

The background features a complex network of interconnected nodes and lines in shades of blue and yellow. Several circular icons are overlaid on this network, each containing a stylized human figure or a group of figures. The overall aesthetic is modern and digital, suggesting a focus on technology, communication, or organizational structure.

Annual report 2020

SR-Boligkreditt

Annual accounts

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Annual report for 2020

SR-Boligkreditt AS ("Company") has an office in Stavanger and is a fully owned subsidiary of SpareBank 1 SR-Bank ASA ("SR-Bank"). The Company is a finance company that issues covered bonds. The assets consist primarily of residential mortgages. At the end of 2020 the Company's total loans to customers amounted to NOK 85.5 billion, compared to NOK 73.0 billion at the end of 2019. Debt in the form of covered bonds amounted to NOK 75.4 billion (NOK 62.3 billion).

The market

Funding opportunities by means of issuing covered bonds have been good in 2020. Covered bonds is an important asset class in the Norwegian market, and foreign investors have also shown great interest in buying Norwegian covered bonds. SR-Boligkreditt AS bonds have been assigned an Aaa rating by Moody's Investor Service, and the high rating ensures access to financing on good terms.

Corporate governance

SR-Boligkreditt AS's principles and policy for corporate governance are built on the Norwegian code of practice for corporate governance issued by the Norwegian Corporate Governance Board (NCGB). The Company has adapted the code mentioned above, and SR-Boligkreditt AS's principles and policy are intended to ensure that corporate governance is in line with generally accepted perceptions and standards and is in compliance with applicable laws and regulations. Furthermore, corporate governance shall ensure good cooperation among the various interests such as shareholders, lenders, customers, employees, governing bodies, management and society at large. It is the opinion of the Board of Directors that SR-Boligkreditt AS's corporate governance is satisfactory and in accordance with applicable principles and policy. During 2020, 8 board meetings were held. The Board's focal areas have been following up operations, strategy, risk and capital governance and surveillance of markets and framework terms and conditions. The Board has prepared an annual schedule for its work, and emphasis is placed on ensuring sufficient knowledge and expertise among board members. As a fully owned subsidiary of SR-Bank, SR-Boligkreditt AS is exempt from having a separate audit committee. The Company has an independent and effective external and internal audit. Risk management and internal control is done continuously and any operational incidents that could cause disruptions and/or loss are recorded. SR-Boligkreditt AS conducts an annual review of these routines. The enterprise's risk strategy is adopted by the Board. Identified areas of risk and any significant control deviations concerning the Company's financial reporting are followed up by means of the Company's risk management and internal control system and reported to the Board at each board meeting. The Company's ethical guidelines include a duty to report in cases of blameworthy conditions, including breaches of internal guidelines, laws and regulations, as well as the method to be used to submit this information. Major enterprises shall submit information on their handling of social responsibility, cf. Section 3-3c of the Norwegian Accounting Act. SR-Bank submits such reports for the group, which also covers subsidiaries. Reference is made to the parent bank's annual report for further information. SR-Boligkreditt AS's activities are supervised by the Financial Supervisory Authority of Norway. The Board and administration endeavour to maintain an open and constructive dialogue with the Financial Supervisory Authority of Norway.

Review of the annual accounts

Profit and loss account

SR-Boligkreditt AS reports in accordance with the IFRS. The Company's operating result before depreciation and tax amounted to NOK 838.3 million for the 2020 accounting year, compared to NOK 581.1 million in 2019. The result after depreciation and tax was NOK 632.7 million (NOK 454.5 million). The Company's interest income amounted to NOK 1,795.8 million (NOK 1,828.5 million). Net interest income amounted to NOK 830.9 (NOK 618.6 million). Net gain/losses from financial investments amounted to NOK 61.7 million (NOK 9.5 million), which for the most part is due to value regulation of swaps related to deferral hedge accounting of financial liabilities. The Company's operating costs and fee expenses in 2020 amounted to NOK 54.3 million (NOK 47.0 million). The Company purchases several services from SR-Bank. Purchase of services is formalised by means of various agreements and the Company is thereby ensured competencies in central professional areas, while also maintaining cost-efficient operations. For the financial year 2020, group loan write-downs amounted to NOK 27.1 million (NOK -1.6 million). There are no individual write-downs on loans in 2020. The Company had no realised losses in 2020. Tax expense for 2020 is estimated at NOK 178.5 million (NOK 128.2 million). Net profit after tax for the year 2020 was NOK 632.7 million (NOK 454.5 million). The Board considers the result as satisfactory. Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board confirms that the accounts have been prepared on a going concern basis.

Balance sheet and capital adequacy

The total assets of SR-Boligkreditt AS at the end of the financial year amounted to NOK 95.2 billion (NOK 77.9 billion). Net lending to customers was NOK 85.5 billion (NOK 73.0 billion). Liabilities in the form of covered bonds amounted to NOK 75.4 billion (NOK 62.3 billion). SR-Boligkreditt AS has authorisation from the Financial Supervisory Authority of Norway to make use of the IRB approach to calculate the Company's capital. The EU regulations CRR/CRD IV was implemented in

Norwegian law 31 December 2019. The capital adequacy ratio of SR Boligkreditt AS was at year end 23.9 per cent (31.6 per cent). Capital adequacy consists of common equity. All capital is provided by the parent bank. The Company shall at all times maintain a capital adequacy ratio equal to the minimum regulatory requirement, with a buffer of 50 - 100 basis points. The cash flow from operating activities was NOK 1,622.8 million (NOK 1,652.2 million), while the operating result before tax was NOK 811.2 million (NOK 582.7 million). Net cash flow in 2020 was negative at NOK 208.8 million. There have been no significant subsequent events that affect the financial statements for 2020.

Risk factors

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

Credit risk

Credit risk is defined as the risk of a loan customer or counterparty failing to fulfil its obligations to SR-Boligkreditt AS. In the professional credit framework for the Company, requirements are established for loans that may be incorporated in the Company's loan portfolio. There have been no significant changes in the Company's credit risk profile throughout the fiscal year. The mortgages in the cover pool of SR-Boligkreditt AS cannot have a loan to value ("LTV") above 75 per cent, average loan to value at 31.12.2020 stood at 57.4 per cent of current value. The Board considers the quality of the loan portfolio to be good, an assessment which is reinforced by the Company's low losses. The Board expects that losses on loans and guarantees will be kept at a low level in future. A fall in house prices will reduce the net value of the Company's cover pool. Stress tests are carried out regularly to calculate the effect of a fall in house prices. The Board is comfortable with the outcome of the stress tests.

