



3rd QUARTER 2010

**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 enterprise and may issue covered bonds from the company's cover pool to investors. The cover pool consists mainly of secured home 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 loans must not exceed 75 per cent of the market value of the mortgaged property.

### Profit and loss account

Profit trend in the company has been steady and as expected. At the end of the 3rd quarter, pretax profit was MNOK 20.5, compared with MNOK 11.5 at the same time last year. The most important reason for the positive profit trend is that 2009 was not a complete financial year with the volume the business has now. Return on net capital is 9.2 per cent.

Interest and related income was MNOK 160.3 and interest costs were MNOK 125.2, which gives a net interest at the end of the 3rd quarter of MNOK 35.1. In the 3rd quarter alone, net interest showed a slightly weaker trend than previously due to higher funding costs.

Other income amounted to MNOK -2.7 and mainly represents a change in the fair value of the fixed rate loans and financial derivatives.

At the end of the 3rd quarter, operating costs totalled MNOK 11.9. An agreement has been entered into with the parent bank, Sparebanken Sør, which concerns management, production, IT operations and also financial and risk management. At the end of the 3rd quarter, the costs associated with this totalled MNOK 10.6.

Year-to-date, there have been no losses in the company.

### Balance sheet / funding

At the end of the 3rd quarter, total assets amounted to MNOK 5,516, of which net loans to customers were MNOK

5,508. At the end of the 3rd quarter, no loans were defaulted.

The loan portfolio has been funded through issue of covered bonds with a total nominal value of MNOK 4,000 and also short-term funding from Sparebanken Sør of MNOK 1,224.

At the end of the quarter, capital adequacy ratio was 10.1 per cent.

### Risk management

#### Credit risk

Credit risk is defined as the risk of loss resulting from customers or counterparties being unable to meet their obligations to Sør Boligkreditt AS. The rules for the company define what loans may be included in the company's cover pool, and what requirements are set for borrowers and security on loans that may be acquired by the company.

As at 30 June 2010, the company had a home loan portfolio totalling MNOK 5,508 with an average debt-to-asset limit of 54.5 per cent.

The Board of Directors considers the quality of the loan portfolio to be very good and credit risk is low.

#### Market risk

Market risk is defined as the risk of loss due to unfavourable changes in the market prices of interest rates, exchange rates and the stock market. The Board of Directors considers the market risk to be low. Sør Boligkreditt AS shall have a low market risk and has established limits for maximum interest and exchange rate risk, which have been approved by the Board of Directors. The company will mainly use financial derivatives to keep the afore-mentioned risk at the desired level. At the end of the 3rd quarter, the company has no positions in foreign currency and low interest rate risk.

#### Funding risk

Funding risk is defined as the risk that the company is unable to meet its obligations or to fund its assets. Sør Boligkreditt AS issues bonds where the company has the possibility to extend the maturity of its borrowing by up to twelve months, if the company has problems refinancing at the time of ordinary maturity. The company also has a credit facility amounting to BNOK 2.5 in Sparebanken Sør, where the Bank undertakes to provide liquid funds in order that outstanding bonds and any associated derivatives shall receive timely settlement. At the end of the quarter, BNOK 1.2

had been drawn on the credit facility. The Board of Directors considers the company's funding risk to be low.

### Operational risk

Operational risk is defined as the risk of loss due to inadequate or failing internal processes, routines or systems, human error, crime or external events. The company has entered into a framework agreement with Sparebanken Sør, which includes management, production, IT operations, financial and risk management. According to the agreement, the Bank bears the risk of any errors within the supplies and services provided. The operational risk is assessed on an ongoing basis, and the company's internal audit reports any non-conformance to the Board of Directors. The Board of Directors considers the operational risk in the company to be low.

In the view of the Board of Directors, the total risk exposure in the company is low.

### Future outlook

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

The activities in the company are expected to contribute toward the Sparebanken Sør Group still being able to offer home loans on competitive terms and the company's operations are expected to be profitable for the owner in a market where there is strong competition.

