

QUARTER 1
2017
(UNAUDITED)



**SPAREBANKEN SØR
BOLIGKREDITT AS**

Contents

Report from the Board of Directors	3
Income statement	5
Balance sheet	6
Cash flow statement	7
Equity statement	8
Notes	9
Quarterly profit trend	12

General

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company's business is operated from Kristiansand. The company is licensed by the Financial Supervisory Authority of Norway to operate as a mortgage company, and is allowed to issue covered bonds. Sparebanken Sør Boligkreditt AS is part of Sparebanken Sør's long-term financial strategy, according to which the company's main objective is to issue covered bonds. All shares are owned by Sparebanken Sør, and the financial statements are consolidated into the financial statements of Sparebanken Sør Group.

The cover pool comprises mortgage home loans that are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgage loans meet the requirements established by the company for inclusion in the company's cover pool. One important requirement is that any outstanding loan balance taken over by the company must not exceed 75% of the mortgaged property's market value.

At the end of the first quarter 2017 Sparebanken Sør Boligkreditt AS has taken on a mortgage loan portfolio amounting to NOK 27 389 million, transferred from Sparebanken Sør, of which NOK 27 320 million is included in the cover pool. Corresponding figures were at the end of the first quarter 2016 NOK 28 623 million and NOK 28 547 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 24 035 million, against NOK 25 921 million at the same time in 2016. The company has achieved a diversified funding by issuing cover bonds outside the Norwegian bond market.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS in Q1 2017 shows a profit after tax of NOK 37.1 million, relative to NOK 40.1 million in the same period in 2016.

The company had net interest income of NOK 73.8 million relative to NOK 82.7 million in 2016. The reduction in net interest income is due to the fact that the increase in interest income has been lower than the increase in funding costs.

The company has issued cover bonds in Euro under the EMTCN (European Medium Term Covered Note) program. In order to control interest and currency exposure, the company has established swap arrangements (basiswaps), to convert foreign currency into NOK. The impact on earnings related to changes in the value of the basis swaps, affected the net income from financial instruments by minus NOK 9.5 million in Q1 2017. Assuming that the cover bonds in foreign currency are held to maturity, the total change in fair value are equal to zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 13.7 million and tax expenses were NOK 12.4 million at the end of the first quarter in 2017. Corresponding figure at the end of the first quarter 2016 were NOK 13.7 million and NOK 13.3 million respectively.

Total assets as at 31.03.2017 are NOK 28 389 million, of which net loans to customers represent NOK 27 383 million. At the same time in 2016 total assets were NOK 28 832 million, of which net loans to customers were NOK 28 617 million. The loan portfolio has been financed through the issuance of bonds with a value of NOK 24 035 million and through equity and drawing rights from Sparebanken Sør. As at 31.03.2017, the company had paid-in capital of a total of NOK 1 025 million, of which NOK 525 million is share capital and NOK 500 million is share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 2 500 million with Sparebanken Sør that, as at 31.03.2017, was drawn down by NOK 1 839 million. In addition, the company has a revolving credit facility with Sparebanken Sør, which can be used to refinance outstanding bonds.

Capital strength

At the end of Q1 2017, the common equity tier 1 capital in the company was NOK 2 191 million, against NOK 2 003 million at the same time in 2016. This corresponds to a total capital ratio/core tier 1 capital ratio of 18.7 percent (16.9 percent in 2016), while regulatory minimums requirements constitute 15.0 percent and 11.5 percent respectively. The capital adequacy ratio has been calculated based on the standard method in the Basel II - regulations. The Board of Directors considers the company's solidity and risk-bearing ability to be good. The company's leverage ratio was 7.4 percent at the end of Q1 2017.

Risks

As a licensed mortgage company, Sparebanken Sør Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. The objective of the company is to finance lending activities through the issuance of covered bonds with high rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain risk at a low level. The company places emphasis on identifying, measuring and controlling risk elements in such a way that the market has high confidence in the company and that bonds issued by the company have high rating.

Therefore, the company’s credit strategy and credit policy establishes a framework for requirements imposed on borrowers and collateral requirements for loans that may be taken on by the company. The Board of Directors considers the overall quality of the lending portfolio to be very good and the credit risk to be low.

The company’s mortgages to customers are in Norwegian kroner (NOK) in floating interest rate. Financing is done by issuance of both floating and fixed interest rate bonds in NOK and EUR. Foreign currency debt is swapped to NOK and liabilities established at fixed rates are swapped to floating rates. Accounting of foreign currency debt and debt at fixed interest rates comply with the rules for hedge accounting.

The Board of Directors considers the overall market risk to be low.

