



Q3
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 Q3 2019 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 39 013 million, transferred from Sparebanken Sør, of which NOK 38 901 million is included in the qualified cover pool. Corresponding figures at the end of Q3 2018 were NOK 35 591 million and NOK 35 528 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 36 317 million, compared to NOK 30 456 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 Q3 2019 the financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 184.5 million, compared to NOK 157.2 million in the same period in 2018.

The company had net interest income of NOK 297.2 million, compared to NOK 279.7 million in 2018. The increase in net interest income is mainly due to the increase in the mortgage portfolio, combined with an increase in interest rates on mortgages 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 14.1 million in Q3 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 58.0 million and tax expenses were NOK 61.5 million at the end of Q3 2019. Corresponding figures at the end of Q3 2018 were NOK 51.7 million and NOK 52.4 million respectively.

Total assets at 30.09.2019 were NOK 43 143 million, of which net loans to customers represented NOK 39 005 million. At the same time in 2018 total assets were NOK 37 404 million, of which net loans to customers were NOK 35 583 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 36 317 million, and through equity and drawing rights from Sparebanken Sør. At the end of Q3 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 30.09.2019, was drawn down by NOK 3 391 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 Q3 2019, the net subordinated capital in the company was NOK 3 163 million, compared to NOK 2 962 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 (19.7 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 7.0 percent at the end of Q3 2019.

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 30.09.2019 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, 5 November 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	30.09.2019	30.09.2018	31.12.2018
Interest income	2. 12	870 865	669 389	920 231
Interest expenses	2. 12	573 622	389 663	541 535
Net interest income	2	297 243	279 726	378 696
Commission income		133	129	170
Commission expenses		3 751	3 750	5 000
Net commission income		-3 618	-3 621	-4 830
Net income from financial instruments	3	11 965	-16 781	-22 969
Personnel expenses		0	0	54
Depreciation on intangible assets		0	0	0
Other operating expenses		58 037	51 690	70 997
Total expenses		58 037	51 690	71 050
Profit before losses on loans		247 552	207 634	279 847
Losses on loans and undrawn credit		1 545	-1 967	-2 427
Profit before taxes		246 007	209 601	282 275
Tax expenses	9	61 508	52 400	70 565
Profit for the period		184 499	157 201	211 709
Other comprehensive income				
Profit for the period		184 499	157 201	211 709
Net change in value from basis swaps		-6 283	-13 553	-19 511
Tax effect		1 571	3 388	4 878
Total profit for the period		179 787	147 036	197 076

Balance sheet

NOK Thousand				
ASSETS	Notes	30.09.2019	30.09.2018	31.12.2018
Loans to and receivables from credit institutions	12	714 228	61 283	343 083
Net loans to customers	4.7	39 004 692	35 583 259	38 728 856
Bonds and certificates		2 824 728	1 614 549	2 625 663
Financial derivatives		543 593	96 924	421 929
Deffered tax assets		25 372	23 413	28 064
Other tax assets		29 912	25 006	23 217
TOTAL ASSETS		43 142 526	37 404 434	42 170 810
LIABILITIES AND EQUITY				
Debt to credit institutions	5.12	3 390 948	3 604 532	2 893 918
Debt incurred due to issuance of securities	10	36 316 903	30 456 162	36 014 179
Financial derivatives	3	0	158 871	0
Payable taxes		72 415	56 514	83 336
Other liabilities		11 838	7 760	8 743
TOTAL LIABILITES		39 792 105	34 283 839	39 000 176
EQUITY				
Paid-in equity		1 625 000	1 625 000	1 625 000
Retained earnings		1 725 421	1 495 595	1 545 635
TOTAL EQUITY CAPITAL		3 350 421	3 120 595	3 170 635
TOTAL LIABILITIES AND EQUITY CAPITAL		43 142 526	37 404 434	42 170 810

