

QUARTER 4
2017
(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 and interest bearing securities. 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 Q4 2017 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio amounting to NOK 30 974 million, transferred from Sparebanken Sør, of which NOK 30 880 million was included in the qualified cover pool. Corresponding figures were at the end of Q4 2016 NOK 28 183 million and NOK 28 041 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 26 495 million, relative to NOK 24 633 million at the same time in 2016. The company has achieved a diversified funding by issuing covered bonds outside the Norwegian bond market.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS shows in Q4 2017 a profit after tax of NOK 185.8 million, relative to NOK 187.8 million in the same period in 2016.

The company had net interest income of NOK 360.3 million, relative to NOK 328.4 million in 2016. The increase in net interest income is mainly due to the increase in the mortgage portfolio in the period.

The company has issued covered 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 31.1 million in Q4 2017. Assuming that the covered 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 60.2 million and tax expenses were NOK 61.9 million at the end of Q4 2017. Corresponding figures at the end of Q4 2016 were NOK 58.4 million and NOK 62.6 million respectively.

Total assets as at 31.12.2017 were NOK 32 332 million, of which net loans to customers represented NOK 30 968 million. At the same time in 2016 total assets were NOK 29 207 million, of which net loans to customers were NOK 28 125 million. The loan portfolio has been financed through the issuance of bonds with a value of NOK 26 495 million, and through equity and drawing rights from Sparebanken Sør. As at 31.12.2017, the company had paid-in capital of a total of NOK 1 025 million, of which NOK 525 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, as at 31.12.2017, was drawn down by NOK 3 360 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 Q4 2017, the common equity tier 1 capital in the company was NOK 2 377 million, compared to NOK 2 191 million at the same time in 2016. This corresponds to a total capital ratio/core tier 1 capital ratio of 17.4 percent (18.1 percent in 2016), while regulatory minimums requirements constitute 15.5 percent and 12.0 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 Q4 2017.

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. As at 31.12.2017 the company satisfied the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio). The requirement was 80 % throughout 2017 and 100 % as of 31.12.2017.

A Management Service Agreement is in place with Sparebanken Sør, which encompasses the supply of all necessary services for the operation of the company. Consequently, 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 a 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 to further acquire loans from Sparebanken Sør, and the company intends to be able to issue new public covered bonds towards investors in Norway and abroad.

Kristiansand, 8th February 2018

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

Nok Thousand	Notes	31.12.2017	31.12.2016
Interest income	2, 12	787 419	765 408
Interest expenses	2, 12	427 148	437 057
Net interest income	2	360 271	328 351
Commission income		149	160
Commission expenses		5 000	5 000
Net commission expenses		-4 851	-4 840
Net change in value from financial derivatives	3	-47 484	-14 726
Personnel expenses		54	44
Depreciation of intangible assets		-	-
Other operating expenses		60 127	58 310
Total expenses		60 180	58 354
Profit before losses on loans		247 756	250 431
Losses on loans		-	-
Profit before taxes		247 756	250 431
Tax expenses	4	61 939	62 604
Profit for the period		185 817	187 828
Other comprehensive income			
Profit for the period		185 817	187 828
Other income and expenses		-	-
Total profit for the period		185 817	187 828

Balance sheet

NOK Thousand			
ASSETS	Notes	31.12.2017	31.12.2016
Loans to and receivables from credit institutions	12	152 957	54 254
Net loans to customers	5,8,9,11	30 967 963	28 125 467
Bonds and certificates		808 817	857 661
Financial derivatives		368 812	151 191
Deferred tax assets		14 920	8 693
Other assets		18 097	10 079
TOTAL ASSETS		32 331 567	29 207 346
LIABILITIES AND EQUITY CAPITAL			
Debt to credit institutions	6,12	3 360 846	2 055 682
Debt incurred due to issuance of securities	10	26 495 406	24 633 278
Financial derivatives	3	22 975	249 503
Payable tax		68 166	70 937
Other liabilities		7 444	7 033
TOTAL LIABILITIES		29 954 837	27 016 433
EQUITY CAPITAL			
Paid-in equity capital		1 025 000	1 025 000
Retained earnings		1 351 730	1 165 913
TOTAL EQUITY CAPITAL	7	2 376 730	2 190 913
TOTAL LIABILITIES AND EQUITY CAPITAL		32 331 567	29 207 346