### Arendal, 21 October 2010

Board of Directors of Sør Boligkreditt AS

Gunnar P. Thomassen  
Chairman

Frode Mathiesen  
Deputy Chairman

Seunn Smith-Tønnessen

Birte Helgesen

Rolf H. Søraker  
Managing Director



## 4 PROFIT AND LOSS ACCOUNT

Amounts in NOK 1 000	Notes	30.09.10	30.09.09	2009
Interest and similar income	2	160 308	50 736	97 048
Interest and similar costs	2	125 240	34 011	65 945
<b>Net interest and credit commission income</b>	<b>2</b>	<b>35 068</b>	<b>16 725</b>	<b>31 103</b>
<b>Net commission income</b>		<b>64</b>	<b>16</b>	<b>34</b>
<b>Income from financial instruments</b>	<b>3</b>	<b>-2 686</b>		<b>1 692</b>
Administration costs		11 404	4 718	7 935
Depreciation on intangible assets		507	507	676
<b>Total operating costs</b>		<b>11 911</b>	<b>5 225</b>	<b>8 611</b>
<b>Operating result before losses</b>		<b>20 535</b>	<b>11 516</b>	<b>24 218</b>
Losses on loans				4 000
<b>Pre-tax profit</b>		<b>20 535</b>	<b>11 516</b>	<b>20 218</b>
Tax payable on ordinary profit		5 750	3 200	5 658
<b>Profit from ordinary activities after tax/total profit</b>		<b>14 785</b>	<b>8 316</b>	<b>14 560</b>

## BALANCE SHEET

Amounts in NOK 1 000	Notes	30.09.10	30.09.09	2009
<b>ASSETS</b>				
Loans to and claims on financial institutions			304 080	173 525
Net loans to customers	4, 7, 8	5 507 873	4 268 020	5 340 990
Intangible assets		1 017	1 693	1 524
Assets relating to deferred tax		278	1	
Accrued interest		7 373	5 182	7 227
<b>TOTAL ASSETS</b>		<b>5 516 541</b>	<b>4 578 976</b>	<b>5 523 266</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>				
Debt to financial institutions	5	1 223 939	343 059	1 271 220
Debt incurred through issue of securities		3 999 667	3 999 600	3 999 629
Financial derivatives		6 383		532
Obligations related to tax for the period		11 685	3 200	5 183
Deferred tax				474
Other obligations		45 526	24 805	31 672
<b>Total liabilities</b>		<b>5 287 200</b>	<b>4 370 664</b>	<b>5 308 710</b>
Share capital		200 000	200 000	200 000
Other reserves		14 556	-4	14 556
Retained profit		14 785	8 316	
<b>Total equity capital</b>	<b>6</b>	<b>229 341</b>	<b>208 312</b>	<b>214 556</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>5 516 541</b>	<b>4 578 976</b>	<b>5 523 266</b>

Arendal 21 October 2010

Gunnar P. Thomassen  
Chairman of the Board

Frode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director

hele tusen	30.09.10	30.09.09	2009
Amounts in NOK 1 000	30.09.10	30.09.09	2009
Incoming interest payments	160 162	50 736	89 821
Outgoing interest payments	-111 386	-34 011	-38 343
Outgoing operating payments	-11 340	-4 702	-3 839
<b>Net cash flow from operations</b>	<b>37 436</b>	<b>12 023</b>	<b>47 639</b>
Changes in loans	-163 718	-4 259 173	-5 333 919
Changes in other assets		-5 182	
Changes in loans to other financial institutions	-47 281	334 239	1 262 400
Changes in other liabilities		23 636	-1 161
<b>Net cash flow from current financial operations</b>	<b>-210 999</b>	<b>-3 906 480</b>	<b>-4 072 680</b>
Investments in fixed assets			
<b>Net cash flow from investments</b>	<b>0</b>	<b>0</b>	<b>0</b>
Paid-up capital		100 000	100 000
Change in debt established through issue of securities	38	3 999 600	3 999 629
<b>Net cash flow from long-term financing operations</b>	<b>38</b>	<b>4 099 600</b>	<b>4 099 629</b>
<b>Net change in liquidity</b>	<b>-173 525</b>	<b>205 143</b>	<b>74 588</b>
Liquid assets as at 01.01	173 525	98 937	98 937
<b>Liquid assets as at the end of the period</b>	<b>0</b>	<b>304 080</b>	<b>173 525</b>

As at 30 September 2009, the company has an unused credit facility of BNOK 1.3 in the parent bank, cf. note 5.

## EQUITY MOVEMENTS

Amounts in NOK 1,000	Share capital	Other reserves	Retained profit	Total
Equity as at 01.01.09	100 000	-4		99 996
Increase in share capital	100 000			100 000
Profit as at 30.06.09			8 316	8 316
<b>Equity as at 30.09.09</b>	<b>200 000</b>	<b>-4</b>	<b>8 316</b>	<b>208 312</b>
Equity as at 01.01.10	200 000	14 556		214 556
Profit as at 30.06.10			14 785	14 785
<b>Equity as at 30.06.10</b>	<b>200 000</b>	<b>14 556</b>	<b>14 785</b>	<b>229 341</b>

Refer to the annual accounts 2009 for an overview of equity movements as at 31 Dec. 2009.

