

SR-Boligkreditt

Quarterly report 2021

Q3

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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 September 2021

Net income totalled NOK 564.6 million as at 30 September 2021.

(Amounts in NOK millions)	01.01.2021 - 30.09.2021	01.01.2020 - 30.09.2020
Total income	564.6	549.8
Net interest income	734.8	572.8
Net commission income	-41.6	-37.7
Net income on financial investments	-128.5	14.7

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 September 2021, total assets stood at NOK 98.0 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 80.3 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 September 2021, the company's equity totalled NOK 6.5 billion. The capital adequacy ratio was 24.1%.

Outlook

The negative effects of the Covid-19 are fading out and the pandemic has had significant lower impact on the economy in 2021 than on the year before. Optimism is back both in the retail and in the corporate market and Statistics Norway forecasts GDP mainland to grow 3.6% in 2021 and 3.8% in 2022. Inflation in 2021 is expected at 3.3% and at 1.9% in 2022. The housing market and private consumption is stimulated through low mortgage rates. Credit growth is expected to continue despite increased interest rates from the central bank. The policy rate has been increased to 0.25% and the Central Bank has guided for further hikes.

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.

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 September 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 third 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, 27 October 2021

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.2021 - 30.09.2021	01.01.2020 - 30.09.2020	Q3 2021	Q3 2020	2020
Interest income		1.230.700	1.394.270	414.089	394.791	1.795.779
Interest expense		495.937	821.421	150.040	156.725	964.897
Net interest income		734.763	572.849	264.049	238.067	830.882
Commission and fee expenses		41.649	37.725	14.697	12.916	50.968
Net commission income		-41.649	-37.725	-14.697	-12.916	-50.968
Net gains/losses on financial instruments	10	-128.500	14.693	59.914	-39.512	61.734
Net income on financial investments		-128.500	14.693	59.914	-39.512	61.734
Total net income		564.614	549.817	309.267	185.639	841.648
Other operating costs		2.595	3.459	816	920	3.376
Total operating costs before impairment losses on loans		2.595	3.459	816	920	3.376
Operating profit before impairment losses on loans		562.019	546.358	308.451	184.719	838.272
Impairment losses on loans and guarantees	2	-2.981	12.276	-2.560	31	27.095
Pre-tax profit		565.001	534.082	311.010	184.688	811.177
Tax expense		124.300	117.498	68.422	40.631	178.488
Profit after tax		440.700	416.584	242.588	144.057	632.690
Other comprehensive income						
Adjustments		-		-	-	-
Comprehensive Income		440.700	416.584	242.588	144.057	632.690

Balance sheet

NOK 1 000	Note	30.09.21	30.09.20	31.12.20
Assets				
Balances with credit institutions		747.020	92.211	73.744
Loans to customers	2,5	91.578.488	83.449.270	85.534.956
Bonds		2.393.970	3.297.570	3.293.628
Financial derivatives	9	3.301.199	9.490.207	6.290.844
Other assets		10.206	45.282	8.784
Total assets		98.030.883	96.374.539	95.201.956
Liabilities and equity				
Liabilities				
Listed debt securities	7	80.328.880	78.787.253	75.382.829
Balances with credit institutions		10.219.649	10.897.209	12.729.259
Financial derivatives	9	884.770	137.971	298.273
Other liabilities	4	147.445	128.773	152.155
Total liabilities		91.580.743	89.951.206	88.562.517
Equity				
Paid-in equity capital		6.000.150	6.000.150	6.000.150
Retained earnings		449.989	423.183	639.289
Total equity		6.450.139	6.423.333	6.639.439
Total liabilities and equity		98.030.883	96.374.539	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			440.700	440.700
Equity as of 30 September 2021	6.000.000	150	449.989	6.450.139

Cash flow statement

NOK 1 000	30.09.2021	30.09.20	31.12.20
Interest receipts from lending to customers	1.231.834	1.418.005	1.815.832
Provisions to SR-Bank	-41.649	-37.725	-50.968
Payments for operations	1.411	1.141	-4.893
Taxes paid	-143.398	-138.137	-137.131
Net cash flow relating to operations	1.048.198	1.243.284	1.622.842
Net purchase of loan portfolio	-6.032.719	-10.531.994	-12.627.769
Net payments on the acquisition of bonds	898.816	-1.526.532	-1.524.744
Net cash flow relating to investments	-5.133.904	-12.058.526	-14.152.513
Debt raised by issuance of securities	15.358.645	19.526.460	22.064.820
Redemption of issued securities	-7.704.450	-9.737.400	-12.993.454
Net change in loans from credit institutions	-2.509.611	2.238.145	4.070.195
Paid in capital equity	-	-	-
Interest payments on debt raised by issuance of securities	244.397	-952.266	-1.128.011
Proceeds from settlement of other securities	-	-450.000	757.350
Dividend paid	-630.000		-450.000
Net cash flow relating to funding activities	4.758.982	10.624.938	12.320.899
Net cash flow during the period	673.276	-190.305	-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	747.020	92.211	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 September 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 September 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	-323	323	-	-
Transfer to/ from stage 2	8.213	-8.213	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	-8.869	9.730	-	861
New financial assets originated or purchased	3.750	3.327	-	7.077
Change due to reduced portfolio	-2.265	-8.631	-	-10.896
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 30 September 2021	9.925	24.432	-	34.361

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 September 2021	226	36	-	263