Market risk

Market risk is defined as the risk of financial loss due to changes in observable market variables such as interest rates, exchange rates and prices of financial instruments. SR-Boligkreditt AS has low market risk, and limits are established for maximum exposure to fluctuations in the interest and currency market. To the extent that the Company borrows at fixed rates, and/or that the bonds are issued in foreign currency, interest rate and currency risks are eliminated by entering into swap agreements when the bonds are issued for the entire term of the loans. Swaps are entered into with counterparties of good credit quality. The agreements have been approved by the rating agency used by the Company and contribute to the good rating of the Company's covered bonds. The Board considers both interest and currency risks and the overall market risk of the Company to be low.

Liquidity risk

The Company's framework for managing liquidity risk shall reflect the Company's conservative risk profile. All bonds are issued by SR-Boligkreditt AS based on agreements in which the Company has a unilateral right to extend the maturity of bonds by up to twelve months. This right may be used if the Company encounters difficulties refinancing by ordinary due date. The Company has an agreement with the parent bank in which the bank is obliged to provide emergency liquidity support if necessary, to ensure that outstanding bonds and associated derivatives shall receive timely settlement by the ordinary due date. The Board considers the Company's liquidity risk as low.

Operational risk

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

Employees and the working environment

The CEO is formally employed by the parent bank and leased to SR-Boligkreditt as general manager. Other resources for operation of the Company are supplied by various departments in SR-Bank based on agreements between the Company and the parent bank. No serious workplace accidents have occurred or been reported over the year. The working environment in the Company is considered good, and the Company activities do not pollute the environment. The Board of Directors consists of four people, of which one is a woman. Three of the Board members are employed in leading positions in SR-Bank. The other Board member is independent of the SR-Bank group. There have been no changes in Board membership during 2020.

Regulatory framework

The Ministry of Finance decreased the countercyclical buffer requirement from 2.5 to 1.0 percentage points, while increasing the systemic risk buffer from 3.0 percentage points to 4.5 percentage points. The minimum requirement for common equity is thus unchanged at 12.5 per cent at year-end 2020, with a capital adequacy ratio of at least 16.0 per cent. SR-Boligkreditt's common equity stood at 23.9 per cent at year end.

Outlook

Continued high consumer consumption rates, increasing business investments and export growth are expected to contribute to a growth in mainland GDP by 4.4 per cent in 2021. The Norwegian Petroleum Directorate expects a slight decrease in oil investments on the Norwegian Continental Shelf in 2021 after a growth of 2 % in 2020. The Central Bank of Norway decreased its base rate by 1.25 percentage points in March, and an additional 0.25 percentage points in May 2020, leaving the base rate at 0.00 per cent for the remaining of 2020. The market expects the policy rate to remain unchanged for 2021. Norwegian house prices are expected to increase.

SR-Boligkreditt will continue to build the company's funding curve and to provide funding diversification for the parent bank. The volume of covered bond issues in 2021 is expected to be approximately NOK 15 billion and to provide a sound basis for SR-Bank's lending activities. Defaults are expected to be low and SR-Boligkreditt AS's activities are expected to generate satisfactory profitability in 2021.

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

Allocations

Profit after depreciation and tax for the year 2020 amounted to NOK 632.7 million (454.5 million). The Board of Directors proposes to issue a NOK 630 million dividend to SR-Bank, the residual is added to the Company's equity.

Stavanger, 9 March 2021



Inge Reinertsen, Chairman



Merete Eik



Stian Helgøy



Børge Henriksen



Dag Hjelle, CEO

Income statement

NOK 1 000	Note	2020	2019
Interest income	15	1.795.779	1.828.527
Interest expense	15	964.897	1.209.968
Net interest income		830.882	618.558
Commission and fee expenses		-50.968	-43.649
Net commission income		-50.968	-43.649
Net gains/losses on financial instruments	16	61.734	9.493
Net income on financial investments		61.734	9.493
Total net income		841.648	584.403
Administrative expenses	17	1.599	1.589
Other operating costs	17	1.776	1.727
Total operating costs before impairment losses on loans		3.376	3.316
Operating profit before impairment losses on loans		838.272	581.087
Impairment losses on loans and guarantees	7	27.095	-1.612
Pre-tax profit		811.177	582.699
Tax expense	18	178.488	128.194
Profit after tax		632.690	454.505
Other comprehensive income			
Adjustments		-	-
Comprehensive Income		632.690	454.505

Balance sheet

NOK 1 000	Note	2020	2019
Assets			
Balances with credit institutions		73.744	282.516
Loans to customers	6,7,8,9	85.543.956	72.953.125
Bonds	19	3.293.628	1.774.760
Financial derivatives	19,20	6.290.844	2.877.731
Other assets	21	8.784	42.447
Total assets		95.201.956	77.930.579
Liabilities and equity			
Liabilities			
Listed debt securities	22,23	75.382.829	62.331.202
Balances with credit institutions		12.729.259	8.659.064
Financial derivatives	19,20	298.273	338.906
Other liabilities	18,24	152.155	144.658
Total liabilities		88.562.517	71.473.830
Equity			
Paid-in equity capital	26	6.000.150	6.000.150
Retained earnings		639.289	456.599
Total equity		6.639.439	6.456.749
Total liabilities and equity		95.201.956	77.930.579

Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
Equity as of 31 December 2016	2.025.000	150	85.561	2.110.711
Capital increase 20 January 2017	1.000.000	-	-	1.000.000
Dividend 2016, resolved in 2017	-	-	-84.000	-84.000
Capital increase 20 October 2017	975.000	-	-	975.000
Profit for the period	-	-	204.580	204.580
Equity as of 31 December 2017	4.000.000	150	206.141	4.206.291
Changes in equity IFRS 9 1 January 2018	-	-	-3.429	-3.429
Dividend 2017, resolved in 2018	-	-	-204.000	-204.000
Other paid-in equity (not yet registered)	-	-	1.000.000	1.000.000
Profit for the period	-	-	288.381	288.381
Equity as of 31 December 2018	4.000.000	150	1.287.094	5.287.244
Capital increase 9 February 2019	1.000.000	-	-1.000.000	-
Dividend 2018, resolved in 2019	-	-	-285.000	-285.000
Capital increase 4 June 2019	1.000.000	-	-	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	639.298	6.639.439

