued by Skandiabanken AB related to the Norwegian business. Consequently the former bonds were swapped for newly issued bonds from Skandiabanken Boligkreditt on the original terms and conditions.

Skandiabanken AB retained all rights in the transaction to the brand name "Skandiabanken", "Skandia", "Ideer for livet", domain names associated with the brand names and liabilities associated with tax for Skandiabanken AB. Since Skandiabanken AB NUF had never had these rights, it is not deemed to be a relevant issue in the assessment below. All other assets and liabilities associated with the Norwegian business were spun off from Skandiabanken AB.

### **Recognition and presentation in the company's financial statements**

A transaction encompassing companies under the same control, a newly incorporated parent which has had no commercial activity before the transaction(s) and where the parent company takes over an existing business is a transaction that must be recognised as a "capital reorganisation". Such a transaction is not deemed to be a business combination under IFRS 3, nor a combination with reverse takeover, since the newly established parent has no existing business. The establishment of the Skandiabanken ASA group, where the business previously belonging to Skandiabanken AB NUF and assets and liabilities associated with the Norwegian business operated through the branch Skandiabanken AB NUF are transferred to the newly established companies Skandiabanken ASA and Skandiabanken Boligkreditt, is deemed to represent such a case.

## Note 3 The establishment of Skandiabanken Boligkreditt AS (continued)

This means that assets and liabilities in the existing business are recognised in Skandiabanken ASA's consolidated financial statements at their book value at the time the transaction took place (continuity). The reason for this is that, for accounting purposes, there is no financial substance to the transaction, since, in reality, the new group structure takes over the entire business previously organised in the branch, Skandiabanken AB NUF and thereby reflects the profit/loss and balance of the existing business. The only thing that is changed by the transactions is the legal structure. In a capital reorganisation the new company's consolidated financial statements will reflect the existing business's results (including comparable figures), even though the reorganisation has occurred in the middle of a financial period. In the financial statements of Skandiabanken Boligkreditt (formerly Midgard Prosjekt II AS), it will also be natural to make use of a capital reorganisation perspective, since it is a transaction under the same control, where a newly incorporated "subsidiary" has no commercial activity before the transaction takes place.

With respect to the presentation of comparable figures, one must however, take into account that only part of the business belonging

to Skandiabanken AB NUF has been transferred to Skandiabanken Boligkreditt. The objective of showing a full accounting history in a capital reorganisation is to show the unit as if no transaction has occurred, since performance of the transactions causes no real financial change on the part of the joint owner. However, for Skandiabanken Boligkreditt's financial statements there will not be a one-to-one relationship between the old business in Skandiabanken AB NUF and the new Skandiabanken Boligkreditt. It is therefore not expedient to present comparable figures, since only part of the former business has wound up in the company. Such an apportionment could quickly give the impression of being pro forma, since many of the items must be allocated.

In our view, there is no obligation to choose the same solution for the consolidated financial statements and the individual company financial statements. One can therefore choose to present the company's financial statements only for the period in which the company has existed (but where assets taken over from Skandiabanken AB NUF are measured and recognised at Skandiabanken AB NUF's book values at that time, i.e. another variant of the continuity perspective).

## Note 4 Segments

Skandiabanken Boligkreditt has only one reporting segment, which comprises residential mortgages to private individuals.

## Note 5 Capital adequacy

The capital adequacy regulations are intended to improve institutions' risk management and achieve closer concordance between risk and capital. The applicable regulations for Norwegian banks are adapted to the EU's capital adequacy regulations for credit institutions and investment firms (CRD IV/CRR).

Skandiabanken Boligkreditt uses the standard method to establish the calculation basis for credit risk and the basic method to establish the calculation basis for operational risk. At the reporting date no exposure was included in the calculation basis for market risk.



## >> Note 5 Capital adequacy (continued)

In NOK thousands		2015
	Nominal exposure	Risk weighted volume
Institutions	491 146	98 229
Retail	11	8
Residential mortgages	14 997 033	5 265 485
Exposures in default	4 020	4 020
Other items	1	1
<b>Total credit risk, standard method</b>	<b>15 492 210</b>	<b>5 367 743</b>
Operational risk		282 186
<b>Total risk weighted volume</b>		<b>5 649 929</b>
<b>Capital base</b>		
Share capital		60 030
Share premium		840 000
Other equity		20 343
<b>Total booked equity</b>		<b>920 373</b>
Additional Tier 1 capital instruments included in total equity		0
<b>Common equity Tier 1 capital instruments</b>		<b>920 373</b>
<i>Deductions</i>		
Goodwill, deferred tax assets and other intangible assets		0
Value adjustment due to the requirements for prudent valuation (AVA)		0
<b>Common equity Tier 1 capital</b>		<b>920 373</b>
Additional Tier 1 capital		0
<b>Tier 1 capital</b>		<b>920 373</b>
Tier 2 instruments		0
<b>Own funds (primary capital)</b>		<b>920 373</b>
<b>Specification of capital requirements</b>		
Minimum required CET1 capital	4.5 %	254 247
Capital conservation buffer	2.5 %	141 248
Systemic risk buffer	3.0 %	169 498
Countercyclical capital buffer	1.0 %	56 499
Additional Tier 1 capital	1.5 %	84 749
Tier 2 instruments	2.0 %	112 999
<b>Total minimum and buffer requirements own funds (primary capital)</b>	<b>14.5 %</b>	<b>819 240</b>
Available CET1 capital after buffer requirements		101 134
Available own funds (primary capital)		101 134
<b>Capital ratio %</b>		
Common equity Tier 1 capital		16.3 %
Tier 1 capital		0.0 %
Tier 2 instruments		0.0 %
<b>Total capital ratio</b>		<b>16.3 %</b>

## Note 6 Calculation of Leverage Ratio

According to section 14-4 of the Norwegian Finance Institutions Act, Tier 1 Capital or Common equity Tier 1 Capital in financial institutions shall at least comprise a defined percentage of the value of the company's assets and off-balance sheet liabilities, calculated without a risk weighting (Leverage Ratio). The Leverage Ratio is intended to prevent banks from using too low a calculation basis in the capital adequacy calculations, and to ensure that banks maintain a minimum capital, even with skewing of the portfolio towards low-risk segments. The Leverage Ratio is discussed in the CRD IV Regulation (CRR, EU No. 575/2013) Article 430.