Kristiansand, 5 November 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

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NOK Thousand	30.09.2019	30.09.2018	31.12.2018
Interest received	866 166	667 156	912 501
Interest paid	-554 343	-372 425	-501 098
Operating expenditure	-61 909	-54 994	-74 528
Changes in loans to customers	-275 132	-4 615 234	-7 751 384
Income tax paid	-62 604	-68 099	-68 099
Net cash flow from operating activities	-87 823	-4 443 597	-7 482 607
Changes in bonds and certificates	-199 066	-805 732	-1 816 845
Changes in other assets	336 200	-85 934	205 150
Changes in deposits from credit institutions	498 023	241 557	-468 551
Changes in other liabilities	-254	316	1 299
Net cash flow from current financing activities	634 902	-649 792	-2 078 948
Paid-in share capital	0	600 000	600 000
Payments received, bond debt	4 860 000	9 863 250	15 559 155
Payments made, bond debt	-5 035 935	-5 461 534	-6 407 473
Net cash flow from long-term financing activities	-175 935	5 001 716	9 751 682
Net change in liquid funds	371 145	-91 673	190 127
Liquid funds as at 01.01.	343 083	152 957	152 957
Liquid funds at the end of the period	714 228	61 283	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 - 30.09.2017	0	0	118 972	118 972
Balance 30.09.2017	525 000	500 000	1 284 885	2 309 885
Profit 30.09.2017 - 31.12.2017	0	0	66 844	66 844
Balance 31.12.2017	525 000	500 000	1 351 729	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	1 348 558	2 373 558
Share capital increase	600 000	0	0	600 000
Profit 01.01.2018 - 30.09.2018	0	0	157 201	157 201
Other income/expenses	0	0	-10 165	-10 165
Balance 30.09.2018	1 125 000	500 000	1 495 595	3 120 595
Profit 30.09.2018 - 31.12.2018	0	0	54 508	54 508
Other income/expenses	0	0	-4 468	-4 468
Balance 31.12.2018	1 125 000	500 000	1 545 635	3 170 635
Profit 01.01.2019 - 30.09.2019	0	0	184 499	184 499
Other income/expenses	0	0	-4 712	-4 712
Balance 30.09.2019	1 125 000	500 000	1 725 422	3 350 421

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	30.09.2019	30.09.2018	31.12.2018
Interest on loans to and receivables from credit institutions	357	763	872
Interest on loans to customers	827 634	650 849	893 303
Interest on certificates/bonds/interest-bearing securities	42 873	17 778	26 056
Total interest income	870 865	669 389	920 231
Interest on debt to credit institutions	51 708	47 703	65 552
Interest on issued securities	518 542	341 961	475 984
Other interest expenses	3 373	0	0
Total interest expenses	573 622	389 663	541 535
Net interest income	297 243	279 726	378 696

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.09.2019	30.09.2018	31.12.2018
Profit (loss) and changes in value from covered bonds	-1 516	-3 106	-5 820
Net income from covered bonds	-1 516	-3 106	-5 820
Change in value fixed rate bonds - hedge accounting	-473 283	445 303	-330 753
Change in value derivatives fixed rate bonds - designated as hedging instruments	494 698	-447 069	314 715
Net income hedging	21 415	-1 766	-16 038
Whereof effects from basis swaps (1)	14 098	-1 102	-1 537
Profit (loss) buyback own bonds - amortized cost	-7 935	-11 909	-1 111
Net other financial instruments and derivatives	-7 935	-11 909	-1 111
Net income from financial instruments	11 965	-16 781	-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