Cash flow statement

NOK 1 000	Note	31.12.20	31.12.19
Interest receipts from lending to customers	15	1.815.832	1.806.744
Provisions to SR-Bank	25	-50.968	-47.171
Payments for operations	17	-4.893	-3.800
Taxes paid	18	-137.131	-103.562
Net cash flow relating to operations		1.622.842	1.652.211
Net purchase of loan portfolio	6	-12.627.769	-14.137.640
Net payments on the acquisition of bonds		-1.524.744	157.022
Net cash flow relating to investments		-14.152.513	-13.980.618
Debt raised by issuance of securities	22	22.064.820	11.021.974
Redemption of issued securities		-12.993.454	-4.999.847
Net change in loans from credit institutions		4.070.195	5.285.965
Paid in capital equity	26	-	1.000.000
Interest payments on debt raised by issuance of securities	15	-1.128.011	-1.180.126
Proceeds from settlement of other securities		757.350	-
Dividend paid		-450.000	-285.000
Net cash flow relating to funding activities		12.320.899	10.842.966
Net cash flow during the period		-208.772	-1.485.440
Balance of cash and cash equivalents start of period		282.516	1.767.956
Balance of cash and cash equivalents end of period		73.744	282.516

Notes to The Financial statements

Note 1 General information

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

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

Note 2 Accounting principles

Basis for the preparation of the annual financial statements for SR-Boligkreditt AS

The annual financial statements cover the period 1 January - 31 December 2020.

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

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

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

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

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

The International Accounting Standards Board (IASB) amended September 2019 its financial instruments standards IFRS 7 and IFRS 9. The amendments come into effect from 1 January 2020 but SR-Boligkreditt applied them from 2019. The changes relate to hedge accounting and have the effect that the IBOR reform should not cause the hedge accounting to terminate.

Presentation currency

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

IFRS 9 Financial instruments

Financial assets

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

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

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

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

Financial liabilities

As a general rule, financial liabilities should still be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments included in a trading portfolio, and financial liabilities it has been decided to recognise at fair value with value changes through profit or loss.

Hedge accounting

SR-Boligkreditt applies hedge accounting in accordance with the criteria for fair value hedging. The hedge accounting is carried out when this is in accordance with the company's risk management strategy. Hedge accounting requires documentation that the hedge is in accordance with the company's risk management, that there is a financial connection between the hedging instrument and the hedged item, and that credit risk cannot dominate the value changes of the hedging instrument.

Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognised on the trading day, that is, when the company becomes a party to the instruments' contractual terms. Loans that are purchased from an original issuer is recognised as loans as of the date when the seller according to IFRS is to derecognise the loan

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

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

Modified assets and liabilities

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

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

Impairment on loans

According to IFRS 9, impairment losses must be recognised based on expected credit losses (ECL). The general model for impairment of financial assets in IFRS 9 applies to financial assets measured at amortised cost or at fair value with changes through OCI, and which had no incurred losses upon initial recognition. In addition, there are also loan commitments, financial guarantee contracts and unused credit lines that are not measured at fair value through profit or loss, and changes to lease agreements are also included.

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

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

The calculation of expected credit losses will create volatility in the profit or loss as and when changes in credit risk occur. Due to the forward-looking features in the expected credit loss calculation credit losses should be recognised before they are realised and may be significant at the start of an economic downturn.

More detailed description of the company's impairment model

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

Stage 1:

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

Stage 2:

Stage 2 of the loss model applies to assets that have seen a significant rise in credit risk since initial recognition, but that do not have objective evidence of a loss event. For these assets the loss provision must cover expected losses over the entire lifetime. As far as the demarcation with stage 1 is concerned, the bank bases its definition of a significant degree of credit deterioration on the extent to which the commitment's calculated probability of default (PD) has increased significantly. An increase in PD of more than 150 per cent and which results in a PD higher than 0.6 per cent is considered a significant change in credit risk. In addition, overdrafts or arrears of at least 30 days will always be considered a significant increase in credit risk. Commitments subject to repayment relief may, based on an individual assessment, also be regarded as having experienced a significant increase in credit risk. A commitment migrates to a lower stage when the conditions for the original migration no longer exist.

Stage 3:

Stage 3 of the loss model applies to assets that have seen a significant rise in credit risk since being granted and where there is objective evidence of a loss event on the balance sheet date. For these assets the loss provision must cover expected losses over the lifetime.

Non-performing commitments

The total commitment to a customer is considered to be in default (non-performing) and included in the group's summaries of defaulted loans when an instalment or interest is not paid 90 days after due date, a line of credit is overdrawn for 90 days or more, or the customer is bankrupt. If an engagement is defaulted, it affects the risk classification in the impairment model under IFRS 9.

Realised losses

When it is highly probable that the losses are final, the losses are classified as realised losses. Realised losses that are covered by earlier specific loss provisions are recognised against the provisions. Realised losses without cover by way

of impairments on loans and over or under coverage in relation to previous impairments on loans are recognised through profit or loss.

Repossessed assets

As part of the handling of non-performing loans and guarantees, the group acquires, in some cases, assets that have been lodged as security for such commitments. At the time of takeover, the assets are valued at their assumed realisation value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realised are classified as operations that will be sold and holdings or fixed assets held for sale are recognised in accordance with the relevant IFRS standards (normally IAS 16, IAS 38, IFRS 9 or IFRS 5). This has not happened during 2020.

Securities

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

Certificates and bonds that are classified at amortised cost, are measured at amortised cost using an effective interest rate method. See description of this method in the section on lending.

