

QUARTER 4
2016
(UNAUDITED)



**SPAREBANKEN SØR
BOLIGKREDITT AS**

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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 fourth quarter 2016, Sparebanken Sør Boligkreditt AS has taken on a mortgage loan portfolio amounting to NOK 28 131 million, transferred from Sparebanken Sør, of which NOK 28 041 million is included in the cover pool. Corresponding figures at the end of the fourth quarter 2015 was respectively NOK 25 692 million and NOK 25 595 million. Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 24 633 million, against NOK 22 027 million at the same time in 2015.

In the third quarter of 2015 an EMTCN (European Medium Term Covered Note) program was established with a limit of Euro 4 000 million for Sparebanken Sør Boligkreditt AS. The program allows the company to diversify funding by issuing covered bonds outside the Norwegian bond market. In the first quarter of 2016 the company issued covered bonds amounted to EUR 500 million under the programme.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS in Q4 2016 shows a profit after tax of NOK 187.8 million, against NOK 241.6 million in the same period in 2015.

The company had net interest income of NOK 328.4 million against NOK 381.0 million in 2015. The reduction in net interest income is due to a decrease in interest on mortgages, without an equivalent decrease in interest on issued covered bonds.

In March 2016 the company issued its first covered bonds in Euro under the EMTCN program. The earnings impact related to changes in the value of the basis swaps, affected net income from financial instruments by minus NOK 31.9 million in Q4.

Basis swaps are derivative contracts entered into in connection with long-term funding in international capital markets, where funding in foreign currencies are converted into floating interest rate Norwegian kroner funding. Assuming that these hedging instruments are held to maturity, the total changes in fair value will be zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 58.4 million and tax expenses were NOK 62.6 million at the end of the fourth quarter in 2016. Corresponding figures at the end of the fourth quarter 2015 were respectively NOK 50.1 million and NOK 89.5 million.

Total assets as at 31.12.2016 are NOK 29 207 million, of which net loans to customers represent NOK 28 125 million. At the same time in 2015 total assets were NOK 25 991 million, of which net loans to customers were NOK 25 686 million. The loan portfolio has been financed through issuance of bonds with a value of NOK 24 633 million and through equity and drawing rights from Sparebanken Sør. As at 31.12.2016, 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 31.12.2016, was drawn down by NOK 2 055 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 Q4 2016, the net equity capital in the company was NOK 2 191 million, against NOK 2 003 million at the same time in 2015. This corresponds to a total capital ratio/core tier 1 capital ratio of 18.1 percent (18.6 percent in 2015), while regulatory minimums requirements constitute respectively 15.0 percent and 11.5 percent. 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 7.2 percent at the end of Q4 2016.

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 issuing 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 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 complies with the rules on hedge accounting.

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

The company issues bonds with the opportunity to extend the maturity period 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.

A Management Service Agreement has been reached with Sparebanken Sør that 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 and abroad.

Kristiansand, 14th February 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	31.12.2016	31.12.2015
Interest income	2, 12	765 408	762 485
Interest expenses	2, 12	437 057	381 456
Net interest income	2	328 351	381 029
Commision incom		160	162
Commision expenses		5 000	5 000
Net commision income		-4 840	-4 838
Net change in value from financial instruments	3	-14 726	5 048
Personnel expenses		44	46
Depriciation of intagible assets		0	0
Other operating expenses		58 310	50 036
Total expenses		58 354	50 082
Profit before losses on loans		250 431	331 157
Losses on loans		0	0
Profit before taxes		250 431	331 157
Tax expenses	4	62 604	89 545
Profit for the period		187 828	241 612
Other comprehensive income			
Profit before the period		187 828	241 612
Other income and expenses		0	0
Total profit for the period		187 828	241 612

Balance sheet

NOK Thousand

ASSETS	Notes	31.12.2016	31.12.2015
Loans to and receivables from credit institutions	12	54 254	50 081
Net loans to customers	5,8,9,11	28 125 467	25 686 328
Bonds and certificates		857 661	100 268
Financial derivatives		151 191	154 124
Deferred tax assets		8 693	360
Other assets		10 079	13
TOTAL ASSETS		29 207 346	25 991 175
LIABILITIES AND EQUITY CAPITAL			
Debt to credit institutions	6,12	2 055 682	1 862 491
Debt incurred due to issue of securities	10	24 633 278	22 027 073
Financial derivatives	3	249 503	2 418
Payable tax		70 937	89 398
Other liabilities		7 033	6 710
TOTAL LIABILITIES		27 016 433	23 988 090
EQUITY CAPITAL			
Paid-in equity capital		1 025 000	1 025 000
Retained earnings		1 165 913	978 085
TOTAL EQUITY CAPITAL	7	2 190 913	2 003 085
TOTAL LIABILITIES AND EQUITY CAPITAL		29 207 346	25 991 175