Kristiansand, 8th February 2018

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

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Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

Cash flow statement

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NOK Thousand	31.12.2017	31.12.2016
Interest payment received	783 006	762 375
Interest payment made	-409 601	-405 207
Operating cost payments	-64 567	-62 871
Change in loans to customers	-2 838 082	-2 437 937
Tax payment	-82 776	-94 416
Net cash flow from operational activities	-2 612 020	-2 238 056
Change in bonds and certificates	48 844	-757 393
Change in other assets	72 431	-10 066
Change in deposits from credit institutions	1 304 427	194 990
Changes in other liabilities	411	323
Net cash flow from current financing activities	1 426 113	-572 146
Paid-in share capital	-	-
Payments received, bond debts	6 201 315	9 255 500
Payments made, bond debts	-4 916 706	-6 441 125
Net cash flow from long-term financing activities	1 284 610	2 814 375
Net change in liquid assets	98 702	4 173
Liquid assets as at 01.01	54 254	50 081
Liquid assets at the end of period	152 957	54 254

Equity statement

	Equity capital	Equity premium reserve	Other equity capital	Total
NOK Thousand				
Balance 31.12.2013	525 000	0	244 555	769 555
Equity added through merger	0	500 000	237 795	737 795
Profit	0	0	254 123	254 123
Balance 31.12.2014	525 000	500 000	736 473	1 761 473
Profit 2015	0	0	241 612	241 612
Balance 31.12.2015	525 000	500 000	978 085	2 003 085
Profit 2016	0	0	187 828	187 828
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 2017	0	0	185 817	185 817
Balance 31.12.2017	525 000	500 000	1 351 730	2 376 730

1. ACCOUNTING PRINCIPLES

The quarterly financial statements have been drawn up in accordance with International Financial Reporting Standards (IFRS) as stipulated by the EU. Sparebanken Sør Boligkreditt AS is part of the Sparebanken Sør Group and it follows the same accounting principles as the Group. Please refer to the annual financial statements for 2016 for further details of accounting principles.

The quarterly financial statements have not been audited.

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.

2. NET INTEREST INCOME

NOK Thousand	31.12.2017	31.12.2016
Interest on loans given to and receivables from credit institutions	645	298
Interest on loans given to customers	774 119	762 093
Interest on certificates/bonds/interest-bearing securities	12 655	3 017
Total interest income	787 419	765 408
Interest on debt to credit institutions	33 474	26 453
Interest on issued securities	393 673	410 604
Other interest cost	1	0
Total interest expenses	427 148	437 057
Net interest income	360 271	328 351

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2017	31.12.2016
Profit (loss) and change in value from covered bonds	-541	-867
Net income from covered bonds	-541	-867
Change in value fixed rate bonds - hedge accounting	-573 039	209 745
Change in value derivatives fixed rate bonds - designated as hedging instruments	547 802	-242 821
Net income hedging	-25 237	-33 076
Whereof effects from basis swaps (1)	-31 072	-31 859
Profit (loss) buyback of own bonds - amortized cost	-21 706	19 217
Net other financial instruments and derivatives	-21 706	19 217
Net income from financial instruments	-47 484	-14 726

1) The company issues covered bonds in Euros, which are secured by basis swaps. Change in the value of the basis swaps are a result of changes in market conditions, and is presented as hedging-inefficiency. This effect is recognized in the income statement.

Basis swaps are long term contracts, in which obligations in foreign currency is converted into NOK. Basis swaps are used when the company has entered into long term funding in international 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. TAXES

A tax rate of 25 percent is assumed.

5. LTV - LOAN TO VALUE

	31.12.2017	31.12.2016
Average debt to assets ratio in %	57.0 %	54.7 %
Portfolio divided into intervals of debt to assets ratio:		
Less than or equal to 40%	16.9 %	20.8 %
41 - 50 %	12.3 %	13.3 %
51 - 60 %	19.4 %	19.4 %
61 - 70 %	31.9 %	30.7 %
71 - 75 %	13.3 %	11.7 %
More than 75 %	6.1 %	4.0 %
Total	100.0 %	100.0 %

6. 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.