The Basel Committee's original proposal from 2011 was based on a minimum requirement of 3 percent. The EU Commission has not

proposed any final minimum requirements and they are discussing differentiated requirements depending on the business model. The Norwegian Ministry of Finance has instructed the Financial Supervisory Authority of Norway ("Finanstilsynet") to draw up a consultation memorandum and regulations on the Leverage Ratio by March 2016, including definitions of the denominator and the numerator used in the capital fraction. Finanstilsynet has also been mandated to assess which level it will be appropriate to apply.

The table below shows the calculation at the end of the year based on existing rule proposals.

In NOK thousands	2015
Off balance sheet commitments	0
Loans, advances and other assets	15 492 210
Regulatory adjustments included in Tier 1 capital	0
<b>Total leverage exposure</b>	<b>15 492 210</b>
<b>Tier 1 capital</b>	<b>920 373</b>
<b>Leverage ratio (%)</b>	<b>5.9 %</b>

## Note 7 Financial risk management

Skandiabanken Boligkredit's risk strategy comprises a combination of its risk philosophy and risk management principles.

### Risk philosophy

Skandiabanken Boligkredit's core business involves issuing or purchasing residential mortgages, property mortgages and funding of the lending activity, primarily through the issuance of covered bonds. Skandiabanken Boligkredit shall not assume any material risk other than that deriving from this core business, i.e. primarily credit risk and liquidity risk.

The company shall have a sound risk culture, based on openness, transparency and competence, and shall constantly challenge its methods, processes and procedures in order to improve its performance.

### Risk management principles

Skandiabanken Boligkredit shall adopt a holistic approach to risk management. The following principles therefore apply:

- Skandiabanken Boligkredit's Board of Directors shall establish specific management frameworks for each risk area.
- Risk management and reporting shall be performed in accordance with applicable frameworks and objectives.
- Risk management shall be an ongoing and continuous process.
- Risk reporting shall be framed in an understandable manner and provide a clear picture of Skandiabanken Boligkredit's risk situation to all stakeholders.
- Responsibility for entering into agreements that cause the company to incur risk is delegated through personal authorisations.

### Organisation of risk management

Skandiabanken Boligkredit's organisation of risk management is designed so as to secure implementation of the Company's risk strategy.

Skandiabanken Boligkredit does not currently employ any staff. The CEO's services are hired from the bank. Skandiabanken Boligkredit's functions for handling risk and capital management include:

- The Board of Directors, and the Board's Risk Management Committee
- The CEO
- The bank's Risk Management function
- The bank's Finance functions, including CFO, Asset and Liability Committee ("ALCO") and Treasury
- Internal Auditor
- External Auditor
- Independent Inspector

### The Board of Directors

The Board of Directors has the principal responsibility for ensuring that the company manages risk efficiently. The Board of Directors establishes the company's risk policy and guidelines. The Board of Directors revises and approves the risk policy at least yearly. The Board of Directors secures implementation of and compliance with the provisions of the policy, primarily by reviewing and acting on relevant reports.

The Board of Directors is further responsible for ensuring that management has sufficient capacity and competence to comply



## >> Note 7 Financial risk management (continued)

with Skandiabanken Boligkredit's requirements for management of defined risk areas in a satisfactory manner. The Board of Directors is responsible for ensuring that Skandiabanken Boligkredit has adequate regulatory capital and liquidity to satisfy regulatory, and internal, requirements. The Risk Management Committee supports the Board of Directors in the exercising of its management and supervisory responsibilities concerning:

- Formulation of risk tolerance and risk strategy
- Follow-up of implementation of the risk strategy
- Management and control arrangements
- Capital requirements, gearing targets and risk profile

### CEO

The CEO of Skandiabanken Boligkredit bears the principal operative responsibility for Skandiabanken Boligkredit's aggregate risk management and is responsible for establishing an effective control environment. The CEO is responsible for ensuring that the risk policy is implemented. The CEO is also responsible for ensuring that the Board of Directors receives relevant and timely information about any non-compliance from or required changes to the risk policy. In order to secure proper management of relevant risks and a focus on prioritised areas, the CEO is further responsible for establishing clear targets and frameworks for risk management. The CEO also ensures that Skandiabanken Boligkredit has adequate systems for identifying, measuring, reporting and monitoring risk and that the company's risk management is adequately documented.

### *The bank's Risk Management function*

The bank's Risk Management function is headed by the Chief Risk Officer (CRO).

The CRO establishes the structure and framework for the risk policy, and develops and maintains systems for identifying, measuring, reporting and monitoring risk. The CRO is further responsible for establishing a control structure that ensures that Skandiabanken Boligkredit's guiding documents, including non-conformance reporting, comply with relevant requirements.

Risk Management prepares reports, analyses and proposed measures to secure effective risk management in Skandiabanken Boligkredit. Risk Management assists with methodology and systems used in Skandiabanken Boligkredit's annual assessment of ICAAP – the Internal Capital Adequacy Assessment Process.

*The bank's Finance function, including CFO, ALCO and Treasury*  
Skandiabanken Boligkredit's funding activities are operated in close collaboration with the bank's Liquidity Management function, for which the Chief Financial Officer (CFO) is the executive officer. The bank's liquidity management is exercised in accordance with the bank's policies for respectively liquidity and market risk.

