



Q2
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 Q2 2019 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 38 284 million, transferred from Sparebanken Sør, of which NOK 38 225 million is included in the qualified cover pool. Corresponding figures at the end of Q2 2018 were NOK 34 027 million and NOK 33 945 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 35 679 million, compared to NOK 28 744 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 Q2 2019 the financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 124.8 million, compared to NOK 100.6 million in the same period in 2018.

The company had net interest income of NOK 198.7 million, compared to NOK 191.0 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 minus NOK 9.7 million in Q2 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 38.6 million and tax expenses were NOK 41.6 million at the end of Q2 2019. Corresponding figures at the end of Q2 2018 were NOK 34.8 million and NOK 33.5 million respectively.

Total assets at 30.06.2019 were NOK 42 544 million, of which net loans to customers represented NOK 38 277 million. At the same time in 2018 total assets were NOK 35 897 million, of which net loans to customers were NOK 34 017 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 35 679 million, and through equity and drawing rights from Sparebanken Sør. At the end of Q2 2019, the company had at total paid-in capital 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 30.06.2019, was drawn down by NOK 3 510 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 Q2 2019, the net subordinated capital in the company was NOK 3 171 million, compared to NOK 2 943 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 19.2 percent (20.5 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 71 percent at the end of Q2 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 30.06.2019 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, 7 August 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	30.06.2019	30.06.2018	31.12.2018
Interest income	2, 12	559 905	444 360	920 231
Interest expenses	2, 12	361 218	253 347	541 535
Net interest income	2	198 688	191 014	378 696
Commission income		88	91	170
Commission expenses		2 501	2 500	5 000
Net commission income		2 412	-2 409	-4 830
Net income from financial instruments	3	9 110	-19 991	-22 969
Personnel expenses		0	0	54
Depreciation on intangible assets		0	0	0
Other operating expenses		38 573	34 767	70 997
Total expenses		38 573	34 767	71 050
Profit before losses on loans		166 812	133 846	279 847
Losses on loans and undrawn credit	9	401	-236	-2 427
Profit before taxes		166 411	134 083	282 275
Tax expenses		41 608	33 521	70 565
Profit for the period		124 803	100 562	211 709
Other comprehensive income				
Profit for the period		124 803	100 562	211 709
Net change in value from basis swaps		379	-12 313	-19 511
Tax effect		-95	3 078	4 878
Total profit for the period		125 088	91 327	197 076

Balance sheet

NOK Thousand				
ASSETS	Notes	30.06.2019	30.06.2018	31.12.2018
Loans to and receivables from credit institutions	12	273 680	112 134	343 083
Net loans to customers	4,7	38 276 640	34 016 760	38 728 856
Bonds and certificates		3 591 110	1 616 943	2 625 663
Financial derivatives		347 513	100 569	421 929
Deferred tax assets		23 214	24 097	28 064
Other tax assets		32 177	26 795	23 217
TOTAL ASSETS		42 544 335	35 897 297	42 170 810
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 509 568	3 876 773	2 893 918
Debt incurred due to issuance of securities	10	35 679 048	28 743 629	36 014 179
Financial derivatives	3	0	166 136	0
Payable taxes		52 022	38 628	83 336
Other liabilities		7 974	7 246	8 743
TOTAL LIABILITIES		39 248 613	32 832 412	39 000 176
EQUITY				
Paid-in equity		1 625 000	1 625 000	1 625 000
Retained earnings		1 670 722	1 439 885	1 545 635
TOTAL EQUITY CAPITAL		3 295 722	3 064 885	3 170 635
TOTAL LIABILITIES AND EQUITY CAPITAL		42 544 335	35 897 297	42 170 810

Kristiansand, 7 August 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

Cash flow statement

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Interest received	556 331	443 581	912 501
Interest paid	-352 374	-235 725	-501 098
Operating expenditure	-36 929	-37 374	-74 528
Changes in loans to customers	452 947	-3 051 923	-7 751 384
Income tax paid	-62 604	-68 099	-68 099
Net cash flow from operating activities	557 371	-2 949 540	-7 482 607
Changes in bonds and certificates	-965 447	-808 125	-1 816 845
Changes in other assets	-99 705	-89 148	205 150
Changes in deposits from credit institutions	615 081	513 750	-468 551
Changes in other liabilities	-768	-198	1 299
Net cash flow from current financing activities	-450 839	-383 721	-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	-5 035 935	-2 177 562	-6 407 473
Net cash flow from long-term financing activities	-175 935	3 292 438	9 751 682
Net change in liquid funds	-69 403	-40 823	190 127
Liquid funds as at 01.01.	343 083	152 957	152 957
Liquid funds at the end of the period	273 681	112 134	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 - 30.06.2017	0	0	65 331	65 331
Balance 30.06.2017	525 000	500 000	1 231 244	2 256 244
Profit 30.06.2017 - 31.12.2017	0	0	120 485	120 485
Balance 31.12.2017	525 000	500 000	1 351 729	2 376 729
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	1 348 558	2 373 558
Share capital increase	600 000	0	0	600 000
profit 01.01.2018 - 30.06.2018	0	0	100 562	100 562
Other income/expenses	0	0	-9 235	-9 235
Balance 30.06.2018	1 125 000	500 000	1 439 885	3 064 885
Profit 30.06.2018 - 31.12.2018	0	0	111 148	111 148
Other income/expenses	0	0	-5 398	-5 398
Balance 31.12.2018	1 125 000	500 000	1 545 635	3 170 635
Profit 01.01.2019 - 30.06.2019	0	0	124 803	124 803
Other income/expenses	0	0	284	284
Balance 30.06.2019	1 125 000	500 000	1 670 722	3 295 722

