



FIRST QUARTER 2010

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 a finance enterprise and may issue covered bonds to investors from the company's cover pool. The cover pool mainly consists of secured home loans that have been granted by Sparebanken Sør, and that meet the requirements the company sets for loans that may enter the cover pool. One of the main requirements is that the outstanding balance of the loan on each loan must not exceed 75 per cent of the market value of the mortgaged property.

Profit and loss account

The first quarter result has been as expected and pre-tax profit was MNOK 6.5. At the same time last year, the profit reflected that only a modest lending volume had been transferred to the company. Return on net capital is 8.8 per cent.

Interest and related income was MNOK 49.4 and interest costs were MNOK 37.1, which gives a net interest after the 1st quarter of MNOK 12.3.

Other income amounted to MNOK -2.0 and represents the change in fair value of the fixed rate loans and financial derivatives.

In the first quarter, operating costs amounted to MNOK 3.7. An agreement has been entered into with the Parent Bank, Sparebanken Sør, which includes management, production, IT operations and also financial and risk management. In the first quarter, the costs associated with this agreement amounted to MNOK 3.5.

There have been no losses in the company in the first quarter.

Balance sheet / funding

At the end of the quarter, total assets amounted to BNOK 6.1, of which net loans to customers were BNOK 5.9.

The loan portfolio has been funded through issue of cov-

ered bonds with a total nominal value of BNOK 4.0, and also short-term funding from Sparebanken Sør amounting to BNOK 1.7.

At the end of the quarter, capital adequacy ratio was 9.2 per cent, all of which was core capital.

Risk management

Credit risk

Credit risk is defined as the risk of loss resulting from customers or counterparties being unable to meet their obligations to Sør Boligkreditt AS. The rules for the company define what loans may be included in the company's cover pool, what requirements are set for borrowers and security on loans that may be acquired by the company.

As at 31 March 2010, the company had a home loan portfolio totalling BNOK 5.9, with an average debt to asset limit of 57 per cent. The Board of Directors considers the quality of the loan portfolio to be very good and the credit risk to be low.

Market risk

Market risk is defined as the risk of loss due to unfavourable changes in market prices and interest rates, exchange rates and the stock market. The Board of Directors considers the market risk to be low. Sør Boligkreditt AS shall have a low market risk, and has established limits for maximum interest and exchange rate risk, which have been approved by the Board of Directors. The company will mainly use financial derivatives to keep the afore-mentioned risk at the desire level. At the end of 2009, the company has no positions in foreign currency and low interest rate risk.

Funding risk

Funding risk is defined as the risk that the company is unable to meet its obligations or to fund its assets. Sør Boligkreditt AS issues bonds where the company has the possibility to extend the maturity of its borrowing by up to twelve months, if the company has problems refinancing at the time of ordinary maturity. The company also has a credit facility amounting to BNOK 2.5 in Sparebanken Sør, where the Bank undertakes to provide liquid funds in order that outstanding bonds and any associated derivatives shall receive timely settlement. At year-end BNOK 1.7 had been drawn on the credit facility. The Board of Directors considers the company's funding risk to be low.

Operational risk

Operational risk is defined as the risk of loss due to inadequate or failing internal processes, routines or systems, human error, crime or external events. The company has entered into a framework agreement with Sparebanken Sør, which includes management, production, IT operations, financial and risk management. According to the agreement, the bank bears the risk of any errors within the supplies and services provided. The operational risk is assessed on an ongoing basis, and the company's internal audit reports any non-conformance to the Board of Directors. The Board of Directors considers the operational risk in the company to be low.

In the view of the Board of Directors, the total risk exposure in the company is low.

Future outlook

The company has had stable earnings and the risk is low and we expect this situation to continue in the months ahead. The company has now achieved its planned lending volume.

The activities in the company are expected to contribute toward Sparebanken Sør being able to continue to offer home loans on competitive terms, and the company's operations are expected to be profitable the owner in a market where there is strong competition.

Arendal, 21 April 2010

Board of Directors of Sør Boligkreditt AS

Morten Kraft
Chairman of the Board

Frode Mathiesen

Seunn Smith-Tønnessen

Birte Helgesen

Rolf H. Søraker
Managing Director



4 PROFIT AND LOSS ACCOUNT

Amounts in 1 000 NOK	Notes	31.03.10	31.03.09	2009
Interest and related income	2	49 443	990	97 048
Interest and related costs	2	37 149		65 945
Net interest and credit commission income	2	12 294	990	31 103
Net commission income		20		34
Income from financial instruments	3	-2 053		1 692
Administration costs		3 562	363	7 935
Depreciation on intangible assets		169		676
Total operating costs		3 731	363	8 611
Operating profit before losses		6 530	627	24 218
Losses on loans				4 000
Pre-tax profit		6 530	627	20 218
Tax on ordinary operations		1 828	175	5 658
Result from ordinary operations after tax/total result		4 702	452	14 560

