



QUARTER 1
2019
(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 issue covered bonds, and is a part of Sparebanken Sør's long-term financial strategy. All shares are owned by Sparebanken Sør and the financial statements are consolidated into the financial statements of the Sparebanken Sør Group.

The cover pool consists of secured mortgages, interest bearing securities and financial derivatives. The mortgages are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgages 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 date of acquisition.

At the end of Q1 2019 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 38 924 million, transferred from Sparebanken Sør, of which NOK 38 811 million is included in the qualified cover pool. Corresponding figures at the end of Q1 2018 were NOK 34 745 million and NOK 34 606 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 35 896 million, compared to NOK 30 518 million at the same time in 2018. The company has achieved a diversified funding by issuing covered bonds outside the Norwegian bond market.

Income statement and balance sheet

In Q1 2019 the financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 56.6 million, compared to NOK 58.5 million in the same period in 2018.

The company had net interest income of NOK 102.1 million, compared to NOK 99.5 million in 2018. The increase in net interest income is mainly due to the increase in the mortgage portfolio in the period.

The company has issued cover bonds in Euros under the EMTCN (European Medium Term Covered Note) program. In order to control interest and currency exposure, the company has established swap arrangements (basis swaps), to convert foreign currency into NOK. The impact on earnings related to changes in the value of the basis swap, affected the income from financial instruments by NOK 0.8 million in Q1 2019. Assuming that the cover bonds in foreign currency are held to maturity, the total change in fair value is equal to zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 19.8 million and tax expenses were NOK 18.9 million at the end of Q1 2019. Corresponding figures at the end of Q1 2018 were NOK 17.2 million and NOK 19.8 million respectively.

Total assets at 31.03.2019 were NOK 42 527 million, of which net loans to customers represented NOK 38 916 million. At the same time in 2018 total assets were NOK 36 836 million, of which net loans to customers were NOK 34 734 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 35 896 million, and through equity and drawing rights from Sparebanken Sør. In January 2018 the company increased the equity capital by NOK 600 million. After the capital increase, the company had paid-in capital of a total of NOK 1 625 million, of which NOK 1 125 million was share capital and NOK 500 million related to share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 4 000 million with Sparebanken Sør that, at 31.03.2019, was drawn down by NOK 3 337 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 2019, the net subordinated capital in the company was NOK 3 155 million, compared to NOK 2 953 million at the same time in 2018. This corresponds to a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 19.3 percent (19.9 percent in 2018), while regulatory minimums requirements constitute 12.0 percent, 13.5 percent and 15.5 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 7.1 percent at the end of Q1 2019.

Board of Director`s report

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 establish a framework of 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) at 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 covered bonds with the opportunity to extend the maturities by up to 12 months. In addition, 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. At 31.03.2019 the company satisfies the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio).

A Management Service Agreement has been established 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 an 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 further acquisitions of loans from Sparebanken Sør, and the company intends to be able to issue new open covered bonds, aimed at investors in Norway or abroad.

Kristiansand, 8 May 2019

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

NOK Thousand	Notes	31.03.2019	31.03.2018	31.12.2018
Interest income	2, 12	272 223	214 233	920 231
Interest expenses	2, 12	170 170	114 692	541 535
Net interest income	2	102 053	99 541	378 696
Commission income		39	41	170
Commission expenses		1 250	1 250	5 000
Net commission income		-1 211	-1 209	-4 830
Net income from financial instruments	3	-4 854	-1 603	-22 969
Personnel expenses				54
Depreciation on intangible assets				0
Other operating expenses		19 840	17 238	70 997
Total expenses		19 840	17 238	71 050
Profit before losses on loans		76 149	79 490	279 847
Losses on loans and undrawn credit		645	1 161	-2 427
Profit before taxes		75 503	78 329	282 275
Tax expenses	9	18 881	19 793	70 565
Profit for the period		56 622	58 536	211 709
Other comprehensive income				
Profit for the period		56 622	58 536	211 709
Net change in value from basis swaps		-16 104	-4 804	-19 511
Tax effect		4 026	1 201	4 878
Total profit for the period		44 544	54 933	197 076

