

SR-Boligkreditt

Q1

First Quarter 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 March 2020

Net income totalled NOK 238.7 million as at 31 March 2020.

(Amounts in NOK millions)	01.01.20 - 31.03.20	01.01.19 - 31.03.19
Total income	238.7	108.5
Net interest income	171.2	141.4
Net commission income	-12.3	-10.6
Net income on financial investments	79.8	-22.3

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 March 2020, total assets stood at NOK 94.7 billion. SR-Boligkreditt AS has issued covered bonds amounting to NOK 76.8 billion.

## Risk

SR-Boligkreditt AS has established guidelines and limits for management and control of the different types of risk. Currency and interest rate risk is eliminated through the use of derivatives. Liquidity risk is managed in accordance with regulatory requirements and limits approved by the board. The company's overall financial risk is low. The servicing agreement with SR-Bank comprises administration, bank production, IT operations, and financial and liquidity management. Operational risk is assessed as low. Negative developments in the housing market will affect the company. A decline in house prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate effects of a negative development in house prices. One short-term measure to meet a significant fall in house prices would be to supply SR-Boligkreditt with home mortgages from SR-Bank. The board considers the company's total risk exposure to be low. At the end of March 2020, the company's equity totalled NOK 6.6 billion. The capital adequacy ratio was 23.6%.

## Outlook

Due to Covid-19 and lower oil price we expect higher unemployment, lower wage increase, lower activity in the house market and a reduction in consumption. Statistics Norway forecast GDP mainland to shrink 5.5% in 2020. The forecast for 2021 is a 4.7% growth. Inflation is expected to increase to 2.8%. The Central Bank of Norway reduced its base rate from 1.5% to 0.25% during the first quarter. The market expects the policy rate to fall towards zero during the second quarter of 2020, before gradually rising again in the autumn of 2021. Norwegian house prices are expected to be stable or moderately lower.

SR-Boligkreditt will continue to build the company's funding curve and to provide funding diversification for the parent bank. The volume of covered bond issues in 2020 is expected to be approximately NOK 15 billion and to provide a sound basis for SR-Bank's lending activities. Defaults are expected to be low and SR-Boligkreditt AS's activities are expected to generate satisfactory profitability in 2020.

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

## Statement pursuant to the Securities Trading Act

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

These interim financial statements for SR-Boligkreditt AS cover the period 1 January – 31 March 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, 7 May 2020

The Board of Directors of SR-Boligkreditt AS

## Income statement

NOK 1 000	Note	01.01.20 – 31.03.20	01.01.19 - 31.03.19	2019
Interest income		570 810	395 959	1 828 527
Interest expense		399 539	254 570	1 209 968
<b>Net interest income</b>		<b>171 270</b>	<b>141 389</b>	<b>618 558</b>
Commission and fee expenses		12 318	10 571	43 649
<b>Net commission income</b>		<b>-12 318</b>	<b>-10 571</b>	<b>-43 649</b>
Net gains/losses on financial instruments	10	79 782	-22 317	9 493
<b>Net income on financial investments</b>		<b>79 782</b>	<b>-22 317</b>	<b>9 493</b>
<b>Total net income</b>		<b>238 734</b>	<b>108 501</b>	<b>584 403</b>
Administrative expenses		376	418	1 589
Other operating costs		353	370	1 727
<b>Total operating costs before impairment losses on loans</b>		<b>728</b>	<b>788</b>	<b>3 316</b>
<b>Operating profit before impairment losses on loans</b>		<b>238 005</b>	<b>107 713</b>	<b>581 087</b>
Impairment losses on loans and guarantees	2	586	1 955	-1 612
<b>Pre-tax profit</b>		<b>237 420</b>	<b>105 758</b>	<b>582 699</b>
Tax expense		52 232	23 267	128 194
<b>Profit after tax</b>		<b>185 187</b>	<b>82 491</b>	<b>454 505</b>
<b>Other comprehensive income</b>				
Adjustments		-	-	-
<b>Comprehensive Income</b>		<b>185 187</b>	<b>82 491</b>	<b>454 505</b>