	30.09.2019	30.09.2018	31.12.2018
Average debt to assets ratio in %	56.1 %	55.5 %	56.8 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40 %	16.6 %	17.9 %	16.1 %
41 - 50 %	13.0 %	13.1 %	12.5 %
51 - 60 %	21.8 %	21.5 %	20.5 %
61 - 70 %	35.2 %	34.6 %	34.3 %
71 - 75 %	9.1 %	9.6 %	12.1 %
More than 75 %	4.1 %	3.3 %	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	30.09.2019	30.09.2018	31.12.2018
Equity capital			
Share capital	1 125 000	1 125 000	1 125 000
Share premium reserve	500 000	500 000	500 000
Other equity capital	1 540 922	1 338 394	1 545 635
Deductions	-3 368	-1 870	-3 048
Net subordinated capital (common equity tier 1)	3 162 554	2 961 524	3 167 587
Minimum requirements for equity capital			
Credit risk	1 257 249	1 150 679	1 248 960
Market risk	0	0	0
Operational risk	55 424	53 614	53 614
CVA additions	0	0	0
Deductions	0	0	0
Total minimum requirements for equity capital	1 312 673	1 204 293	1 302 574
Risk weight balance (calculation basis)	16 408 413	15 053 663	16 282 175
Common equity tier 1 capital ratio	19.3 %	19.7 %	19.5 %
Tier 1 capital ratio	19.3 %	19.7 %	19.5 %
Total capital ratio	19.3 %	19.7 %	19.5 %
Leverage ratio	7.0 %	7.6 %	7.2 %

7. LOANS TO CUSTOMERS

NOK Thousand	30.09.2019	30.09.2018	31.12.2018
Loans assessed to amortised cost			
Flexi-loans (loans without installments)	7 753 777	8 090 330	8 214 867
Loans with installments	31 259 130	27 501 100	30 521 668
Gross loans	39 012 908	35 591 430	38 736 534
Impairment losses on lending	-8 216	-8 171	-7 679
Net loans	39 004 692	35 583 259	38 728 856
Undrawn credit on Flexi-loans	3 306 444	3 112 052	3 195 853

Loans distributed to sectors and industries	30.09.2019	30.09.2018	31.12.2018
Retail customers	38 969 916	35 558 635	38 698 242
Corporate customers *)	0	0	0
Accrued interests	42 991	32 795	38 292
Gross loans	39 012 908	35 591 430	38 736 534
Impairment losses on lending	-8 216	-8 171	-7 679
Net loans	39 004 692	35 583 259	38 728 856

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

Loans distributed by geographical areas	30.09.2019		30.09.2018		31.12.2018	
Vest-Agder	16 039 136	41.1 %	14 909 611	41.9 %	15 976 361	41.3 %
Aust-Agder	10 396 220	26.7 %	9 602 775	27.0 %	10 230 536	26.4 %
Telemark	3 886 300	10.0 %	3 559 557	10.0 %	3 788 416	9.8 %
Rogaland	1 261 151	3.2 %	972 035	2.7 %	1 106 520	2.9 %
Oslo	3 667 905	9.4 %	3 174 973	8.9 %	3 890 000	10.0 %
Akershus	1 675 779	4.3 %	1 498 484	4.2 %	1 649 156	4.3 %
Other counties	2 078 200	5.3 %	1 865 825	5.2 %	2 087 867	5.4 %
Total	39 004 692	100.0 %	35 583 259	100.0 %	38 728 856	100.0 %

8. DEFAULTED LOANS

NOK Thousand	30.09.2019	30.09.2018	31.12.2018
Gross non-performing loans > 90 days	10 767	986	0
Other non-performing loans	22 523	17 564	12 265
Total non-performing loans (stage 3)	33 290	18 550	12 265
Stage 3 impairment losses	418	247	1 337
Net non performing loans	33 708	18 797	10 928
Provision ratio impairment losses	1.3 %	1.3 %	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	30.09.2019	30.09.2018	31.12.2018
Changes in impairment losses for the period, stage 1	587	134	286
+ Changes in impairment losses for the period, stage 2	713	-2 112	-3 696
+ Changes in impairment losses for the period, stage 3	246	11	982
= Total losses for the period	1 545	-1 967	-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 as at 01.01.2019	1 878	4 701	1 212	7 791
Transfers				
Transferred to stage 1	1 518	-1 492	-26	0
Transferred to stage 2	-84	91	-7	0
Transferred to stage 3	-2	-6	8	0
				0
Losses on new loans	965	1 208	51	2 224
Losses on deducted loans*	-401	-1 277	-28	-1 706
Losses on older loans and other changes	-1 409	2 188	-792	-13
Loss provisions as at 30.09.2019	2 465	5 414	418	8 297
Loss provision on loans	2 414	5 401	401	8 216
Loss provision on undrawn credit	51	13	17	81
Total loss provisions as at 30.09.2019	2 465	5 414	418	8 297

* Losses on deducted loans are related to losses on fully repaid loans and loans transferred between the company and the parent bank.