Balance sheet

NOK Thousand				
ASSETS	Notes	31.03.2019	31.03.2018	31.12.2018
Loans to and receivables from credit institutions	12	155 131	103 025	343 083
Net loans to customers	4,7	38 915 645	34 734 032	38 728 856
Bonds and certificates		3 131 332	1 820 325	2 625 663
Financial derivatives		255 151	134 662	421 929
Deffered tax assets		35 301	15 119	28 064
Other assets		34 443	28 585	23 217
TOTAL ASSETS		42 527 003	36 835 747	42 170 810
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 339 064	3 146 611	2 893 918
Debt incurred due to issuance of securities	10	35 896 155	30 517 990	36 014 179
Financial derivatives	3	0	83 440	0
Payable taxes		68 564	51 850	83 336
Other liabilities		8 042	7 364	8 743
TOTAL LIABILITIES		39 311 825	33 807 256	39 000 176
EQUITY				
Paid-in equity		1 625 000	1 625 000	1 625 000
Retained earnings		1 590 179	1 403 492	1 545 635
TOTAL EQUITY CAPITAL		3 215 179	3 028 492	3 170 635
TOTAL LIABILITIES AND EQUITY CAPITAL		42 527 003	36 835 747	42 170 810

Kristiansand, 8 May 2019

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

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Member

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Member

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Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Interest received	269 780	210 826	912 501
Interest paid	-167 013	-102 585	-501 098
Operating expenditure	-21 752	-18 526	-74 528
Changes in loans to customers	-184 986	-3 766 824	-7 751 384
Income tax paid	-31 302	-34 050	-68 099
Net cash flow from operating activities	-135 272	-3 711 159	-7 482 607
Changes in bonds and certificates	-505 669	-1 011 508	-1 816 845
Changes in other assets	-199 965	-90 937	205 150
Changes in deposits from credit institutions	445 591	-213 872	-468 551
Changes in other liabilities	-701	-79	1 299
Net cash flow from current financing activities	-260 745	-1 316 396	-2 078 948
Paid-in share capital	0	600 000	600 000
Payments received, bond debt	4 860 000	4 870 000	15 559 155
Payments made, bond debt	-4 651 935	-492 377	-6 407 473
Net cash flow from long-term financing activities	208 065	4 977 623	9 751 682
Net change in liquid funds	-187 952	-49 932	190 127
Liquid funds as at 01.01.	343 083	152 957	152 957
Liquid funds at the end of the period	155 132	103 025	343 083

8 Statement of changes in Equity

	Equity capital	Share premium reserve	Retained earnings	Total
NOK Thousand				
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
Profit 01.04.2017 - 31.12.2017	0	0	148 720	148 720
Balance 31.12.2017	525 000	500 000	1 351 730	2 376 730
Changes according to IFRS 9	0	0	-4 228	-4 228
Tax effect	0	0	1 057	1 057
Balance 01.01.2018	525 000	500 000	1 348 559	2 373 559
Share capital increase	600 000	0	0	600 000
Profit 01.01.2018 - 31.03.2018	0	0	58 536	58 536
Other income/expenses	0	0	-3 603	-3 603
Balance 31.03.2018	1 125 000	500 000	1 403 492	3 028 492
Profit 01.04.2018 - 31.12.2018	0	0	153 173	153 173
Other income/expenses	0	0	-11 030	-11 030
Balance 31.12.2018	1 125 000	500 000	1 545 635	3 170 635
Profit 01.01.2019 - 31.03.2019	0	0	56 622	56 622
Other income/expenses	0	0	-12 078	-12 078
Balance 31.03.2019	1 125 000	500 000	1 590 179	3 215 179

1. ACCOUNTING POLICIES

The quarterly financial statements have been drawn up in accordance with International Financial Reporting Standards, IFRS, including IAS 34. Sparebanken Sør Boligkreditt AS is a part of the Sparebanken Sør Group and follows the same accounting principles as the Group. Please refer to the annual financial statements for 2018 (Note 1 – Accounting policies) for further details.

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

A tax rate of 25 percent is assumed.

The quarterly financial statements have not been audited.

2. NET INTEREST INCOME

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Interest on loans given to and receivables from credit institutions	188	379	872
Interest on loans given to customers	260 870	209 297	893 303
Interest on certificates/bonds/interest-bearing securities	11 164	4 556	26 056
Total interest income	272 223	214 233	920 231
Interest on debt to credit institutions	14 315	13 353	65 552
Interest on issued securities	155 833	101 339	475 984
Other interest expenses	22	0	0
Total interest expenses	170 170	114 692	541 535
Net interest income	102 053	99 541	378 696

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Profit (loss) and change in value from covered bonds	3 020	-59	-5 820
Net income from covered bonds	3 020	-59	-5 820
Change in value fixed rate bonds - hedge accounting	280 832	314 584	-330 753
Change in value derivatives fixed rate bonds - designated as hedging instruments	-280 772	-315 839	314 715
Net income hedging	60	-1 255	-16 038
Of which effects from basis swaps (1)	839	3 041	-1 537
Profit (loss) buyback own bonds - amortized cost	-7 935	-290	-1 111
Net other financial instruments and derivatives	-7 935	-290	-1 111
Net income from financial instruments	-4 854	-1 603	-22 969

1) The company has issued covered bonds in Euro that have been hedged using basis swaps. Change in the value of the basis swaps as a result of changes in market conditions, is presented as hedging-inefficiency. This ineffective portion is recognized in the income statement.

