

An aerial photograph of a large aquaculture farm situated in a deep blue fjord. The farm consists of numerous circular pens connected by a network of walkways, all supported by wooden pilings. The water is a vibrant blue, and the sky above is filled with fluffy white clouds. In the background, there are green mountains with some snow patches, and a small settlement is visible on the shore.

Annual report 2019

SR-Boligkreditt

Annual accounts

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Annual report for 2019

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 2019 the Company's total loans to customers amounted to NOK 73.0 billion, compared to NOK 58.8 billion at the end of 2018. Debt in the form of covered bonds amounted to NOK 62.3 billion (NOK 55.8 billion).

The market

Funding opportunities by means of issuing covered bonds have been good in 2019. 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 2019, 10 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 581.1 million for the 2019 accounting year, compared to NOK 377.5 million in 2018. The result after depreciation and tax was NOK 454.5 million (NOK 288.4 million). The Company's interest income amounted to NOK 1,828.5 million (NOK 1,202.4 million). Net interest income amounted to NOK 618.6 (NOK 495.0 million). Net gain/losses from financial investments amounted to NOK 9.5 million (NOK -79.6 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 2019 amounted to NOK 47.0 million (NOK 38.0 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 2019, group loan write-downs amounted to NOK -1.6 million (NOK 3.0 million). There are no individual write-downs on loans in 2019. The Company had no realised losses in 2019. Tax expense for 2019 is estimated at NOK 128.2 million (NOK 86.1 million). Net profit after tax for the year 2019 was NOK 454.5 million (NOK 288.4 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 77.9 billion (NOK 64.9 billion). Net lending to customers was NOK 73.0 billion (NOK 58.8 billion). Liabilities in the form of covered bonds amounted to NOK 62.3 billion (NOK 55.8 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 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 was 12.0 %. The capital adequacy ratio of SR Boligkreditt AS was at year end 31.6 per cent (21.3 per cent). Capital adequacy consists of common equity. All capital is provided by the parent bank. The cash flow from operating activities was NOK 1,652.2 million (NOK 1,077.8 million), while the operating result before tax was NOK 582.7 million (NOK 374.5 million). Net cash flow in 2019 was negative at NOK 1.5 billion. There have been no significant subsequent events that affect the financial statements for 2019.

Risk factors

Laws and regulations for companies with a licence to issue covered bonds suggest 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 31.12.2019 stood at 59.1 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

Liquidity risk is the risk that the Company is unable to refinance at maturity, or unable to fund increases in assets. 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 2019.

Regulatory framework

The Ministry of Finance increased the countercyclical buffer requirement from 2.0 to 2.5 percentage points with effect from 4th quarter 2019. The minimum requirement for common equity thus increased to 12.5 per cent at year-end 2019 and capital adequacy ratio increased to at least 16.0 per cent. SR-Boligkreditt's common equity stood at 31.6 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 2.7 per cent in 2020. The Norwegian Petroleum Directorate expects oil investments on the Norwegian Continental Shelf to be flat in 2020 after a growth of 17 % in 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.

Allocations

Profit after depreciation and tax for the year 2019 amounted to NOK 454.5 million (288.4 million). The Board of Directors proposes to issue a NOK 450 million dividend to SR-Bank, the residual is added to the Company's equity.

Stavanger, 9 March 2020



Inge Reinertsen, Chairman



Merete Eik



Stian Helgøy



Børge Henriksen



Dag Hjelle, CEO

Income statement

NOK 1 000	Note	2019	2018
Interest income	15	1.828.527	1.202.416
Interest expense	15	1.209.968	707.375
Net interest income		618.558	495.042
Commission and fee expenses		-43.649	-34.097
Net commission income		-43.649	-34.097
Net gains/losses on financial instruments	16	9.493	-79.608
Net income on financial investments		9.493	-79.608
Total net income		584.403	381.337
Administrative expenses	17	1.589	1.597
Other operating costs	17	1.727	2.260
Total operating costs before impairment losses on loans		3.316	3.857
Operating profit before impairment losses on loans		581.087	377.480
Impairment losses on loans and guarantees	7	1.612	-3.028
Pre-tax profit		582.699	374.451
Tax expense	18	128.194	86.070
Profit after tax		454.505	288.381
Other comprehensive income			
Adjustments		-	-
Comprehensive Income		454.505	288.381