The company issues cover bonds with the opportunity to extend the maturities by up to 12 months. In other respects, financing needs are met by using equity and credit facilities with Sparebanken Sør. The Board of Directors considers the company’s liquidity risk to be low. As at 31.03.2017 the company very satisfactory meets new liquidity requirements imposed on European banks and finance companies (Liquidity Coverage Ratio – LCR of 80% throughout 2017)).

A Management Service Agreement is in place with Sparebanken Sør, and encompasses the supply of all necessary services for the operation of the company, and the Board of Directors considers the company’s operational risk to be low.

Rating

Covered bonds issued by Sparebanken Sør Boligkreditt AS in NOK and EUR have been given a Aaa rating by Moody’s.

Future prospects

The Board of Directors anticipates that the company’s future operating business will be very satisfactory.

Sparebanken Sør Boligkreditt AS plans to further acquire loans from Sparebanken Sør, and the company intends to be able to issue new public covered bonds towards investors in Norway or abroad.

Kristiansand, 3rd May 2017

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Rolf H. Søraker
Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

NOK Thousand	Notes	31.03.2017	31.03.2016	31.12.2016
Interest income	2, 12	190 162	183 883	765 408
Interest expenses	2, 12	116 331	101 152	437 057
Net interest income	2	73 831	82 731	328 351
Commission income		34	40	160
Commission expenses		1 250	1 250	5 000
Net commission income		-1 216	-1 210	-4 840
Net change in value from financial instruments	3	-9 457	-1 4137	-14 726
Personnel expenses		-	-	44
Depreciation of intangible assets		-	-	-
Other operating expenses		13 695	13 698	58 310
Total expenses		13 695	13 698	58 354
Profit before losses on loans		49 463	53 686	250 431
Losses on loans		-	232	-
Profit before taxes		49 463	53 454	250 431
Tax expenses	4	12 366	13 327	62 604
Profit for the period		37 097	40 127	187 828
Other comprehensive income				
Profit for the period		37 097	40 127	187 828
Other income and expenses		-	-	-
Total profit for the period		37 097	40 127	187 828

Balance sheet

NOK Thousand				
ASSETS	Notes	31.03.2017	31.03.2016	31.12.2016
Loans to and receivables from credit institutions	12	59 434	32 696	54 254
Net loans to customers	5,8,9,11	27 382 764	28 616 712	28 125 467
Bonds and certificates		810 176	-	857 661
Financial derivatives		116 071	167 111	151 191
Deferred tax assets		10 511	3 862	8 693
Other assets		9 658	12 114	10 079
TOTAL ASSETS		28 388 615	28 832 495	29 207 346
LIABILITIES AND EQUITY CAPITAL				
Debt to credit institutions	6,12	1 839 224	732 960	2 055 682
Debt incurred due to issue of securities	10	24 035 290	25 920 673	24 633 278
Financial derivatives	3	236 310	70 413	249 503
Payable tax		43 733	59 019	70 937
Other liabilities		6 048	6 218	7 033
TOTAL LIABILITIES		26 160 605	26 789 283	27 016 433
EQUITY CAPITAL				
Paid-in equity capital		1 025 000	1 025 000	1 025 000
Retained earnings		1 203 010	1 018 212	1 165 913
TOTAL EQUITY CAPITAL	7	2 228 010	2 043 212	2 190 913
TOTAL LIABILITIES AND EQUITY CAPITAL		28 388 615	28 832 495	29 207 346

Kristiansand, 3rd May 2017

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Rolf H. Søraker
Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Interest payment received	188 227	182 532	762 375
Interest payment made	-108 858	-88 914	-405 207
Operating cost payment	-15 896	-14 538	-62 871
Change in loans to customers	742 807	-2 928 607	-2 437 937
Tax payment	-41 388	-47 209	-94 416
Net cash flow from operational activities	764 892	-2 896 736	-2 238 056
Changes in bonds and certificates	47 485	100 268	-757 393
Changes in other assets	421	-12 101	-10 066
Changes in deposits from credit institutions	-216 326	-1 127 657	194 990
Changes in other liabilities	-985	-862	323
Net cash flow from current financing activities	-169 405	-1 040 352	-572 146
Pain-in share capital	-	-	-
Payments received, bond debt	-	4 760 000	9 255 500
Payments made, bond debt	-588 645	-840 298	-6 441 125
Net cash flow from long-term financing activities	-588 645	3 919 702	2 814 375
Net change in liquid assets	6 842	-17 385	4 173
Liquid assets as at 01.01	54 254	50 081	50 081
Liquid assets at the end of period	61 096	32 696	54 254