Basis swaps are derivative contracts used to convert obligations in foreign currency into NOK. Basis swaps are used when the company has entered into long term funding in international capital 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. LTV - LOAN TO VALUE

	31.03.2019	31.03.2018	31.12.2018
Average debt to assets ratio in %	57,0	57,2 %	56,8 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40%	15,9 %	16,7 %	16,1 %
41 - 50 %	12,7 %	12,4 %	12,5 %
51 - 60 %	19,8 %	19,2 %	20,5 %
61 - 70 %	33,8 %	31,6 %	34,3 %
71 - 75 %	12,9 %	14,1 %	12,1 %
More than 75 %	4,9 %	6,1 %	4,4 %
Total	100,0 %	100,0 %	100,0 %

5. DEBT TO CREDIT INSTITUTIONS

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 4 000 million. In addition, the company has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

6. 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	31.03.2019	31.03.2018	31.12.2018
Equity capital			
Equity capital	1 125 000	1 125 000	1 125 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	1 533 556	1 344 955	1 545 635
Deductions	-3 386	-17 158	-3 048
Net subordinated capital (common equity tier 1)	3 155 170	2 952 797	3 167 587
Minimum requirement for equity capital			
Credit risk	1 254 406	1 105 038	1 248 960
Market risk	0	0	0
Operational risk	55 424	53 614	53 614
CVA addition	0	31 382	0
Deductions	0	0	0
Total minimum requirement for equity capital	1 309 830	1 190 034	1 302 574
Risk weight balance (calculation basis)	16 372 875	14 875 425	16 282 175
Common equity tier 1 capital ratio	19,3 %	19,9 %	19,5 %
Tier 1 capital ratio	19,3 %	19,9 %	19,5 %
Total capital ratio	19,3 %	19,9 %	19,5 %
Leverage Ratio	7,1	7,6	7,2 %

7. LOANS TO CUSTOMERS

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Loans assessed at amortised cost			
Flexi-loans (loans without installments)	8 241 259	8 100 057	8 214 867
Loans with installments	30 682 688	26 645 254	30 521 668
Gross loans	38 923 947	34 745 310	38 736 534
Impairment losses on lending	-8 303	-11 279	-7 679
Net loans	38 915 645	34 734 032	38 728 856
Undrawn credit on Flexi-loans	3 260 599	2 598 792	3 195 853

Loans distributed to sectors and industries	31.03.2019	31.03.2018	31.12.2018
Retail customers	38 883 213	34 711 342	38 698 242
Corporate customers *)	0	0	0
Accrued interests	40 735	33 968	38 292
Gross loans	38 923 947	34 745 310	38 736 534
Impairment losses on lending	-8 303	-11 279	-7 679
Net loans	38 915 645	34 734 032	38 728 856

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

Loans distributed by geographical areas	31.03.2019		31.03.2018		31.12.2018	
Vest-Agder	16 051 077	41,2 %	14 722 255	42,4 %	15 976 361	41,3 %
Aust-Agder	10 304 451	26,5 %	9 235 894	26,6 %	10 230 536	26,4 %
Telemark	3 774 317	9,7 %	3 395 636	9,8 %	3 788 416	9,8 %
Rogaland	1 141 249	2,9 %	797 526	2,3 %	1 106 520	2,9 %
Oslo	3 904 808	10,0 %	3 288 986	9,5 %	3 890 000	10,0 %
Akershus	1 646 173	4,2 %	1 467 975	4,2 %	1 649 156	4,3 %
Other counties	2 093 571	5,4 %	1 825 760	5,3 %	2 087 867	5,4 %
Total	38 915 645	100,0 %	34 734 032	100,0 %	38 728 856	100,0 %

8. DEFAULTED LOANS

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Gross non-performing loans > 90 days	9 201	1 635	0
Other non-performing loans	20 738	13 009	12 265
Total non-performing loans (stage 3)	29 939	14 644	12 265
Stage 3 impairment losses	1 350	608	1337
Net non-performing losses	28 589	14 036	10 928
Provision ratio impairment losses	4,5 %	4,2 %	10,9 %
Gross non-performing loans > 90 days in % of gross loans	0,1 %	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.

