



Quarterly report 2020

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Statement of the Board of Directors

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

Income statement as at 30 June 2020

Net income totalled NOK 364.2 million as at 30 June 2020.

(Amounts in NOK millions)	01.01.20 - 30.06.20	01.01.19 - 30.06.19
Total income	364.2	319.6
Net interest income	334.8	289.5
Net commission income	-24.8	-21.2
Net income on financial investments	54.2	51.2

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

Balance sheet

At end of June 2020, total assets stood at NOK 89.4 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 82.4 billion.

Risk

SR-Boligkreditt AS has established guidelines and limits for management and control of the different types of risk. Currency and interest rate risk is eliminated using derivatives. Liquidity risk is managed in accordance with regulatory requirements and limits approved by the board. The company's overall financial risk is low. The servicing agreement with SR-Bank comprises administration, bank production, IT operations, and financial and liquidity management. Operational risk is assessed as low. Negative developments in the housing market will affect the company. A decline in house prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate effects of a negative development in house prices. One short-term measure to meet a significant fall in house prices would be to supply SR-Boligkreditt with home mortgages from SR-Bank. The board considers the company's total risk exposure to be low. At the end of June 2020, the company's equity totalled NOK 6.6 billion. The capital adequacy ratio was 25.4%.

Outlook

Norway enjoyed a positive trend in the second quarter of 2020 and the economy appears to be improving following the lockdown in March.

However, lower international demand and low oil prices are expected to mark economic development for several years to come. Statistics Norway forecasts GDP mainland to shrink 3.9% in 2020. The forecast for 2021 is a 4.3% growth. Inflation is expected to increase to 2.6%. The strong government finances and the sovereign wealth fund enables policies to mitigate the negative effects from Covid-19. The housing market and private consumption have been significantly stimulated through much lower mortgage rates, and the overall effect for these sectors has been positive. The Central Bank of Norway reduced its base rate from 1.5% to 0.25% during the first quarter, in May the rate was reduced to zero. The market expects the policy rate to increase during autumn 2021 when the effects of Covid-19 is expected to abate. Norwegian house prices are expected to be stable.

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 2020 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 2020.

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

Statement pursuant to the Securities Trading Act

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

These interim financial statements for SR-Boligkreditt AS cover the period 1 January – 30 June 2020. 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 fourth 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, 5 August 2020

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.20 - 30.06.20	01.01.19 - 30.06.19	Q2 2020	Q2 2019	2019
Interest income		999 479	818 112	428 669	422 153	1 828 527
Interest expense		664 696	528 603	265 157	274 033	1 209 968
Net interest income		334 782	289 508	163 512	148 120	618 558
Commission and fee expenses		24 810	21 154	12 492	10 583	43 649
Net commission income		-24 810	-21 154	-12 492	-10 583	-43 649
Net gains/losses on financial instruments	10	54 206	51 216	-25 576	73 533	9 493
Net income on financial investments		54 206	51 216	-25 576	73 533	9 493
Total net income		364 178	319 571	125 445	211 070	584 403
Administrative expenses		866	847	490	428	1 589
Other operating costs		1 674	842	1 321	472	1 727
Total operating costs before impairment losses on loans		2 539	1 688	1 811	900	3 316
Operating profit before impairment losses on loans		361 639	317 882	123 634	210 170	581 087
Impairment losses on loans and guarantees	2	12 245	3 465	11 659	1 511	-1 612
Pre-tax profit		349 394	314 417	111 974	208 659	582 699
Tax expense		76 867	69 172	24 634	45 905	128 194
Profit after tax		272 527	245 245	87 340	162 754	454 505
Other comprehensive income						
Adjustments		-	-	-	-	-
Comprehensive Income		272 527	245 245	87 340	162 754	454 505