Equity statement

	Equity capital	Equity premium reserve	Other equity capital	Total
NOK Thousand				
Balance 01.01.2016	525 000	500 000	978 085	2 003 085
Profit 01.01.2016 - 31.03.2016	0	0	40 127	40 127
Balance 31.03.2016	525 000	500 000	1 018 212	2 043 212
Profit 01.04.2016 - 31.12.2016	0	0	147 701	147 701
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 01.01.2017 - 31.03.2017	0	0	37 097	37 097
Balance 31.03.2017	525 000	500 000	1 203 010	2 228 010

1. ACCOUNTING PRINCIPLES

The quarterly financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS) as stipulated by the EU. Sparebanken Sør Boligkreditt AS is part of the Sparebanken Sør Group and it follows the same accounting principles as the Group. Please refer to the annual financial statements for 2016 for further details of accounting principles.

The quarterly financial statements have not been audited.

All totals in the financial statements are stated in NOK Thousand, unless otherwise indicated. The company's financial statements are presented in Norwegian kroner, which is the functional currency.

2. NET INTEREST INCOME

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Interest on loans given to and receivables from credit institutions	146	58	298
Interest on loans granted to customers	186 596	183 647	762 093
Interest on certificates/bonds/interest-bearing securities	3 420	177	3 017
Total interest income	190 162	183 883	765 408
Interest on debt to credit institutions	9 436	8 192	26 453
Interest on issued securities	106 895	92 960	410 604
Other interest cost	-	0	0
Total interest expenses	116 331	101 152	437 057
Net interest income	73 831	82 731	328 351

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Profit/loss and change in value from covered bonds	644	-120	-867
Net income from covered bonds	644	-120	-867
Change in value fixed rate bonds - hedge accounting	-20 374	476	209 745
Change in value derivatives fixed rate bonds - designated as hedging instruments	11 419	-14 338	-242 821
Net income hedging	-8 955	-13 862	-33 076
Whereof effects from basis swaps (1)	-8 672	-12 362	-31 859
Profit/loss buyback own bonds - amortized cost	-1 145	-155	19 217
Net other financial instruments and derivatives	-1 145	-155	19 217
Net income from financial instruments	-9 457	-14 137	-14 726

1) The company issues covered bonds in Euro, which are secured by basis swaps. Change in the value of the basis swaps is a result of changes in market conditions, and is presented as hedging-inefficiency. This effect is recognized in the income statement.

Basis swaps are long term contracts, in which foreign currency is converted into NOK, entered to long term funding in international markets. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the instruments duration equals zero. Accounting effects are therefore reversed over time.

4. TAXES

A tax rate of 25 percent is assumed.

5. LTV - LOANS TO VALUE

	31.03.2017	31.03.2016	31.12.2016
Average debt to assets ratio in %	53.7 %	54.0 %	54.7 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40%	21.1 %	21.0 %	20.8 %
41 - 50 %	14.2 %	13.4 %	13.3 %
51 - 60 %	21.5 %	20.8 %	19.4 %
61 - 70 %	33.6 %	34.4 %	30.7 %
71 - 75 %	6.9 %	7.4 %	11.7 %
over 75 %	2.6 %	2.9 %	4.0 %
Total	100.0 %	100 %	100.0 %

6. DEBT TO CREDIT INSTITUTIONS

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 2 500 million. In addition, the company has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

7. CAPITAL ADEQUACY

Sparebanken Sør Boligkreditt AS implements the standard method for credit- and market risk and the basic method for operational risk to calculate capital adequacy in accordance with the current capital adequacy rules - Basel II.

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Equity capital			
Equity capital	525 000	525 000	525 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	1 165 913	978 085	1 165 913
Deductions	0	0	0
Common equity tier 1 capital	2 190 913	2 003 085	2 190 913
Minimum requirement for equity capital			
Credit risk	860 859	869 456	881 921
Marked risk	0	0	0
Operational risk	56 264	500 727	61 545
CVA addition	21 309	29 008	24 001
Deductions	0	0	0
Total minimum requirement for equity capital	938 432	949 192	967 467
Risk-weight balance (calculation basis)	11 730 400	11 864 896	12 093 338
Common equity tier 1 capital ratio	18.7 %	16.9 %	18.1 %
Tier 1 capital ratio	18.7 %	16.9 %	18.1 %
Total capital ratio	18.7 %	16.9 %	18.1 %
Leverage ratio	7.4 %	6.4 %	7.2 %

8. LOANS TO CUSTOMERS

NOK Thousands	31.03.2017	31.03.2016	31.12.2016
Loans assessed at amortized cost			
Flexi-loans (loans without installements)	6 304 332	8 208 269	6 758 883
Loans with installements	21 084 431	20 414 674	21 372 584
Gross loans	27 388 764	28 622 943	28 131 467
Collective write-downs	6 000	6 231	6 000
Net loans	27 382 764	28 616 712	28 125 467
Undrawn credit on Flexi-loans	1 977 890	2 434 809	2 286 871

Loans distributed to sectors and industries	31.03.2017	31.03.2016	31.12.2016
Retail customers	27 359 873	28 434 456	28 064 368
Corporate customers*)	2 639	162 190	40 950
Accrued interests	26 252	26 297	26 149
Gross loans	27 388 764	28 622 943	28 131 467
Collective write-downs	6 000	6 231	6 000
Net loans	27 382 764	28 616 712	28 125 467

*) Loans to corporate customers are mortgage loans to customers in sector 8200.