Derivatives and hedging

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

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

Funding

Funding is initially recognised at the cost at which it is raised, which is the fair value of the proceeds received after deducting transaction costs. Funding is thereafter measured at amortised cost, and any discount/premium is accrued over the term of the borrowing. Fixed-rate funding is subject to hedging, which results in measurement at fair value with discounting according to the applicable interest curve, though not taking into account changes in own credit spreads.

Contingent liabilities

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

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

Dividends

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

Interest income and interest costs

Interest income and interest costs related to assets and liabilities that are measured at amortised cost are recorded continuously in the income statement in accordance with the effective interest rate method. The effective interest rate is the interest rate that results in the present value of the expected cash flow over the expected life of a financial asset or liability being equal to the book value before provisions for expected losses (gross carrying value) of the respective financial asset or liability. In calculating the effective interest rate, the cash flow effect stated in the agreement is estimated, but without taking into account future credit losses. The calculation thus takes into account fees, transaction costs, premiums, and discounts.

Commissions and commission costs

Commissions and commission costs are generally accrued in line with the delivery/receipt of a service. The same applies to day-to-day management services. Fees and charges related to the sale or brokerage of financial instruments, properties or other investment objects that do not generate balance sheet items in the company's financial statements,

are recognised when the transaction is completed.

Transactions and balance sheet items in foreign currency

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

Taxes

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

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

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

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

Cash flow statement

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

Segment reporting

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

Events after the balance sheet date

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

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

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

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

Losses on loans and guarantees

The company carries out an impairment if there is objective evidence that can be identified for an individual commitment, and the objective evidence entails a reduction in future cash flows for servicing the commitment. Objective evidence may be default, bankruptcy, insolvency, or other significant financial difficulties.

Individual impairments are calculated as the difference between the loan's book (carrying) value and the present value of future cash flows based on the effective interest rate at the time of the calculation of the initial individual impairment. Account is taken of subsequent changes in interest rates for loan agreements with variable rates if these changes affect the expected cash flow.

According to IFRS 9, loss provisions are recognised for all commitments based on expected credit loss (ECL). The measurement of the provisions for expected losses on commitments that are not individually impaired depends on whether or not the credit risk has increased significantly since initial recognition. Upon initial recognition and when the credit risk has not increased significantly after initial recognition, provisions must be made for 12 months' expected losses. If the credit risk has increased substantially after initial recognition, provisions must be made for expected losses over the entire lifetime. Expected credit loss is calculated on the basis of the present value of all cash flows over the remaining expected lifetime.

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

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined using various evaluation techniques. The company uses methods and assumptions that, insofar as it is possible, are based on observable market data and reflect the market conditions on the balance sheet date. When measuring financial instruments for which observable market data is not available, the company makes assumptions with regard to what market actors would base their valuation on for equivalent financial instruments. Valuations require the extensive use of discretion, including when calculating liquidity risk, credit risk and volatility. Any change in the aforementioned factors will affect the fair value determined for the company's financial instruments. In the case of options, volatility will be either observed implicit volatility or calculated volatility based on historical price movements for the underlying object.

Note 4 Capital adequacy

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

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

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	31.12.20	31.12.19
Share capital	6.000.000	6.000.000
Premium reserve	150	150
Other equity	639.289	456.599
Book Equity	6.639.439	6.456.749
Deduction for proposed dividend	-630.000	-450.000
Deduction for expected losses on IRB, net of write-downs	-113.026	-127.056
Value adjustments due to prudent valuation	-2.524	-4.056
CET 1 Capital	5.893.889	5.875.637
Other paid in capital	-	-
Tier 1 Capital	5.893.889	5.875.637
Credit risk	23.553.497	17.737.678
Operational risk	1.134.865	878.427
Transitional scheme	-	-
Risk weighted balance	24.688.362	18.616.105
Minimum requirement for CET 1 capital ratio 4,5 %	1.110.976	837.725
Buffer requirements:		
Capital conservation buffer 2,5 %	617.209	465.403
Systemic risk buffer 4,5% (3 %)	740.651	558.483
Countercyclical capital buffer 1% (2,5 %)	246.884	465.403
Total buffer requirement to CET 1 capital ratio	1.604.744	1.489.288
Available CET 1 capital ratio after buffer requirement	3.178.169	3.548.624
Capital ratio	23,87 %	31,56 %
Tier 1 capital ratio	23,87 %	31,56 %
CET 1 capital ratio	23,87 %	31,56 %
Leverage Ratio	5,85 %	7,04 %

Note 5 Risk management

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

The purpose of the risk and capital management in SR-Boligkreditt AS is to ensure satisfactory capital adequacy and prudent asset management in relation to the adopted business strategies and risk profile. These are ensured through an appropriate process for risk management and planning and monitoring the company's raising of capital and capital adequacy. The company's risk and capital management must comply with best practice. This is achieved by:

- A strong risk culture characterised by a high awareness of risk management
- A qualified control environment
- A good understanding of the material risks faced by the company

Organisation and organisational structure

SR-Boligkreditt AS purchases corporate services from SR-Bank as further regulated in service level agreements entered into between the parties.

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

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

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

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

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

Financial risk management

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

- Credit risk: the risk of loss resulting from the customer's inability or unwillingness to fulfil his obligations
- Liquidity risk: is the risk that the Company is unable to refinance at maturity, or unable to fund increases in assets.
- Market risk: the risk of loss due to changes in observable market variables such as interest rates, foreign exchange rates and securities markets
- Operational risk: the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents
- Compliance risk: the risk of incurring public sanctions/penalties or financial loss as a result of a failure to comply with legislation and regulations
- Business risk: the risk of unexpected income and cost variations due to changes in external factors such as market conditions or government regulations
- Reputation risk: the risk of a failure in earnings and access to capital because of lack of trust and reputation in the market, i.e. customers, counterparties, stock market and authorities
- Strategic risk: the risk of losses resulting from the wrong strategic decisions

- Concentration risk: the risk of an accumulation of exposure to an individual customer, sector or geographical area arising. Sectoral concentration risk is exposure that can arise across different types of risk or business areas in the company's, e.g. due to common underlying risk drivers such as the oil price.

Risk exposure

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

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

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

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

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

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

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

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

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

Note 6 Lending to Customers

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of the period were NOK 85.5 billion. All mortgages carry a variable interest rate.

