



**2<sup>ND</sup> QUARTER 2011**  
(unaudited)

**SØR BOLIGKREDITT AS**

## General information

Sør Boligkreditt AS was established in the autumn of 2008 and is a wholly owned subsidiary of Sparebanken Sør. The company is located in the same premises as the Bank's head office in Arendal. The company has a licence to operate as finance enterprises and may issue covered bonds from the company's cover pool. The cover pool consists primarily of secured mortgages that have been granted by Sparebanken Sør and which meet the requirements the company sets for loans included in the cover pool. One of the main requirements is that outstanding loan capital on each loan must not exceed 75 per cent of the market value of the mortgaged property.

## Profit and loss account

The company profit trend has been stable and as expected. At the end of the 2nd quarter, pre-tax profit was MNOK 13.0 compared with MNOK 14.7 in the same period last year. Return on net capital is 8.1 per cent.

Interest and related income was MNOK 113.3 and interest costs were MNOK 90.2, which gives a net interest income at the end of the quarter of MNOK 23.1.

Operating costs were MNOK 10.1. An agreement has been entered into with the parent bank, Sparebanken Sør, which covers areas such as loan management, group services and treasury functions. The costs associated with this agreement were MNOK 9.1.

There have been no losses in the company in 2011.

## Balance sheet/ funding / capital adequacy

At the end of the quarter, total assets were MNOK 6,387, of which net loans to customers were MNOK 6,178. As at 30 June 2011, no loans had been defaulted.

The loan portfolio has been funded through the issue of covered bonds with a total nominal value of MNOK 5,000 and also short-term funding from Sparebanken Sør of MNOK 1,106.

At the end of the quarter, capital adequacy ratio was 9.3 per cent, all of which was core capital.

## Rating

In the 2nd quarter, Moodys gave Sør Boligkreditt AS an Aaa rating for covered bonds.

## Risk and capital management

Risk management ensures that the company's risk exposure is known at all times, and is instrumental in ensuring that the company achieves its strategic goals and also that regulations and regulatory requirements are followed. Benchmarks are set for the company's total risk level and specifically within the individual risk areas. Systems have been established to measure, manage and control risk.

Capital management ensures that the company has a good core capital adequacy, financial stability and satisfactory return in relation to the risk profile.

The company's capital adequacy and risk exposure is followed-up through periodic reporting.

## Credit risk

Credit risk is defined as the risk of losses as a result of customers or counterparties being unable to meet their commitments.

Credit is managed through the company's strategy and policy documents, credit processes, scoring models and credit issuance authorizations.

## Market risk

Market risk is the risk of losses due to unfavourable changes in the market prices of interest, exchange rates and in the stock market. The market risk management strategy ensures that the activity is operated in accordance with the company's overall strategy and that the risk is reflected in the return.

## Funding risk

Funding risk is the risk that commitments cannot be met without an increase in funding costs or, ultimately, in an inability to meet commitments by the due date. The company's strategy for management of liquidity risk ensures prudent liquidity management, which contributes to ensuring the company's survival in the event of critical situations.

## Operational risk

Operational risk is defined as the risk of losses due to inadequate or failing internal processes, routines or systems, human errors, criminal actions or external events.

Operational risk is managed through competence development, good systems and procedures, good internal control and quality assurance.

The company has entered into a framework agreement with Sparebanken Sør, which includes areas such as loan management and group support and treasury functions. The bank, in accordance with the agreement, bears the risk associated with any errors within deliveries and services provided.

## Future outlook

The company can demonstrate stable earnings and low levels of risk and we expect this situation to continue.

In 2011, the company plans to take over more loans from Sparebanken Sør.

