

SR-Boligkreditt

Quarterly report 2021

Q2

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Statement of the Board of Directors

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

Income statement as at 30 June 2021

Net income totalled NOK 255.3 million as at 30 June 2021.

(Amounts in NOK millions)	01.01.2021 - 30.06.2021	01.01.2020 - 30.06.2020
Total income	255,3	364,2
Net interest income	470,7	334,8
Net commission income	-27,0	-24,8
Net income on financial investments	-188,4	54,2

Operating expenses are kept low due to effective operation and synergies with SR-Bank. Net income on financial investments is volatile due to changes in value of basis swaps.

Balance sheet

At end of June 2021, total assets stood at NOK 98.7 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 82.8 billion.

Risk

SR-Boligkreditt AS has established guidelines and limits for management and control of the different types of risk. Currency and interest rate risk is eliminated using derivatives. Liquidity risk is managed in accordance with regulatory requirements and limits approved by the board. The company's overall financial risk is low. The servicing agreement with SR-Bank comprises administration, bank production, IT operations, and financial and liquidity management. Operational risk is assessed as low. Negative developments in the housing market will affect the company. A decline in house prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate effects of a negative development in house prices. One short-term measure to meet a significant fall in house prices would be to supply SR-Boligkreditt with home mortgages from SR-Bank. The board considers the company's total risk exposure to be low. At the end of June 2021, the company's equity totalled NOK 6.2 billion. The capital adequacy ratio was 23.9%.

Outlook

The Covid-19 pandemic has had a significant lower impact on the economy in 2021 than on the year before. All Norwegians above 18 years has been given the opportunity to have the first vaccine dose. Even if it is expected local eruptions of contagion with abruptions in production and lock downs, the optimism is back both in the retail market and the corporate market. Lower international demand and volatility in oil prices are expected to mark economic development for several years to come. Statistics Norway forecasts GDP mainland to grow 3.1% in 2021 and 4.3% in 2022. Inflation in 2021 is expected at 2.1% and 2.0% in 2022. The strong government finances and the sovereign wealth fund enables policies to mitigate the negative effects from Covid-19. The housing market and private consumption have been significantly stimulated through much lower mortgage rates, and the overall effect for these sectors has been positive. The Central Bank of Norway reduced its base rate to 0.0% during the first half year 2020. The market expects the policy rate to increase with 0.25% during autumn 2021 and further 0.75% during 2022. Norwegian house prices are expected to increase.

The board would like to emphasise that there is considerable uncertainty associated with all assessments of future conditions.

Statement pursuant to the Securities Trading Act

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

These interim financial statements for SR-Boligkreditt AS cover the period 1 January – 30 June 2021. The financial statements were prepared in accordance with IAS 34 Interim Financial Reporting and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken. To the best of our knowledge, the second quarter report gives a true and fair:

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

Stavanger, 10 August 2021

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.2021 - 30.06.2021	01.01.20 - 30.06.20	Q2 2021	Q2 2020	2020
Interest income		816.611	999.479	415.046	428.669	1.795.779
Interest expense		345.897	664.696	171.193	265.157	964.897
Net interest income		470.714	334.782	243.854	163.512	830.882
Commission and fee expenses		26.953	24.810	13.623	12.492	50.968
Net commission income		-26.953	-24.810	-13.623	-12.492	-50.968
Net gains/losses on financial instruments	10	-188.414	54.206	-85.689	-25.576	61.734
Net income on financial investments		-188.414	54.206	-85.689	-25.576	61.734
Total net income		255.347	364.178	144.541	125.445	841.648
Other operating costs		1.779	2.539	1.062	1.811	3.376
Total operating costs before impairment losses on loans		1.779	2.539	1.062	1.811	3.376
Operating profit before impairment losses on loans		253.568	361.639	143.479	123.634	838.272
Impairment losses on loans and guarantees	2	-422	12.245	-260	11.659	27.095
Pre-tax profit		253.990	349.394	143.739	111.974	811.177
Tax expense		55.878	76.867	31.623	24.634	178.488
Profit after tax		198.112	272.527	112.116	87.340	632.690
Other comprehensive income						
Adjustments		-	-	-	-	-
Comprehensive Income		198.112	272.527	112.116	87.340	632.690