Balance sheet

NOK 1 000	Note	2019	2018
Assets			
Balances with credit institutions		282.516	1.767.956
Loans to customers	6,7,8,9	72.953.125	58.788.174
Bonds	19	1.774.760	1.930.511
Financial derivatives	19,20	2.877.731	2.344.682
Other assets	21	42.447	33.648
Total assets		77.930.579	64.864.971
Liabilities and equity			
Liabilities			
Listed debt securities	22,23	62.331.202	55.787.432
Balances with credit institutions		8.659.064	3.373.100
Financial derivatives	19,20	338.906	305.861
Other liabilities	18,24	144.658	111.334
Total liabilities		71.473.830	59.577.727
Equity			
Paid-in equity capital	26	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	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

Cash flow statement

NOK 1 000	Note	31.12.19	31.12.18
Interest receipts from lending to customers	15	1.806.744	1.185.523
Provisions to SR-Bank	25	-47.171	-33.362
Payments for operations	17	-3.800	-3.006
Taxes paid	18	-103.562	-71.278
Net cash flow relating to operations		1.652.211	1.077.877
Net purchase of loan portfolio	6	-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	22	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	26	1.000.000	1.000.000
Interest payments on debt raised by issuance of securities	15	-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 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 2019.

The annual financial statements of SR-Boligkreditt AS have been prepared in accordance with International Finance 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 acquisition cost, with the following modifications: financial derivatives and some financial liabilities are recognized 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 been adopted in 2019:

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

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. The IBOR reform is an ongoing process whereby reference interest rates used in receivables, loans and derivatives are replaced with new interest rates. Information due to early implementation is given in note 20.

There are no other standards or interpretations which are not currently in effect and would be expected to have a material effect on the company's financial statements.

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 value changes through profit or loss, fair value with value changes through other comprehensive income (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 the business model used to manage the portfolio 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 amortized 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

IFRS 9 simplifies the requirement for hedge accounting in that the hedging effect is tied more closely to the management's risk management and provides greater room for judgement. The requirement for hedge effectiveness of 80-125% has been eliminated and replaced with a more qualitative requirement, including the fact that there should be a financial connection between the hedging instrument and hedged item, and that the credit risk should not dominate the value changes of the hedging instrument. According to IFRS 9, a prospective (forward-looking) effectiveness test is sufficient, while hedge effectiveness pursuant to IAS 39 must be assessed both prospectively and retrospectively (backwards-looking). Hedging documentation is still required. SR-Boligkreditt has chosen the option to continue the hedge accounting to the same extent as previous years.

Impairment losses on loans

According to the rules under IAS 39, impairment losses could only be made when objective evidence existed that a loss event had happened after initial recognition. 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 will apply to financial assets measured at amortized cost or at fair value with changes in value over the OCI and which did not have any losses on initial recognition. In addition, there are also loan commitments, financial guarantee contracts that are not measured at fair value through profit or loss and lease agreements are included.

The measurement of the provisions for expected losses in the general model depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, provisions must be made for 12 months' expected losses. 12-month expected loss is the loss that is expected to occur over the life of the instrument, but which can be linked to events occurring in the first 12 months. 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 life expectancy, i.e. the difference between the contractual cash flows under the contract and the cash flow that the company 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 recognized 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 capitalization, as expected losses over the entire life span will nevertheless be considered.

The method in the IFRS 9 standard entails somewhat greater volatility in impairments and it is expected that impairments will be made earlier than is the case with the current practice. This will be especially noticeable 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 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:

In stage 2 the loss model is 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 lifetime. This group contains accounts with a significant degree of credit deterioration, but which on the balance sheet data belong to customers that are classified as healthy. As far as the demarcation with stage 1 is concerned, the company 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.