### Arendal, 9 August 2011

The board of directors of Sør Boligkreditt AS

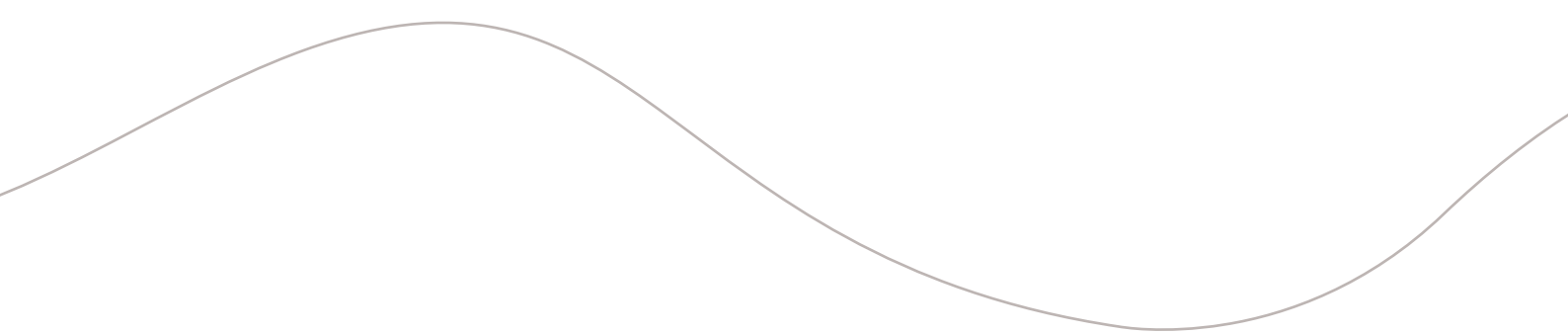
Geir Bergskaug  
Chairman

Frode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director



## 4 PROFIT AND LOSS ACCOUNT

Amounts in NOK 1 000	Notes	30.06.11	30.06.10	2010
Interest and related income	2,11	113 256	104 521	216 571
Interest and related costs	2,11	90 170	79 166	168 975
<b>Net interest and credit commission income</b>	<b>2</b>	<b>23 086</b>	<b>25 355</b>	<b>47 596</b>
<b>Net commission income</b>		<b>48</b>	<b>43</b>	<b>86</b>
<b>Income from financial instruments</b>	<b>3</b>	<b>0</b>	<b>-2 687</b>	<b>-4 351</b>
Personnel expenses		264	11	205
Administration costs	11	9 483	7 712	17 206
Amortization of intangible assets		338	338	676
<b>Total operating costs</b>		<b>10 085</b>	<b>8 061</b>	<b>18 087</b>
<b>Operating profit before losses</b>		<b>13 049</b>	<b>14 650</b>	<b>25 244</b>
Losses on loans		0	0	0
<b>Pre-tax profit</b>		<b>13 049</b>	<b>14 650</b>	<b>25 244</b>
Tax on ordinary profit		3 653	4 103	7 103
<b>Profit on ordinary operations after tax/net profit</b>		<b>9 396</b>	<b>10 547</b>	<b>18 141</b>
<b>Expanded income statement</b>				
<b>Profit for the period</b>		<b>9 396</b>	<b>10 547</b>	<b>18 141</b>
Other income and costs		0	0	0
<b>Total net profit for the period</b>		<b>9 396</b>	<b>10 547</b>	<b>18 141</b>

Amounts in NOK 1 000

ASSETS	Notes	30.06.11	30.06.10	2010
Loans to and claims on financial institutions	11	200 643	0	0
<b>Gross loans</b>		<b>6 181 838</b>	<b>5 898 592</b>	<b>5 859 554</b>
Write-downs on groups of loans		-4 000	-4 000	-4 000
<b>Net loans to customers</b>	<b>4, 7,8,10</b>	<b>6 177 838</b>	<b>5 894 592</b>	<b>5 855 554</b>
Intangible assets		510	1 186	848
Assets relating to deferred tax		0	278	615
Accrued interest		7 841	7 630	7 974
<b>TOTAL ASSETS</b>		<b>6 386 832</b>	<b>5 903 686</b>	<b>5 864 991</b>
<b>EQUITY AND LIABILITIES</b>				
Liabilities to financial institutions	5,11	1 106 124	1 625 015	1 573 765
Securitized debt	9,11	4 998 515	3 999 657	3 999 667
Financial derivatives		0	6 404	5 227
Period tax liabilities		6 048	10 038	8 192
Deferred tax		0	0	0
Other liabilities		34 052	37 469	45 443
<b>Total liabilities</b>		<b>6 144 739</b>	<b>5 678 583</b>	<b>5 632 294</b>
Share capital		200 000	200 000	200 000
Other reserves		32 697	14 556	32 697
Unallocated profit		9 396	10 547	0
<b>Total equity</b>	<b>6</b>	<b>242 093</b>	<b>225 103</b>	<b>232 697</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>6 386 832</b>	<b>5 903 686</b>	<b>5 864 991</b>

## Arendal 9 August 2011

Geir Bergskaug  
Chairman

Frode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director

## 6 CASH FLOW STATEMENT

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Interest received	113 389	104 118	215 824
Interest paid	-89 497	-71 841	-154 079
Operations-related payments	-15 073	-7 680	-21 531
<b>Net cash flow from operations</b>	<b>8 819</b>	<b>24 597</b>	<b>40 214</b>
Change in loans	-322 284	-550 417	-514 564
Change in other assets	615	0	-615
Change in loans from financial institutions	-467 641	353 795	302 545
Change in other liabilities	-17 714	-1 528	-1 105
<b>Net cash flow from current financial activities</b>	<b>-807 024</b>	<b>-198 150</b>	<b>-213 739</b>
Change in securitized debt	998 848	28	0
<b>Net cash flow from long-term financing activities</b>	<b>998 848</b>	<b>28</b>	<b>0</b>
<b>Net change in cash and cash equivalents</b>	<b>200 643</b>	<b>-173 525</b>	<b>-173 525</b>
Cash and cash equivalents as at 1 January		173 525	173 525
<b>Cash and cash equivalents at the end of the period</b>	<b>200 643</b>	<b>0</b>	<b>0</b>

The company has unused drawing rights of MNOK 1,394 in the parent bank as at 30 June 2011, cf. note 5.