The bank's Treasury function is also responsible for Skandiabanken Boligkredit's operative liquidity management. This includes the implementation of liquidity operations (Front Office), monitoring of frameworks (Middle Office), and settlement functions (Back Office).

All liquidity operations in Skandiabanken Boligkredit are embedded in the bank's financing plan, which is determined by the bank's ALCO. The bank's liquidity risk policy contains guidelines on how changes to the funding plan should be implemented, if required.

### *Internal Auditor*

The Internal Auditor reports directly to Skandiabanken Boligkredit's Board of Directors and is responsible for controlling the structure and framework of the risk policy, and that guiding documents, including non-compliance reporting, comply with relevant requirements.

### *External Auditor*

The company's External Auditor reports to the Board of Directors.

### *Independent Inspector*

The Independent Inspector is appointed by Finanstilsynet and mandated to monitor compliance with legislative and regulatory requirements. The Inspector regularly reports to Finanstilsynet on observations and evaluations. The Inspector also reports to the Board of Directors quarterly whether any non-compliances have been identified.

## Note 8 Credit risk

### Credit risk

Credit risk accounts for the bulk of Skandiabanken Boligkredit's risk. Credit risk is defined as the risk of loss resulting from a counterparty not fulfilling its obligations, and pledged collateral not covering the outstanding claim.

The company's lending to the public comprises mass-market exposures with individuals, in the form of loans secured against freehold or leasehold property.

Credit approval and underwriting is performed by Skandiabanken ASA. Risk attaching to mass-market lending for all credit cases is managed by assessing the borrower's ability and propensity to pay, and by valuing any collateral. Account is also taken of the borrower's aggregate exposure, including any exposure attributable to co-borrowers. Credit assessments are essentially performed by applying automated credit rules in which credit scoring represents a key element.

Credit risk models are used to measure credit risk related to mass-market lending. Credit risk is classified and quantified using a number of different systems, processes and methods. Credit scoring models are based on statistical data. These models estimate the probability of defaults, taking into account factors such as payment history, income, assets and the number of borrowers. Losses on collateralised loans are estimated based on defaults, where the extent of losses is based on the value of collateral in relation to the size of the loan.

Counterparty risk, including for derivatives, is included in credit risk. Credit risk also includes concentration risk, including risk relating to material exposure to a specific customer group or geographical area. This risk is mitigated through product and geographical diversification.

Rules and tools for credit assessment shall ensure that the bank avoids high-risk credit exposures. Please refer to note 11 for an overview of exposure to credit risk and associated collateral.

### Risk classification of lending to the mass market

Risk is measured and monitored by calculating economic capital in the lending portfolio. The main components for this calculation are Probability of Default (PD), Expected Exposure at Default (EAD) and Loss Given Default (LGD).

PD is defined as the probability of a customer defaulting on its exposure during the next 12 months. This could include payment defaults of more than 60 days of a minimum of NOK 200 or other specific matters that affect the customer's ability to service the loan. PD for the mortgage portfolio is calculated using statistical models based on logistic regression of internal data.

The following grouping is used to classify PD:

- Low risk: PD < 1.25 %
- Moderate risk: PD 1.25 %–5 %
- High risk: PD > 5 %

In NOK thousands	31.12.15	
Gross loans distributed in risk groups	Mortgages	Total
Low risk	14 285 531	14 285 531
Medium risk	422 022	422 022
High risk	275 412	275 412
<b>Total not defaulted or doubtful</b>	<b>14 982 965</b>	<b>14 982 965</b>
Non-performing and doubtful loans	4 018	4 018
<b>Total gross loans</b>	<b>14 986 983</b>	<b>14 986 983</b>

In NOK thousands	31.12.15	
Unutilised credit lines distributed in risk groups	Mortgages	Total
Low risk	0	0
Medium risk	0	0
High risk	0	0
<b>Total non-matured or written down</b>	<b>0</b>	<b>0</b>
Non-performing and doubtful loans	0	0
<b>Total unutilised credit lines</b>	<b>0</b>	<b>0</b>
<b>Loan- and funding commitments</b>	<b>0</b>	<b>0</b>
<b>Maximum exposure to credit risk</b>	<b>14 986 983</b>	<b>14 986 983</b>

## Note 9 Loans to customers

In NOK thousands	31.12.15
<b>Loans to customers</b>	
Loans without agreed maturity or notice period	0
Loans with agreed maturity or notice period	14 986 983
<b>Total loans to customers (gross)</b>	<b>14 986 983</b>
Write-downs for individually assessed impaired loans	0
Write-downs for collectively assessed impaired loans	1 272
<b>Total loans to customers (net)</b>	<b>14 985 711</b>
<b>Residual time to maturity (gross loans)</b>	
Upon request	0
Maximum 3 months	190 358
3 months - 1 year	569 010
1-5 years	2 989 093
More than 5 years	11 238 522
<b>Total</b>	<b>14 986 983</b>

## Note 10 Loans to customers by geographical area

Lending by geographical area\*

In NOK thousands	31.12.2015	
Geographical area	Percentage	Gross lending
Østfold	4.4 %	666 271
Akershus	24.4 %	3 656 533
Oslo	23.5 %	3 527 264
Hedmark	0.8 %	120 888
Oppland	0.9 %	130 685
Buskerud	5.5 %	823 645
Vestfold	3.4 %	510 967
Telemark	0.5 %	79 117
Aust-Agder	0.6 %	86 930
Vest-Agder	1.0 %	154 638
Rogaland	8.6 %	1 289 934
Hordaland	14.1 %	2 117 453
Sogn og Fjordane	0.2 %	22 503
Møre og Romsdal	1.4 %	212 713
Sør-Trøndelag	4.5 %	671 922
Nord-Trøndelag	0.4 %	61 714
Nordland	2.0 %	300 957
Troms	3.1 %	468 653
Finnmark	0.6 %	84 196
<b>Total gross lending per geographical area</b>	<b>100.0%</b>	<b>14 986 983</b>

\* The basis for the geographical distribution is the customer's residential address.