Stage 3:

In stage 3 the loss model is 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. These are assets that are defined under the current regulations as non-performing and impaired.

Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the trading day, that is, when the company becomes a party to the instruments' contractual terms.

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 recognized. 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 recognized 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 recognized in profit and loss.

Realized losses

When it is highly probable that the losses are final, the losses are classified as realized losses. Realized losses that are covered by earlier specific loss provisions are recorded against the provisions. Realized losses without cover by way of

impairment losses on loans and over or under coverage in relation to previous impairment losses on loans are recognized through profit or loss.

Repossessed assets

As part of the handling of non-performing loans and guarantees, the company 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 realization value and the value of the loan commitment is adjusted accordingly. Repossessed assets that are to be realized are classified as operations that will be sold, holdings or fixed assets held for sale and recorded in accordance with the relevant IFRS standards (normally IAS 16, IAS 38, IFRS 9 or IFRS 5). This has not happened during 2019.

Securities

Securities consists of certificates and bonds. These are either financial assets at fair value through profit or loss or held to maturity investments. 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 as held to maturity are measured at amortized 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 recognized at fair value through profit or loss.

The company uses derivatives for operational and accounting (funding) hedging purposes to minimize 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. According to fair value hedging the hedging instrument is recognized at fair value, but as far as the hedging object is concerned changes in fair value linked to the hedged risk are recognized in profit and loss.

Funding

Funding is initially recorded at the cost at which it is raised, which is fair value of the proceeds received after deducting transaction costs. Loans raised with variable interest rates are thereafter measured at amortized cost, and any discount/premium is accrued over the term of the loan. Borrowing at fixed interest rates is subject to hedge accounting for the NIBOR/LIBOR component of the fixed rate.

Contingent liabilities

Provisions are made for other uncertain liabilities if it is more probable than not that the liability will materialize and the financial consequences can be reliably calculated. Information is disclosed about contingent liabilities that do not satisfy the criteria for balance sheet recording 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 recognized 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 amortized 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 (carrying value) of the respective financial asset or liability. When calculating an effective interest rate, the cash flow effect inherent in the agreement is estimated, without taking into account future impairment. The calculations take therefore into account inter alia 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 recognized 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 recognized 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 recognized 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.

The statement of cash flow

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 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 makes write-downs 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 write-downs 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 write-down. Subsequent changes in interest rates are taken into account for loan agreements with variable rates if these changes affect the expected cash flow.

According to IFRS 9, impairment losses must be recognised based on expected credit losses (ECL). The measurement of the provisions for expected losses in the general model depends on whether or not the credit risk has increased significantly since initial capitalisation. Upon initial capitalisation and when the credit risk has not increased significantly after initial capitalisation, 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 life expectancy.

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 realize 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 evaluating financial instruments for which observable market data is not available, the company makes assumptions with regard to what it expects the market to use as a basis for evaluating equivalent financial instruments.

Note 4 Capital adequacy

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
Other paid in capital	-	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 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. All mortgages carry a variable interest rate.

NOK 1 000	31.12.19	31.12.18
Flexible loans	20.440.585	15.462.005
Amortising loans	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	2019			Total
	Stage 1	Stage 2	Stage 3	
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

Gross loans by geographic area	31.12.19	31.12.18
Rogaland	54.085.748	44.370.519
Agder	7.005.561	5.457.734
Vestland	9.080.427	7.008.006
Oslo og Viken	1.367.201	950.888
Other	1.424.625	1.013.033
Total	72.963.562	58.800.180

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	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	189	-	-
Transfer to/ from stage 2	1.957	-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	-1.139	-2.582	-	-3.721
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 December 2019	2.239	8.198	-	10.437

