



**3<sup>RD</sup> QUARTER 2011**  
(unaudited)

**SØR BOLIGKREDITT AS**

## General information

Sør Boligkreditt AS, which is a wholly owned subsidiary of Sparebanken Sør, was established in the autumn of 2008 and is located in the same premises as the Bank's head office in Arendal. The company has a licence as a finance enterprise and may issue covered bonds to investors from the company's cover pool. The cover pool mainly consists of secured mortgage loans that have been granted by Sparebanken Sør, and that meet the requirements the company sets for loans that may enter the cover pool. One of the main requirements is that the outstanding balance on each loan must not exceed 75 per cent of the market value of the mortgaged property.

## Profit and loss account

At the end of the 3rd quarter, pre-tax profit was MNOK 19.7, compared with a profit of MNOK 20.5 in the same period last year. Return on net capital is 7.8 per cent.

Interest and related income was MNOK 186.8 and interest costs were MNOK 150.7, which gives a net interest at the end of the quarter of MNOK 36.1.

Operating costs totalled MNOK 16.5. An agreement has been entered with the Parent Bank, Sparebanken Sør, which includes loan administration, group services and treasury functions, etc. The costs associated with this agreement are MNOK 14.5.

There have been no losses in the company in 2011.

## Balance sheet/funding/capital adequacy

At the end of the quarter, total assets amounted to MNOK 8,087, of which net loans to customers were MNOK 7,925. As at 30 September, no loans were defaulted.

The loan portfolio has been funded through issue of covered bonds with a total nominal value of MNOK 5,500 and also short-term funding from Sparebanken Sør of MNOK 2,187.

At the end of the quarter, capital adequacy ratio was 9.9 per cent, all of which was core capital.

## Rating

In the 2nd quarter, Moodys gave Sør Boligkreditt AS an Aaa rating for covered bonds.

## Risk and capital management

Risk management ensures that the company's risk exposure is known at any time and is instrumental in helping the company achieve its strategic objectives, and also that acts, regulations and regulatory requirements are followed. Management objectives for the company's overall risk level and specific management objectives have been set within the various risk areas. Systems have been established for measurement, management and control of risk.

Capital management must ensure that the company has good core capital adequacy, financial stability and a satisfactory return in relation to its risk profile.

The company's capital adequacy and risk exposure is monitored through periodic reports.

## Credit risk

Credit risk is defined as the risk of loss due to customers or counterparties not being able to meet their obligations.

Credit risk is managed through the company's strategy and policy documents, credit routines and processes, scoring models and appropriation authority.

## Market risk

Market risk is the risk of losses due to adverse changes in market interest rates, exchange rates and the stock market. The market risk management strategy ensures that the operations are managed in accordance with the company's overall strategic plan, and that risk is reflected in the return.

## Funding risk

Funding risk is the risk of not being able to meet one's obligations except through higher funding costs, or at worst, not being able to meet one's obligations on the due date. The company's funding risk management strategy ensures proper cash flow management, which helps ensure the company's ability to survive critical situations.

## Operational risk

Operational risk is the risk of loss due to inadequate or failing internal processes, procedures or systems, human error, crime, or external events.

Operational risk is managed through human resource development, good systems and procedures, good internal control and quality assurance.

The company has signed a framework agreement with Sparebanken Sør that includes loan administration, group services and treasury functions, etc. According to the agreement, the bank bears the risk for any errors in the supplies and services to be provided.

## Future outlook

The company has had stable earnings and risk is low and we expect this situation to continue in the months ahead.