NOK 1 000	31.12.20	31.12.19
Flexible loans	20.209.255	20.440.585
Amortising loans	65.307.350	52.447.253
Accrued interest	55.670	75.724
Gross loans	85.572.275	72.963.562
Impairment losses after amortised cost	-37.319	-10.437
Loans to customers	85.534.956	72.953.125
Liability		
Remaining credit lines (flexible loans)	7.248.641	7.028.668
Total	7.248.641	7.028.668
Expected credit loss on remaining credit lines (flexible loans)	-287	-74

Gross loans	2020			Total
	Stage 1	Stage 2	Stage 3	
Balance 01.01.20	70.316.865	2.646.698	-	72.963.562
Transfer from stage 1	-1.122.228	1.122.228	-	-
Transfer from stage 2	968.252	-968.252	-	-
Transfer from stage 3	-	-	-	-
Net increase/decrease balance existing loans	2.315.092	66.401	-	2.381.493
Originated or purchased during the period	36.679.079	1.153.448	-	37.832.527
Loans that have been derecognised	-26.759.332	-845.975	-	-27.605.308
Balance 31.12.20	82.397.728	3.174.547	-	85.572.275

Gross loans by risk class	Stage 1	Stage 2	Stage 3	Total
A-C	73.934.829	180.784	-	74.115.613
D-F	8.280.493	1.599.202	-	9.879.695
G-I	182.405	1.376.741	-	1.559.146
J-K	-	17.820	-	17.820
Total	82.397.728	3.174.547	-	85.572.275

Gross loans by geographic area	31.12.20	31.12.19
Rogaland	60.786.230	54.085.748
Agder	8.509.881	7.005.561
Vestland	11.875.889	9.080.427
Oslo and Viken	3.624.797	1.367.201
Other	775.478	1.424.625
Total	85.572.275	72.963.562

Note 7 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 Accounting policies.

NOK 1 000	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost				
Balance sheet 1 January 2020	2.239	8.198	-	10.437
Transfer to/ from stage 1	-94	94	-	-
Transfer to/ from stage 2	1.693	-1.693	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	1.692	15.453	-	17.082
New financial assets originated or purchased	4.559	8.855	-	13.415
Change due to reduced portfolio	-602	-3.013	-	-3.615
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 December 2020	9.424	27.895	-	37.319

NOK 1 000	2020			
	Stage 1	Stage 2	Stage 3	Total
Total impairments recognised on financial commitments				
Balance sheet 1 January 2020	65	9	-	74
Transfer to/ from stage 1	-	-	-	-
Transfer to/ from stage 2	3	-3	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	141	21	-	161
New financial assets originated or purchased	50	16	-	66
Change due to reduced portfolio	-13	-2	-	-15
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 December 2020	247	40	-	287

Note 8 Credit risk exposure for each internal risk class

NOK 1 000	Average unsecured exposure ²⁾	Total commitment	Average unsecured exposure ²⁾	Total commitment
	2020		2019	
PD in % ¹⁾				
0,00 - 0,50	9,7 %	81.225.234	7,9 %	69.065.819
0,50 - 2,50	13,8 %	9.991.649	11,8 %	9.336.978
2,50 - 10,00	14,8 %	1.184.195	11,1 %	1.143.512
10,00 - 99,9	11,6 %	403.422	10,5 %	429.962
Non-performance and written down	13,2 %	16.416	11,8 %	15.960
Total	7,8 %	92.820.916	8,4 %	79.992.230

1) PD = Probability of Default

2) Average unsecured exposure is the difference between the exposure at default (EAD) and the risk adjusted value of the property (40 % reduction in value).

	LTV in Percentage of total commitment ³⁾	LTV in Percentage of total commitment ³⁾
	2020	2019
LTV 0-70	68,7 %	65,8 %
LTV 70-85	28,0 %	30,5 %
LTV 85-100	2,0 %	2,7 %
LTV >100	1,3 %	1,0 %
Total	100,0 %	100,0 %

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

LTV >75 in Percentage of total commitment summarises to 10.9% at 31 December 2020.

Note 9 Maximum credit risk exposure

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

NOK 1000	2020	2019
Assets		
Loans to and receivables from financial institutions	73.744	282.516
Loans to and receivables from customers	85.572.275	72.963.562
Certificates and bonds	3.293.628	1.774.760
Derivatives	6.290.844	2.877.731
Total credit risk exposure balance sheet items	95.230.491	77.898.569
Financial guarantees and loan commitments		
Unused credit lines	7.248.641	7.028.668
Total financial guarantees and loan commitments	7.248.641	7.028.668
Total credit risk exposure	102.479.132	84.927.237
Banking operations	2020	2019
Rogaland	66.009.043	59.578.409
Agder	9.230.734	7.680.415
Vestland	12.881.870	9.955.155
Oslo og Viken	3.931.846	1.498.905
Other	841.167	1.561.861
Total banking operations	92.894.660	80.274.745
Certificates and bonds	3.293.628	1.774.760
Derivatives	6.290.844	2.877.731
Total by geographic area	102.479.132	84.927.237

Note 10 Credit quality per class of financial asset

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

2020	0,00 - 0,50 %	0,50 - 2,50 %	2,50 - 10,0 %	10,0 - 99,9%	Commitments in default	Total
Loans						
Loans to and receivables from financial institutions	73.744	-	-	-	-	73.744
Loans to and receivables from customers						
- Retail market	74.104.609	9.917.254	1.139.633	410.779	-	85.572.275
Total loans	74.178.353	9.917.254	1.139.633	410.779	-	85.572.275

2019	0,00 - 0,50 %	0,50 - 2,50 %	2,50 - 10,0 %	10,0 - 99,9%	Commitments in default	Total
Loans						
Loans to and receivables from financial institutions	282.516	-	-	-	-	282.516
Loans to and receivables from customers						
- Retail market	62.091.843	9.299.407	1.144.651	427.661	-	72.963.562
Total loans	62.374.359	9.299.407	1.144.651	427.661	-	73.246.078

Note 11 Market risk related to interest rate risk

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

NOK 1 000	2020	2019
Other loans and deposits	-90.687	-99.110
Securities issued	74.459	66.396
Other	-4.343	-2.355
Total interest rate risk	-20.571	-35.070
Maturity		
0 - 3 months	-20.571	-35.070
Total interest rate risk	-20.571	-35.070
Currency		
NOK	-20.571	-35.070
EUR	-	-
Total interest rate risks	-20.571	-35.070

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

The company shall not have a net interest rate exposure (exposure assets - exposure debt) in excess of 1.25 % of total capital. The potential for gain / loss is calculated from a parallel shift of the yield curve by 1 percentage point.