NOK 1 000	2019			
	Stage 1	Stage 2	Stage 3	Total
Total impairments recognised on financial commitments				
Balance sheet 1 January 2019	107	10	-	117
Transfer to/ from stage 1	-1	1	-	-
Transfer to/ from stage 2	5	- 5	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	- 49	1	-	48
New financial assets originated or purchased	17	2	-	19
Change due to reduced portfolio	- 14	-	-	-14
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
Balance sheet 31 December 2019	65	9	-	74

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
	2019		2018	
PD in % ¹⁾				
0,00 - 0,50	7,9 %	69.065.819	7,2 %	53.576.637
0,50 - 2,50	11,8 %	9.336.978	11,2 %	9.074.210
2,50 - 10,00	11,1 %	1.143.512	10,5 %	919.905
10,00 - 99,9	10,5 %	429.962	10,0 %	317.805
Non-performance and written down	11,8 %	15.960	11,3 %	19.153
Total	8,4 %	79.992.230	7,8 %	63.907.710

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⁾
	2019	2018
LTV 0-70	65,8 %	66,2 %
LTV 70-85	30,5 %	30,8 %
LTV 85-100	2,7 %	2,4 %
LTV >100	1,0 %	0,6 %
Total	100,0 %	100,0 %

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	2019	2018
Assets		
Loans to and receivables from financial institutions	282.516	1.767.956
Loans to and receivables from customers	72.963.562	58.800.180
Certificates and bonds	1.774.760	1.930.511
Derivatives	2.877.731	2.344.682
Total credit risk exposure balance sheet items	77.898.569	64.843.330
Financial guarantees and loan commitments		
Unused credit lines	7.028.668	5.107.530
Total financial guarantees and loan commitments	7.028.668	5.107.530
Total credit risk exposure	84.927.237	69.950.860
Banking operations	2019	2018
Rogaland	59.578.409	49.992.609

Agder	7.680.415	5.931.806
Vestland	9.955.155	7.616.739
Oslo og Viken	1.498.905	1.033.484
Other	1.561.861	1.101.028
Total banking operations	80.274.746	65.675.666
Certificates and bonds	1.774.760	1.930.511
Derivatives	2.877.731	2.344.682
Total by geographic area	84.927.237	69.950.860

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).

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

2018	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	1.767.956	-	-	-	-	1.767.956
Loans to and receivables from customers						
- Retail market	48.502.198	9.044.473	916.743	336.766	-	58.800.180
Total loans	50.270.154	9.044.473	916.743	336.766	-	60.568.136

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	2019	2018
Other loans and deposits	-99.110	-54.323
Securities issued	66.396	66.567
Other	-2.355	-899
Total interest rate risk	-35.070	11.345
Maturity		
0 - 3 months	-35.070	11.345
Total interest rate risk	-35.070	11.345
Currency		
NOK	-35.070	11.345
EUR	-	-
Total interest rate risks	-35.070	11.345

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.

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	2019	2018
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

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
2018 NOK 1 000	Upon request	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Securities issued	-	105.482	5.486.071	35.147.033	17.764.346	58.502.932
Total liabilities	-	105.482	5.486.071	35.147.033	17.764.346	58.502.932
Derivatives						
Contractual cash outflow	-	-211.423	-600.851	-24.827.232	-15.986.312	-41.625.819
Contractual cash inflow	-	95.142	415.789	25.301.352	16.860.683	42.672.966

Note 14 Maturity analysis of assets and debt/liabilities

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
Balances with credit inst.	-	-	-	-	8.659.064	8.659.064
Financial derivatives	-	-	-	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

2018 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.	1.767.956	-	-	-	-	1.767.956
Loans to customers	53.941	5.181	12.276	263.778	58.452.998	58.788.174
Bonds	-	-	150.159	1.780.352	-	1.930.511
Financial derivatives	-	-	-	1.278.055	1.066.627	2.344.682