## Note 11 Credit risk exposure and collateral

Credit risk or counterparty risk is the risk of loss as a result of the the company's customers and counterparties failing to satisfy their payment obligations. The company's maximum credit exposure is the book value of financial assets and any associated off-balance sheet liabilities.

The company's customer exposures comprises the bulk of the company's total credit exposure. A high percentage of the company's lending is collateralised. Collateral in the private retail market essentially comprise fixed property.

The table below shows the relationship between total credit exposure and associated collateral, allocated to each exposure

class for mortgages. Lending secured against homes includes the percentage allocation of exposure relating to the various loan-to-value levels. For example, the line 0-40 % means that the exposures amount to less than 40 percent of the value of the collateral. 100 % means that the loan amount exceeds the value of the collateral object. The entire loan per collateral object is placed in the same loan-to-value category.

The property values on which the calculations are based are updated in the last month of each quarter and are therefore representative of the current market value. The calculation of loan-to-value does not take into account any additional collateral.

In NOK thousands	31.12.2015				
Loan-to-value, Residential mortgages	Distribution in percent	Number of loans	Gross carrying amounts	Off-balance sheet amounts	Maximum exposure to credit risk
0 % - 40 %	22 %	2 692	3 280 875	0	3 280 875
40 % - 60 %	37 %	2 775	5 520 386	0	5 520 386
60 % - 80 %	41 %	2 478	6 118 022	0	6 118 022
80 % - 90 %	0 %	40	59 540	0	59 540
90 % - 100 %	0 %	5	4 901	0	4 901
> 100 %	0 %	3	3 259	0	3 259
<b>Residential mortgages</b>			<b>14 986 983</b>	<b>0</b>	<b>14 986 983</b>
<b>Exposure to customers</b>			<b>14 986 983</b>	<b>0</b>	<b>14 986 983</b>
Loans to and receivables from credit institutions			491 146	0	491 146
Advance payment and accrued income			15 354	0	15 354
<b>Exposure to others</b>			<b>506 500</b>	<b>0</b>	<b>506 500</b>
<b>Gross exposure</b>			<b>15 493 483</b>	<b>0</b>	<b>15 493 483</b>

The table below shows the percentage allocation of exposures for mortgages for various levels of loan-to-value. Where the entire exposure in the table above is placed in a related loan-to-value level, the relative share of the loan exposure at each level is shown in the table below.

In NOK thousands	31.12.2015	
Residential mortgages (relative distribution)	Distribution in percent	Carrying amounts
0 % - 85 %	99.98 %	14 984 565
85 % - 100 %	0.01 %	1 716
> 100 %	0.01 %	702
<b>Residential mortgages</b>		<b>14 986 983</b>

## Note 12 Loan to value (LTV) and cover pool

In NOK thousands		31.12.15
Debt related to securities issued, nominal value		12 685 000
Debt related to securities issued, book value		12 672 989
Loans to customers (gross)		14 986 983
Average size of loan per customer		1 915
Number of loans		7 992
Weighted average since issuing of the loans (months)		36
Weighted average remaining maturity (months)		276
Average LTV (percent)		53.6
<b>Cover pool</b>		
Loan secured with mortgages, book value		14 986 983
Not eligible for the cover pool		-32 722
<b>Net loans that are in the cover pool</b>		<b>14 954 261</b>
Commercial Papers and bonds		0
Supplementary assets		491 133
<b>Total cover pool</b>		<b>15 445 394</b>
<b>Cover pool</b>		
	<b>Nominal value</b>	<b>Booked value</b>
Over-collateralisation (percent)	21.8	21.9
Amount surpassing legal minimum requirements	2 760 394	2 772 406
Amount surpassing minimum requirements as indicated by rating agency	2 443 269	2 455 581

## Note 13 Loans and liabilities to credit institutions

In NOK thousands	2015
<b>Loans to and receivables from credit institutions</b>	
Loans to and receivables without maturity or notice period	491 146
Loans to and receivables with agreed maturity or notice period	0
<b>Gross loans to and receivables from credit institutions</b>	<b>491 146</b>
Write-downs for individually assessed impaired loans	0
Write-downs for collectively assessed impaired loans	0
<b>Net loans to and receivables from credit institutions</b>	<b>491 146</b>
<b>Geographical areas</b>	
Oslo and Akershus	0
Hordaland and Rogaland	491 146
<b>Net loans to and receivables from credit institutions</b>	<b>491 146</b>
<b>Liabilities to credit institutions</b>	
Loans and deposits from credit institutions without agreed maturity or notice period	0
Loans and deposits from credit institutions with agreed maturity or notice period	1 853 330
<b>Total liabilities to credit institutions</b>	<b>1 853 330</b>
<b>Residual time to maturity</b>	
Upon request	0
Less than 3 months	0
3 - 12 months	0
1-5 years	1 853 330
More than 5 years	0
<b>Total liabilities to credit institutions</b>	<b>1 853 330</b>
<b>Geographical areas</b>	
Oslo and Akershus	0
Hordaland and Rogaland	1 853 330
<b>Total liabilities to credit institutions</b>	<b>1 853 330</b>

## Note 14 Loan losses

### Loan loss provisions

In NOK thousands	2015
<b>Opening balance individual write-downs</b>	0
+ Increase in write-downs on loans previously written down	0
+ Write-downs on loans not previously written down	0
- Reversal of write-downs as a result of confirmations in the period	0
- Reversal of individual write-downs in the period	0
<b>Closing balance individual write-downs</b>	<b>0</b>
<b>Opening balance collective write-downs</b>	0
+/- Change in collective write-downs in the period	1 272
<b>Closing balance group collective-downs</b>	<b>1 272</b>
<b>Closing balance total write-downs</b>	<b>1 272</b>
Individual write-downs	0
Individual write-downs (collectively considered)	0
Collective write-downs	1 272
<b>Total write-downs</b>	<b>1 272</b>
<b>Specification of loan losses</b>	
Actual losses	0
Reversal of previous years' depreciation	0
Increase in provision	-1 272
Reversal of provisions	0
Recoveries of previously written-off	0
<b>Net cost of losses in the period</b>	<b>-1 272</b>
<b>Losses by sector and industry</b>	
Retail market (individuals)	-1 272
<b>Total</b>	<b>-1 272</b>
<b>Losses by product group</b>	
Residential mortgages	1 272
<b>Total</b>	<b>1 272</b>