The table shows that a positive parallel shift in the yield curve of one percentage point will result in an overall impact on earnings of negative 20.6 million before tax, which corresponds to an impact on equity of negative 15 million after tax.

Note 12 Market risk related to currency risk

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

NOK 1000	2020	2019
Currency		
EUR	-	-
USD	-	-
Other	-	-
Total	-	-

Currency risk arises when differences exist between the company's assets and liabilities in the individual currency. Currency trading must at all times comply with the adopted limits and authorities.

The company's limits define quantitative targets for the maximum net exposure in currency, measured in NOK.

Note 13 Liquidity risk

2020 NOK 1 000	Upon request	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Securities issued	-	77.847	8.259.945	42.120.077	24.768.521	75.226.521
Total liabilities	-	77.847	8.259.945	42.120.077	24.768.521	75.226.521
Derivatives						
Contractual cash outflow	-	-158.671	-7.419.561	-24746.994	-21.998.636	-54323.861
Contractual cash inflow	-	97.519	8.298.514	26.364.965	22.967.180	57.728.177
2019						
2019 NOK 1 000	Upon request	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Securities issued	-	127.695	10.479.477	35.074.227	18.646.880	64.328.279
Total liabilities	-	127.695	10.479.477	35.074.227	18.646.880	64.328.279
Derivatives						
Contractual cash outflow	-	-312.658	-5.601.457	-25.357.844	-16.818.747	-48.090.705
Contractual cash inflow	-	97.534	5.369.516	24.916.413	16.679.515	47.062.978

Note 14 Maturity analysis of assets and debt/liabilities

2020 NOK 1 000	Upon request	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Assets						
Balances with credit inst.	73.744	-	-	-	-	73.744
Loans to customers	-	6.183	14.963	332.833	85.218.296	85.572.275
Bonds	-	700.224	292.364	2.301.039	-	3.293.628
Financial derivatives	-	-	920.022	2.942.139	2.428.683	6.290.844
Other assets	8.784	-	-	-	-	8.784
Total assets	400.687	706.407	1.227.349	5.576.011	87.646.979	77.930.579
Liabilities						
Listed debt securities	-	-	7.895.490	42.031.781	25.455.559	75.382.829
Balances with credit inst.	-	-	-	-	12.729.259	12.729.259
Financial derivatives	-	-	-	71.586	226.686	298.273
Other liabilities	152.155	-	-	-	-	152.155
Total liabilities	152.155	-	-	42.103.367	38.411.504	88.562.516

2019 NOK 1 000	Upon request	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Assets						
Balances with credit inst.	282.516	-	-	-	-	282.516
Loans to customers	75.724	6.277	3.794	273.236	72.594.094	72.953.125
Bonds	-	-	-	1.774.760	-	1.774.760
Financial derivatives	-	-	223.658	1.419.717	1.234.357	2.877.731
Other assets	42.447	-	-	-	-	42.447
Total assets	400.687	6.277	227.452	3.467.713	73.828.451	77.930.579
Liabilities						
Listed debt securities	-	-	-	34.015.302	28.315.900	62.331.202
Financial derivatives	-	-	-	-	8.659.064	8.659.064
Taxes payable	-	-	-	164.361	174.544	338.906
Other liabilities	144.658	-	-	-	-	144.658
Total liabilities	144.658	-	-	34.179.664	37.149.508	71.473.830

Note 15 Net interest income

NOK 1000	2020			2019		
	Total	Measured at amortised cost	Measured at fair value	Total	Measured at amortised cost	Measured at fair value
Interest income						
Interest on receivables from fin. inst.	1.687	1.498	-	14.990	14.990	-
Interest on lending to customers	1.768.198	1.768.198	-	1.781.734	1.781.734	-
Interest on certificates and bonds	25.894	8.888	17.006	31.803	13.810	17.993
Total interest income	1.795.779	1.778.584	17.006	1.828.527	1.810.534	17.993
Interest costs						
Interest on debts to financial institutions	60.162	60.162	-	46.460	46.460	-
Interest on securities issued	904.735	617.393	287.342	1.163.508	701.103	462.405
Total interest costs	964.897	677.555	287.342	1.209.968	747.564	462.405
Net interest income	830.882	1.101.029	-270.337	618.558	1.062.970	-444.412

Note 16 Net income from financial instruments

NOK 1 000	2020	2019
Net gains for bonds and certificates	-2.744	-15
Net change in value, basis swap spread	70.906	21.362
Net change in value, other financial investments	-6.428	-11.854
Net change in value, currency effect	-	-
Net income from financial instruments	61.734	9.493

Note 17 Other operating costs

NOK 1 000	2020	2019
IT costs	335	310
Other administrative costs	1.264	1.279
External fees	1.639	1.727
Other operative costs	137	-
Total operating costs	3.376	3.316
Fees for external auditor - specification of audit fees		
Statutory audit	315	357
Other certification services	244	390
Total	559	747

All figures include VAT.