Other assets	33.648	-	-	-	-	33.648
Total assets	1.855.545	5.181	162.435	3.322.185	59.519.625	64.864.971
Liabilities						
Listed debt securities	-	-	5.006.585	33.852.509	16.928.338	55.787.432
Financial derivatives	-	-	-	-	3.373.100	3.373.100
Taxes payable	-	-	-	238.968	66.894	305.861
Other liabilities	111.334	-	-	-	-	111.334
Total liabilities	111.334	-	5.006.585	34.091.476	20.368.332	59.577.727

Note 15 Net interest income

NOK 1000	2019			2018		
	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.	14.990	14.990	-	11.962	11.962	-
Interest on lending to customers	1.781.734	1.781.734	-	1.187.111	1.187.111	-
Interest on certificates and bonds	31.803	13.810	17.993	3.343	1.873	1.470
Total interest income	1.828.527	1.810.534	17.993	1.202.416	1.200.946	1.470
Interest costs						
Interest on debts to financial institutions	46.460	46.460	-	11.100	11.100	-
Interest on securities issued	1.163.508	701.103	462.405	696.275	458.807	237.468
Total interest costs	1.209.968	747.564	462.405	707.375	469.907	237.468
Net interest income	618.558	1.062.970	-444.412	495.042	731.039	-235.997

Note 16 Net income from financial instruments

NOK 1 000	2019	2018
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 17 Other operating costs

NOK 1 000	2019	2018
IT costs	310	326
Other administrative costs	1.279	1.271
Depreciation (note 21)	-	194
External fees	1.727	2.066

Other operative costs	-	-
Total operating costs	3.316	3.857
Fees for external auditor - specification of audit fees		
Statutory audit	357	337
Other certification services	390	358
Total	747	695

All figures include VAT.

Note 18 Tax

NOK 1 000	2019	2018
Pre-tax profit	582.699	374.451
Permanent differences	-	-
Group contribution	-	-
Change in temporary differences	45.195	75.818
Tax base/ taxable income for the year	627.894	450.269
Of which payable tax 23 % (25 %)	138.137	103.562
Tax effect of group contribution	-	-
Change in deferred tax	-9.943	-14.522
Excess payable tax allocation in previous years	-	-2.970
Total tax cost	128.194	86.070
Deferred tax asset		
- deferred tax asset that reverses in more than 12 months	-42.447	-33.648
- deferred tax asset that reverses within 12 months	-	-
Total deferred tax asset	-42.447	-33.648
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	-42.447	-33.648
Change in deferred tax asset		
Year's change in deferred tax asset on the balance sheet	-8.800	-15.665
Change in deferred tax asset not recorded in income statement	1.143	-1.143
Change recorded in income statement	-9.943	-14.522
Specification of temporary differences		
Differences related to financial items	-192.943	-147.748
Group contribution paid	-	-
Losses carried forward	-	-
Implementation effect on IFRS 9 (will be included in payable tax for 2019)	-	-4.572

Total temporary differences	-192.943	-152.320
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Note 19 Classification of financial instruments

	Financial instruments at fair value through profit or loss	Financial assets and liabilities assessed at	Financial assets held to maturity	Total
	Financial derivatives as hedging instruments	amortised cost and accrued interest		
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	73.235.641	867.677	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
2018				
Assets				
Loans to and receivables from fin. inst.	-	1.767.956	-	1.767.956
Loans to customers ¹⁾	-	58.788.174	-	58.788.174
Certificates and bonds at fair value	1.055.890	-	874.621	1.930.511
Financial derivatives	2.344.682	-	-	2.344.682
Other assets	-	-	-	-
Total assets	3.400.572	60.556.130	874.621	64.831.323
Liabilities				
Debt to financial institutions	-	3.373.100	-	3.373.100
Debt securities issued ²⁾	-	55.787.432	-	55.787.432
Financial derivatives	305.861	-	-	305.861
Other liabilities	-	-	-	-
Total liabilities	305.861	59.160.532		59.466.393

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).