## Note 15 Non-performing and doubtful loans

### Non-performing and doubtful loans

The company has internal routines for ongoing monitoring of exposures for which instalments and interest have not been paid on time or for which authorised overdraft limits are exceeded, where the reason is deemed to be the customer's inability or lack of propensity to pay. Payment defaults of more than 60 days and more than NOK 200 are always reported as non-performing. If other matters are identified that make it probable that the customer's

financial position will result in loss, the exposure is classified as doubtful. The need to recognise individual impairments is assessed against the value of available collateral for the exposure. The table below shows the relationship between the gross book value of non-performing and doubtful loans and the associated individual impairments.

In NOK thousands	2015
Non-performing loans with write-downs	0
Non-performing loans without write-downs	4 018
<b>Total non-performing loans (more than 60 days)</b>	<b>4 018</b>
Doubtful loans	0
<b>Gross non-performing and doubtful loans</b>	<b>4 018</b>
- Individual write-downs	0
<b>Net non-performing and doubtful loans</b>	<b>4 018</b>
<i>Provisioning ratio</i>	<i>0 %</i>

### Age distribution of overdue not written down loans

The table below shows the book value of overdue loans and overdrawn amounts on credits allocated by number of days after maturity, where no impairments have been recognised. The table is intended to provide an analysis of exposures where there is

inadequate ability or propensity to pay, rather than overdue amounts attributable to a delay in transferring funds. Based on this and the company's internal routines for monitoring overdue exposures, the default must exceed NOK 200 for more than 6 days to be included in the table below.

In NOK thousands	31.12.2015				
	7-30 days	31 - 60 days	61 - 90 days	More than 90 days	Total
Mortgages	177 755	25 539	4 018	-	207 312
<b>Loans to customers</b>	<b>177 755</b>	<b>25 539</b>	<b>4 018</b>	<b>-</b>	<b>207 312</b>

## Note 16 Liquidity risk

Liquidity risk comprises the following two elements:

- Refinancing risk: The risk of being unable to refinance its obligations as they fall due for payment, and the risk of being unable to finance planned growth.
- Price risk: The risk of being unable to refinance its obligations without a material rise in costs or that financing growth will cost substantially more.
- Liquidity risk shall be managed such that the company minimises its financing costs, at the same time as the refinancing risk is kept within the limits set by the Board of Directors. The company measures liquidity risk over the short and long term.

### Management of inherent risk relating to maturity structures

Liquidity transactions in Skandiabanken Boligkreditt are based on the Group's financing plan. The CFO is responsible for ensuring that ongoing forecasts are prepared covering the Group's financing requirements for at least the next 12 months.

The financing plan is reviewed by ALCO at the start of each forecast period, as a minimum quarterly. ALCO determines the financing plan, and Treasury's operations are subsequently based on this plan. The Group shall endeavour to maintain a balanced maturity profile, and as a main rule shall not have a maturity concentration under which more than 30 percent of the capital market financing matures within one year.

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## Note 17 LCR and NSFR

The liquidity requirements are intended to guarantee satisfactory liquidity management by ensuring that the institutions have sufficient liquid assets to cover their liabilities on maturity and have stable and long-term financing at all times. The Liquidity Coverage Ratio (LCR) is intended to ensure that institutions can convert sufficient assets to cash to cover expected net liquidity outflows over the next 30 days in stressed situations in the money and capital markets. The Net Stable Funding Ratio (NSFR) is intended to ensure that less liquid assets are financed over the long term.

On 22 December 2015, based on the CRR/CRD IV Regulation, Finanstilsynet issued its Regulation on Calculation of Liquid Assets, Payments and Deposits in the Liquidity Coverage Ratio (LCR).

Norwegian covered bonds companies, including Skandiabanken Boligkreditt, are exempt from complying with the LCR requirement until 30 June 2016. The requirement will then be gradually phased in, starting with 70 percent, rising to 80 percent from 31 December 2016, and 100 percent from 31 December 2017. Skandiabanken Boligkreditt will take adequate measures during the first half of 2016, in order to comply with the LCR requirement.

The NSFR has still not been introduced as a minimum requirement. The EU Commission is expected to present a draft proposal by the end of 2016, which is expected to be introduced from 2018.

## Note 18 Maturity analysis of liabilities

### Cash flows, undiscounted

In NOK thousands							
Residual time to maturity	Less than 1 month	1 - 3 months	3 - 12 months	From 1 to 5 years	More than 5 years	Without maturity	Total
Loans and deposits from credit institutions				1 853 330			1 853 330
Deposits from customers	0						0
Interest disbursement, deposits	0	0	0	0	0	0	0
Debt securities issued	600 000	0	2 585 000	8 500 000	1 000 000	0	12 685 000
Interest disbursement, debt securities issued	42 277	9 500	127 854	362 356	19 956	0	561 943
Taxes payable			7 524			0	7 524
Other financial liabilities (ex. accrued interest)	37 994				0	0	37 994
Off-balance sheet commitments	0	0	0	0	0	0	0
<b>Total disbursements</b>	<b>680 271</b>	<b>9 500</b>	<b>2 720 378</b>	<b>10 715 686</b>	<b>1 019 956</b>	<b>0</b>	<b>15 145 791</b>