## EQUITY MOVEMENTS

Amounts in NOK 1 000	Share capital	Other reserves	Unallocated profit	Total
Equity as at 1 January 2010	200 000	14 556		214 556
Profit as at 30 June 2010			10 547	10 547
<b>Equity as at 30 June 2010</b>	<b>200 000</b>	<b>14 556</b>	<b>10 547</b>	<b>225 103</b>
Equity as at 1 January 2011	200 000	32 697		232 697
Profit as at 30 June 2011			9 396	9 396
<b>Equity as at 30 June 2011</b>	<b>200 000</b>	<b>32 697</b>	<b>9 396</b>	<b>242 093</b>

For statement of changes in equity as at 31 December 2010, refer to the 2010 annual accounts.

**Note 1 Accounting principles**

The accounts have been prepared in accordance with International Standards for Financial Reporting, IFRS. The accounting principles are the same as those used in the 2010 annual accounts and are described therein.

**Note 2 Net interest income**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Interest on loans and claims on financial institutions	897	1 411	1 411
Interest on loans and claims on customers	112 359	103 110	215 160
<b>Total interest income</b>	<b>113 256</b>	<b>104 521</b>	<b>216 571</b>
Interest on liabilities to financial institutions	25 799	22 941	46 223
Interest on issued securities	64 371	56 225	122 628
Other interest costs	0	0	124
<b>Total interest costs</b>	<b>90 170</b>	<b>79 166</b>	<b>168 975</b>
<b>Net interest income</b>	<b>23 086</b>	<b>25 355</b>	<b>47 596</b>

**Note 3 Income from financial instruments**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Valuation of fixed rate loans	0	3 185	808
Valuation of financial derivatives	0	-5 872	-5 159
<b>Total income from financial instruments</b>	<b>0</b>	<b>-2 687</b>	<b>-4 351</b>

**Note 4 Debt/asset ratio**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Average debt/asset ratio as a %	49.8 %	57.6 %	52.9 %
<b>The portfolio by intervals of debt/asset ratio</b>			
less than or equal to 40%	28.9 %	25.8 %	23.6 %
41 - 50 %	19.5 %	16.6 %	15.0 %
51 - 60 %	20.3 %	20.0 %	20.2 %
61 - 70 %	19.8 %	23.9 %	27.0 %
71 - 75 %	11.5 %	13.7 %	14.1 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>

**Note 5 Liabilities to financial institutions**

The company has entered into an agreement with Sparebanken Sør regarding a credit facility of NOK 2.5 billion which primarily is used for settlement of purchased loans and repayment of covered bonds. The agreement has been entered into in accordance with the arm's length principle.

**Note 6 Capital adequacy**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
<b>Equity and related capital</b>			
Share capital	200 000	200 000	200 000
Other reserves	32 697	14 557	32 697
Deductions	510	1 464	1 463
<b>Net equity and related capital (core capital)</b>	<b>232 187</b>	<b>213 093</b>	<b>231 234</b>
<b>Minimum capital adequacy requirement</b>			
Credit risk	195 816	178 376	176 523
Market risk	0	0	0
Operational risk	4 941	3 557	3 557
Deductible items	320	320	320
<b>Total minimum capital adequacy requirement</b>	<b>200 437</b>	<b>181 613</b>	<b>179 760</b>
Calculation basis	2 505 463	2 270 163	2 247 000
<b>Capital adequacy</b>	<b>9.3 %</b>	<b>9.4 %</b>	<b>10.3 %</b>

**Note 7 Loans according to sectors, industries and geography**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Retail banking customers	6 004 679	5 747 417	5 721 103
Primary industries	7 526	3 640	7 802
Industry	7 440	6 488	6 783
Building and construction	50 943	51 637	38 873
Transport and communication	18 565	13 445	10 729
Wholesale and retail	22 288	17 445	21 250
Hotel and restaurant	7 376	2 215	2 667
Real estate	841	468	0
Financial/business services	38 604	26 853	24 579
Sundry/other industries	23 576	28 984	25 768
<b>Total gross loans</b>	<b>6 181 838</b>	<b>5 898 592</b>	<b>5 859 554</b>
Collective write-downs	4 000	4 000	4 000
<b>Net loans</b>	<b>6 177 838</b>	<b>5 894 592</b>	<b>5 855 554</b>

