



4th 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 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

The 4th quarter result has been stable and as anticipated and at the end of the quarter, pretax profit was MNOK 25.2. The most important reason for the improvement in profit is that 2009 was not a whole business year with the volume the business has now.

Return on net capital is 8.5 per cent.

Interest and related income was MNOK 216.6 and interest costs were MNOK 169.0, which gives a net interest at the of the quarter of MNOK 47.6.

Other income amounted to MNOK -4.4 and mainly represents the change in fair value of fixed rate loans and financial derivatives.

In the 4th quarter, operating costs were MNOK 18.1. An agreement has been entered into with the Parent Bank, Sparebanken Sør, which includes loan administration, group services and treasury functions, etc. The costs associated with this agreement are MNOK 15.0.

There have been no losses in the company in 2010.

Balance sheet / funding / capital adequacy

At year-end, total assets amounted to MNOK 5,865, of which net loans to customers were MNOK 5,856. As at 31 December, 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 1,574.

At year-end, capital adequacy ratio was 9.7 per cent, all of which was core capital.

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, what requirements are set for borrowers and security on loans that may be acquired by the company.

As at 31 December 2010, the company had a mortgage loan portfolio totalling BNOK 5.856 with an average debt to asset limit of 52.9 per cent.

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

Market risk

Market risk is defined as the risk of loss due to unfavourable changes in market prices for interest rates, exchange rates and the stock market. The Board of Directors considers the market risk to be low. Sør Boligkreditt AS must 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 4th quarter, the company has no position 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 will receive timely settlement. At the end of the quarter, BNOK 1.6 has 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 loan administration, group services and treasury functions, etc. 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. The Board of Directors considers the operational risk in the company to be low. The company has an internal audit department that reports directly to the Board of Directors.

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

The future outlook

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

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

Arendal, 7 February 2011

The Board of Directors of Sør Boligkreditt AS

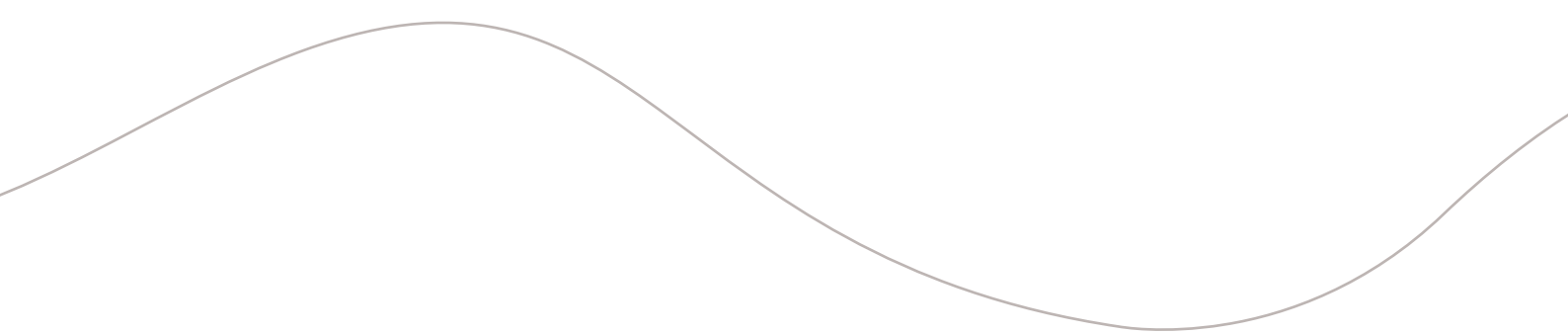
Geir Bergskaug
Chairman

Frode Mathiesen
Deputy Chairman

Seunn Smith-Tønnessen

Birte Helgesen

Rolf H. Søraker
Managing Director



4 PROFIT AND LOSS ACCOUNT

Amounts in NOK 1 000	Notes	2010	2009
Interest and related income	2,11	216 571	97 048
Interest and related costs	2,11	168 975	65 945
Net interest and credit commission income	2,11	47 596	31 103
Net commission income		86	34
Income from financial instruments	3	-4 351	1 692
Personnel costs		205	11
Administration costs	11	17 207	7 924
Depreciation on intangible assets		676	676
Total operating costs		18 088	8 611
Operating profit before losses		25 243	24 218
Losses on loans		0	4 000
Pre-tax profit		25 243	20 218
Tax on ordinary operations		7 102	5 658
Result from ordinary operations after tax / total result		18 141	14 560
Allocation			
Transferred to other reserves			-14 560
Total allocated		0	-14 560
Extended profit and loss account			
Profit for the period		18 141	14 560
Other income and costs		0	0
Total profit for the period		18 141	14 560