Balance sheet

NOK 1 000	Note	30.06.21	30.06.20	31.12.20
Assets				
Balances with credit institutions		775.578	115.212	73.744
Loans to customers	2,5	91.455.166	76.993.424	85.534.956
Bonds		2.587.118	2.796.046	3.293.628
Financial derivatives	9	3.889.981	9.498.231	6.290.844
Other assets		13.047	42.447	8.784
Total assets		98.720.890	89.445.360	95.201.956
Liabilities and equity				
Liabilities				
Listed debt securities	7	82.813.787	82.405.342	75.382.829
Balances with credit institutions		8.730.161	563.893	12.729.259
Financial derivatives	9	885.216	107.479	298.273
Other liabilities	4	84.175	89.370	152.155
Total liabilities		92.513.339	83.166.084	88.562.517
Equity				
Paid-in equity capital		6.000.150	6.000.150	6.000.150
Retained earnings		207.401	279.127	639.289
Total equity		6.207.551	6.279.277	6.639.439
Total liabilities and equity		98.720.890	89.445.360	95.201.956

Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
Equity as of 31 December 2018	4.000.000	150	1.287.094	5.287.244
Capital increase 9 February 2019	1.000.000	-	-1.000.000	-
Dividend 2018, resolved in 2019	-	-	-285.000	-285.000
Capital increase 4 June 2019	1.000.000	-	0	1.000.000
Profit for the period	-	-	454.505	454.505
Equity as of 31 December 2019	6.000.000	150	456.599	6.456.749
Dividend 2019, resolved in 2020	-	-	-450.000	-450.000
Profit for the period	-	-	632.690	632.690
Equity as of 31 December 2020	6.000.000	150	639.289	6.639.439
Dividend 2020, resolved in 2021			-630.000	-630.000
Profit for the period			198.112	198.112
Equity as of 30 June 2021	6.000.000	150	207.401	6.207.551

Cash flow statement

NOK 1 000	30.06.21	30.06.20	31.12.20
Interest receipts from lending to customers	817.273	1.025.762	1.815.832
Provisions to SR-Bank	-26.953	-24.810	-50.968
Payments for operations	10.768	-2.386	-4.893
Taxes paid	-143.398	-138.137	-137.131
Net cash flow relating to operations	657.691	860.430	1.622.842
Net purchase of loan portfolio	-5.917.722	-4.078.907	-12.627.769
Net payments on the acquisition of bonds	707.085	-1.023.841	-1.524.744
Net cash flow relating to investments	-5.210.637	-5.102.748	-14.152.513
Debt raised by issuance of securities	10.161.804	13.367.459	22.064.820
Redemption of issued securities	-	-	-12.993.454
Net change in loans from credit institutions	-3.999.098	-8.095.172	4.070.195
Paid in capital equity	-	-450.000	-
Interest payments on debt raised by issuance of securities	-277.926	-747.273	-1.128.011
Proceeds from settlement of other securities	-	-	757.350
Dividend paid	-630.000	-	-450.000
Net cash flow relating to funding activities	5.254.780	4.075.014	12.320.899
Net cash flow during the period	701.834	-167.304	-208.772
Balance of cash and cash equivalents start of period	73.744	282.516	282.516
Balance of cash and cash equivalents end of period	775.578	115.212	73.744

Notes to The Financial statements

Note 1 Accounting policies

1.1. Basis of preparation

These interim financial statements for SR-Boligkreditt AS cover the period 1 January - 30 June 2021. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements were also prepared in accordance with the applicable IFRS standards and IFRIC interpretations. The interim financial statements are unaudited. All amounts are stated in NOK thousands unless stated otherwise.

The interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual accounts for 2020.

New Standards that have not been adopted yet

There are no new standards or interpretations that are not currently in effect and could be expected to have a material effect on the financial statements.

New Standards that have been adopted

There are no new standards or interpretations as of 30 June 2021.

1.2. Critical accounting estimates and judgements

The preparation of financial information pursuant to IFRS entails the executive management making estimates, judgements and assumptions that affect the effect of the application of the accounting policies and thus the amounts recognized as assets, liabilities, income and costs. Note 3 of the annual accounts for 2020 explains in more detail the use of critical estimates and judgements when applying the accounting policies.

Losses on loans and guarantees

Consequences of Covid-19 is assessed in measurement of 12-month and lifetime expected credit losses. There has not been any significant increase in credit losses during the year. Measurement of expected credit losses is described in Note 2 in the Annual Report 2020 and Note 2 and 5 in the interim report.

Note 2 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 2 in the annual account 2020.

