

SR-Boligkreditt

Fourth Quarter 2019

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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 31 December 2019

Net income totalled NOK 584.4 million as at 31 December 2019.

(NOK millions)	01.01.19- 31.12.19	01.01.18- 31.12.18
Total income	584.4	381.3
Net interest income	618.6	495.0
Net commission income	-43.6	-34.1
Net income on fin. inv.	9.5	-79.6

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 December 2019, total assets stood at NOK 77.9 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 62.3 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 through the use of 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 December 2019, the company's equity totalled NOK 6.5 billion. The capital adequacy ratio was 31.6%.

Outlook

Continued high consumer consumption rates, increasing business investments and export growth are expected to contribute to a growth in mainland GDP by 2.7 per cent in 2020. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to grow by 10 per cent in 2020, the same growth as for 2019. The Central Bank of Norway increased its base rate by 0.25 percentage points in March, June and September 2019. The market expects the policy rate to remain unchanged for 2020. 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 – 31 December 2019. 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, 4 February 2020

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.19 - 31.12.19	01.01.18 - 31.12.18	Q4 2019	Q4 2018
Interest income		1.828.527	1.202.416	536.366	365.268
Interest expense		1.209.968	707.375	367.256	219.410
Net interest income		618.558	495.041	169.110	145.858
Commission and fee expenses		43.649	34.097	11.636	9.789
Net commission income		-43.649	-34.097	-11.636	-9.789
Net gains/losses on financial instruments	10	9.493	-79.608	-44.512	-42.820
Net income on financial investments		9.493	-79.608	-44.512	-42.820
Total net income		584.403	381.336	112.963	93.249
Administrative expenses		1.589	1.597	362	389
Other operating costs		1.727	2.260	476	421
Total operating costs before impairment losses on loans		3.316	3.857	837	810
Operating profit before impairment losses on loans		581.087	377.479	112.126	92.439
Impairment losses on loans and guarantees	2	-1.612	3.028	2.425	1.452
Pre-tax profit		582.699	374.451	109.701	90.987
Tax expense		128.194	86.070	24.134	20.873
Profit after tax		454.505	288.381	85.566	70.114
Other comprehensive income					
Adjustments		-	-	-	-
Comprehensive Income		454.505	288.381	85.566	70.114

Balance sheet

NOK 1 000	Note	31.12.19	31.12.18
Assets			
Balances with credit institutions		282.516	1.767.956
Loans to customers	2, 5	72.953.125	58.788.174
Bonds		1.774.760	1.930.511
Financial derivatives	9	2.877.731	2.344.682
Other assets	3	42.447	33.648
Total assets		77.930.579	64.864.971
Liabilities and equity			
Liabilities			
Listed debt securities	7	62.331.202	55.787.432
Balances with credit institutions		8.659.064	3.373.100
Financial derivatives	9	338.906	305.861
Other liabilities	4	144.658	111.334
Total liabilities		71.473.830	59.577.727
Equity			
Paid-in equity capital		6.000.150	5.000.150
Retained earnings		456.599	287.094
Total equity		6.456.749	5.287.244
Total liabilities and equity		77.930.579	64.864.971

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	1.202.416	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

Cash flow statement

NOK 1 000	31.12.19	31.12.18
Interest receipts from lending to customers	1.806.744	1.185.523
Provisions to SR-Bank	-47.171	-33.362
Payments for operations	-3.800	-3.006
Taxes paid	-103.562	-71.278
Net cash flow relating to operations	1.652.211	1.077.877
Net purchase of loan portfolio	-14.137.640	-17.953.078
Net payments on the acquisition of bonds	157.022	-1.827.667
Net cash flow relating to investments	-13.980.618	-19.780.745
Debt raised by issuance of securities	11.021.974	14.763.682
Redemption of issued securities	-4.999.847	-
Net change in loans from credit institutions	5.285.965	3.373.100
Paid in capital equity	1.000.000	1.000.000
Interest payments on debt raised by issuance of securities	-1.180.126	-664.589
Dividend paid	-285.000	-204.000
Net cash flow relating to funding activities	10.842.966	18.268.193
Net cash flow during the period	-1.485.440	-434.674
Balance of cash and cash equivalents start of period	1.767.956	2.202.630
Balance of cash and cash equivalents end of period	282.516	1.767.956

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 - 31 December 2019. 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 2018.

New Standards that have not been adopted yet

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.

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

IFRS 16- Leases have been adopted from 1 January 2019. This standard do not have any significant impacts for SR-Boligkreditt AS.

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 2018 explains in more detail the use of critical estimates and judgements when applying the accounting policies.

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 2018.

NOK 1 000	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost				
Balance sheet 1 January 2019	4.138	7.157	711	12.006
Transfer to/ from stage 1	189	-	-	-
Transfer to/ from stage 2	-1.246	-711	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	-3.474	2.451	-	-1.023
New financial assets originated or purchased	947	2.228	-	3.175
Change due to reduced portfolio	-2.582	-	-3.721	-2.964
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 December 2019	2.239	8.198	0	10.437

Note 3 Other assets

NOK 1 000	31.12.19	31.12.18
Other assets	42.447	33.648
Total other assets	42.447	33.648

Note 4 Other liabilities

NOK 1 000	31.12.19	31.12.18
Taxes payable	136.994	103.562
Accounts payable	113	-
Expected credit loss on remaining credit lines (flexible loans)	74	117
Accrued expenses and prepaid revenue	7.477	7.655
Total other liabilities	144.658	96.024

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 73.0 billion. All mortgages carry a variable interest rate.