Amounts in NOK 1 000

ASSETS	Notes	2010	2009
Loans to and claims on financial institutions	11	0	173 525
Net loans to customers	4,7,8,10	5 855 554	5 340 990
Intangible assets		848	1 524
Deferred tax asset		615	0
Earned interest		7 974	7 227
TOTAL ASSETS		5 864 991	5 523 266
LIABILITIES AND EQUITY			
Liabilities to financial institutions	5,11	1 573 765	1 271 213
Liabilities established through issue of securities	9,11	3 999 667	3 999 629
Financial derivatives		5 227	532
Period tax liabilities		8 192	5 183
Deferred tax		0	474
Other liabilities		45 443	31 679
Total liabilities		5 632 294	5 308 710
Share capital		200 000	200 000
Other reserves		14 556	14 556
Unallocated profit		18 141	0
Total equity	6	232 697	214 556
TOTAL LIABILITIES AND EQUITY		5 864 991	5 523 266

Arendal 31 December 2010 / 7 February 2011

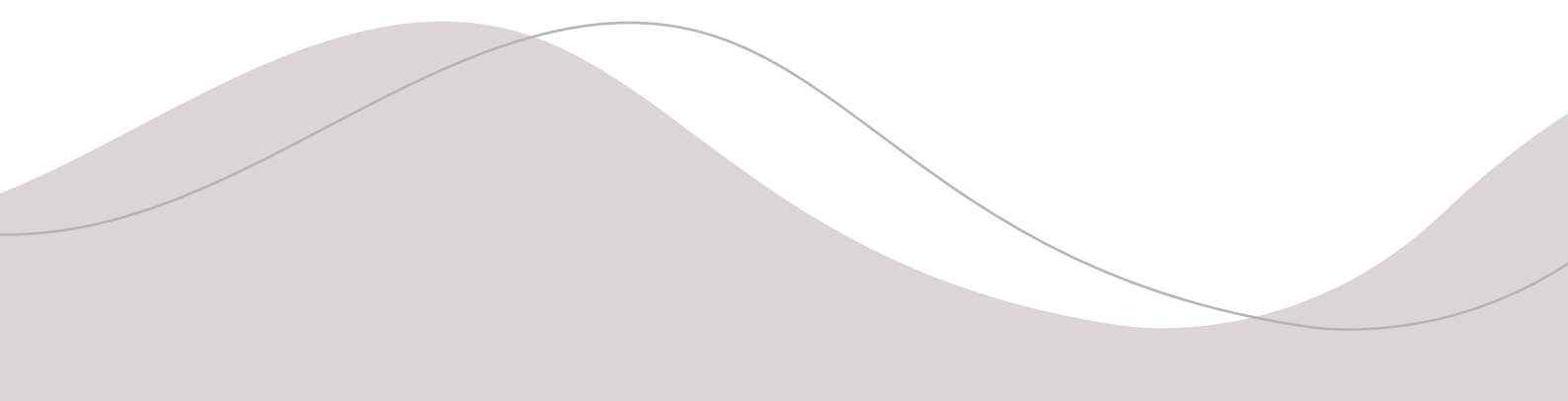
Geir Bergskaug
Chairman of the Board

Seunn Smith-Tønnessen

Birte Helgesen

Frode Mathiesen

Rolf H. Søraker
Managing Director



6 CASH FLOW STATEMENT

Amounts in NOK 1 000	2010	2009
Interest received	215 824	89 821
Interest paid	-154 079	-38 343
Operations-related payments	-21 531	-3 839
Net cash flow from operations	40 214	47 639
Change in loans	-514 564	-5 333 919
Change in other assets	-615	0
Change in loans from financial institutions	302 545	1 262 400
Change in other liabilities	-1 105	-1 161
Net cash flow from current financial activities	-213 739	-4 072 680
Investments in fixed assets	0	0
Net cash flow from investments	0	0
Called-up, fully paid share capital	0	100 000
Change in liabilities established through issue of securities	0	3 999 629
Net cash flow from long-term financing activities	0	4 099 629
Net change in liquid funds	-173 525	74 588
Liquid funds as at 01/01	173 525	98 937
Liquid funds at the end of the period	0	173 525

As at 31 December 2010, the company has an unused credit facility of MNOK 926 in the parent bank, cf. note 5

EQUITY MOVEMENTS

Amounts in NOK 1 000	Share capital	Other reserves	Unallocated profit	Total
Equity as at 01/01/2009	100 000	(4)		99 996
Paid up share capital	100 000			100 000
Profit 2009		14 560		14 560
Equity as at 31/12/2009	200 000	14 556		214 556
Capital injection				0
Profit 2010			18 141	18 141
Equity as at 31/12/2010	200 000	14 556	18 141	232 697

Note 1 Accounting principles

The accounts have been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles are the same as those used in the 2009 annual accounts and are described therein.