Balance sheet

NOK 1 000	Note	30.06.20	30.06.19	31.12.19
Assets				
Balances with credit institutions		115 212	1 612 703	282 516
Loans to customers	2, 5	76 993 424	63 091 337	72 953 125
Bonds		2 796 046	1 928 819	1 774 760
Financial derivatives	9	9 498 231	2 331 515	2 877 731
Other assets		42 447	33 648	42 447
Total assets		89 445 360	68 998 022	77 930 579
Liabilities and equity				
Liabilities				
Listed debt securities	7	82 405 342	60 866 057	62 331 202
Balances with credit institutions		563 893	1 618 059	8 659 064
Financial derivatives	9	107 479	189 545	338 906
Other liabilities	4	89 370	76 873	144 658
Total liabilities		83 166 084	62 750 533	71 473 830
Equity				
Paid-in equity capital		6 000 150	6 000 150	6 000 150
Retained earnings		279 127	247 339	456 599
Total equity		6 279 277	6 247 489	6 456 749
Total liabilities and equity		89 445 360	68 998 022	77 930 579

Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
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	0
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			272 527	272 527
Equity as of 30 June 2020	6 000 000	150	279 126	6 279 277

Cash flow statement

NOK 1 000	30.06.20	30.06.19	31.12.19
Interest receipts from lending to customers	1 025 762	810 758	1 806 744
Provisions to SR-Bank	-24 810	-21 154	-47 171
Payments for operations	-2 386	-1 464	-3 800
Taxes paid	-138 137	-103 562	-103 562
Net cash flow relating to operations	860 430	684 579	1 652 211
Net purchase of loan portfolio	-4 078 907	-4 299 556	-14 137 640
Net payments on the acquisition of bonds	-1 023 841	3 519	157 022
Net cash flow relating to investments	-5 102 748	-4 296 037	-13 980 618
Debt raised by issuance of securities	13 367 459	4 998 157	11 021 974
Redemption of issued securities	-	-	-4 999 847
Net change in loans from credit institutions	-8 095 172	-1 755 041	5 285 965
Paid in capital equity	-450 000	1 000 000	1 000 000
Interest payments on debt raised by issuance of securities	-747 273	-501 912	-1 180 126
Dividend paid	-	-285 000	-285 000
Net cash flow relating to funding activities	4 075 014	3 456 204	10 842 966
Net cash flow during the period	-167 304	-155 253	-1 485 440
Balance of cash and cash equivalents start of period	282 516	1 767 956	1 767 956
Balance of cash and cash equivalents end of period	115 212	1 612 703	282 516

Notes to The Financial statements

Note 1 Accounting policies

1.1. Basis of preparation

These interim financial statements for SR-Boligkreditt AS cover the period 1 January - 30 June 2020. 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 2019.

New Standards that have not been adopted yet

There are no other 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 IFRS7 and IFRS9. The amendments come into effect from 1 January 2020 but SR-Boligkreditt has decided to apply 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.

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 recognised as assets, liabilities, income and costs. Note 3 of the annual accounts for 2019 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 2019 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 2019.

ECL on loans and advances to customers at amortized cost	Stage 1	Stage 2	Stage 3	Total
Balance sheet 1 January 2020	2 239	8 198	-	10 437
Transfer to/ from stage 1	-60	60	-	-
Transfer to/ from stage 2	1 539	-1 539	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	601	10 746	-	-
New financial assets originated or purchased	1 307	1 992	-	-
Change due to reduced portfolio	-412	-2 102	-	-2 514
Change in models/ risk parameters	0	0	-	-
Other movements	0	0	-	-
Balance sheet 30 June 2020	5 213	17 355	-	22 568

NOK 1 000

ECL on remaining credit lines (flexible loans)	Stage 1	Stage 2	Stage 3	Total
Balance sheet 1 January 2020	65	9	-	74
Transfer to/ from stage 1	-	-	-	0
Transfer to/ from stage 2	4	-4	-	0
Transfer to/ from stage 3	0	0	-	0
Net remeasurement of loss allowance	76	31	-	107
New financial assets originated or purchased	20	0	-	20
Change due to reduced portfolio	-11	-1	-	-12
Change in models/ risk parameters	-	-	-	0
Other movements	-	-	-	0
Balance sheet 30 June 2020	153	34	0	188