NOK Thousand				
Stage	Commitment amount	In %	Calculated loss	In %
1	40 149 006	95.6 %	2 464	29.7 %
2	1 843 174	4.4 %	5 415	65.3 %
3	22 523	0.1 %	418	5.0 %
Total	42 014 703	100.0 %	8 297	100.0 %

10. DEBT SECURITIES ISSUED AT 30.09.2019

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	4 993 256	5 014 368
XS1383921803		EUR	500 000	Fixed 0.250 %	22.03.2021	5 001 876	5 028 781
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 011 653	5 059 657
XS1622285283		EUR	500 000	Fixed 0.125 %	30.05.2022	5 039 044	5 038 293
NO0010671597	SORB09	NOK	350 000	Fixed 3.85 %	13.02.2023	376 266	380 074
XS1775786145		EUR	500 000	Fixed 0.375 %	20.02.2023	5 125 772	5 107 833
NO0010832637	SORB28	NOK	5 000 000	Floating 3M Nibor	24.09.2025	4 992 929	5 033 639
XS1947550403		EUR	500 000	Fixed 0.50 %	06.02.2026	5 194 389	5 227 521
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	581 718	586 433
TOTAL						36 316 903	36 476 599

11. COVER POOL COMPOSITION AND OC

	Fair value		
	30.09.2019	30.09.2018	31.12.2018
NOK Thousand			
Loans secured by mortgages on residential properties	39 004 692	35 583 259	38 728 856
Deductions of ineligible loans	-103 643	-55 572	-82 734
Pool of eligible loans	38 901 049	35 527 687	38 646 122
Certificates and bonds	2 209 484	1 156 014	2 166 143
Financial derivatives	543 593	-61 947	422 884
Total cover pool	41 654 126	36 621 754	41 235 149
Debt incurred due to issuance of securities	36 476 599	30 511 163	35 998 704
Collateralisation ratio (OC)	14.2 %	20.0 %	14.5 %
	Nominal value		
	30.09.2019	30.09.2018	31.12.2018
OC based on nominal value - eligibles only	15.0 %	20.9 %	14.1 %
OC based on nominal value - total loans	15.4 %	21.1 %	14.3 %

12. RELATED PARTIES

NOK Thousand	30.09.2019	30.09.2018	31.12.2018
Income statement			
Interest income from Sparebanken Sør on deposits	357	763	872
Interest expenses and commission from Sparebanken Sør on loans/credit	55 458	51 453	70 552
Interest expenses on bond debts to Sparebanken Sør	37 638	0	6 536
Paid administration fees to Sparebanken Sør	54 530	48 382	65 655
Balance sheet			
Bank deposit in Sparebanken Sør	714 228	61 283	343 083
Covered bonds owned by Sparebanken Sør	1 000 000	0	5 711 000
Loans/credit in Sparebanken Sør	3 389 381	3 601 466	2 891 358

QUARTERLY PROFIT TREND

NOK Thousand	Q3	Q2	Q1	Q4	Q3
	2019	2019	2019	2018	2018
Net interest income	98 555	96 634	102 053	98 970	88 712
Net other operating income	4 060	15 166	-6 065	-7 397	1 999
Operating expenses	19 464	18 733	19 840	19 360	16 923
Profit before losses on loans	80 740	90 663	76 149	72 213	73 788
Losses on loans and undrawn credit	1 145	-244	645	-461	-1 731
Profit before taxes	79 596	90 908	75 503	72 674	75 518
Tax expenses	19 900	22 727	18 881	18 165	18 879
Profit for the period	59 696	68 181	56 622	54 508	56 639
Liquidity coverage ratio (LCR)	1575 %	1363 %	294 %	162 %	802 %
Total capital ratio	19.3 %	19.2 %	19.3 %	19.5 %	19.7 %
Leverage Ratio	7.0 %	7.1 %	7.1 %	7.2 %	7.6 %