Note 2 Net interest income

Amounts in NOK 1 000

	2010	2009
Interest from loans and claims on financial institutions	1 411	4 633
Interest on loans and claims on customers	215 160	92 415
Total interest income	216 571	97 048
Interest on liabilities to financial institutions	46 223	12 497
Interest on issued securities	122 627	53 448
Other interest costs	125	0
Total interest costs	168 975	65 945
Net interest income	47 596	31 103

Note 3 Income from financial instruments

Amounts in NOK 1 000

	2010	2009
Change in value - fixed rate loans	808	2 225
Change in value - financial derivatives	-5 159	- 533
Total income from financial instruments	-4 351	1 692

Note 4 Debt/asset ratio and default

The average debt/asset ratio is 52.9%

The portfolio is divided into intervals of debt/asset ratio:

below or equal to 40%	23.6 %
41 - 50%	15.0 %
51 - 60%	20.2 %
61 - 70%	27.0 %
71 - 75%	14.1 %
Total	100.0 %

Note 5 Debt 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 for settlement of acquired 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

	2010	2009
Equity and related capital		
Share capital	200 000	200 000
Other reserves	32 697	14 556
Deductions	1 463	1 524
Net equity and related capital (core capital)	231 234	213 032
Minimum capital adequacy requirement		
Credit risk	186 707	165 279
Market risk	0	0
Operational risk	3 557	3 000
Deduction items	320	320
Total minimum capital adequacy requirement	189 944	167 959
Calculation basis	2 374 300	2 099 487
Capital adequacy ratio	9.74%	10.15%

Note 7 Loans according to sectors and industries

Amounts in NOK 1 000

	2010	2009
Retail banking customers	5 721 103	5 195 452
Primary industry	7 802	4 803
Industry	6 783	6 793
Building and construction	38 873	45 325
Transport and communication	10 729	16 190
Wholesale and retail	21 250	20 678
Hotel and restaurant	2 667	3 075
Real estate	0	544
Financial/business services	24 579	29 725
Sundry/other industries	25 768	22 405
Total gross loans	5 859 554	5 344 990
Collective write-downs	4 000	4 000
Net loans	5 855 554	5 340 990

Note 8 Defaulted commitments

Amounts in NOK 1 000

	2010	2009
Defaulted commitments	0	2 662
Individual write-downs	0	0
Net defaulted commitments	0	2 662

Note 9 Bond debt distributed according to maturity

Amounts in NOK 1 000

ISIN number	Nominal value	Of which in own poss.	Fair value	Book value	Coupon	Payment structure	Maturity
NO 0010508443	1 000 000	0	1 001 164	999 923	NIBOR 3M + 0.50	Interest only	08/05/2015
NO 0010518129	1 000 000	0	1 000 936	999 917	NIBOR 3M + 0.55	Interest only	04/07/2016
NO 0010530744	1 000 000	0	1 001 143	999 913	NIBOR 3M + 0.60	Interest only	06/10/2017
NO 0010536162	1 000 000	0	1 000 137	999 914	NIBOR 3M + 0.55	Interest only	06/10/2016
Sum	4 000 000	0	4 003 380	3 999 667			

Note 10 Cover pool

Amounts in NOK 1 000

	2010	2009
Gross loans secured by mortgage on property (mortgage loans)	5 859 554	5 344 990
Receivables that are substitute assets	0	0
Total cover pool	5 859 554	5 344 990
Cover pool's filling ratio	146%	133%

Note 11 Close parties

Amounts in NOK 1 000

	2010	2009
Profit		
Interest and credit commission from Sparebanken Sør on deposits	1 411	4 633
Interest and credit commission from Sparebanken Sør on loans/credit	46 223	12 497
Interest costs on Perpetual Hybrid Tier 1 Capital from Sparebanken Sør	122 627	53 448
Paid administration fees to Sparebanken Sør	15 010	7 440
Balance sheet		
Bank deposits in Sparebanken Sør	0	173 525
Covered bonds	3 999 667	3 999 629
Loans / credit in Sparebanken Sør	1 573 765	1 271 213

QUARTERLY PROFIT TREND

	4Q 2010	3Q 2010	2Q 2010	1Q 2010	4Q 2009	3Q 2009
Net interest income	12 528	9 713	13 061	12 294	14 379	10 769
Other income	-1 643	22	-611	-2 033	1 709	10
Operating costs	6 177	3 850	4 330	3 731	3 387	4 505
Oper. Profit bef. Losses	4 708	5 885	8 120	6 530	12 701	6 274
Losses on loans	0	0	0	0	4 000	0
Pre-tax profit	4 708	5 885	8 120	6 530	8 701	6 274
Tax on ord. operations	1 352	1 647	2 275	1 828	2 458	1 735
Profit after tax	3 356	4 238	5 845	4 702	6 243	4 539