Loans distributed by geographical areas	31.03.2017		31.03.2016		31.12.2016	
Vest-Agder	11 936 193	43.6 %	12 716 867	44.4 %	12 431 648	44.2 %
Aust-Agder	7 748 800	28.3 %	8 078 456	28.2 %	8 017 979	28.5 %
Telemark	2 531 097	9.2 %	2 378 929	8.3 %	2 571 798	9.1 %
Oslo	2 182 152	8.0 %	2 450 181	8.6 %	2 197 082	7.8 %
Akershus	1 117 127	4.1 %	1 075 735	3.8 %	1 081 387	3.8 %
Others	1 867 396	6.8 %	1 916 544	6.7 %	1 825 573	6.5 %
Total	27 382 764	100.0 %	28 616 712	100.0 %	28 125 467	100.0 %

9. DEFAULTED LOANS

NOK Thousands	31.03.2017	31.03.2016	31.12.2016
Gross non-performing loans > 90 days	0	0	0
Individual write-downs	0	0	0
Net non performing loans	0	0	0
Net non-performing loans > 90 days in % of gross loans	0.0 %	0.0 %	0.0 %

A non-performing loan is defined as the sum of a customer`s total loan amount, if part of the loan has been overdrawn or has arrears exceeding NOK 1,000 for more than 90 days.

10. DEBT SECURITIES ISSUED AS AT 31.03.2017

ISIN Number	Ticker	Currency	Nominal value	Interest rate type	Coupon	Due date	Book value
NO0010623945	SORB02	NOK	492 500	Floating	3M Nibor	24.08.2017	493 165
NO0010673296	SORB21	NOK	4 500 000	Floating	3M Nibor	14.09.2018	4 504 324
NO0010679806	SORB10	NOK	4 500 000	Floating	3M Nibor	22.05.2019	4 501 232
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 105
NO0010714058	SORB24	NOK	4 500 000	Floating	3M Nibor	24.06.2020	4 462 096
XS1383921803		EUR	500 000	Fixed	0,25 %	22.03.2021	4 576 353
NO0010778954	SORB27	NOK	4 500 000	Floating	3M Nibor	22.11.2021	4 503 227
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	387 309
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	579 479
TOTAL							24 035 290

11. COVER POOL

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Gross loans secured by mortgages on residential property*)	27 320 348	28 547 180	28 041 171
Total cover pool	27 320 348	28 547 180	28 041 171
Collateralisation ratio	13.7 %	11.3 %	14.4 %

* Cover pool composition is defined in the Norwegian Financial Institution Act 11-8.

12. ASSOCIATED PARTIES

NOK Thousand	31.03.2017	31.03.2016	31.12.2016
Income statement			
Interest income from Sparebanken Sør on deposits	146	58	298
Interest expenses/credit commission from Sparebanken Sør on loans/credits	10 686	9 442	31 453
Interest expenses on debts to Sparebanken Sør	0	7	529
Paid administration fees to Sparebanken Sør	13 118	12 586	52 888
Balance			
Bank deposits with Sparebanken Sør	59 434	32 696	54 254
Cover bonds owned by Sparebanken Sør	0	0	0
Loan/credit in Sparebanken Sør	1 839 156	732 835	2 055 482

QUARTERLY PROFIT TREND

NOK Thousand	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Net interest income	73 831	75 325	83 510	86 785	82 731
Net other operating income	-10 673	13 128	-10 809	-6 537	-15 347
Operating expenses	13 695	14 663	14 648	15 345	13 698
Profit before losses on loans	49 463	73 790	58 054	64 902	53 686
Losses on loans	0	-32	-200	232	232
Profit before tax	49 463	73 790	58 085	65 103	53 454
Tax expenses	12 366	18 444	14 521	16 312	13 327
Profit for the period	37 097	55 346	43 564	48 791	40 127



SPAREBANKEN SØR BOLIGKREDITT AS

Sparebanken Sør Pb. 200, 4662 Kristiansand | www.sor.no | tlf. 09200