BALANCE SHEET

Amounts in 1 000 NOK	Notes	31.03.10	31.03.09	2009
ASSETS				
Loans to and claims on financial institutions		140 336	98 318	173 525
Net loans to customers	4, 7	5 927 054	8 749	5 340 990
Intangible assets		1 355	2 200	1 524
Deferred tax asset		101	1	
Earned interest		6 614		7 227
TOTAL ASSETS		6 075 460	109 268	5 523 266
LIABILITIES AND EQUITY				
Liabilities to financial institutions	5	1 815 535	8 645	1 271 220
Liabilities established through issue of securities		3 999 643		3 999 629
Financial derivatives		4 998		532
Period tax liabilities		7 586	175	5 183
Deferred tax				474
Other liabilities		28 440		31 672
Total equity		5 856 202	8 820	5 308 710
Share capital		200 000	100 000	200 000
Other reserves		14 556	-4	14 556
Unallocated profit		4 702	452	
Total equity	6	219 258	100 448	214 556
TOTAL LIABILITIES AND EQUITY		6 075 460	109 268	5 523 266

Arendal 21 April 2010

Morten Kraft
Chairman of the Board

Frode Mathiesen
Deputy Chairman of the Board

Birte Helgesen

Seunn Smith-Tønnessen

Rolf H. Søraker
Man. Director

Amounts in 1 000 NOK	31.03.10	31.03.09	2009
Interest received	50 056	990	89 821
Interest paid	-40 381		-38 343
Operations-related payments	-3 542	-363	-3 839
Net cash flow from operations	6 133	627	47 639
Change in loans	-586 064	98	-5 333 919
Change in other assets			
Change in loans from financial institutions	544 315	-175	1 262 400
Change in other liabilities	2 427	-1 169	-1 161
Net cash flow from current financial activities	-39 322	-1 246	-4 072 680
Investments in fixed assets			
Net cash flow from investments			
Called-up, fully paid share capital			100 000
Change in liabilities established through issue of securities			3 999 629
Net cash flow from long-term financing activities			4 099 629
Net change in liquid funds	-33 189	-619	74 588
Liquid funds as at 01/01	173 525	98 937	98 937
Liquid funds at the end of the period	140 336	98 318	173 525

EQUITY MOVEMENTS

Amounts in 1 000 NOK	Share capital	Other reserves	Unallocated profit	Total
Equity as at 01.01.2009	100 000	-4		99 996
Profit for the 1st quarter 2009		452		452
Equity as at 31.12.2009	100 000	448		100 448
Equity as at 01.01.2010	200 000	14 556		214 556
Profit for the 1st quarter 2010			4 702	4 702
Equity as at 31.03.2010	200 000	14 556	4 702	219 258

Note 1 Accounting principles

The accounts have been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles are the same as those used in the 2009 annual accounts and are described therein.

Note 2 Net interest income

Amounts in 1 000 NOK	31.03.10	31.03.09	2009
Interest from loans and claims on financial institutions	1 111	913	4 633
Interest from loans and claims on customers	48 332	77	92 415
Total interest income	49 443	990	97 048
Interest on liabilities to financial institutions	9 829		12 497
Interest on issued securities	27 320		53 448
Total interest costs	37 149		65 945
Net interest income	12 294	990	31 103

Note 3 Income from financial instruments

Amounts in 1 000 NOK	31.03.10	2009
Change in value - fixed rate loans	2 413	2 225
Change in value - financial derivatives	-4 466	-533
Total income from financial instruments	-2 053	1 692

Note 4 Debt/asset ratio and default

	31.03.10	2009
Average debt/asset ratio	58	57
Default more than 90 days	106	2 662

Note 5 Liabilities to financial institutions

The company has entered into an agreement with Sparebanken Sør regarding a credit facility of BNOK 2.5, which will mainly be used for settlement of acquired loans and repayment of covered bonds. The agreement has been entered into according to the arm's length principle.

Note 6 Capital adequacy

Amounts in 1 000 NOK	31.03.10	2009
Equity and related capital		
Share capital	200 000	200 000
Other reserves	14 556	14 556
Deductions	1 456	1 524
Net equity and related capital (core capital)	213 032	213 032
Calculation basis	2 328 763	2 099 487
Capital adequacy	9.15%	10.15%

Note 7 Loans according to sectors and industries

Amounts in 1 000 NOK	31.03.10	31.03.09	2009
Retail banking customers	5 773 626	8 749	5 195 452
Primary industries	5 848		4 803
Industry	6 640		6 793
Building and construction	48 572		45 325
Transport and communication	15 063		16 190
Wholesale and retail	20 445		20 678
Hotel and restaurant	2 235		3 075
Retail estate	506		544
Financial/business services	29 224		29 725
Sundry / other industries	28 895		22 405
Total gross loans	5 931 054	8 749	5 344 990
Collective write-downs	4 000		4 000
Net loans	5 927 054	8 749	5 340 990

QUARTERLY PROFIT TREND

	1Q 2010	4Q 2009	3Q 2009	2Q 2009	1Q 2009
Net interest income	12 294	14 379	10 769	4 965	990
Other income	-2 033	1 709	10	7	
Operating costs	3 731	3 387	4 505	356	363
Oper. profit bef. losses	6 530	12 701	6 274	4 616	627
Losses on loans		4 000			
Pre-tax profit	6 530	8 701	6 274	4 616	627
Tax on ord. Operations	1 828	2 458	1 735	1 290	175
Profit after tax	4 702	6 243	4 539	3 326	452