Note 3 Other assets

NOK 1 000	30.09.21	30.09.20	31.12.20
Deferred tax assets	7.357	42.447	7.357
Prepaid expenses	2.849	2.834	1.427
Total other assets	10.206	45.282	8.784

Note 4 Other liabilities

NOK 1 000	30.09.21	30.09.20	31.12.20
Taxes payable	124.300	116.355	143.398
Accounts payable	5.397	4.491	-
Expected credit loss on remaining credit lines (flexible loans)	263	285	287
Accrued expenses and prepaid revenue	17.484	7.643	8.471
Total other liabilities	147.445	128.773	152.155

Note 5 Lending to customers

NOK 1 000	30.09.21	30.09.20	31.12.20
Flexible loans - retail market	19.820.512	20.421.612	20.209.255
Amortising loans - retail market	71.737.802	62.998.171	65.307.350
Accrued interest	54.536	51.989	55.670
Gross loans	91.612.850	83.471.772	85.572.275
Impairment provisions	-34.362	-22.502	-37.319
Loans to customers	91.578.488	83.449.270	85.534.956
Liability			
Remaining credit lines (flexible loans)	7.569.843	7.588.759	7.248.641
Total	7.569.843	7.588.759	7.248.641
Expected credit loss on remaining credit lines (flexible loans)	-263	-285	-287

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 91.6 billion. All mortgages carry a variable interest rate.

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	-1.166.513	1.166.513	-	-
Transfer to stage 2	1.239.970	-1.239.970	-	-
Transfer to stage 3	-	-	-	-
Net increase/decrease balance existing loans	2.642.710	55.843	-	2.698.553
Originated or purchased during the period	25.261.651	458.248	-	25.719.899
Loans that have been derecognised	-21.472.462	-905.415	-	-22.377.877
Balance 30.09.21	88.903.084	2.709.766	-	91.612.850

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	30.09.21	30.09.20	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	-109.516	-121.975	-113.026
Value adjustments due to prudent valuation	-1.954	-11.911	-2.524
CET 1 capital	5.897.968	5.872.863	5.893.889
Other paid in capital	-	-	-
Tier 1 capital	5.897.968	5.872.863	5.893.889
Credit risk	23.358.620	23.288.057	23.553.497
Operational risk	1.134.865	878.427	1.134.865
Transitional scheme	-	-	-
Risk weighted balance	24.493.484	24.166.484	24.688.362
Minimum requirement for CET 1 capital ratio 4,5 %	1.102.207	1.087.492	1.110.976
Buffer requirements:			
Capital conservation buffer 2,5 %	612.337	604.162	617.209
Systemic risk buffer 4,5 % (3%)	734.805	724.995	740.651
Countercyclical capital buffer 1 % (2,5 %)	244.935	241.665	246.884
Total buffer requirement to CET 1 capital ratio	1.592.076	1.570.821	1.604.744
Available CET 1 capital ratio after buffer requirement	3.203.685	3.214.549	3.178.169
Capital ratio	24,08 %	24,30 %	23,87 %
Tier 1 capital ratio	24,08 %	24,30 %	23,87 %
CET 1 capital ratio	24,08 %	24,30 %	23,87 %
Leverage ratio	5,71 %	5,71 %	5,85 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	79.279.811	18.016.724	61.263.087
Value adjustments	837.750	3.335	834.414
Accrued interests	211.319	22.962	188.358
Total securities issued	80.328.880	18.043.020	62.285.860

Securities issued by maturity date

	Public covered bonds	Total	NOK	Currency
	2022	10.394.435	5.003.959	5.390.995
	2023	11.243.311	5.001.772	6.241.428
	2024	5.237.942	-	5.237.942
	2025	14.496.727	6.001.700	8.494.414
	2026	5.136.505	-	5.136.505
	2027	7.673.599	-	7.673.599
	2028	5.119.074	-	5.119.074
	2029	164.385	-	164.385
	2030	5.056.254	-	5.056.254
	2031	10.175.227	-	10.175.227
	2032	2.035.385	2.035.385	-
	2038	3.360.426	-	3.360.426
	2041	235.613	-	235.613
Total debt		80.328.880	18.043.020	62.285.860

	Balance 30.09.21	Issued 2021	Matured/ redeemed 2021	Exchange rate and other changes 2021	Balance 31.12.20
Covered bonds	79.279.811	15.358.645	-7.704.450	-1.227.629	72.853.245
Adjustments	837.750	-	-	-1.474.348	2.312.098
Accrued interests	211.319	-	-	-6.167	217.486
Debt raised through issuance of sec.	80.328.880	15.358.645	-7.704.450	-2.708.144	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 September 2021), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	30.09.21	30.09.20	31.12.20
Covered bonds	80.328.880	78.787.253	75.382.829
Total covered bonds	80.328.880	78.787.253	75.382.829
Loans to customers	91.342.339	82.737.793	84.988.602
Substitute collateral	4.590.030	11.461.421	7.423.826
Total cover pool	95.932.369	94.199.214	92.412.427
Asset coverage	119,4 %	119,6 %	122,6 %

Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 30.09.21	Fair value at 30.9.21	
		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	30.09.21	30.09.20	31.12.20
Net gains for bonds and certificates	-1.895	-1.189	-2.744
Net change in value, basis swap spread	-133.677	30.304	70.906
Net change in value, other financial investments	7.072	-14.421	-6.428
Net change in value, currency effect	-	-	-
Net income from financial instruments	-128.500	14.693	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 September 2021.

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