



**1<sup>st</sup> QUARTER 2011**  
(unaudited)

**SØR BOLIGKREDITT AS**

### General information

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

### Profit and loss account

The company's result is stable and has developed as expected. At the end of the 1st quarter, pre-tax profit was MNOK 7.3 million compared with MNOK 6.5 at the same time last year. Return on net capital is therefore 9.1 per cent.

Interest and related income was MNOK 55.5 and interest costs were MNOK 43.3, which gives a net interest income at the end of the quarter of MNOK 12.2.

Operating costs were MNOK 4.9. An agreement has been entered into with the parent bank, Sparebanken Sør, which covers areas such as loan management, group services and treasury functions. The costs associated with this agreement were MNOK 4.6.

There have been no losses in the company in 2011.

### Balance sheet/funding/capital adequacy

At the end of the quarter, total assets were MNOK 5,891, of which net loans to customers were MNOK 5,883. AS at 31 May 2011, no loans were defaulted.

The loan portfolio has been funded through the issue of covered bonds with a total nominal value of MNOK 4,000 and also short-term funding from Sparebanken Sør of MNOK 1,611.

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

### Risk and capital management

Risk management ensures that the company's risk exposure is known at all times and helps ensure that the company achieves its strategic goals and also that regulations and regulatory requirements are complied with. Benchmarks are set for the company's total risk level and specifically within the individual risk areas. Systems for the measurement, management and control of risk have been established. Capital management ensures that the company has a good tier capital adequacy, financial stability and satisfactory return in relation to the risk profile.

The company's capital adequacy and risk exposure is followed up via periodic reporting.

#### Credit risk

Credit risk is defined as the risk of losses as a result of customers or counterparties being unable to meet their obligations.

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

#### Market risk

Market risk is defined as the risk of loss due to unfavourable changes in the market prices of interest, exchange rates and in the stock market. The market risk management strategy ensures that the activity is operated in accordance with the company's overall strategy and that the risk is reflected in the return.

#### Liquidity risk

Liquidity risk is the risk that commitments cannot be met without an increase in funding costs or, ultimately, in an inability to meet commitments by the due date. The company's strategy for management of liquidity risk ensures prudent liquidity management, which contributes to ensuring the company's survival in the event of critical situations arising.

#### Operational risk

Operational risk is defined as the risk of losses as a result of inadequate or failing internal processes, procedures or systems, human error, criminal actions or external events. Operational risk is managed through competence development, good systems and procedures, good internal control and quality control.

The company has entered into a framework agreement with Sparebanken Sør, which includes areas such as loan mana-

gement and group support and treasury functions. The bank, in accordance with the agreement, bears the risk associated with any errors within deliveries and services provided.

#### **Future outlook**

The company can demonstrate stable earnings and low levels of risk and we expect this situation to continue.

In 2011, the company plans to take over more loans from Sparebanken Sør.