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	30.06.2019	30.06.2018	31.12.2018
Interest on loans to and receivables from credit institutions	269	707	872
Interest on loans to customers	534 221	432 406	893 303
Interest on certificates/bonds/interest-bearing securities	25 416	11 248	26 056
Total interest income	559 905	444 360	920 231
Interest on debt to credit institutions	32 325	30 277	65 552
Interest on issued securities	328 871	223 070	475 984
Other interest expenses	22	0	0
Total interest expenses	361 218	253 347	541 535
Net interest income	198 688	191 014	378 696

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Profit (loss) and change in value from covered bonds	2 359	-755	-5 820
Net income from covered bonds	2 359	-755	-5 820
Change in value fixed rate bonds - hedge accounting	135 508	425 809	-330 753
Change in value derivatives fixed rate bonds - designed as hedging instruments	-120 823	-435 483	314 715
Net income hedging	14 685	-9 674	-16 038
Whereof effects from basis swaps (1)	-9 666	-2 710	-1 537
Profit (loss) buyback own bonds - amortized cost	-7 935	-9 562	-1 111
Net other financial instruments and derivatives	-7 935	-9 562	-1 111
Net income from financial instruments	9 110	-19 991	-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

	30.06.2019	30.06.2018	31.12.2018
Average debt to assets ratio in %	55.2 %	55.5 %	56.8 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40%	17.4 %	18.1 %	16.1 %
41 - 50 %	13.7 %	13.3 %	12.5 %
51 - 60 %	23.0 %	21.5 %	20.5 %
61 - 70 %	35.5 %	33.1 %	34.3 %
71 - 75 %	7.7 %	10.2 %	12.1 %
More than 75 %	2.7 %	3.8 %	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	30.06.2019	30.06.2018	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	1 545 918	1 339 324	1 545 635
Deductions	0	-20 888	-3 048
Net subordinated capital (common equity tier 1)	3 170 918	2 943 436	3 167 587
Minimum requirements for equity capital			
Credit risk	1 266 898	1 093 075	1 248 960
Market risk	0	0	0
Operational risk	55 424	53 614	53 614
CVA additions	0	-	0
Deductions	0	0	0
Total minimum requirement for equity capital	1 322 322	1 146 689	1 302 574
Risk weight balance (calculation basis)	16 529 025	14 333 613	16 282 175
Common equity tier 1 capital ratio	19.2 %	20.5 %	19.5 %
Tier 1 capital ratio	19.2 %	20.5 %	19.5 %
Total capital ratio	19.2 %	20.5 %	19.5 %
Leverage Ratio	7.1 %	7.9 %	7.2 %

7. LOANS TO CUSTOMERS

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Loans assessed at amortised cost			
Flexi-loans (loans without installments)	7 954 291	7 931 532	8 214 867
Loans with installments	30 329 413	26 095 132	30 521 668
Gross loans	38 283 703	34 026 665	38 736 534
Impairment losses on lending	-7 063	-9 905	-7 679
Net loans	38 276 640	34 016 760	38 728 856
Undrawn credit on Flexi-loans	3 303 389	2 958 071	3 195 853

Loans distributed to sectors and industries	30.06.2019	31.03.2018	31.12.2018
Retail customers	38 241 837	33 995 323	38 698 242
Corporate customers*)	0	0	0
Accrued interests	41 867	31 341	38 292
Gross loans	38 283 703	34 026 665	38 736 534
Impairment losses on lending	-7 063	-9 905	-7 679
Net loans	38 276 640	34 016 760	38 728 856

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

Loans distributed by geographical areas	30.06.2019		30.06.2018		31.12.2018	
Vest-Agder	15 625 719	40.8 %	14 356 951	42.2 %	15 976 361	41.3 %
Aust-Agder	10 253 371	26.8 %	9 056 894	26.6 %	10 230 536	26.4 %
Telemark	3 766 763	9.8 %	3 348 944	9.8 %	3 788 416	9.8 %
Rogaland	1 188 742	3.1 %	806 787	2.4 %	1 106 520	2.9 %
Oslo	3 742 134	9.8 %	3 249 814	9.6 %	3 890 000	10.0 %
Akershus	1 629 475	4.3 %	1 417 259	4.2 %	1 649 156	4.3 %
Other counties	2 070 436	5.4 %	1 780 111	5.2 %	2 087 867	5.4 %
Total	38 276 640	100.0 %	34 016 760	100.0 %	38 728 856	100.0 %

8. DEFAULTED LOANS

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Gross non-performing loans > 90 days	0	0	0
Other non-performing loans	14 031	24 744	12 265
Total non-performing loans (stage 3)	14 031	24 744	12 265
Stage 3 impairment losses	243	555	1 337
Net non-performing loans	14 274	25 299	10 928
Provision ratio impairment losses	1.7 %	2.2 %	10.9 %
Gross non-performing loans 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.