	Valuation according to prices in an active market	Valuation according to observable market data	Valuation according to factors other than observable market data	Total
2019				
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
2018				
Assets				
Certificates and bonds at fair value	-	1.055.890	-	1.055.890
Financial derivatives	-	2.344.682	-	-2.344.682
Liabilities				
Financial derivatives	-	305.861	-	305.861

Note 20 Financial derivatives

At fair value through profit and loss	Contract amount	Fair value at 31.12.19		Contract amount	Fair value at 31.12.18	
	31.12.19	Assets	Liabilities	31.12.18	Assets	Liabilities

Hedging / Interest and exchange rate instruments						
Interest rate swaps (including cross currency)	90.010.540	2.828.276	325.301	79.640.715	2.313.924	371.213
Total hedging / Interest and exchange rate instruments	90.010.540	2.828.276	325.301	79.640.715	2.313.924	371.213
Total currency and interest rate instruments						
Total interest and exchange rate instruments	90.010.540	2.828.276	325.301	79.640.715	2.313.924	371.213
Total accrued interests	-	49.456	13.604	-	30.759	-65.352
Total financial derivatives	90.010.540	2.877.731	338.906	79.640.715	2.344.682	305.861

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.

	Contract amount	Average maturity
Interest rate swaps		
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 21 Other assets

NOK 1 000	2019	2018
Tangible fixed assets*	-	-

Other assets	42.447	33.648
Total other assets	42.447	33.648
* Tangible fixed assets:		
Acquisition cost 1 Jan.	-	880
Additions	-	-
Disposals	-	-
Acquisition cost 31 Dec.	-	880
Accumulated depreciation and write-downs 1 Jan.	-	685
Year's disposals	-	195
Year's depreciation and write downs	-	-
Accumulated depreciation and write-downs 31 Dec.	-	880
Carrying amount 31 Dec.	-	-
Financial lifespan	3 years	3 years
Depreciation schedule	linear	linear

Note 22 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
Sum	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	62.331.202	10.929.800	-5.000.000	613.970	55.787.432

Note 23 Asset coverage

The 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 2018), loans with a loan-to-value ratio in excess of 75 % and use 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 24 Other liabilities

NOK 1 000	31.12.19	31.12.18
Taxes payable	136.994	103.562
Accounts payable	113	0
Expected credit loss unused credit lines (flexible loans)	74	117

Accrued expenses and prepaid revenue	7.477	7.655
Total other liabilities	144.658	111.334

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:

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

2018	Balances with SR-Bank	Financial derivatives	Covered bonds	Interest income	Interest costs	Operating costs	Management fee
SR-Bank	-1.605.143	2.224.544	415.590	11.962	22.746	1.261	34.097
Total	-1.605.143	2.224.544	415.590	11.962	22.746	1.261	34.097

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.

	2019	2018
Total number of shares 1 January	4.000.000	4.000.000
Issue of new shares	2.000.000	-
Total number of shares 31 December	6.000.000	4.000.000

Note 27 Events after the balance sheet date

No material events that have influence on the financial statement for 2019 have been registered after the reporting day. The company is not involved in any legal proceedings. The proposed dividend is NOK 75 per share and will total NOK 450 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 2019 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 2020



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 2019, the income statement, statement of changes of equity and statement of cash flow 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 2019, 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 2019 financial statements. In this light, our areas of focus have been the same in 2019 as the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
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Loans to customers

The mortgage company has loans to private individuals amounting to NOK 72 953 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.

The value of the collateral at any time should be above 75 % of the loan value and

In order to comply with the requirements in the regulations applicable to issuing covered bonds, the 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 that the company complied



above 60 % of the loan value for vacation property. The company has realized only limited losses on loans in 2019. 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.

with the various requirements, including the required coverage over the loan portfolio of the value of the collateral. Our work included obtaining documentation and examining whether the controls were conducted appropriately and timely. Our examination included an assessment of whether the underlying documentation the company had collected supported the conclusions drawn by the company regarding compliance with the requirements in legislation and regulation.

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 fair presentation 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 fair presentation.

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, the going concern assumption and the proposed allocation of the result 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 2020

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