Note 3 Other assets

NOK 1 000	30.06.20	30.06.19	31.12.19
Deferred tax assets	42 447	33 648	42 447
Total other assets	42 447	33 648	42 447

Note 4 Other liabilities

NOK 1 000	30.06.20	30.06.19	31.12.19
Taxes payable	75 724	69 172	136 994
Accounts payable	246	274	113
Expected credit loss on remaining credit lines (flexible loans)	188	183	74
Accrued expenses and prepaid revenue	13 213	7 244	7 477
Total other liabilities	89 370	76 873	144 658

Note 5 Lending to Customers

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of the period were NOK 77.0 billion. All mortgages carry a variable interest rate.

NOK 1 000	31.03.20	31.03.19	31.12.19
Flexible loans - retail market	19 708 160	17 670 826	20 440 585
Amortising loans - retail market	57 258 392	45 374 622	52 447 253
Accrued interest	49 440	61 295	75 724
Gross loans	77 015 992	63 106 743	72 963 562
Impairment losses after amortised cost	-22 568	-15 406	-10 437
Loans to customers	76 993 424	63 091 337	72 953 125
Liability			
Remaining credit lines (flexible loans)	7 384 554	6 014 705	7 028 668
Total	7 384 554	6 014 705	7 028 668
Expected credit loss on remaining credit lines (flexible loans)	-103	-188	-183

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 01.01.20	70 316 865	2 646 698	-	72 963 562
Transfer to stage 1	-628 263	628 263	-	-
Transfer to stage 2	946 824	-946 824	-	-
Transfer to stage 3	-	-	-	-
Net increase/decrease balance existing loans	-6 049 237	43 364	-	-6 005 873
Originated or purchased during the period	14 438 683	295 872	-	14 734 555
Loans that have been derecognised	-4 157 620	-518 632	-	-4 676 252
Balance 30.06.20	74 867 252	2 148 741	-	77 015 992

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.

The EU regulations CRR/CRD IV was implemented in Norwegian law 31 December 2019. The implementation has led to a reduction in risk weighted balance through the removal of the Basel I floor.

NOK 1 000	30.06.20	30.06.19	31.12.19
Share capital	6 000 000	6 000 000	6 000 000
Premium reserve	150	150	150
Other equity	6 599	2 094	456 599
Total Common Equity Tier 1 capital	6 006 749	6 002 244	6 456 749
Deduction for proposed dividend	0	-	-450 000
Deduction for expected losses on IRB, net of write-downs	-110 827	-95 873	-127 056
Value of derivative liabilities at fair value	-11 421	-3 576	-4 056
Total Tier 1 capital	5 884 501	5 902 795	5 875 637
Paid-in share capital, not yet registered	-	-	-
Net primary capital	5 884 501	5 902 795	5 875 637
Credit risk	22 293 631	15 234 009	17 737 678
Operational risk	878 427	615 574	878 427
Transitional scheme	-	10 443 198	-
Risk weighted balance	23 172 058	26 292 781	18 616 105
Minimum requirement for Common Equity Tier 1 capital ratio 4,5 %	1 042 743	1 183 175	837 725
Buffer requirements:			
Capital conservation buffer 2,5 %	579 301	657 320	465 403
Systemic risk buffer 3 %	695 162	788 783	558 483
Countercyclical capital buffer 1 % (2,5 %)	231 721	525 856	465 403
Total buffer requirement to Common Equity Tier 1 capital ratio	1 506 184	1 971 959	1 489 288
Available Common Equity Tier 1 capital ratio after buffer requirement	3 335 575	2 747 661	3 548 624
Capital ratio	25,39 %	22,45 %	31,56 %
Tier 1 Capital ratio	25,39 %	22,45 %	31,56 %
Common Equity Tier 1 capital ratio	25,39 %	22,45 %	31,56 %
Leverage ratio	5,92 %	7,96 %	7,04 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	72 763 828	17 013 771	55 750 057
Value adjustments	9 417 725	211 162	9 206 563
Accrued interests	223 788	51 524	172 265
Total securities issued	82 405 342	17 276 456	65 128 885