## Balance sheet

NOK 1 000	Note	31.03.20	31.03.19	31.12.19
<b>Assets</b>				
Balances with credit institutions		2 685 243	1 689 773	282 516
Loans to customers	2, 5	78 087 651	61 921 324	72 953 125
Bonds		1 770 164	1 930 564	1 774 760
Financial derivatives	9	12 113 856	1 848 998	2 877 731
Other assets		42 447	33 648	42 447
<b>Total assets</b>		<b>94 699 361</b>	<b>67 424 306</b>	<b>77 930 579</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Listed debt securities	7	76 798 169	60 388 500	62 331 202
Balances with credit institutions		11 052 258	602 148	8 659 064
Financial derivatives	9	56 973	248 585	338 906
Other liabilities	4	150 025	100 339	144 658
<b>Total liabilities</b>		<b>88 057 424</b>	<b>61 339 571</b>	<b>71 473 830</b>
<b>Equity</b>				
Paid-in equity capital		6 000 150	6 000 150	6 000 150
Retained earnings		641 787	84 585	456 599
<b>Total equity</b>		<b>6 641 937</b>	<b>6 084 735</b>	<b>6 456 749</b>
<b>Total liabilities and equity</b>		<b>94 699 361</b>	<b>67 424 306</b>	<b>77 930 579</b>

## Statement of changes in equity

NOK 1 000	Share- capital	Premium reserve	Other equity	Total equity
<b>Equity as of 31 December 2017</b>	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
<b>Equity as of 31 December 2018</b>	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
<b>Equity as of 31 December 2019</b>	<b>6 000 000</b>	<b>150</b>	<b>456 599</b>	<b>6 456 749</b>
Profit for the period			185 187	185 187
<b>Equity as of 31 March 2020</b>	<b>6 000 000</b>	<b>150</b>	<b>641 786</b>	<b>6 641 937</b>

## Cash flow statement

<b>NOK 1 000</b>	<b>31.03.20</b>	<b>31.03.19</b>	<b>31.12.19</b>
Interest receipts from lending to customers	568 026	390 183	1 806 744
Provisions to SR-Bank	-12 318	-10 571	-47 171
Payments for operations	-695	-828	-3 800
Taxes paid	-49 530	-34 154	-103 562
<b>Net cash flow relating to operations</b>	<b>505 484</b>	<b>344 630</b>	<b>1 652 211</b>
Net purchase of loan portfolio	-5 132 685	-3 129 382	-14 137 640
Net payments on the acquisition of bonds	1 769	1 750	157 022
<b>Net cash flow relating to investments</b>	<b>-5 130 916</b>	<b>-3 127 632</b>	<b>-13 980 618</b>
Debt raised by issuance of securities	5 019 950	4 998 157	11 021 974
Redemption of issued securities	-	-	-4 999 847
Net change in loans from credit institutions	2 393 193	-2 770 952	5 285 965
Paid in capital equity	-	1 000 000	1 000 000
Interest payments on debt raised by issuance of securities	-384 984	-237 387	-1 180 126
Dividend paid	-	-285 000	-285 000
<b>Net cash flow relating to funding activities</b>	<b>7 028 160</b>	<b>2 704 818</b>	<b>10 842 966</b>
<b>Net cash flow during the period</b>	<b>2 402 727</b>	<b>-78 184</b>	<b>-1 485 440</b>
Balance of cash and cash equivalents start of period	282 516	1 767 956	1 767 956
Balance of cash and cash equivalents end of period	2 685 243	1 689 773	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 March 2020. The interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements were also prepared in accordance with the applicable IFRS standards and IFRIC interpretations. The interim financial statements are unaudited. All amounts are stated in NOK thousands unless stated otherwise.

The interim financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual accounts for 2019.

#### **New Standards that have not been adopted yet**

There are no other standards or interpretations that are not currently in effect and could be expected to have a material effect on the financial statements.

#### **New Standards that have been adopted**

The International Accounting Standards Board (IASB) amended September 2019 its financial instruments standards IFRS7 and IFRS9. The amendments come into effect from 1 January 2020 but SR-Boligkreditt has decided to apply them from 2019. The changes relate to hedge accounting and have the effect that the IBOR reform should not cause the hedge accounting to terminate.

### 1.2. Critical accounting estimates and judgements

The preparation of financial information pursuant to IFRS entails the executive management making estimates, judgements and assumptions that affect the effect of the application of the accounting policies and thus the amounts recognised as assets, liabilities, income and costs. Note 3 of the annual accounts for 2019 explains in more detail the use of critical estimates and judgements when applying the accounting policies.

#### **Losses on loans and guarantees**

Consequences of Covid-19 is assessed in measurement of 12-month and lifetime expected credit losses. There has not been any significant increase in credit losses during the year. Measurement of expected credit losses is described in Note 2 in the Annual Report 2019 and Note 2 and 5 in the interim report.