#### **Arendal, 3 May 2011**

The Board of Directors of Sør Boligkreditt AS

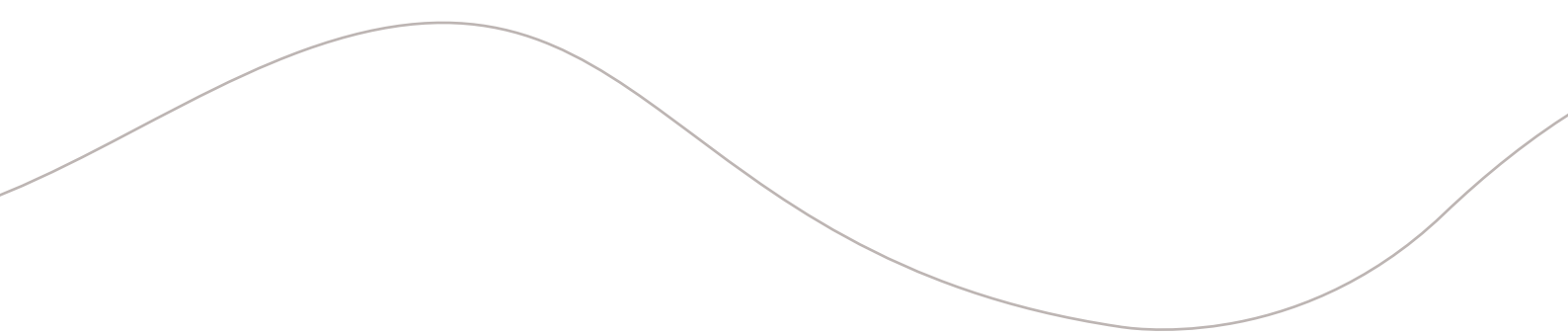
Geir Bergskaug  
Chairman

Frode Mathiesen  
Deputy Chairman

Seunn Smith-Tønnessen

Birte Helgesen

Rolf H. Søraker  
Managing Director



## 4 PROFIT AND LOSS ACCOUNT

| Amounts in 1 000 NOK  | Notes    | 31.03.11      | 31.03.10      | 2010          |
|---|----------|---------------|---------------|---------------|
| Interest and related income   | 2,11     | 55 537        | 49 443        | 216 571       |
| Interest and relatd costs   | 2,11     | 43 318        | 37 149        | 168 975       |
| <b>Net interest and credit commission income</b>                          | <b>2</b> | <b>12 219</b> | <b>12 294</b> | <b>47 596</b> |
| <b>Net commission income</b>  |          | <b>20</b>     | <b>20</b>     | <b>86</b>     |
| <b>Income from financial instruments</b>                                  | <b>3</b> | <b>0</b>      | <b>-2 053</b> | <b>-4 351</b> |
| Personnel expenses  |          | 145           | 0             | 205           |
| Administration costs  | 11       | 4 606         | 3 562         | 17 207        |
| Amortization of intangible assets   |          | 169           | 169           | 676           |
| <b>Total operating costs</b>  |          | <b>4 920</b>  | <b>3 731</b>  | <b>18 088</b> |
| <b>Operating profit/loss before losses</b>                                |          | <b>7 319</b>  | <b>6 530</b>  | <b>25 243</b> |
| Losses on loans   |          | 0             | 0             | 0             |
| <b>Profit/loss before tax expenses</b>                                    |          | <b>7 319</b>  | <b>6 530</b>  | <b>25 243</b> |
| Tax on ordinary profit/loss   |          | 2 049         | 1 828         | 7 102         |
| <b>Profit or loss on ordinary operations after tax/net profit or loss</b> |          | <b>5 270</b>  | <b>4 702</b>  | <b>18 141</b> |
| <b>Expanded income statement</b>  |          |               |               |               |
| <b>Profit/loss for the period</b>   |          | <b>5 270</b>  | <b>4 702</b>  | <b>18 141</b> |
| Other income and costs  |          | 0             | 0             | 0             |
| <b>Total net profit/loss for the period</b>                               |          | <b>5 270</b>  | <b>4 702</b>  | <b>18 141</b> |

Amounts in 1 000 NOK

| ASSETS  | Notes              | 31.03.11         | 31.03.10         | 2010             |
|---|--------------------|------------------|------------------|------------------|
| Loans to and claims on financial institutions | 11                 | 25               | 140 336          | 0                |
| <b>Gross loans</b>                            |                    | <b>5 886 925</b> | <b>5 931 054</b> | <b>5 859 554</b> |
| Write-downs on groups of loans                |                    | -4 000           | -4 000           | -4 000           |
| <b>Net loans to customers</b>                 | <b>4, 7, 8, 10</b> | <b>5 882 925</b> | <b>5 927 054</b> | <b>5 855 554</b> |
| Intangible assets                             |                    | 679              | 1 355            | 848              |
| Assets relating to deferred tax               |                    |                  | 101              | 615              |
| Accrued interest                              |                    | 7 523            | 6 614            | 7 974            |
| <b>TOTAL ASSETS</b>                           |                    | <b>5 891 152</b> | <b>6 075 460</b> | <b>5 864 991</b> |
| <b>LIABILITIES AND EQUITY</b>                 |                    |                  |                  |                  |
| Liabilities to financial institutions         | 5, 11              | 1 611 445        | 1 815 535        | 1 573 765        |
| Listed debt securities                        | 9, 11              | 3 999 700        | 3 999 643        | 3 999 667        |
| Financial derivatives                         |                    | 0                | 4 998            | 5 227            |
| Period tax liabilities                        |                    | 7 034            | 7 586            | 8 192            |
| Deferred tax                                  |                    | 0                | 0                | 0                |
| Other liabilities                             |                    | 35 006           | 28 440           | 45 443           |
| <b>Total liabilities</b>                      |                    | <b>5 653 185</b> | <b>5 856 202</b> | <b>5 632 294</b> |
| Share capital                                 |                    | 200 000          | 200 000          | 200 000          |
| Other reserves                                |                    | 32 697           | 14 556           | 32 697           |
| Unallocated profit                            |                    | 5 270            | 4 702            |                  |
| <b>Total equity</b>                           | <b>6</b>           | <b>237 967</b>   | <b>219 258</b>   | <b>232 697</b>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>           |                    | <b>5 891 152</b> | <b>6 075 460</b> | <b>5 864 991</b> |