9. LOSSES ON LOANS

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Changes in impairment losses for the period, stage 1	553	194	286
+ Changes in impairment losses for the period, stage 2	-54	596	-3 695
+ Changes in impairment losses for the period, stage 3	147	372	982
= Total losses for the period	645	1 161	-2 427

NOK Thousand	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Allowenses on losses at 01.01.2019	1 878	4 701	1 212	7 791
Transfers				
Transferred to stage 1	1 307	-1 305	0	0
Transferred to stage 2	-75	94	0	0
Transferred to stage 3	0	-14	15	0
Losses on new loans	478	156	0	634
Losses on deducted loans*	-135	-549	-18	-702
Losses on older loans and other changes	-1 021	1 568	142	689
Allowenses on losses at 31.03.2019	2 432	4 651	1 350	8 432

* Losses on deducted loans are related to losses on fully repaid loans and loans transferred between the company and the parent bank. Write-downs on off-balance items (undrawn credit on flexi-loans) are also included in the table above.

Stage	Commitment		Calculated	
	amount	In %	loss	In %
1	40 243 589	95,9 %	2	30,4 %
2	1 686 938	4,0 %	5	60,1 %
3	29 939	0,1 %	1	9,5 %
Total	41 960	100,0 %	8	100,0 %

10. DEBT SECURITIES ISSUED AT 31.03.2019

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010679806	SORB10	NOK	384 000	Floating 3M Nibor	22.05.2019	384 953	385 001
NO0010714058	SORB24	NOK	5 000 000	Floating 3M Nibor	24.06.2020	4 986 907	5 021 153
XSI383921803		EUR	500 000	Fixed 0,250 %	22.03.2021	4 863 437	4 883 853
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 009 521	5 064 881
XSI622285283		EUR	500 000	Fixed 0,125 %	30.05.2022	4 884 029	4 875 732
NO0010671597	SORB09	NOK	350 000	Fixed 3,85 %	13.02.2023	372 655	375 991
XSI775786145		EUR	500 000	Fixed 0,375 %	20.02.2023	4 943 846	4 911 374
NO0010832637	SORB28	NOK	5 000 000	Floating 3M Nibor	24.09.2025	4 991 789	5 012 744
XSI947550403		EUR	500 000	Fixed 0,50 %	06.02.2026	4 892 768	4 909 287
NO0010670409	SORB08	NOK	500 000	Fixed 4,00 %	24.01.2028	566 249	568 717
TOTAL						35 896 155	36 008 733

11. COVER POOL COMPOSITION AND OC

NOK Thousand	Fair value		
	31.03.2019	31.03.2018	31.12.2018
Loans secured by mortgages on residential properties	38 915 645	34 734 032	38 728 856
Deductions of ineligible loans	-104 996	-128 520	-82 734
Pool of eligible loans	38 810 649	34 605 512	38 646 122
Certificates and bonds	2 670 854	1 562 959	2 166 143
Financial derivatives	255 151	51 222	422 884
Total cover pool	41 736 653	36 219 693	41 235 149
Debt incurred due to issuance of securities	36 040 478	30 751 555	35 998 704
Collateralisation ratio (OC)	15,8 %	17,8 %	14,5 %

	Nominal value		
	31.03.2019	31.03.2018	31.12.2018
OC based on nominal value - eligibles only	16,5 %	18,8 %	14,1 %
OC based on nominal value - total loans	16,8 %	19,2 %	14,3 %

12. RELATED PARTIES

NOK Thousand	31.03.2019	31.03.2018	31.12.2018
Income statement			
Interest income from Sparebanken Sør on deposits	188	379	872
Interest expenses and commission from Sparebanken Sør on loans/credit	15 565	14 603	70 552
Interest expenses on bond debts to Sparebanken Sør	17 328	0	6 536
Paid administration fees to Sparebanken Sør	18 334	15 876	65 655
Balance sheet			
Bank deposit in Sparebanken Sør	155 131	103 025	343 083
Cover bonds owned by Sparebanken Sør	2 500 000	0	5 711 000
Loans/credit in Sparebanken Sør	3 336 949	3 146 037	2 891 358

QUARTERLY PROFIT TREND

NOK Thousand	Q1	Q4	Q3	Q2	Q1
	2019	2018	2018	2018	2018
Net interest income	102 053	98 970	88 712	91 473	99 541
Net other operating income	-6 065	-7 397	1 999	-19 588	-2 812
Operating expenses	19 840	19 360	16 923	17 529	17 238
Profit before losses on loans	76 149	72 213	73 788	54 356	79 490
Losses on loans	645	-461	-1 731	-1 397	1 161
Profit before taxes	75 503	72 674	75 518	55 753	78 329
Tax expenses	18 881	18 165	18 879	13 728	19 793
Profit for the period	56 622	54 508	56 639	42 025	58 536
Liquidity coverage ratio (LCR)	294 %	162 %	802 %	473 %	690 %
Total capital ratio	19,3 %	19,5 %	19,7 %	20,5 %	19,9 %
Leverage Ratio	7,1 %	7,2 %	7,6 %	7,9 %	7,6 %