## Note 2 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 2 in the annual account 2019.

### NOK 1 000

<b>ECL on loans and advances to customers at amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance sheet 1 January 2020</b>	<b>2 239</b>	<b>8 198</b>	<b>-</b>	<b>10 437</b>
Transfer to/ from stage 1	-68	68	-	-
Transfer to/ from stage 2	955	-955	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	-723	2 121	-	1 399
New financial assets originated or purchased	365	451	-	816
Change due to reduced portfolio	-162	-1 495	-	-1 658
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
<b>Balance sheet 31 March 2020</b>	<b>2 607</b>	<b>8 388</b>	<b>-</b>	<b>10 994</b>

### NOK 1 000

<b>ECL on remaining credit lines (flexible loans)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance sheet 1 January 2020</b>	<b>65</b>	<b>9</b>	<b>0</b>	<b>74</b>
Transfer to/ from stage 1	-	-	-	-
Transfer to/ from stage 2	4	-4	-	-
Transfer to/ from stage 3	-	-	-	-
Net remeasurement of loss allowance	2	22	-	24
New financial assets originated or purchased	8	-	-	8
Change due to reduced portfolio	-2	-1	-	-3
Change in models/ risk parameters	-	-	-	-
Other movements	-	-	-	-
<b>Balance sheet 31 March 2020</b>	<b>76</b>	<b>26</b>	<b>-</b>	<b>103</b>

## Note 3 Other assets

<b>NOK 1 000</b>	<b>31.03.20</b>	<b>31.03.19</b>	<b>30.12.19</b>
Deferred tax assets	42 447	33 648	42 447
<b>Total other assets</b>	<b>42 447</b>	<b>33 648</b>	<b>42 447</b>

## Note 4 Other liabilities

NOK 1 000	31.03.20	31.03.19	31.12.19
Taxes payable	139 696	58 521	136 994
Accounts payable	145	37 867	113
Expected credit loss on remaining credit lines (flexible loans)	103	171	74
Accrued expenses and prepaid revenue	10 081	3 780	7 477
<b>Total other liabilities</b>	<b>150 025</b>	100 339	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 78.1 billion. All mortgages carry a variable interest rate.

NOK 1 000	31.03.20	31.03.19	31.12.19
Flexible loans - retail market	20 935 287	16 215 620	20 440 585
Amortising loans - retail market	57 084 852	45 659 892	52 447 253
Accrued interest	78 507	59 718	75 724
<b>Gross loans</b>	<b>78 098 645</b>	61 935 230	72 963 562
Impairment losses after amortised cost	-10 994	-13 907	-10 437
<b>Loans to customers</b>	<b>78 087 651</b>	61 921 324	72 953 125
<b>Liability</b>			
Remaining credit lines (flexible loans)	7 308 921	5 357 725	7 028 668
<b>Total</b>	<b>7 308 921</b>	5 357 725	7 028 668
<b>Expected credit loss on remaining credit lines (flexible loans)</b>	<b>-103</b>	-171	-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	-721 711	721 711	-	-
Transfer to stage 2	634 171	-634 171	-	-
Transfer to stage 3	1 152	-1 152	-	-
Net increase/decrease balance existing loans	-6 544 250	25 645	-	-6 518 605
Originated or purchased during the period	9 094 291	243 819	-	9 338 109
Loans that have been derecognised	2 563 646	-248 067	-	2 315 578
Balance 31.03.20	75 344 164	2 754 481	-	<b>78 098 645</b>

## 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.

<b>NOK 1 000</b>	<b>31.03.20</b>	<b>31.03.19</b>	<b>31.12.19</b>
Share capital	6 000 000	6 000 000	6 000 000
Premium reserve	150	150	150
Other equity	456 599	2 094	456 599
<b>Total Common Equity Tier 1 capital</b>	<b>6 456 749</b>	6 002 244	6 456 749
Deduction for proposed dividend	-450 000	-	-450 000
Deduction for expected losses on IRB, net of write-downs	-134 190	-99 304	-127 056
Value of derivative liabilities at fair value	-12 962	-3 026	-4 056
<b>Total Tier 1 capital</b>	<b>5 859 598</b>	5 899 914	5 875 637
Paid-in share capital, not yet registered	-	-	-
<b>Net primary capital</b>	<b>5 859 598</b>	5 899 914	5 875 637
Credit risk	23 984 766	15 045 668	17 737 678
Operational risk	878 427	615 574	878 427
Transitional scheme	-	9 924 141	-
<b>Risk weighted balance</b>	<b>24 863 193</b>	25 585 383	18 616 105
Minimum requirement for Common Equity Tier 1 capital ratio 4,5 %	1 118 844	1 151 342	837 725
Buffer requirements:			
Capital conservation buffer 2,5 %	621 580	639 635	465 403
Systemic risk buffer 3 %	745 896	767 561	558 483
Countercyclical capital buffer 1 % (2,5 %)	248 632	511 708	465 403
Total buffer requirement to Common Equity Tier 1 capital ratio	1 616 108	1 918 904	1 489 288
Available Common Equity Tier 1 capital ratio after buffer requirement	3 124 646	2 829 668	3 548 624
Capital ratio	23,57 %	23,06 %	31,56 %
Tier 1 Capital ratio	23,57 %	23,06 %	31,56 %
Common Equity Tier 1 capital ratio	23,57 %	23,06 %	31,56 %
Leverage ratio	5,92 %	8,17 %	7,04 %