Kristiansand, 14th February 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	31.12.2016	31.12.2015
Interest payment received	762 375	762 720
Interest payment made	-405 207	-382 015
Operating cost payment	-62 871	-55 767
Change in loans to costumers	-2 437 937	-5 607 166
Tax payment	-94 416	-94 384
Net cash flow from operational activities	-2 238 056	-5 376 612
Changes in bonds and certificates	-757 393	199 198
Changes in other assets	-10 066	-13
Changes in deposits from credit institutions	194 990	530 072
Changes in other liabilities	323	-428
Net cash flow from current financing activities	-572 146	728 829
Paid in share capital	-	-
Payments received, bond debt	9 255 500	11 423 230
Payments made, bond debt	-6 441 125	-6 737 954
Net cash flow from long-term financing activities	2 814 375	4 685 276
Net change in liquid assets	4 173	37 493
Liquid assets as at 01.01	50 081	12 588
Liquid assets at end of period	54 254	50 081

Equity statement

	Equity			Total
	Equity capital	premium reserve	Other equity capital	
NOK Thousand				
Balance 31.12.2013	525 000	0	244 555	769 555
Equity added through merger	0	500 000	237 795	737 795
Profit 2014	0	0	254 123	254 123
Balance 31.12.2014	525 000	500 000	736 473	1 761 473
Profit 2015	0	0	241 612	241 612
Balance 31.12.2015	525 000	500 000	978 085	2 003 085
Profit 2016	0	0	187 828	187 828
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913

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 2015 for further details of accounting principles.

The quarterly financial statements have not been audited.

All sums 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	31.12.2016	31.12.2015
Interest on loans given to and receivables from credit institutions	298	374
Interest on loans granted to customers	762 093	760 666
Interest on certificates/bonds/interest-bearing securities	3 017	1 446
Total interest income	765 408	762 485
Interest on debt to credit institutions	26 453	30 642
Interest on issued securities	410 604	350 545
Other interest cost	0	270
Total interest expenses	437 057	381 456
Net interest income	328 351	381 029

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2016	31.12.2015
Profit (loss) and change in value from covered bonds	-867	0
Net income from covered bonds	-867	0
Change in value fixed rate bonds - hedge accounting	209 745	1 240
Change in value derivatives fixed rate bonds - designated as hedging instruments	-242 821	-1 009
Net income hedging	-33 076	231
Whereof effects from basis swaps (1)	-31 859	
Profit (loss) buyback of own bonds - amortized cost	19 217	4 818
Net other financial instruments and derivatives	19 217	4 818
Net income from financial instruments	-14 726	5 048

1) The company issued covered bonds in Euro, secured by basis swaps. Change in value of basis swaps is a result of changes in capital markets, and emerges as hedging-inefficiency. This effect is recognized in the income statement.

Basis swaps are long term contracts, where the currency is converted to 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. DEBT TO ASSET RATIO

	31.12.2016	31.12.2015
Average debt to asset ratio in %	54.7 %	55.3 %
Portfolio divided into intervals of debt to asset ratio		
Less than or equal to 40 %	20.8 %	19.9 %
41 - 50 %	13.3 %	13.1 %
51 - 60 %	19.4 %	19.6 %
61 - 70 %	30.7 %	30.4 %
71 - 75 %	11.7 %	11.7 %
over 75 %	4.0 %	5.3 %
Total	100.0 %	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 uses 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	31.12.2016	31.12.2015
Equity capital		
Equity capital	525 000	525 000
Equity premium reserve	500 000	500 000
Other equity capital	1 165 913	978 085
Deductions	0	0
Common equity tier 1 capital	2 190 913	2 003 085
Minimum requirement for equity capital		
Credit risk	881 921	788 144
Market risk	0	0
Operational risk	61 545	55 247
CVA addition	24 001	18 125
Deductions	0	0
Total minimum requirement for equity capital	967 467	861 516
Risk-weight balance (calculation basis)	12 093 338	10 768 950
Common equity tier 1 capital ratio	18.12 %	18.60 %
Tier 1 capital ratio	18.12 %	18.60 %
Total capital ratio	18.12 %	18.60 %