Note 18 Tax

NOK 1 000	2020	2019
Pre-tax profit	811.177	582.699
Permanent differences	130	-
Group contribution	-	-
Change in temporary differences	-159.501	45.195
Tax base/ taxable income for the year	651.807	627.894
Of which payable tax 23 % (25 %)	143.398	138.137
Tax effect of group contribution	-	-
Change in deferred tax	35.090	-9.943
Excess payable tax allocation in previous years	-	-
Total tax cost	178.487	128.194
Deferred tax asset		
- deferred tax asset that reverses in more than 12 months	-7.357	-42.447
- deferred tax asset that reverses within 12 months	-	-
Total deferred tax asset	-7.357	-42.447
Deferred tax		
- deferred tax that reverses in more than 12 months	-	-
- deferred tax that reverses within 12 months	-	-
Total deferred tax	-	-
Net deferred tax/ deferred tax asset	-7.357	-42.447
Change in deferred tax asset		
Year's change in deferred tax asset on the balance sheet	35.090	-8.800
Change in deferred tax asset not recorded in income statement	-	1.143
Change recorded in income statement	35.090	-9.943
Specification of temporary differences		
Differences related to financial items	-33.442	-192.943
Group contribution paid	-	-
Losses carried forward	-	-
Total temporary differences	-33.442	-192.943

Note 19 Classification of financial instruments

2020	Financial instruments at fair value through profit or loss	Financial assets and liabilities assessed at	Total
	Financial derivatives as hedging instruments	amortised cost and accrued interest	
Assets			
Loans to and receivables from fin. inst.	-	73.744	73.744
Loans to customers ¹⁾	-	85.534.956	85.534.956
Certificates and bonds at fair value	2.433.311	860.316	3.293.628
Financial derivatives	6.290.844	-	6.290.844
Other assets	-	-	-
Total assets	8.724.156	86.469.016	95.193.172
Liabilities			
Debt to financial institutions	-	8.659.064	8.659.064
Debt securities issued ²⁾	-	62.331.202	62.331.202
Financial derivatives	338.906	-	338.906
Other liabilities	-	-	-
Total liabilities	338.906	70.990.266	71.329.172
2019			
Assets			
Loans to and receivables from fin. inst.	-	282.516	282.516
Loans to customers ¹⁾	-	72.953.125	72.953.125
Certificates and bonds at fair value	907.083	867.677	1.774.760
Financial derivatives	2.877.731	-	2.877.731
Other assets	-	-	-
Total assets	3.784.814	74.103.318	77.888.132
Liabilities			
Debt to financial institutions	-	8.659.064	8.659.064
Debt securities issued ²⁾	-	62.331.202	62.331.202
Financial derivatives	338.906	-	338.906
Other liabilities	-	-	-
Total liabilities	338.906	70.990.266	71.329.172

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

2) Debt securities issued contain secured debt.

Information about fair value

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

Listed price in an active market for an identical asset or liability (level 1).

Valuation based on observable factors other than listed price (used in level 1) either direct (price) or indirect (deduced from prices) for the asset or liability (level 2).

Valuation based on factors not obtained from observable markets (non-observable assumptions) (level 3).

2020	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Certificates and bonds at fair value	-	2.433.311		- 2.433.311
Financial derivatives	-	6.290.844		- 6.290.844
Liabilities				
Financial derivatives	-	298.273		- 298.273

2019	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
Assets				
Certificates and bonds at fair value	-	907.083		- 907.083
Financial derivatives	-	2.877.731		- 2.877.731
Liabilities				
Financial derivatives	-	338.906		- 338.906

Note 20 Financial derivatives

At fair value through profit and loss	Contract amount 31.12.20		Fair value at 31.12.20		Contract amount 31.12.19		Fair value at 31.12.19	
			Assets	Liabilities			Assets	Liabilities
Hedging / Interest and exchange rate instruments								
Interest rate swaps (including cross currency)	110.792.797	6.149.549	296.369		90.010.540	2.828.276	325.301	
Total hedging / Interest and exchange rate instruments	110.792.797	6.149.549	296.369		90.010.540	2.828.276	325.301	
Total currency and interest rate instruments								
Total interest and exchange rate instruments	110.792.797	6.149.549	296.369		90.010.540	2.828.276	325.301	
Total accrued interests	-	141.295	1.904		-	49.456	13.604	
Total financial derivatives	110.792.797	6.290.844	298.273		90.010.540	2.877.731	338.906	

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.

	2020 Contract amount	Average maturity	2019 Contract amount	Average maturity
Interest rate swaps				
EURIBOR EUR (3 months)	43.512.158	6,4	26.374.430	6,8
LIBOR USD (3 months)	5.676.720	1,3	5.276.340	2,3
NIBOR NOK (3 months)	2.060.000	11,7	2.060.000	12,7
Total interest rate swaps	51.248.878		33.710.770	
Cross currency swaps				
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	39.017.424	6,4	25.490.966	6,8
LIBOR USD (3 months) to NIBOR NOK (3 months)	5.161.200	1,3	5.161.200	2,3
Total cross currency swaps	44.178.624		30.652.166	

Fair value interest rate risk 2020	Book value	Accumulated fair value adjustment of the hedged item	Value changes used for calculating hedge ineffectiveness		
Hedging instrument					
Interest rate swaps (including cross currency)			-1.220.964		
Hedged item					
Debt securities issued	58.675.033	2.485.540	1.224.883		
				Less than 3 months	More than 5 years
Hedged item					Total
Debt securities issued	-	7.863.525	24.511.215	23.815.753	56.190.493

Fair value interest rate risk 2019	Book value	Accumulated fair value adjustment of the hedged item	Value changes used for calculating hedge ineffectiveness		
Hedging instrument					
Interest rate swaps (including cross currency)			-726.799		
Hedged item					
Debt securities issued	47.101.897	1.066.627	732.984		
				Less than 3 months	More than 5 years
Hedged item					Total
Debt securities issued	-	4.929.800	23.516.600	17.588.870	46.035.270

Note 21 Other assets

NOK 1 000	31.12.20	31.12.19
Deferred tax assets	7.357	42.447
Prepaid expenses and other receivables	1.427	-
Total other assets	8.784	42.447

Note 22 Debt securities issued

2020

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	69.184.410	18.012.754	51.171.656
Value adjustments	5.980.933	121.731	5.859.202
Accrued interests	217.486	35.480	182.006
Total securities issued	75.382.829	18.169.966	57.212.863

2019

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	59.341.782	17.009.883	42.331.899
Value adjustments	2.753.776	-40.704	2.794.480
Accrued interests	235.644	51.192	184.452
Total securities issued	62.331.202	17.020.371	45.310.831