#### Financial derivatives

Outgoing contractual cash flows	0
Incoming contractual cash flows	0

## Note 19 Debt securities issued

Carried at amortised cost

In NOK thousands	Currency	2015
Covered bonds	NOK	12 672 989
<b>Total debt securities issued</b>		<b>12 672 989</b>

### Specification of covered bonds as at 31.12.15 for Skandiabanken Boligkreditt AS

ISIN	Issuing company	Nominal value	Currency	Interest	Maturity*	Carrying amounts
<b>Covered bonds</b>						
NO0010745318	Skandiabanken Boligkreditt AS	600 000	NOK	Floating	15.01.2016	599 998
NO0010745284	Skandiabanken Boligkreditt AS	2 585 000	NOK	Floating	04.10.2016	2 586 333
NO0010745326	Skandiabanken Boligkreditt AS	2 000 000	NOK	Floating	31.07.2017	1 998 366
NO0010745292	Skandiabanken Boligkreditt AS	2 000 000	NOK	Floating	04.10.2018	1 990 991
NO0010745300	Skandiabanken Boligkreditt AS	2 000 000	NOK	Floating	29.10.2019	1 995 578
NO0010745334	Skandiabanken Boligkreditt AS	2 500 000	NOK	Floating	14.08.2020	2 502 555
NO0010745342	Skandiabanken Boligkreditt AS	1 000 000	NOK	Floating	14.10.2021	999 167
<b>Total covered bonds</b>						<b>12 672 989</b>

### Changes of debt securities in the period

ISIN	05.10.15	Issued after 05.10.15	Matured	Redeemed	Other adjustments	31.12.15
Covered bonds (nominal)	11 145 000	2 305 000	0	-765 000	0	12 685 000
<b>Total</b>	<b>11 145 000</b>	<b>2 305 000</b>	<b>0</b>	<b>-765 000</b>	<b>0</b>	<b>12 685 000</b>

\* All loans have "soft bullet" with the possibility to extend the maturity with one year.  
The loan agreements have standard covenants.

## Note 20 Market risk

Market risk is the risk of loss due to unfavourable changes in market variables, such as interest rates, exchange rates and credit spreads. Skandiabanken Boligkredit is exposed to the following market risks:

- Interest rate risk is the risk of loss resulting from a general change in market rates due to different terms to maturity on the asset and liability sides of the balance sheet.
- Credit spread risk is the risk that interest-bearing securities will fall in value as a result of an increase in the margin mark-up for corresponding credit instruments in the market. The company calculates its exposure to credit spread risk in accordance with Finanstilsynet's practice for the assessment of risk and capital adequacy (circular 9/2015).

Balance sheet	Volume (thousands)	Weighted duration	Change in value
Loans to customers	14 985 711	0.12	34 582
Other assets	506 511	-	-
<b>Total assets</b>	<b>15 492 222</b>	<b>0.12</b>	<b>34 582</b>
Debt securities issued	12 672 989	0.05	12 623
Other liabilities	1 898 859	-	-
Equity	920 374	-	-
<b>Total liabilities and equity</b>	<b>15 492 222</b>	<b>0.05</b>	<b>12 623</b>
<b>Total</b>			<b>21 959</b>

The table below shows six stress scenarios from the Basel Committee's proposals for handling interest rate risk in the banking book (June 2015) which is currently at the consultation stage. At the reporting date Skandiabanken Boligkredit had no balance sheet items exposed to interest rate changes for a forward period of more than eight months. Consequently, the scenario for terms over

6–9 months will have no effect on Skandiabanken Boligkredit, with the result that Scenario 3 and 6 and Scenario 4 and 5 are identical. In addition, a two percentage point parallel shift in the interest rate level is shown for the same time periods as are included in the stress scenarios.

In NOK thousands	Overnight	O/N - 1 month	1 - 3 months	3 - 6 months	6 - 9 months	9-12 months	More than 12 months	Total
Interest rate curve 31.12.2015	0.74 %	0.93 %	1.10 %	1.13 %	1.06 %	0.00 %	0.00 %	
Parallel shock up; 2 percentage points increase in interest rates	-	-6 933	28 892	-	-	-	-	21 959
Scenario 1 : parallel shock up (60 %)	-	-5 139	25 425	-	-	-	-	20 285
Scenario 2 : parallel shock down (60 %)	-	-1 285	6 356	-	-	-	-	5 071
Scenario 3: short term rates down (85 %), long term rates up (40 %)	-	-482	2 384	-	-	-	-	1 902
Scenario 4: short term rates up (85 %), long term rates down (40 %)	-	-5 942	29 397	-	-	-	-	23 455
Scenario 5: short term rates up	-	-5 942	29 397	-	-	-	-	23 455
Scenario 6: short term rates down (85 %)	-	-482	2 384	-	-	-	-	1 902

The yield curve consists of NOWA, NIBOR, NOK SWAP and interpolated points between them.

As of 31 December 2015, Skandiabanken Boligkredit had no market risk related to currency, equities or other investments.

## Note 21 Repricing structure

In NOK thousands							
2015	1 month	1-3 months	3-12 months	1-5 year	Over 5 year	Without interest rate exposure	Total
Loans to and receivables from credit institutions	491 146						49 1146
Loans to customers	63 454	14 923 529					14 986 983
Write-downs for collectively assessed impaired loans to customers						-1 272	-1 272
<b>Net loans to customers, central bank and credit institutions</b>	<b>554 600</b>	<b>14 923 529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-1 272</b>	<b>15 476 857</b>
Other assets						-	-
Advance payment and accrued income						15 354	15 354
<b>Total assets</b>	<b>554 600</b>	<b>14 923 529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 082</b>	<b>15 492 210</b>
<b>Liabilities</b>							
Loans and deposits from credit institutions	1 853 330						1 853 330
Taxes payable						7 524	7 524
Debt securities issued	10 170 434	2 502 555					12 672 989
Other liabilities						37 994	37 994
<b>Total liabilities</b>	<b>12 023 764</b>	<b>2 502 555</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45 518</b>	<b>14 571 837</b>

## Note 22 Operational risk

Operational risk means unexpected fluctuations in results, which are attributable to inadequacies or failures in internal processes and systems, employees or external events, which oblige the company to retain financial capital in order to safeguard itself against substantial and unexpected operational losses. The definition also includes legal risk, i.e. the risk that an agreement or legal action cannot be performed in line with underlying assumptions; and compliance risk, i.e. the risk of non-compliance with statutory provisions, internal guidelines, industry standards, etc., as well as reputation risk.