Securities issued by maturity date

	Public covered bonds	Total	NOK	Currency
	2020	10 498 237	5 001 190	5 497 048
	2021	8 249 217	-	8 249 217
	2022	11 061 214	5 002 180	6 059 034
	2023	11 736 362	5 000 459	6 735 903
	2024	5 657 755	-	5 657 755
	2025	9 047 539	-	9 047 539
	2026	5 552 721	-	5 552 721
	2027	8 312 823	-	8 312 823
	2029	180 810	-	180 810
	2030	5 542 195	-	5 542 195
	2031	124 651	-	124 651
	2032	2 272 628	2 272 628	-
	2038	3 893 075	-	3 893 075
	2041	276 114	-	276 114
Total debt		82 405 342	17 276 456	65 128 885

	Balance 30.06.20	Issued 2020	Matured/ redeemed 2020	Exchange rate and other changes 2020	Balance 31.12.19
Covered bonds, nominal value	72 763 828	13 367 459	-	54 588	59 341 782
Adjustments	9 417 725	-	-	6 663 949	2 753 776
Accrued interests	223 788	-	-	(11 856)	235 644
Total debt raised through issuance of sec.	82 405 342	13 367 459	-	6 706 681	62 331 202

Note 8 Asset coverage

Asset coverage is calculated according to the Act on Financial Institutions, section 11-11. There is a discrepancy between the balance sheet amounts, partly because lending will be reduced due to non-performing loans (no occurrences of non-performance as of 30 June 2020), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	30.06.20	30.06.19	31.12.19
Covered bonds	82 405 342	60 866 057	62 331 202
Total covered bonds	82 405 342	60 866 057	62 331 202
Loans to customers	76 161 971	62 573 616	72 282 794
Substitute collateral	11 940 074	5 335 498	4 332 493
Total cover pool	88 102 046	67 909 114	76 615 287
Asset coverage	106,9 %	111,6 %	122,9 %

Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 30.06.20	Fair value at 31.03.20	
		Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	127 206 662	9 384 188	107 483
Total hedging / Interest and exchange rate instruments	127 206 662	9 384 188	107 483
Total currency and interest rate instruments			
Total interest and exchange rate instruments	127 206 662	9 384 188	107 483
Total accrued interests	-	114 043	-4
Total financial derivatives	127 206 662	9 498 231	107 479

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 maturing after 31.12.2021 and could be affected by changes caused by the IBOR-reform.

Interest rate swaps	Contract amount	Average maturity
EURIBOR EUR (3 months)	56 557 058	5,3
LIBOR USD (3 months)	5 852 340	1,8
NIBOR NOK (3 months)	2 060 000	12,0
Total interest rate swaps	64 469 398	

Cross currency swaps

EURIBOR EUR (3 months) to NIBOR NOK (3 months)	56 884 925	5,3
LIBOR USD (3 months) to NIBOR NOK (3 months)	5 852 340	1,8
Total cross currency swaps	62 737 265	

Note 10 Net income from financial instruments

NOK 1 000	30.06.20	30.06.19	31.12.19
Net gains for bonds and certificates	-988	1 211	-15
Net change in value, basis swap spread	64 870	50 452	21 362
Net change in value, other financial investments	-9 676	-447	-11 854
Net change in value, currency effect	-	-	-
Net income from financial instruments	54 206	51 216	9 493

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 30 June 2020.

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