## Note 7 Debt securities issued

<b>NOK 1 000</b>	<b>Total</b>	<b>NOK</b>	<b>Currency</b>
Covered bonds, nominal value	64 343 867	17 011 793	47 332 074
Value adjustments	12 130 835	181 610	11 949 225
Accrued interests	323 467	61 073	262 393
<b>Total securities issued</b>	<b>76 798 169</b>	<b>17 254 477</b>	<b>59 543 692</b>

### Securities issued by maturity date

	<b>Public covered bonds</b>	<b>Total</b>	<b>NOK</b>	<b>Currency</b>
2020		10 814 058	5 004 456	5 809 602
2021		8 710 705	-	8 710 705
2022		11 658 615	5 011 835	6 646 780
2023		12 110 842	5 006 966	7 103 876
2024		5 951 658	-	5 951 658
2025		9 131 390	-	9 131 390
2026		5 813 458	-	5 813 458
2029		188 321	-	188 321
2030		5 757 055	-	5 757 055
2031		129 186	-	129 186
2032		2 231 220	2 231 220	-
2038		4 019 134	-	4 019 134
2041		282 526	-	282 526
<b>Total debt</b>		<b>76 798 169</b>	<b>17 254 477</b>	<b>59 543 692</b>

	<b>Balance 31.03.20</b>	<b>Issued 2020</b>	<b>Matured/ redeemed 2020</b>	<b>Exchange rate and other changes 2020</b>	<b>Balance 31.12.19</b>
Covered bonds, nominal value	64 343 867	5 019 950	-	(17 865)	59 341 782
Adjustments	12 130 835	-	-	9 377 059	2 753 776
Accrued interests	323 467	-	-	87 822	235 644
<b>Total debt raised through issuance of sec.</b>	<b>76 798 169</b>	<b>5 019 950</b>	<b>-</b>	<b>9 447 016</b>	<b>62 331 202</b>

## 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 March 2020), loans with a loan-to-value ratio in excess of 75 % and the use of market values.

NOK 1 000	31.03.20	31.03.19	31.12.19
Covered bonds	76 798 169	60 388 500	62 331 202
<b>Total covered bonds</b>	<b>76 798 169</b>	60 388 500	62 331 202
Loans to customers	77 398 187	61 131 511	72 282 794
Substitute collateral	13 800 695	4 711 366	4 332 493
<b>Total cover pool</b>	<b>91 198 882</b>	65 842 877	76 615 287
<b>Asset coverage</b>	<b>118,8 %</b>	109,0 %	122,9 %

## Note 9 Financial derivatives

At fair value through profit and loss NOK 1 000	Contract amount 31.03.20	Fair value at 31.03.20	
		Assets	Liabilities
<b>Hedging / Interest and exchange rate instruments</b>			
Interest rate swaps (including cross currency)	116 851 880	12 003 094	58 476
<b>Total hedging / Interest and exchange rate instruments</b>	<b>116 851 880</b>	12 003 094	58 476
<b>Total currency and interest rate instruments</b>			
Total interest and exchange rate instruments	116 851 880	12 003 094	58 476
Total accrued interests	-	110 762	-1 503
<b>Total financial derivatives</b>	<b>116 851 880</b>	12 113 856	56 973

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)	36 652 200	7,1
LIBOR USD (3 months)	6 313 740	2,1
NIBOR NOK (3 months)	2 060 000	12,4
<b>Total interest rate swaps</b>	<b>45 025 940</b>	

<b>Cross currency swaps</b>		
EURIBOR EUR (3 months) to NIBOR NOK (3 months)	30 510 916	7,1
LIBOR USD (3 months) to NIBOR NOK (3 months)	5 161 200	2,1
<b>Total cross currency swaps</b>	<b>35 672 116</b>	

## Note 10 Net income from financial instruments

<b>NOK 1 000</b>	<b>31.03.20</b>	<b>31.03.19</b>	<b>31.12.19</b>
Net gains for bonds and certificates	-2 668	1 558	-15
Net change in value, basis swap spread	121 468	-23 474	21 362
Net change in value, other financial investments	-39 018	-402	-11 854
Net change in value, currency effect	-	-	-
<b>Net income from financial instruments</b>	<b>79 782</b>	<b>-22 317</b>	<b>9 493</b>

## Note 11 Events after the balance sheet date

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

## Contact Information

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