8. LOANS TO CUSTOMERS

NOK Thousand	31.12.2016	31.12.2015
Loans assessed at amortized cost		
Flexi-loans (revolving loans)	6 758 883	7 006 813
Repayment loans	21 372 584	18 685 515
Gross loans	28 131 467	25 692 328
Collective write-downs	6 000	6 000
Net loans	28 125 467	25 686 328
Unused credit on Flexi-loans	2 286 871	3 058 316

Loans distributed to sectors and industries	31.12.2016	31.12.2015
Retail customers	28 064 368	25 511 406
Corporate customers*)	40 950	155 975
Accrued interests	26 149	24 947
Gross loans	28 131 467	25 692 328
Collective write-downs	6 000	6 000
Net loans	28 125 467	25 686 328

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

Loans distributed by geographical areas

	31.12.2016		31.12.2015	
Vest-Agder	12 431 648	44.2 %	11 371 489	44.3 %
Aust-Agder	8 017 979	28.5 %	7 362 269	28.7 %
Telemark	2 571 798	9.1 %	2 120 368	8.3 %
Oslo	2 197 082	7.8 %	2 188 032	8.5 %
Akershus	1 081 387	3.8 %	916 137	3.6 %
Others	1 825 573	6.5 %	1 728 033	6.7 %
Total	28 125 467	100.0 %	25 686 328	100.0 %

9. DEFAULTED LOANS

NOK Thousands	31.12.2016	31.12.2015
Gross non-performing loans > 90 days	1 173	0
Individual write-downs	0	0
Net non performing loans	1 173	0
Net non-performing loans > 90 days in % of gross loans	0.00 %	0.00 %

A non-performing loan is 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 31.12.2016

ISIN Number	Ticker	Currency	Nominal value	Interest rate type	Coupon	Due date	Book value
NO0010641624	SORB20	NOK	345 000	Floating	3M Nibor	28.03.2017	345 191
NO0010623945	SORB02	NOK	735 000	Floating	3M Nibor	24.08.2017	735 833
NO0010673296	SORB21	NOK	4 500 000	Floating	3M Nibor	14.09.2018	4 504 998
NO0010679806	SORB10	NOK	4 500 000	Floating	3M Nibor	22.05.2019	4 501 341
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 114
NO0010714058	SORB24	NOK	4 500 000	Floating	3M Nibor	24.06.2020	4 458 765
XS1383921803		EUR	500 000	Fixed	0.25 %	22.03.2021	4 562 013
NO0010778954	SORB27	NOK	4 500 000	Floating	3M Nibor	22.11.2021	4 503 796
NO0010671597	SORB09	NOK	350 000	Fixed	3.85 %	13.02.2023	398 022
NO0010670409	SORB08	NOK	500 000	Fixed	4.00 %	24.01.2028	595 206
TOTAL							24 633 278

11. COVER POOL

NOK Thousand	31.12.2016	31.12.2015
Gross loans secured by mortgages on residential property *)	28 041 171	25 595 452
Total cover pool	28 041 171	25 595 452
Collateralisation ratio	14.4 %	16.8 %

* Cover pool composition is defined in the Norwegian Financial Institutions Act 2-28.

12. ASSOCIATED PARTIES

NOK Thousand	31.12.2016	31.12.2015
Income statement		
Interest income from Sparebanken Sør on deposits	298	374
Interest cost and credit commission from Sparebanken Sør on loans and credit	31 453	35 642
Interest cost on security debts to Sparebanken Sør	529	2 573
Paid administration fees to Sparebanken Sør	52 888	44 228
Balance		
Bank deposits with Sparebanken Sør	54 254	50 081
Cover bonds owned by Sparebanken Sør	0	0
Loan/credit in Sparebanken Sør	2 055 482	1 860 492

QUARTERLY PROFIT TREND

NOK Thousands	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Net interest income	75 325	83 510	86 785	82 731	92 512
Net other operating income	13 128	-10 809	-6 537	-15 347	11 960
Operating expenses	14 663	14 648	15 345	13 698	13 248
Profit before loss on loans	73 790	58 054	64 902	53 686	91 224
Losses on loans	0	-32	-200	232	0
Profit before taxes	73 790	58 085	65 103	53 454	91 224
Tax expenses	18 444	14 521	16 312	13 327	24 763
Profit for the period	55 346	43 564	48 791	40 127	66 461



SPAREBANKEN SØR BOLIGKREDITT AS

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