**Arendal, 25 October 2011**

### **Board of Directors of Sør Boligkreditt AS**

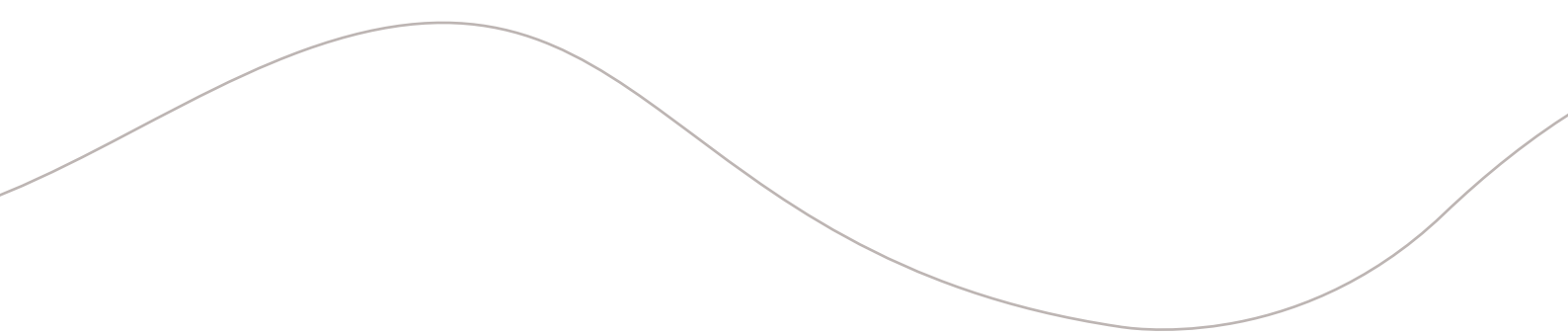
Geir Bergskaug  
Chairman

Frode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director



## 4 PROFIT AND LOSS ACCOUNT

Amounts in NOK 1 000	Notes	30.09.11	30.09.10	2010
Interest and related income	2,11	186 844	160 308	216 571
Interest and related costs	2,11	150 715	125 240	168 975
<b>Net interest and credit commission income</b>	<b>2</b>	<b>36 129</b>	<b>35 068</b>	<b>47 596</b>
<b>Net commission income</b>		<b>76</b>	<b>64</b>	<b>86</b>
<b>Income from financial instruments</b>	<b>3</b>	<b>0</b>	<b>-2 686</b>	<b>-4 351</b>
Personnel expenses		407	12	205
Administration costs	11	15 542	11 392	17 207
Amortization of intangible assets		507	507	676
<b>Total operating costs</b>		<b>16 456</b>	<b>11 911</b>	<b>18 088</b>
<b>Operating profit before losses</b>		<b>19 749</b>	<b>20 535</b>	<b>25 243</b>
Losses on loans		0	0	0
<b>Pre-tax profit</b>		<b>19 749</b>	<b>20 535</b>	<b>25 243</b>
Tax on ordinary profit		5 530	5 750	7 102
<b>Profit on ordinary operations after tax/net profit</b>		<b>14 219</b>	<b>14 785</b>	<b>18 141</b>
<b>Expanded income statement</b>				
<b>Profit for the period</b>		<b>14 219</b>	<b>14 785</b>	<b>18 141</b>
Other income and costs		0	0	0
<b>Total net profit for the period</b>		<b>14 219</b>	<b>14 785</b>	<b>18 141</b>

Amounts in NOK 1 000

ASSETS	Notes	30.09.11	30.09.10	2010
Loans to and claims on financial institutions	11	150 389	0	0
<b>Gross loans</b>		<b>7 929 419</b>	<b>5 511 873</b>	<b>5 859 554</b>
Collective write-downs		-4 000	-4 000	-4 000
<b>Net loans to customers</b>	<b>4, 7,8,10</b>	<b>7 925 419</b>	<b>5 507 873</b>	<b>5 855 554</b>
Intangible assets		341	1 017	848
Assets relating to deferred tax		0	278	615
Other assets		10 640	7 373	7 974
<b>TOT L ASSETS</b>		<b>8 086 789</b>	<b>5 516 541</b>	<b>5 864 991</b>
<b>EQUITY AND LIABILITIES</b>				
Liabilities to financial institutions	5,11	2 186 875	1 223 939	1 573 765
Securitized debt	9,11	5 497 892	3 999 667	3 999 667
Financial derivatives		0	6 383	5 227
Period tax liabilities		7 924	11 685	8 192
Deferred tax		0	0	0
Other liabilities		47 182	45 526	45 443
<b>Total liabilities</b>		<b>7 739 873</b>	<b>5 287 200</b>	<b>5 632 294</b>
Share capital		300 000	200 000	200 000
Other reserves		32 697	14 556	32 697
Unallocated profit		14 219	14 785	0
Total equity	6	346 916	229 341	232 697
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>8 086 789</b>	<b>5 516 541</b>	<b>5 864 991</b>

## Arendal 25 October 2011

Geir Bergskaug  
ChairmanFrode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director