## Arendal, 3 May 2011

Geir Bergskaug  
Chairman of the Board

Frode Mathiesen  
Deputy Chairman

Seunn Smith-Tønnessen

Birte Helgesen

Rolf H. Søraker  
CEO

## 6 CASH FLOW STATEMENT

| Amounts in 1 000 NOK                                      | 31.03.11      | 31.03.10       | 2010            |
|---|---------------|----------------|-----------------|
| Interest received   | 55 988        | 50 056         | 215 824         |
| Interest paid   | -44 101       | -40 381        | -154 079        |
| Operations-related payments                               | -7 516        | -3 542         | -21 531         |
| <b>Net cash flow from operations</b>                      | <b>4 371</b>  | <b>6 133</b>   | <b>40 214</b>   |
| Change in loans   | -27 371       | -586 064       | -514 564        |
| Change in other assets                                    |               | 0              | -615            |
| Change in loans from financial institutions               | 37 680        | 544 315        | 302 545         |
| Change in other liabilities                               | -14 655       | 2 427          | -1 105          |
| <b>Net cash flow from current financial activities</b>    | <b>-4 346</b> | <b>-39 322</b> | <b>-213 739</b> |
| Investment in fixed assets                                |               | 0              | 0               |
| <b>Net cash flow from investments</b>                     | <b>0</b>      | <b>0</b>       | <b>0</b>        |
| Called-up, fully paid share capital                       |               | 0              | 0               |
| Change in listed debt securities                          |               | 0              | 0               |
| <b>Net cash flow from long term financing activities</b>  | <b>0</b>      | <b>0</b>       | <b>0</b>        |
| <b>Net change in cash and cash equivalents</b>            | <b>25</b>     | <b>-33 189</b> | <b>-173 525</b> |
| Cash and cash equivalents 01.01                           |               | 173 525        | 173 525         |
| <b>Cash and cash equivalents at the end of the period</b> | <b>25</b>     | <b>140 336</b> | <b>0</b>        |

The company has unused drawing rights of NOK 889 million in the parent bank as at 31.03.2011, cf. note 5.

## EQUITY MOVEMENTS

| Amounts in 1 000 NOK           | Share capital  | Other shareholders' equity | Retained profit/loss | Total          |
|--------------------------------|----------------|----------------------------|----------------------|----------------|
| Equity as at 01.01.2010        | 200 000        | 14 556                     |                      | 214 556        |
| Profit as at 31.03.2010        |                |                            | 4 702                | 4 702          |
| <b>Equity as at 31.03.2010</b> | <b>200 000</b> | <b>14 556</b>              | <b>4 702</b>         | <b>219 258</b> |
| Equity as at 01.01.2011        | 200 000        | 32 697                     |                      | 232 697        |
| Profit as at 31.03.2011        |                |                            | 5 270                | 5 270          |
| <b>Equity as at 31.03.2011</b> | <b>200 000</b> | <b>32 697</b>              | <b>5 270</b>         | <b>237 967</b> |