NOK 1 000	31.12.19	31.12.18
Flexible loans - retail market	20.440.585	15.462.005
Amortising loans - retail market	52.447.253	43.284.234
Accrued interest	75.724	53.941
Gross loans	72.963.562	58.800.180
Impairment losses after amortised cost	-10.437	-12.006
Loans to customers	72.953.125	58.788.174
Liability		
Remaining credit lines (flexible loans)	7.028.668	5.107.530
Total	7.028.668	5.107.530
Expected credit loss on remaining credit lines (flexible loans)	-74	-117

Gross loans	Stage 1	Stage 2	Stage 3	Total
Balance 01.01.19	56.557.611	2.237.457	5.112	58.800.180
Transfer to stage 1	-1.021.608	1.021.608	-	-
Transfer to stage 2	720.866	-715.754	-5.112	-
Transfer to stage 3	-	-	-	-
Net increase/decrease balance existing loans	-4.689.308	35.921	-	-4.653.387
Originated or purchased during the period	24.965.064	823.683	-	25.788.747
Loans that have been derecognised	-6.215.759	-756.218	-	-6.971.977
Balance 31.12.19	70.316.865	2.646.698	-	72.963.562

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. Calculated positive effect for Common Equity Tier 1 capital ratio is 12.0 %.

NOK 1 000	31.12.19	31.12.18
Share capital	6.000.000	4.000.000
Premium reserve	150	150
Other equity	456.599	287.094
Total Common Equity Tier 1 capital	6.456.749	4.287.244
Deduction for proposed dividend	-450.000	-
Deduction for expected losses on IRB, net of write-downs	-127.056	-96.106
Value of derivative liabilities at fair value	-4.056	-3.706
Total Tier 1 capital	5.875.637	4.187.432
Paid-in share capital, not yet registered	-	1.000.000
Net primary capital	5.875.637	5.187.432
Credit risk	17.737.678	15.533.840
Operational risk	878.427	384.596
Transitional scheme	-	8.473.100
Risk weighted balance	18.616.105	24.391.536
Minimum requirement for Common Equity Tier 1 capital ratio 4,5 %	837.725	1.097.619
Buffer requirements:		
Capital conservation buffer 2,5 %	465.403	609.788
Systemic risk buffer 3 %	558.483	731.746
Countercyclical capital buffer 2,5 % (2 %)	465.403	487.831
Total buffer requirement to Common Equity Tier 1 capital ratio	1.489.288	1.829.365
Available Common Equity Tier 1 capital ratio after buffer requirement	3.548.624	1.260.448
Capital ratio	31,56 %	21,27 %
Tier 1 Capital ratio	31,56 %	17,17 %
Common Equity Tier 1 capital ratio	31,56 %	17,17 %
Leverage ratio	7,04 %	6,12 %

Note 7 Debt securities issued

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
	2020	9.968.509	5.004.303	4.964.206
	2021	7.438.121	-	7.438.121
	2022	10.414.110	5.011.711	5.402.399
	2023	11.105.291	5.007.240	6.098.051
	2024	5.054.141	-	5.054.141
	2025	7.735.790	-	7.735.790
	2026	4.904.756	-	4.904.756
	2029	158.950	-	158.950
	2031	106.828	-	106.828
	2032	1.997.117	1.997.117	-
	2038	3.225.283	-	3.225.283
	2041	222.307	-	222.307
Total debt		62.331.202	17.020.371	45.310.831

Change in debt raised through issuance of securities

	Balance 31.12.19	Issued 2019	Matured/ redeemed 2019	Exchange rate and other changes 2019	Balance 31.12.18
Covered bonds, nominal value	59.341.782	10.929.800	-5.000.000	122.037	53.289.945
Adjustments	2.753.776	-	-	471.228	2.282.547
Accrued interests	235.644	-	-	20.704	214.940
Total debt raised through issuance of securities	62.331.202	10.929.800	(5.000.000)	613.970	55.787.432

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 2019), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	31.12.19	31.12.18
Covered bonds	62.331.202	55.787.432
Total covered bonds	62.331.202	55.787.432
Loans to customers	72.282.794	58.237.977
Substitute collateral	4.332.493	4.709.670
Total cover pool	76.615.287	62.947.647
Asset coverage	122.9 %	112.8 %

Note 9 Financial derivatives

At fair value through profit and loss	Contract amount	Fair value at 31.12.19	
NOK 1 000	31.12.19	Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	90.010.540	2.828.276	325.301
Total hedging / Interest and exchange rate instruments	90.010.540	2.828.276	325.301
Total currency and interest rate instruments			
Total interest and exchange rate instruments	90.010.540	2.828.276	325.301
Total accrued interests	-	49.456	13.604
Total financial derivatives	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 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)	26.374.430	6.8
LIBOR USD (3 months)	5.276.340	2.3
NIBOR NOK (3 months)	2.060.000	12.7
Total interest rate swaps	33.710.770	

Cross currency swaps		
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	25.490.966	6.8
LIBOR USD (3 months) to NIBOR NOK (3 months)	5.161.200	2.3
Total cross currency swaps	30.652.166	

Note 10 Net income from financial instruments

NOK 1 000	31.12.19	31.12.18
Net gains for bonds and certificates	-15	-700
Net change in value, basis swap spread	21.362	-62.344
Net change in value, other financial investments	-11.854	-16.582
Net change in value, currency effect	-	17
Net income from financial instruments	9.493	-79.608

Note 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 December 2019.

Contact Information

Address

Christen Tranes gate 35
Postboks 250
N-4066 Stavanger

Tel. (+47) 915 02 002

www.sr-bank.no/sr-boligkreditt

Chief Executive Officer

Dag A. Hjelle
Tel. (+47) 51 50 94 37
(+47) 909 500 88

Email: dag.hjelle@sr-bank.no