## 6 CASH FLOW STATEMENT

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
Interest received	184 191	160 162	215 824
Interest paid	-136 790	-111 386	-154 079
Operations-related payments	-21 010	-11 340	-21 531
<b>Net cash flow from operations</b>	<b>26 391</b>	<b>37 436</b>	<b>40 214</b>
Change in loans	-2 069 865	-163 718	-514 564
Change in other assets	602	0	-615
Change in loans from financial institutions	613 110	-47 281	302 545
Change in other liabilities	-18 075	0	-1 105
<b>Net cash flow from current financial activities</b>	<b>-1 474 228</b>	<b>-210 999</b>	<b>-213 739</b>
<b>Change in securitized debt</b>	<b>1 498 225</b>	<b>38</b>	<b>0</b>
<b>Paid-up share capital</b>	<b>100 000</b>	<b>0</b>	<b>0</b>
<b>Net change in cash and cash equivalents</b>	<b>150 389</b>	<b>-173 525</b>	<b>-173 525</b>
Cash and cash equivalents as at 1 January	0	173 525	173 525
<b>Cash and cash equivalents at the end of the period</b>	<b>150 389</b>	<b>0</b>	<b>0</b>

The company has unused drawing rights of MNOK 313 in the parent bank as at 30 September 2011, see note 5.

## EQUITY MOVEMENTS

Amounts to the nearest whole NOK 1 000	Share capital	Other reserves	Unallocated profit	Total
Equity as at 1 January 2010	200 000	14 556		214 556
Paid-up share capital	0			0
Profit as at 30 September 2010			14 785	14 785
<b>Equity as at 30 September 2010</b>	<b>200 000</b>	<b>14 556</b>	<b>14 785</b>	<b>229 341</b>
Equity as at 1 January 2011	200 000	32 697		232 697
Paid-up share capital	100 000			100 000
Profit as at 30 September 2011			14 219	14 219
<b>Equity as at 30 September 2011</b>	<b>300 000</b>	<b>32 697</b>	<b>14 219</b>	<b>346 916</b>

For a statement of changes in equity as at 31 December 2010, refer to the 2010 annual accounts.

As at 30 September 2011, the capital increase has been resolved, but not registered in the Register of Business Enterprises.

**Note 1 Accounting principles**

The accounts have been prepared in accordance with International Standards for Financial Reporting, IFRS. The accounting principles are the same as those used in the 2010 annual accounts and are described therein.

**Note 2 Net interest income**

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
Interest on loans and claims on financial institutions	4 681	1 411	1 411
Interest on loans and claims on customers	182 163	158 897	215 160
<b>Total interest income</b>	<b>186 844</b>	<b>160 309</b>	<b>216 571</b>
Interest on liabilities to financial institutions	40 470	34 904	46 223
Interest on issued securities	110 245	90 336	122 628
Other interest costs	0	0	124
<b>Total interest costs</b>	<b>150 715</b>	<b>125 240</b>	<b>168 975</b>
<b>Net interest costs</b>	<b>36 129</b>	<b>35 068</b>	<b>47 596</b>

**Note 3 Income from financial instruments**

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
Valuation of fixed rate loans	0	3 165	808
Valuation of financial derivatives	0	-5 851	-5 159
<b>Total income from financial instruments</b>	<b>0</b>	<b>-2 686</b>	<b>-4 351</b>

**Note 4 Debt/asset ratio**

	30.09.11	30.09.10	2010
<b>Average debt/asset ratio as a %</b>	<b>51.1 %</b>	<b>52.8 %</b>	<b>52.9 %</b>
<b>Portfolio by intervals of debt/asset ratio</b>			
less than or equal to 40%	25.9 %	24.5 %	23.6 %
41 - 50 %	17.7 %	16.1 %	15.0 %
51 - 60 %	21.9 %	20.3 %	20.2 %
61 - 70 %	25.4 %	23.6 %	27.0 %
71 - 75 %	9.1 %	15.5 %	14.1 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

**Note 5 Liabilities to financial institutions**

The company has entered into an agreement with Sparebanken Sør regarding a credit facility of BNOK 2.5, which is primarily used for settlement of purchased loans and repayment of covered bonds. The agreement has been entered into in accordance with the arm's length principle.

**Note 6 Capital adequacy**

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
<b>Equity and related capital</b>			
Share capital	300 000	200 000	200 000
Retained earnings	32 697	14 557	32 697
Deductions in core capital	341	1 295	1 463
<b>Net equity and related capital (core capital)</b>	<b>332 356</b>	<b>213 262</b>	<b>231 234</b>
<b>Minimum capital adequacy requirement</b>			
Credit risk	265 094	166 217	176 523
Market risk	0	0	0
Operational risk	4 941	3 557	3 557
Deductible items	320	320	320
<b>Total minimum capital adequacy requirement</b>	<b>269 715</b>	<b>169 454</b>	<b>179 760</b>
Calculation basis	3 371 438	2 118 175	2 247 000
<b>Capital adequacy</b>	<b>9.9 %</b>	<b>10.1 %</b>	<b>10.3 %</b>