9. LOSSES ON LOANS

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Changes in impairment losses for the period, stage 1	322	341	286
+ Changes in impairment losses for the period, stage 2	8	-896	-3 696
+ Changes in impairment losses for the period, stage 3	71	316	982
= Total losses for the period	401	-236	-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
Loss provisions at 01.01.2019	1 878	4 702	1 212	7 792
Transfers				
Transferred to stage 1	1 674	-1 674	0	0
Transferred to stage 2	-96	116	-20	0
Transferred to stage 3	0	-5	5	0
Losses on new loans	647	682	53	1 381
Losses on deducted loans*	-299	-1 083	-28	-1 409
Losses on older loans and other changes	-1 605	1 972	-938	-571
Loss provisions at 30.06.2019	2 199	4 710	283	7 192

* 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.

NOK Thousand				
Stage	Commitment		Calculated	
	amount	In %	loss	In %
1	39 545 210	95,7 %	2 199	30,7 %
2	1 756 102	4,3 %	4 710	65,9 %
3	12 189	0,0 %	243	3,4 %
Total	41 313 502	100,0 %	7 152	100,0 %

10. DEBT SECURITIES ISSUED AT 30.06.2019

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010714058	SORB24	NOK	5 000 000	Floating 3M Nibor	24.06.2020	4 990 036	5 018 414
XSI383921803		EUR	500 000	Fixed 0.250 %	22.03.2021	4 871 467	4 903 956
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 011 034	5 065 001
XSI622285283		EUR	500 000	Fixed 0.125 %	30.05.2022	4 901 731	4 904 071
NO0010671597	SORB09	NOK	350 000	Fixed 3.85 %	13.02.2023	374 780	378 614
XSI775786145		EUR	500 000	Fixed 0.375 %	20.02.2023	4 978 987	4 960 256
NO0010832637	SORB28	NOK	5 000 000	Floating 3M Nibor	24.09.2025	4 992 328	5 023 985
XSI947550403		EUR	500 000	Fixed 0.50 %	06.02.2026	4 984 583	5 012 577
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	574 103	577 815
TOTAL						35 679 048	35 844 688

11. COVER POOL COMPOSITION AND OC

NOK Thousand	Fair value		
	30.06.2019	30.06.2018	31.12.2018
Loans secured by mortgages on residential properties	38 276 640	34 016 760	38 728 856
Deductions of ineligible loans	-51 334	-71 353	-82 734
Pool of eligible loans	38 225 306	33 945 407	38 646 122
Certificates and bonds	2 968 092	1 358 337	2 166 143
Financial derivatives	347 513	-65 620	422 884
Total cover pool	41 540 911	35 238 124	41 235 149
Debt incurred due to issuance of securities	35 844 688	28 883 628	35 998 704
Collateralisation ratio (OC)	15.9 %	22.0 %	14.5 %

NOK Thousand	Nominal value		
	30.06.2019	30.06.2018	31.12.2018
OC based on nominal value - eligibles only	16.9 %	23.4 %	14.1 %
OC based on nominal value - total loans	17.1 %	23.7 %	14.3 %

12. RELATED PARTIES

NOK Thousand	30.06.2019	30.06.2018	31.12.2018
Income statement			
Interest income from Sparebanken Sør on deposits	269	707	872
Interest expenses and commission from Sparebanken Sør on loans/credit	34 825	32 777	70 552
Interest expenses on bond debts to Sparebanken Sør	28 907	0	6 536
Paid administration fees to Sparebanken Sør	36 451	32 223	65 655
Balance sheet			
Bank deposit in Sparebanken Sør	273 680	112 134	343 083
Cover bonds owned by Sparebanken Sør	2 500 000	0	5 711 000
Loans/credit in Sparebanken Sør	3 506 439	3 873 659	2 891 358

QUARTERLY PROFIT TREND

NOK Thousand	Q2	Q1	Q4	Q3	Q2
	2019	2019	2018	2018	2018
Net interest income	96 634	102 053	98 970	88 712	91 473
Net other operating income	15 166	-6 065	-7 397	1 999	-19 588
Operating expenses	18 733	19 840	19 360	16 923	17 529
Profit before losses on loans	90 663	76 149	72 213	73 788	54 356
Losses on loans and undrawn credit	244	645	-461	-1 731	-1 397
Profit before taxes	90 908	75 503	72 674	75 518	55 753
Tax expenses	22 727	18 881	18 165	18 879	13 728
Profit for the period	68 181	56 622	54 508	56 639	42 025
Liquidity coverage ratio (LCR)	1363 %	294 %	162 %	802 %	473 %
Total capital ratio	19.2 %	19.3 %	19.5 %	19.7 %	20.5 %
Leverage Ratio	71 %	71 %	7.2 %	7.6 %	7.9 %