The Group's policy for operational risk, including contingency plans, describes preventive and mitigating measures. In addition to policies and instructions, and procedure and job descriptions, Skandiabanken ASA has a self-evaluation process for operational risk, which includes Skandiabanken Boligkreditt. This process is intended to identify operational risk and quantify any potential ensuing losses. This work results in action plans whose implementation is subject to ongoing monitoring. The evaluation is performed annually and includes quarterly updates and follow-up.

## Note 23 Net interest income

### Net interest income

In NOK thousands	2015
Loans to and receivables from credit institutions	155
Loans to customers	86 085
<b>Total interest income</b>	<b>86 240</b>
Loans and deposits from credit institutions	-10 361
Debt securities issued	-44 695
<b>Total interest expense</b>	<b>-55 057</b>
<b>Net interest income</b>	<b>31 183</b>

## Note 24 Administrative expenses

### Other administrative expenses

In NOK thousands	2015
Consultants and other external services	1 961
Other operating expenses	83
<b>Total other administrative expenses</b>	<b>2 044</b>

It has not been expensed any audit fee in 2015.

## Note 25 Remuneration to the Board of Directors

In NOK thousands	2015
Total employees as at 31.12.15	0
Total FTEs as at 31.12.15	0
Average number of employees	0

Skandiabanken Boligkreditt does not have own employees as of 31 December 2015. The company hires management and administrative resources from Skandiabanken ASA. Reference is made to note 29.

### Remuneration to the Board of Directors

Name and position	Agreed annual board remuneration as at 31.12.15	Agreed annual remuneration for board committees as at 31.12.15	Paid board remuneration 2015	Paid committee remuneration 2015	Paid other compensation 2015	Total remuneration paid/received in 2015
<b>The Board of Directors</b>						
Petter Skouen (Chairman of the Board)	150	0	75	0	0	75
Mai-Lill Ibsen	75	26	38	13	0	50
Ragnhild Wiborg	75	26	38	13	0	50
Per M. Christiansen	75	50	38	25	0	63

As of 31 December 2015, no loans are granted to members of the Board of Directors.

## Note 26 Tax expense

In NOK thousands	2015
<b>Taxes payable</b>	7 524
Change in deferred tax	0
<b>Total tax expense</b>	<b>7 524</b>
<b>Reconciliation of the tax expense:</b>	
Profit before tax	27 867
Expected tax expense at nominal rate of 27 %	7 524
<b>Total tax expense</b>	<b>7 524</b>
Effective tax rate	27.0 %

Skandiabanken Boligkreditt has no deferred tax or deferred tax assets in the balance sheet.

## Note 27 Classification of financial instruments

In NOK thousands	Financial assets at fair value through profit and loss - trading	Financial instruments available for sale	Financial instruments carried at amortised cost	Total
31.12.2015				
<b>Financial assets</b>				
Loans to and receivables from credit institutions			491 146	491 146
Loans to customers			14 985 711	14 985 711
Other assets			15 354	15 354
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>15 492 210</b>	<b>15 492 210</b>
<b>Financial liabilities</b>				
Loans and deposits from credit institutions			1 853 330	1 853 330
Debt securities issued			12 672 989	12 672 989
Other liabilities			45 518	45 518
<b>Total financial liabilities</b>		<b>-</b>	<b>14 571 837</b>	<b>14 571 837</b>

## Note 28 Fair value of financial instruments at amortised cost

In NOK thousands	Carrying value 31.12.2015	Fair value 31.12.2015
<b>Assets</b>		
Loans to and receivables from credit institutions	491 146	491 146
Loans to customers	14 985 711	14 985 711
Other assets	15 354	15 354
<b>Total financial assets at amortised cost</b>	<b>15 492 210</b>	<b>15 492 210</b>
<b>Liabilities</b>		
Loans and deposits from credit institutions	1 853 330	1 853 330
Debt securities issued	12 672 989	12 587 260
Other liabilities	45 518	45 518
<b>Total financial liabilities at amortised cost</b>	<b>14 571 837</b>	<b>14 486 108</b>



## >> Note 28 Fair value of financial instruments at amortised cost (continued)

	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions			491 146	491 146
Loans to customers			14 985 711	14 985 711
Other assets			15 354	15 354
<b>Total financial assets at amortised cost</b>			<b>15 492 210</b>	<b>15 492 210</b>
<b>Liabilities</b>				
Loans and deposits from credit institutions			1 853 330	1 853 330
Debt securities issued		12 587 260	0	12 587 260
Other liabilities			45 518	45 518
<b>Total financial liabilities at amortised cost</b>		<b>12 587 260</b>	<b>1 898 848</b>	<b>14 486 108</b>

### Fair value of financial instruments measured at amortised cost

Cash and cash equivalents, loans to credit institutions and loans to customers and debt securities are measured at amortised cost.

Measurement at amortised cost imply that a financial asset or liability is recognised to the present value of the contractual cash flows using effective interest rate method, adjusted for potential impairment. This measurement method will not necessarily provide a carrying value equal to the fair value of the financial instrument due to volatility in the market, changed market conditions, asymmetrical information and changes in investors risk- and return expectations.