**Note 7 Loans according to sectors, industries and geography**

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
Retail banking customers	7 664 792	5 365 664	5 721 103
Primary industries	12 672	5 928	7 802
Industry	19 989	6 335	6 783
Building and construction	78 418	43 602	38 873
Transport and communication	25 579	12 040	10 729
Wholesale and retail	25 892	20 042	21 250
Hotel and restaurant	15 354	4 227	2 667
Real estate	831	2 695	0
Financial/business services	42 403	24 836	24 579
Sundry/other industries	43 489	26 504	25 768
<b>Total gross loans</b>	<b>7 929 419</b>	<b>5 511 873</b>	<b>5 859 554</b>
Collective write-downs	4 000	4 000	4 000
<b>Net loans</b>	<b>7 925 419</b>	<b>5 507 873</b>	<b>5 855 554</b>

**Note 8 Defaulted and doubtful commitments**

Amounts to the nearest whole NOK 1 000	30.09.11	30.09.10	2010
Defaulted commitments	0	0	0
Individual write-downs	0	0	0
<b>Net defaulted commitments</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Note 9 Bond debt distributed according to maturity**

Amounts to the nearest whole NOK 1 000

ISIN number	Nom. Value	Of which owned	Fair value	Book value	Coupon	Repayment structure	Maturity
NO 0010508443	1 000 000	0	1 000 969	999 941	NIBOR 3M + 0.50	Inst. free	08.04.2015
NO 0010518129	1 000 000	0	999 012	999 933	NIBOR 3M + 0.55	Inst. free	04.07.2016
NO 0010530744	1 000 000	0	997 966	999 926	NIBOR 3M + 0.60	Inst. free	06.10.2017
NO 0010536162	1 000 000	0	997 633	999 929	NIBOR 3M + 0.55	Inst. free	06.10.2016
NO 0010614688	1 000 000	0	998 800	998 853	NIBOR 3M + 0.50	Inst. free	29.06.2016
NO 0010623945	500 000	0	499 300	499 310	NIBOR 3M + 0.53	Inst. free	24.08.2017
<b>Total</b>	<b>5 500 000</b>		<b>5 493 680</b>	<b>5 497 892</b>			

**Note 10 Cover pool**

Amounts to the nearest whole NOK 1 000

	30.09.11	30.09.10	2010
Gross loans secured by residential property mortgages*	7 672 541	5 409 897	5 742 792
Receivables that represent substitute assets	150 389	0	0
<b>Total cover pool</b>	<b>7 822 930</b>	<b>5 409 897</b>	<b>5 742 792</b>
Cover pool's filling ratio	142 %	135 %	144 %

\* The composition of the cover pool has been defined in Section 2-28 of the Financial Services Act.

**Note 11 Close parties**

Amounts to the nearest whole NOK 1 000

	30.09.11	30.09.10	2010
<b>Profit</b>			
Interest from Sparebanken Sør on deposits	4 681	1 411	1 411
Interest and credit commission from Sparebanken Sør on loans	40 470	34 904	46 223
Interest costs on Perpetual Hybrid Tier 1 Capital from Sparebanken S.	110 245	90 336	122 627
Management fee paid to Sparebanken Sør	14 497	10 642	15 010
<b>Balance sheet</b>			
Bank deposits in Sparebanken Sør	150 389	0	0
Covered bonds	4 000 000	4 000 000	4 000 000
Loans in Sparebanken Sør	2 186 875	1 223 939	1 573 765

**QUARTRLY PROFIT TREND**

	3Q 2011	2Q 2011	1Q 2011	4Q 2010	3Q 2010	2Q 2010
Net interest	13 043	10 868	12 219	12 528	9 713	13 061
Other income	28	27	20	-1 643	22	-611
Operating costs	6 371	5 165	4 920	6 177	3 850	4 330
<b>Operating profit bef. Losses</b>	<b>6 700</b>	<b>5 730</b>	<b>7 319</b>	<b>4 708</b>	<b>5 885</b>	<b>8 120</b>
Losses on loans	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>6 700</b>	<b>5 730</b>	<b>7 319</b>	<b>4 708</b>	<b>5 885</b>	<b>8 120</b>
Tax on ordinary profit	1 876	1 605	2 049	1 352	1 647	2 275
<b>Profit after tax</b>	<b>4 824</b>	<b>4 125</b>	<b>5 270</b>	<b>3 356</b>	<b>4 238</b>	<b>5 845</b>