**Note 1 Accounting principles**

The accounts have been prepared in accordance with the International Standard for Financial Reporting, IFRS. The accounting principles are the same as those which were applied to the 2009 annual accounts and these have been described here.

**Note 2 Net interest income**

Amounts in NOK 1,000	30.09.10	30.09.09	2009
Interest on loans and claims on financial institutions	1 411	3 221	4 633
Interest on loans and claims on customers	158 897	47 515	92 415
<b>Total interest income</b>	<b>160 308</b>	<b>50 736</b>	<b>97 048</b>
Interest on liabilities to financial institutions	34 904	6 786	12 497
Interest on issued securities	90 336	27 225	53 448
<b>Total interest income</b>	<b>125 240</b>	<b>34 011</b>	<b>65 945</b>
<b>Net interest income</b>	<b>35 068</b>	<b>16 725</b>	<b>31 103</b>

**Note 3 Income from financial instruments**

Amounts in NOK 1,000	30.09.10	30.09.09	2009
Valuation fixed rate loans	3 165		2 225
Valuation financial derivatives	-5 851		-533
<b>Total income from financial instruments</b>	<b>-2 686</b>	<b>0</b>	<b>1 692</b>

**Note 4 Debt-to-asset ratio**

	30.09.10	30.09.09	2009
Average debt-to-asset ratio	52.8	57.0	57.0
<b>The portfolio divided into intervals of debt-to-asset ratio:</b>			
below or equal to 40 %	24,5 %		
41 - 50 %	16.1 %		
51 - 60 %	20.3 %		
61 - 70 %	23.6 %		
71 - 75 %	15.5 %		
<b>Total</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 will mainly be used as settlement for purchased loans and repayment of covered bonds. The agreement has been entered into according to the arm's length principle

**Note 6 Capital adequacy**

Amounts in NOK 1,000	30.09.10	30.09.09	2009
<b>Equity and related capital</b>			
Share capital	200 000	200 000	200 000
Other reserves	14 557		14 557
Deduction	1 295	1 693	1 524
<b>Net equity and related capital (core capital)</b>	<b>213 262</b>	<b>198 307</b>	<b>213 033</b>
Calculation basis	2 118 175	1 719 562	2 099 487
<b>Capital adequacy ratio</b>	<b>10.07%</b>	<b>11.53%</b>	<b>10.15%</b>

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

Amounts in NOK 1,000	30.09.10	30.09.09	2009
Retail banking customers	5 365 664	4 142 397	5 195 452
Primary industry	5 928	4 107	4 803
Industry	6 335	6 849	6 793
Building and construction	43 602	35 589	45 325
Transport and communication	12 040	13 507	16 190
Wholesale and retail	20 042	17 325	20 678
Hotel and restaurant	4 227	675	3 075
Real estate	2 695	581	544
Financial/business services	24 836	26 307	29 725
Sundry/other industries	26 504	20 683	22 405
<b>Total gross loans</b>	<b>5 511 873</b>	<b>4 268 020</b>	<b>5 344 990</b>
Group write-downs	4 000		4 000
<b>Net gross loans</b>	<b>5 507 873</b>	<b>4 268 020</b>	<b>5 340 990</b>
Aust-Agder	1 707 458		
Vest-Agder	2 484 807		
Telemark	527 010		
Other	792 598		
<b>Total gross loans</b>	<b>5 511 873</b>		

**Note 8 Defaulted commitments**

Amounts in NOK 1,000	30.09.10	30.09.09	2009
Defaulted commitments	0	0	2 662
Individual write-downs			0
<b>Net defaulted commitments</b>	<b>0</b>	<b>0</b>	<b>2 662</b>

## 8 QUARTERLY PROFIT TREND

	3rd Q	2nd Q	1st Q	4th Q	3rd Q	2nd Q
	2010	2010	2010	2009	2009	2009
Net interest income	9 713	13 061	12 294	14 379	10 769	4 965
Other income	22	(611)	(2 033)	1 709	10	7
Operating costs	3 850	4 330	3 731	3 387	4 505	356
<b>Oper. profit bef. losses</b>	<b>5 885</b>	<b>8 120</b>	<b>6 530</b>	<b>12 701</b>	<b>6 274</b>	<b>4 616</b>
Losses on loans				4 000		
<b>Pretax profit</b>	<b>5 885</b>	<b>8 120</b>	<b>6 530</b>	<b>8 701</b>	<b>6 274</b>	<b>4 616</b>
Tax on ordinary operations	1 647	2 275	1 828	2 458	1 735	1 290
<b>Profit after tax</b>	<b>4 238</b>	<b>5 845</b>	<b>4 702</b>	<b>6 243</b>	<b>4 539</b>	<b>3 326</b>