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

**Note 1 Accounting principles**

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

**Note 2 Net interest income**

| Amounts in 1 000 NOK                                   | 31.03.11      | 31.03.10      | 2010           |
|--|---------------|---------------|----------------|
| Interest on loans and claims on financial institutions | 0             | 1 111         | 1 411          |
| Interest on loans and claims on customers              | 55 537        | 48 332        | 215 160        |
| <b>Total interest income</b>                           | <b>55 537</b> | <b>49 443</b> | <b>216 571</b> |
| Interest on liabilities to financial institutions      | 11 810        | 9 829         | 46 223         |
| Interest on issued securities                          | 31 508        | 27 320        | 122 627        |
| Other interest costs                                   | 0             | 0             | 125            |
| <b>Total interest costs</b>                            | <b>43 318</b> | <b>37 149</b> | <b>168 975</b> |
| <b>Net interest income</b>                             | <b>12 219</b> | <b>12 294</b> | <b>47 596</b>  |

**Note 3 Income from financial instruments**

| Amounts in 1 000 NOK                           | 31.03.11 | 31.03.10 | 2010     |
|--|----------|----------|----------|
| Valuation of fixed rate loans                  | 0        | 2 413    | 808      |
| Valuation of financial derivatives             | 0        | -        | -        |
| <b>Total income from financial instruments</b> | <b>0</b> | <b>-</b> | <b>-</b> |

**Note 4 Debt/asset ratio**

| Amounts in 1 000 NOK                                   | 31.03.11       | 31.03.10       | 2010           |
|--|----------------|----------------|----------------|
| Average debt/asset ratio is 52.01 %                    | 52.0 %         | 57.9 %         | 52.9 %         |
| <b>The portfolio by intervals of debt/asset ratio:</b> |                |                |                |
| less than or equal to 40 %                             | 23.3 %         | 21.5 %         | 23.6 %         |
| 41 - 50 %  | 14.0 %         | 13.4 %         | 15.0 %         |
| 51 - 60 %  | 19.8 %         | 19.0 %         | 20.2 %         |
| 61 - 70 %  | 27.0 %         | 19.9 %         | 27.0 %         |
| 71 - 75 %  | 15.9 %         | 26.2 %         | 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 NOK 2.5 billion which primarily is to be used for settlement of purchased loans and repayment of covered bonds. The agreement is entered into in accordance with the arm's length principle.

**Note 6 Capital adequacy**

| Amounts in 1 000 NOK                                 | 31.03.11       | 31.03.10       | 2010           |
|--|----------------|----------------|----------------|
| <b>Equity and related capital</b>                    |                |                |                |
| Share capital  | 200 000        | 200 000        | 200 000        |
| Other reserves                                       | 32 697         | 14 556         | 32 697         |
| Deductions   | 679            | 1 456          | 1 463          |
| <b>Net equity and related capital (core capital)</b> | <b>232 018</b> | <b>213 100</b> | <b>231 234</b> |
| <b>Minimum capital adequacy requirement</b>          |                |                |                |
| Credit risk  | 182 708        | 183 064        | 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>187 329</b> | <b>186 301</b> | <b>179 760</b> |
| Calculation basis                                    | 2 341 612      | 2 328 763      | 2 247 000      |
| <b>Capital adequacy</b>                              | <b>9.91%</b>   | <b>9.15%</b>   | <b>10.29%</b>  |

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

| Amounts in 1 000 NOK        | 31.03.11         | 31.03.10         | 2010             |
|-----------------------------|------------------|------------------|------------------|
| Retail banking customers    | 5 734 305        | 5 773 626        | 5 721 103        |
| Primary industries          | 8 046            | 5 848            | 7 802            |
| Industry                    | 11 345           | 6 640            | 6 783            |
| Building and construction   | 42 108           | 48 572           | 38 873           |
| Transport and communication | 14 314           | 15 063           | 10 729           |
| Wholesale and retail        | 22 150           | 20 445           | 21 250           |
| Hotel and restaurant        | 2 940            | 2 235            | 2 667            |
| Retail estate               | 0                | 506              | 0                |
| Financial/business services | 29 159           | 29 224           | 24 579           |
| Sundry/other industries     | 22 558           | 28 895           | 25 768           |
| <b>Total gross loans</b>    | <b>5 886 925</b> | <b>5 931 054</b> | <b>5 859 554</b> |
| Collective write-downs      | 4 000            | 4 000            | 4 000            |
| <b>Net loans</b>            | <b>5 882 925</b> | <b>5 927 054</b> | <b>5 855 554</b> |