Securities issued by maturity date

Public covered bonds	Total	NOK	Currency
2021	7.895.490	-	7.895.490
2022	10.322.010	5.003.507	5.318.504
2023	11.473.007	5.001.108	6.471.899
2024	5.419.922	-	5.419.922
2025	14.816.841	6.002.761	8.814.080
2026	5.357.279	-	5.357.279
2027	8.037.914	-	8.037.914
2029	175.825	-	175.825
2030	5.413.907	-	5.413.907
2031	121.463	-	121.463
2032	2.162.591	2.162.591	-
2038	3.907.718	-	3.907.718
2041	278.861	-	278.861
Sum	75.382.829	18.169.966	57.212.863

Change in debt raised through issuance of securities

	Balance 31.12.20	Issued 2020	Matured/ redeemed 2020	Exchange rate and other changes 2020	Balance 31.12.19
Covered bonds	72.853.245	22.064.820	-12.993.454	4.440.097	59.341.782
Adjustments	2.312.098	-	-	-441.678	2.753.776
Accrued interests	217.486	-	-	-18.158	235.644
Total	75.382.829	22.064.820	12.993.454	3.980.261	62.331.202

Note 23 Asset coverage

The asset coverage is calculated according to the Act on Financial Institutions, section 11-11.

NOK 1 000	31.12.20	31.12.19
Covered bonds	75.382.829	62.331.202
Total covered bonds	75.382.829	62.331.202
Loans to customers	84.988.602	72.282.794
Substitute collateral	7.423.826	4.332.493
Total cover pool	92.412.427	76.615.287
Asset coverage	122,6 %	122,9 %

Note 24 Other liabilities

NOK 1 000	31.12.20	31.12.19
Taxes payable	143.398	136.994
Accounts payable	-	113
Expected credit loss unused credit lines (flexible loans)	287	74
Accrued expenses and prepaid revenue	8.471	7.477
Total other liabilities	152.155	144.658

Note 25 Material transactions with related parties

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

The most important transactions with SR-Bank:

2020	Balances with SR-Bank	Financial derivatives	Covered bonds	Interest income	Interest costs	Operating costs	Management fee
SR-Bank	-12.655.515	5.992.571	368.670	1.687	83.328	1.261	50.968
Total	-12.655.515	5.992.571	368.670	1.687	83.328	1.261	50.968

2019	Balances with SR-Bank	Financial derivatives	Covered bonds	Interest income	Interest costs	Operating costs	Management fee
SR-Bank	-8.376.548	2.538.826	423.692	14.990	96.101	1.261	43.649
Total	-8.376.548	2.538.826	423.692	14.990	96.101	1.261	43.649

Note 26 Share Capital

The share capital consists of 6 000 000 shares each with a nominal value of NOK 1 000. All shares and voting rights of the company are owned by SR-Bank. SR-Boligkreditt AS is included in the consolidated financial statements of SR-Bank, the consolidated financial statement is available on www.sr-bank.no.

	2020	2019
Total number of shares 1 January	6.000.000	4.000.000
Issue of new shares	-	2.000.000
Total number of shares 31 December	6.000.000	6.000.000

Note 27 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 December 2020. The company is not involved in any legal proceedings.

The proposed dividend is NOK 105 per share and will total NOK 630 million.

Statement by the Board of Directors and Chief Executive Officer

We hereby confirm that the financial statements for the period 1 January to 31 December 2020 have, to the best of our knowledge, been prepared pursuant to applicable accounting standards, and that the information provided presents a true and fair picture of the company's assets, liabilities, financial positions and profit as a whole.

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

Stavanger, 9 March 2021



Inge Reinertsen, Chairman



Merete Eik



Stian Helgøy



Børge Henriksen



Dag Hjelle, CEO



To the General Meeting of SR-Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SR-Boligkreditt AS, which comprise the balance sheet as at 31 December 2020, the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The Company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or other events that qualified as new Key Audit Matters for our audit of the 2020 financial statements. In this light, our areas of focus have been the same in 2020 as the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
<i>Loans to customers</i>	
The mortgage company has loans to private individuals amounting to	In order to comply with the requirements in the regulations applicable to issuing covered bonds, the

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm



NOK 85 535 million with collateral in residential property and has issued covered bonds. Processes and controls have been established to ensure that the entity complies with the various requirements mortgage companies are subject to.

Management have considered how the Covid-19 Pandemic will affect the relationship between value of loans and collateral.

The value of the collateral at any time should be above 75 % of the loan value for residential property and above 60 % of the loan value for vacation property. The company has realized only limited losses on loans in 2020. As compliance with these requirements and the established processes and controls are fundamental to the company's operation, we have focused our attention on this subject.

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

company had established controls in the process of granting and transferring loans. The process included formal controls and segregation of duties, directed at ensuring that the controls were performed before loan approval or transfer of loans from the owner banks to the mortgage company.

Further, in accordance with applicable regulations the company had engaged us as Independent Inspector to control, on a quarterly basis whether the company complied with the various requirements. Our work as independent inspector includes procedures directed at checking whether the value of collateral exceeds the value of loans with the required limits.

We also discussed with management how the Covid-19 pandemic may affect the relationship between value of loans and collateral and the appropriateness of the information provided in the annual report about the pandemic. We observed and tested controls management had put in place to take account for the added risks resulting from the ongoing pandemic.

Further, our work included testing of the mortgage company's IT systems, supporting processes over financial reporting. The mortgage company used external service providers to operate the core IT systems. The auditor at the relevant service organisation evaluated the design and efficiency of the established control systems, and tested the controls designed to ensure the integrity of the IT system and cash handling that were relevant to financial reporting. The auditor issued an ISAE 3402 type 2 audit opinion over the core IT system which explained the testing that was performed and the results thereof. The auditor tested whether significant calculations modules within the core system was performed in accordance with expectations, hereunder interest calculation and amortization of loans. We satisfied ourselves regarding the auditor's objectivity and competence and examined the reports and evaluated possible misstatement and improvements. Furthermore, our own IT specialists tested access controls to the IT systems and the segregation of duties where necessary for our audit.

Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit. Our work substantiated that the company's inspection and processes supported that the laws and regulations in this area were followed.



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

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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



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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Stavanger, 9 March 2021

PricewaterhouseCoopers AS

A handwritten signature in blue ink, appearing to read 'Arne Birkeland', is written over a light blue horizontal line.

Arne Birkeland
State Authorised Public Accountant