NOK 1 000

ECL on loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total
Balance sheet 1 January 2021	9.424	27.895	-	37.319
Transfer to/ from stage 1	-357	357	-	-
Transfer to/ from stage 2	7.737	-7.737	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	-8.137	10.133	8.554	1.996
New financial assets originated or purchased	2.519	2.887	1.431	5.406
Change due to reduced portfolio	-1.499	-6.300	-	-7.799
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 30 June 2021	9.687	27.235	-	36.921

NOK 1 000

ECL on remaining credit lines (flexible loans)	Stage 1	Stage 2	Stage 3	Total
Balance sheet 1 January 2021	247	40	-	287
Transfer to/ from stage 1	-1	1	-	-
Transfer to/ from stage 2	20	-20	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	-21	19	-	-2
New financial assets originated or purchased	14	7	-	22
Change due to reduced portfolio	-33	-11	-	-44
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 30 June 2021	226	36	-	263

Note 3 Other assets

NOK 1 000	30.06.21	30.06.20	31.12.20
Deferred tax assets	7.357	42.447	7.357
Prepaid expenses	5.690	-	1.427
Total other assets	13.047	42.447	8.784

Note 4 Other liabilities

NOK 1 000	30.06.21	30.06.20	31.12.20
Taxes payable	55.878	75.724	143.398
Accounts payable	12.487	246	-
Expected credit loss on remaining credit lines (flexible loans)	263	188	287
Accrued expenses and prepaid revenue	15.548	13.213	8.471
Total other liabilities	84.175	89.370	152.155

Note 5 Lending to customers

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of the period were NOK 91.5 billion. All mortgages carry a variable interest rate.

NOK 1 000	30.06.21	30.06.20	31.12.20
Flexible loans - retail market	20.099.172	19.708.160	20.209.255
Amortising loans - retail market	71.337.907	57.258.392	65.307.350
Accrued interest	55.008	49.440	55.670
Gross loans	91.492.088	77.015.992	85.572.275
Impairment provisions	-36.922	-22.568	-37.319
Loans to customers	91.455.166	76.993.424	85.534.956
Liability			
Remaining credit lines (flexible loans)	7.626.182	7.384.554	7.248.641
Total	7.626.182	7.384.554	7.248.641
Expected credit loss on remaining credit lines (flexible loans)	-257	-263	-287

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 01.01.21	82.397.728	3.174.547	-	85.572.275
Transfer to stage 1	-1.054.450	1.054.450	-	-
Transfer to stage 2	1.182.592	-1.182.592	-	-
Transfer to stage 3	-	-	-	-
Net increase/decrease balance existing loans	2.083.898	51.545	-	2.135.442
Originated or purchased during the period	19.154.536	466.053	-	19.620.590
Loans that have been derecognised	-15.210.178	-626.041	-	-15.836.219
Balance 30.06.21	88.554.126	2.937.962	-	91.492.088

Note 6 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU's capital requirements for banks and securities undertakings (CRD IV/ CRR).

SR-Boligkreditt AS has permission from the Financial Supervisory Authority of Norway to use internal measurement methods (Internal Rating Based Approach) for quantifying credit risk. The use of IRB requires the company to comply with extensive requirements relating to organization, expertise, risk models and risk management systems.

SR-Boligkreditt shall at all times maintain a capital adequacy ratio equal to the minimum regulatory requirement, with a buffer of 50 - 100 basis points.

NOK 1 000	30.06.21	30.06.20	31.12.20
Share capital	6.000.000	6.000.000	6.000.000
Premium reserve	150	150	150
Other equity	9.289	6.599	639.289
Book equity	6.009.439	6.006.749	6.639.439
Deduction for proposed dividend	-	-	-630.000
Deduction for expected losses on IRB, net of write-downs	-105.264	-110.827	-113.026
Value adjustments due to prudent valuation	-2.009	-11.421	-2.524
CET 1 capital	5.902.166	5.884.501	5.893.889
Other paid in capital	-	-	-
Tier 1 capital	5.902.166	5.884.501	5.893.889
Credit risk	23.524.369	22.293.631	23.553.497
Operational risk	1.134.865	878.427	1.134.865
Transitional scheme	-	-	-
Risk weighted balance	24.659.234	23.172.058	24.688.362
Minimum requirement for CET 1 capital ratio 4,5 %	1.109.666	1.042.743	1.110.976
Buffer requirements:			
Capital conservation buffer 2,5 %	616.481	579.301	617.209
Systemic risk buffer 4,5 % (3%)	739.777	695.162	740.651
Countercyclical capital buffer 1 % (2,5 %)	246.592	231.721	246.884
Total buffer requirement to CET 1 capital ratio	1.602.850	1.506.184	1.604.744
Available CET 1 capital ratio after buffer requirement	3.189.650	3.335.575	3.178.169
Capital ratio	23,93 %	25,39 %	23,87 %
Tier 1 capital ratio	23,93 %	25,39 %	23,87 %
CET 1 capital ratio	23,93 %	25,39 %	23,87 %
Leverage ratio	5,68 %	5,92 %	5,85 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	81.541.592	18.015.476	63.526.117
Value adjustments	1.075.905	43.778	1.032.127
Accrued interests	196.289	56.428	139.861
Total securities issued	82.813.787	18.115.681	64.698.106