Cash and cash equivalents and loans and advances: Fair value is estimated based on amortised cost as all assets are recognised in the accounts based on the contractual cash flow with floating interest rate and that loans with impairment indicators are written down to fair value of expected cash flows. There is no active market for loan portfolios.

Debt to credit institutions are liabilities with floating interest rate and as there have not been any significant changes in the credit spread, amortised cost is assumed to be a reasonable approximation to fair value. Debt securities are measured at fair value based on prices sourced from Nordic Bond Pricing. Nordic Bond Pricing has estimated the fair value based on available price information from investment banks and brokers trading in the bond markets.

## Note 29 Related party transactions

### Assets and loans from Skandiabanken ASA

In NOK thousands	31.12.15
Liability related to overdraft facility with Skandiabanken ASA	1 853 330
Skandiabanken Boligkredit's deposit in Skandiabanken ASA	491 146

### Transactions with Skandiabanken ASA

In NOK thousands	2015
Purchased services according to agreement with Skandiabanken ASA	1 255
Interest expense on overdraft facility	10 361
Interest income on deposits	156
<b>Total transactions</b>	<b>11 772</b>

#### Description of agreements with related parties:

**Sale of mortgages to Skandiabanken Boligkredit:** Skandiabanken ASA sells residential mortgages to its subsidiary, Skandiabanken Boligkredit. Only loans with a LTV lower than 75 % may be sold to Skandiabanken Boligkredit. The sale and transfer of loans is carried out at market terms and conditions. After the loans have been transferred, Skandiabanken Boligkredit assumes all the risks and benefits associated with the mortgages sold.

The practicalities relating to the transfer of new loans and the write-back of loans are undertaken by employees of Skandiabanken ASA. In general, the write-back of loans from Skandiabanken Boligkredit to Skandiabanken ASA will be relevant only if a customer wishes to increase or refinance the loan. Any such write-back will also be carried out at market terms and conditions. Delinquent loans will remain with Skandiabanken Boligkredit, and are treated in the same way as delinquent mortgages in Skandiabanken ASA.

**Management agreement between Skandiabanken ASA and Skandiabanken Boligkredit:** A management agreement has been entered

into between Skandiabanken ASA and Skandiabanken Boligkredit, under the terms of which Skandiabanken Boligkredit purchases administrative services from Skandiabanken ASA. These services relate, inter alia, to CEO, treasury, IT, finance and accounting, and risk management. The agreement has been entered into at market terms and conditions.

**Skandiabanken Boligkredit's credit facilities:** Skandiabanken ASA has granted an overdraft facility and a revolving credit facility to Skandiabanken Boligkredit. The overdraft is divided in two credit facilities, each in the amount of NOK 3 billion and with a term of 364 days and three years, respectively. The revolving credit facility equals Skandiabanken Boligkredit's payment obligations for the next 12 months in respect of issued covered bonds, and with a term extending four months after the last maturity date of issued covered bonds facilities are at floating interest rates, three-month NIBOR plus a margin.

**Deposit accounts in Skandiabanken ASA:** Skandiabanken Boligkredit has two ordinary deposit accounts with Skandiabanken ASA paying market interest rate.

## Note 30 Earnings per share

In NOK thousands	2015
Profit of the period to other equity	20 343
Number of shares (weighted average)	60 030 000
<b>Earnings per share (weighted average for the period)</b>	<b>0.34</b>


# Responsibility Statement

Pursuant to section 5-5 of the Securities Trading Act

We hereby confirm, to the best of our knowledge, that the financial statements for the company for 2015 have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

We also confirm that the Board of Directors' report gives a true and fair view of the development and performance of the business and the position of the company, as well as a description of the principal risks and uncertainties facing the company.

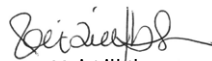
Bergen 31 March 2016



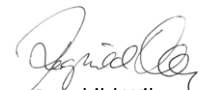
Petter Skouen  
(Chairman)



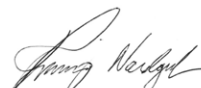
Per Morten Christiansen



Mai-Lill Ibsen



Ragnhild Wiborg



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To the Annual Shareholders' Meeting of Skandiabanken Boligkreditt AS

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Skandiabanken Boligkreditt AS, which comprise the balance sheet as at December 31, 2015, and the income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Skandiabanken Boligkreditt AS as at December 31, 2015, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by EU.

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**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, the going concern assumption and the proposal for the allocation of the 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.

Bergen, March 31, 2016  
Deloitte AS



Rune Norstrand Olsen  
State Authorised Public Accountant (Norway)

### Skandiabanken Boligkreditt AS – The Control Committee's Report for 2015

Skandiabanken Boligkreditt AS' Control Committee was appointed effective 5 October 2015. The Committee's work ceased on 31 December 2015 following a company resolution pursuant to the new Norwegian Finance Institutions Act, which abolished the requirement to have a Control Committee. The Act entered into force on 1 January 2016.

In light of its short term of office, the Committee decided to focus on specific matters that it deemed to be particularly significant during that brief period. Such matters primarily related to the establishment of the company, including:

- Transfers of covered bonds from Skandiabanken AB to Skandiabanken Boligkreditt AS
- The company's funding structure, including the legal agreement between Skandiabanken ASA and Skandiabanken Boligkreditt AS

The Committee also carried out a review of selected Board minutes.

The above points were addressed in meetings with the company's management, auditors/consultants and selected Group employees. The Committee received response to the issues that were raised.

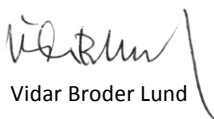
In the opinion of the Committee, the work performed in connection with the establishment of Skandiabanken Boligkreditt AS, and the subsequent follow-up, has been satisfactory. The same applies to the other matters mentioned above.

The Committee has not reviewed the company's income statement and balance sheet for 2015.

Bergen, 4 January 2016



Erik Hoffmann-Dahl



Vidar Broder Lund



Bjarne Haldorsen

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