**Note 8 Defaulted and doubtful commitments**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
Defaulted commitments	0	4 764	0
Individual write-downs	0	0	0
<b>Net defaulted commitments</b>	<b>0</b>	<b>4 764</b>	<b>0</b>



**Note 9 Bond debt distributed according to maturity**

ISIN number	Amounts in NOK 1 000 Value	Nom. Of which owned	Fair value	Book value	Coupon	Repayment structure	Maturity
NO 0010508443	1 000 000	0	1 002 500	999 937	NIBOR 3M + 0,50	Instalment free	08.04.2015
NO 0010518129	1 000 000	0	1 001 781	999 929	NIBOR 3M + 0,55	Instalment free	04.07.2016
NO 0010530744	1 000 000	0	1 002 008	999 923	NIBOR 3M + 0,60	Instalment free	06.10.2017
NO 0010536162	1 000 000	0	1 000 882	999 926	NIBOR 3M + 0,55	Instalment free	06.10.2016
NO 0010614688	1 000 000	0	1 000 629	998 801	NIBOR 3M + 0,50	Instalment free	29.06.2016
<b>Total</b>	<b>5 000 000</b>	<b>0</b>	<b>5 007 800</b>	<b>4 998 515</b>			

**Note 10 Cover pool**

Amounts in NOK 1 000	30.06.11	2010
Gross loans secured by residential property mortgages*	6 000 442	5 742 792
Receivables which represent substitute assets	200 643	0
<b>Total cover pool</b>	<b>6 201 085</b>	<b>5 742 792</b>
Cover pool's filling ratio	124 %	144 %

\*The composition of the cover pool has been defined in Section 2-28 of the Financial Services Act.

**Note 11 Close parties**

Amounts in NOK 1 000	30.06.11	30.06.10	2010
<b>Profit</b>			
Interest from Sparebanken Sør on deposits	897	1 411	1 411
Interest and credit commission from Sparebanken Sør on loans	25 799	22 941	46 223
Interest costs on bond debt to Sparebanken Sør	64 183	56 225	122 627
Management fee paid to Sparebanken Sør	9 154	7 177	15 010
<b>Balance sheet</b>			
Bank deposits in Sparebanken Sør	200 643	0	0
Covered bonds	4 000 000	4 000 000	4 000 000
Loans in Sparebanken Sør	1 106 124	1 625 016	1 573 765

**QUARTLERY PROFIT TREND**

	2Q 2011	1Q 2011	4Q 2010	3Q 2010	2Q 2010	1Q 2010
Net interest	10 868	12 219	12 528	9 713	13 061	12 294
Other income	27	20	-1 643	22	-611	-2 033
Operating costs	5 165	4 920	6 177	3 850	4 330	3 731
<b>Operating profit bef. Losses</b>	<b>5 730</b>	<b>7 319</b>	<b>4 708</b>	<b>5 885</b>	<b>8 120</b>	<b>6 530</b>
Losses on loans	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>5 730</b>	<b>7 319</b>	<b>4 708</b>	<b>5 885</b>	<b>8 120</b>	<b>6 530</b>
Tax on ordinary profit	1 605	2 049	1 352	1 647	2 275	1 828
<b>Profit after tax</b>	<b>4 125</b>	<b>5 270</b>	<b>3 356</b>	<b>4 238</b>	<b>5 845</b>	<b>4 702</b>

## DECLARATION FROM THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

Today, the Board of Directors and the Managing Director have discussed and adopted the half-yearly report and accounts for Sør Boligkreditt AS as at 30 June 2011 and for the 1st half-year 2011, including corresponding figures as at 30 June 2010 and for the 1st half-year 2010.

The half-yearly accounts have been presented in accordance with the requirements in IAS 34 Interim Reporting as laid down by EU and also supplementary Norwegian requirements in the Securities Trading Act.

To the Board of Directors and the Managing Director's best

capability and conviction, the half-yearly accounts 2011 have been prepared in accordance with the applicable accounting standards and the information in the accounts gives a true view of the company's assets, liabilities, financial situation as profit as a whole as at 30 June 2011 and 30 June 2010. In the view of the Board of Directors and the Managing Director, the half-yearly report gives a true view of important events during the accounting period and their impact on the half-yearly accounts. In the view of the Board of Directors and the Managing Director, the description gives a true view of the key risk and uncertainty factors the business faces in the next accounting period.

**Arendal, 09. august 2011**

Geir Bergskaug  
Chairman

Frode Mathiesen  
Deputy Chairman

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker  
Managing Director