Securities issued by maturity date

	Public covered bonds	Total	NOK	Currency
	2021	7.662.287		7.662.287
	2022	10.248.401	5.003.959	5.244.442
	2023	11.237.169	5.001.772	6.235.397
	2024	5.237.002	-	5.237.002
	2025	14.496.395	6.001.700	8.494.695
	2026	5.137.922	-	5.137.922
	2027	7.675.336	-	7.675.336
	2029	164.411	-	164.411
	2030	5.057.950	-	5.057.950
	2031	10.178.060	-	10.178.060
	2032	2.108.251	2.108.251	-
	2038	3.375.662	-	3.375.662
	2041	234.941	-	234.941
Total debt		82.813.787	18.115.681	64.698.106

	Balance 30.06.21	Issued 2021	Matured/ redeemed 2021	Exchange rate and other changes 2021	Balance 31.12.20
Covered bonds	81.541.593	10.161.804	-	-1.473.457	72.853.245
Adjustments	1.075.905	-	-	-1.236.193	2.312.098
Accrued interests	196.289	-	-	-21.197	217.486
Debt raised through issuance of sec.	82.813.787	10.161.804	-	-2.730.847	75.382.829

Note 8 Asset coverage

Asset coverage is calculated according to the Act on Financial Institutions, section 11-11. There is a discrepancy between the balance sheet amounts, partly because lending will be reduced due to non-performing loans (no occurrences of non-performance as of 30 June 2021), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	30.06.21	30.06.20	31.12.20
Covered bonds	82.813.787	82.405.342	75.382.829
Total covered bonds	82.813.787	82.405.342	75.382.829
Loans to customers	91.234.500	76.161.971	84.988.602
Substitute collateral	4.382.999	11.940.074	7.423.826
Total cover pool	95.617.499	88.102.046	92.412.427
Asset coverage	115,5 %	106,9 %	122,6 %

Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 30.06.21	Fair value at 30.06.21	
		Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	128.526.764	3.772.095	882.086
Total hedging / Interest and exchange rate instruments	128.526.764	3.772.095	882.086
Total currency and interest rate instruments			
Total interest and exchange rate instruments	128.526.764	3.772.095	882.086
Total accrued interests	-	117.887	3.130
Total financial derivatives	128.526.764	3.889.981	885.216

SR-Boligkreditt AS has an ISDA agreement with a CSA supplement with the counterparty for derivatives. The agreement is one-way, which means only the counterparty has to pledge security when the market value of derivatives fluctuates.

IBOR reform

The table below shows derivatives that have IBOR reference interest rates and could be affected by changes caused by the IBOR-reform.

Interest rate swaps	Contract amount	Average maturity
EURIBOR EUR (3 months)	50.211.853	6,8
LIBOR USD (3 months)	5.145.660	1,0
NIBOR NOK (3 months)	2.060.000	11,2
Total interest rate swaps	57.417.513	6,4

Cross currency swaps		
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	49.246.124	6,8
LIBOR USD (3 months) to NIBOR NOK (3 months)	5.161.200	1,0
Total cross currency swaps	54.407.324	6,2

Note 10 Net income from financial instruments

NOK 1 000	30.06.21	30.06.20	31.12.20
Net gains for bonds and certificates	-925	-988	-2.744
Net change in value, basis swap spread	-186.677	64.870	70.906
Net change in value, other financial investments	-812	-9.676	-6.428
Net change in value, currency effect	-	-	-
Net income from financial instruments	-188.414	54.206	61.734

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 30 June 2021.

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