

SR-Boligkreditt



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 31 December 2020

Net income totalled NOK 841.6 million as at 31 December 2020.

(Amounts in NOK millions)	01.01.2020 - 31.12.2020	01.01.19 - 31.12.19
Total income	841,6	584,4
Net interest income	830,9	618,6
Net commission income	-51,0	-43,6
Net income on financial investments	61,7	9,5

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 2020, total assets stood at NOK 95.2 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 75.4 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 December 2020, the company's equity totalled NOK 6.6 billion. The capital adequacy ratio was 23.9%.

Outlook

The Covid-19 pandemic and the closing down of Norway in March brought a turbulent year. The uncertainty is markedly reduced however, due to that the vaccination has begun in Norway as well as SR-Boligkreditt AS

internationally. Lower international demand and low/medium oil prices are expected to mark economic development for several years to come. Nevertheless, Statistics Norway forecasts GDP mainland to grow 3.7% in 2021. Inflation in 2021 is expected at 2.2%. The strong government finances and the sovereign wealth fund enables policies to mitigate the negative effects from Covid-19. The housing market and private consumption have been significantly stimulated through much lower mortgage rates, and the overall effect for these sectors has been positive. The Central Bank of Norway reduced its base rate to 0.0% during the first half year 2020. The market expects the policy rate to increase during autumn 2022 when the effects of Covid-19 is expected to abate. 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.

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 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, 10 February 2021

The Board of Directors of SR-Boligkreditt AS

Income statement

NOK 1 000	Note	01.01.2020 - 31.12.2020	01.01.19 - 31.12.19	Q4 2020	Q4 2019
Interest income		1 795 779	1 828 527	401 509	536 366
Interest expense		964 897	1 209 968	143 476	367 256
Net interest income		830 882	618 558	258 033	169 110
Commission and fee expenses		50 968	43 649	13 242	11 636
Net commission income		-50 968	-43 649	-13 242	-11 636
Net gains/losses on financial instruments	10	61 734	9 493	47 041	-44 512
Net income on financial investments		61 734	9 493	47 041	-44 512
Total net income		841 648	584 403	291 831	112 963
Administrative expenses		1 599	1 589	370	362
Other operating costs		1 776	1 727	-453	476
Total operating costs before impairment losses on loans		3 376	3 316	-83	837
Operating profit before impairment losses on loans		838 272	581 087	291 915	112 126
Impairment losses on loans and guarantees	2	27 095	-1 612	14 819	2 425
Pre-tax profit		811 177	582 699	277 095	109 701
Tax expense		178 488	128 194	60 990	24 134
Profit after tax		632 690	454 505	216 106	85 566
Other comprehensive income					
Adjustments		-	-	-	-
Comprehensive Income		632 690	454 505	216 106	85 566

Balance sheet

NOK 1 000	Note	31.12.20	31.12.19
Assets			
Balances with credit institutions		73 744	282.516
Loans to customers	2, 5	85 534 956	72.953.125
Bonds		3 293 628	1.774.760
Financial derivatives	9	6 290 844	2.877.731
Other assets		8 784	42.447
Total assets		95 201 956	77.930.579
Liabilities and equity			
Liabilities			
Listed debt securities	7	75 382 829	62.331.202
Balances with credit institutions		12 729 259	8.659.064
Financial derivatives	9	298 273	338.906
Other liabilities	4	152 155	144.658
Total liabilities		88 562 517	71.473.830
Equity			
Paid-in equity capital		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 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			632 690	632 690
Equity as of 31 December 2020	6 000 000	150	639 289	6 639 439

Cash flow statement

NOK 1 000	31.12.20	31.12.19
Interest receipts from lending to customers	1 815 832	1 806 744
Provisions to SR-Bank	-50 968	-47 171
Payments for operations	-4 893	-3 800
Taxes paid	-137 131	-103 562
Net cash flow relating to operations	1 622 842	1 652 211
Net purchase of loan portfolio	-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	22 064 820	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	-	1 000 000
Interest payments on debt raised by issuance of securities	-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 Accounting policies

1.1. Basis of preparation

These interim financial statements for SR-Boligkreditt AS cover the period 1 January - 31 December 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 December 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.