**Note 8 Defaulted and doubtful commitments**

| Amounts in 1 000 NOK             | 31.03.11 | 31.03.10 | 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 in 1 000 NOK

| ISIN number   | Nominal value    | Of which owned | Fair value       | Book value       | Coupon          | Repayment structure | Maturity   |
|---------------|------------------|----------------|------------------|------------------|-----------------|---------------------|------------|
| NO 0010508443 | 1 000 000        | 0              | 1 000 522        | 999 932          | NIBOR 3M + 0.50 | Instalment free     | 08/04/2015 |
| NO 0010518129 | 1 000 000        | 0              | 999 321          | 999 926          | NIBOR 3M + 0.55 | Instalment free     | 04/07/2016 |
| NO 0010530744 | 1 000 000        | 0              | 999 264          | 999 920          | NIBOR 3M + 0.60 | Instalment free     | 06/10/2017 |
| NO 0010536162 | 1 000 000        | 0              | 998 377          | 999 922          | NIBOR 3M + 0.55 | Instalment free     | 06/10/2016 |
| <b>Total</b>  | <b>4 000 000</b> | <b>0</b>       | <b>3 997 484</b> | <b>3 999 700</b> |                 |                     |            |

**Note 10 Cover pool**

Amounts in 1 000 NOK

|  | 31.03.11         | 31.03.10         | 2010             |
|--|------------------|------------------|------------------|
| <b>Gross loans secured by residential property mortgages</b> | <b>5 886 925</b> | <b>5 931 054</b> | <b>5 859 544</b> |
| Receivables which represent substitute assets                | 0                | 0                | 0                |
| <b>Total cover pool</b>                                      | <b>5 886 925</b> | <b>5 931 054</b> | <b>5 859 544</b> |
| Cover pool's filling ratio                                   | 147%             | 148%             | 147%             |

**Note 11 Close parties**

Amounts in 1 000 NOK

|   | 31.03.11  | 31.03.10  | 2010      |
|---|-----------|-----------|-----------|
| <b>Profit</b>   |           |           |           |
| Interest and credit commission from Sparebanken Sør on deposits           | 0         | 1 111     | 1 411     |
| Interest and credit commission from Sparebanken Sør on loans              | 11810     | 9 829     | 46 223    |
| Interest expenses on Perpetual Hybrid Tier 1 Capital from Sparebanken Sør | 31509     | 27 320    | 122 627   |
| Management fee paid to Sparebanken Sør                                    | 4568      | 3 495     | 15 010    |
| <b>Balance sheet</b>  |           |           |           |
| Bank deposits in Sparebanken Sør  | 25        | 140 336   | 0         |
| Covered bonds   | 3 999 700 | 3 999 643 | 3 999 667 |
| Loans in Sparebanken Sør  | 1 611 445 | 1 815 535 | 1 573 765 |

**QUARTERLY PROFIT TREND**

|                                       | 1st quarter<br>2011 | 4th quarter<br>2010 | 3rd quarter<br>2010 | 2nd quarter<br>2010 | 1st quarter<br>2010 | 4th quarter<br>2009 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Net interest income                   | 12219               | 12528               | 9713                | 13061               | 12294               | 14379               |
| Other income                          | 20                  | -1643               | 22                  | -611                | -2033               | 1709                |
| Operating costs                       | 4920                | 6177                | 3850                | 4330                | 3731                | 3387                |
| <b>Operating profit before losses</b> | <b>7 319</b>        | <b>4708</b>         | <b>5885</b>         | <b>8120</b>         | <b>6530</b>         | <b>12701</b>        |
| Losses on loans                       | 0                   | 0                   | 0                   | 0                   | 0                   | 4000                |
| <b>Profit before tax expenses</b>     | <b>7 319</b>        | <b>4708</b>         | <b>5885</b>         | <b>8120</b>         | <b>6530</b>         | <b>8701</b>         |
| Tax on ordinary profit/loss           | 2049                | 1352                | 1647                | 2275                | 1828                | 2458                |
| <b>Profit/loss after tax</b>          | <b>5 270</b>        | <b>3356</b>         | <b>4238</b>         | <b>5845</b>         | <b>4702</b>         | <b>6243</b>         |