NOK 1 000

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	-94	94	-	-
Transfer to/ from stage 2	1 693	-1 693	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	1 629	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

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	0	-	-
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 3 Other assets

NOK 1 000	31.12.20	31.12.19
Deferred tax assets	7 357	42 447
Prepaid expenses	1 427	-
Total other assets	8 784	42 447

Note 4 Other liabilities

NOK 1 000	31.12.20	31.12.19
Taxes payable	143 398	136 994
Accounts payable	-	113
Expected credit loss on remaining credit lines (flexible loans)	287	74
Accrued expenses and prepaid revenue	8 471	7 477
Total other liabilities	152 155	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 85.6 billion. All mortgages carry a variable interest rate.

NOK 1 000	31.12.20	31.12.19
Flexible loans - retail market	20 209 255	20 440 585
Amortising loans - retail market	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	Stage 1	Stage 2	Stage 3	Total
Balance 01.01.20	70 316 865	2 646 698	-	72 963 562
Transfer to stage 1	-1 122 228	1 122 228	-	-
Transfer to stage 2	968 252	-968 252	-	-
Transfer to 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

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	31.12.20	31.12.19
Share capital	6 000 000	6 000 000
Premium reserve	150	150
Other equity	639 289	456 599
Total Common Equity Tier 1 capital	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 of derivative liabilities at fair value	-2 524	-4 056
Total Tier 1 capital	5 893 889	5 875 637
Paid-in share capital, not yet registered	-	-
Net primary 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 Common Equity Tier 1 capital ratio 4,5 %	1 110 976	837 725
Buffer requirements:		
Capital conservation buffer 2,5 %	617 209	465 403
Systemic risk buffer 3 %	740 651	558 483
Countercyclical capital buffer 1 % (2,5 %)	246 884	465 403
Total buffer requirement to Common Equity Tier 1 capital ratio	1 604 744	1 489 288
Available Common Equity Tier 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 %
Common Equity Tier 1 capital ratio	23,87 %	31,56 %
Leverage ratio	5,85 %	7,04 %

Note 7 Debt securities issued

NOK 1 000	Total	NOK	Currency
Covered bonds, nominal value	72 853 245	18 012 754	54 840 491
Value adjustments	2 312 098	121 731	2 190 367
Accrued interests	217 486	35 480	182 006
Total securities issued	75 382 829	18 169 966	57 212 863

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
Total debt		75 382 829	18 169 966	57 212 863

	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
Debt raised through issuance of sec.	75 382 829	22 064 820	(12 993 454)	3 980 261	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 31 December 2020), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

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 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 31.12.20	Fair value at 31.12.20	
		Assets	Liabilities
Hedging / Interest and exchange rate instruments			
Interest rate swaps (including cross currency)	110 792 797	6 149 549	296 369
Total hedging / Interest and exchange rate instruments	110 792 797	6 149 549	296 369
Total currency and interest rate instruments			
Total interest and exchange rate instruments	110 792 797	6 149 549	296 369
Total accrued interests	-	141 295	1 904
Total financial derivatives	110 792 797	6 290 844	298 273

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)	43.512.158	6.4
LIBOR USD (3 months)	5.676.720	1.3
NIBOR NOK (3 months)	2.060.000	11.7
Total interest rate swaps	51.248.878	19.3

Cross currency swaps		
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	39.017.424	6.4
LIBOR USD (3 months) to NIBOR NOK (3 months)	5.161.200	1.3
Total cross currency swaps	44.178.624	7.7

Note 10 Net income from financial instruments

NOK 1 000	31.12.20	31.12.19
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 11 Events after the balance sheet date

No material events that affect the prepared interim financial statements have been recorded after 31 December 2020.

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