7. 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	31.12.2017	31.12.2016
Equity capital		
Equity capital	525 000	525 000
Equity premium reserve	500 000	500 000
Other equity capital	1 351 730	1 165 913
Deductions	-1 201	
Common equity tier 1 capital	2 375 529	2 190 913
Minimum requirement for equity capital		
Credit risk	990 345	881 921
Market risk		
Operational risk	56 264	61 545
CVA addition	45 833	24 001
Deductions		
Total minimum requirement for equity capital	1 092 442	967 467
Risk-weight balance (calculation basis)	13 655 525	12 093 338
Common equity tier 1 capital ratio	17.4 %	18.1 %
Tier 1 capital ratio	17.4 %	18.1 %
Total capital ratio	17.4 %	18.1 %
Leverage Ratio	7.0 %	7.2 %

8. LOANS TO CUSTOMERS

NOK Thousand	31.12.2017	31.12.2016
Loans assessed at amortized cost		
Flexi-loans (loans without installments)	7 518 339	6 758 883
Loans with installments	23 455 623	21 372 584
Gross Loans	30 973 963	28 131 467
Collective write-downs	6 000	6 000
Net loans	30 967 963	28 125 467
Undrawn credit on Flexi-loans	2 287 410	2 286 871

Loans distributed to sectors and industries	31.12.2017	31.12.2016
Retail customers	30 943 401	28 064 368
Corporate customers*)	0	40 950
Accrued interests	30 562	26 149
Gross loans	30 973 963	28 131 467
Collective write-downs	6 000	6 000
Net loans	30 967 963	28 125 467

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

Loans distributed by geographical areas	31.12.2017		31.12.2016	
Vest-Agder	13 514 160	43.6 %	12 431 648	44.2 %
Aust-Agder	8 621 345	27.8 %	8 017 979	28.5 %
Telemark	3 052 322	9.9 %	2 571 798	9.1 %
Oslo	2 324 234	7.5 %	2 197 082	7.8 %
Akershus	1 275 585	4.1 %	1 081 387	3.8 %
Others	2 180 317	7.0 %	1 825 573	6.5 %
Total	30 967 963	100.0 %	28 176 931	100.0 %

9. DEFAULTED LOANS

NOK Thousand	31.12.2017	31.12.2016
Gross non-performing loans > 90 days	0	0
Individual write-downs	0	0
Net non-performing loans	0	0
Net non-performing loans > 90 days in % af gross loans	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.

10. DEBT SECURITIES ISSUED AS AT 31.12.2017

ISIN Nummer	Ticker	Currency	Nominal value	Interest		Due date	Book value	Fair value
NO0010673296	SORB21	NOK	685 000	Floating	3M Nibor	14.09.2018	684 971	687 263
NO0010679806	SORB10	NOK	5 000 000	Floating	3M Nibor	22.05.2019	5 004 630	5 026 025
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 082	28 188
NO0010714058	SORB24	NOK	5 000 000	Floating	3M Nibor	24.06.2020	4 971 181	5 016 235
XS1383921803		EUR	500 000	Fixed	0,25 %	22.03.2021	4 919 153	4 968 361
NO0010778954	SORB27	NOK	5 000 000	Floating	3M Nibor	22.11.2021	5 006 819	5 048 825
XS1622285283		EUR	500 000	Fixed	0,125 %	30.05.2022	4 897 623	4 917 074
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	393 427	383 506
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	589 521	570 404
Total							26 495 407	26 645 880

11. COVER POOL COMPOSITION AND OC

NOK Thousand	31.12.2017	31.12.2016
Loans secured by mortgages on residential properties (1)	30 967 963	28 125 467
Deduction of ineligible loans (2)	-87 624	-84 296
Pool of eligible loans	30 880 339	28 041 171
Certificates and bonds	556 484	-
Receivables on derivatives	345 837	137 889
Total cover pool (1,2)	31 782 659	28 179 060
Debt incurred due to issuance of securities	26 645 880	24 746 000
Commitments on derivatives	-	236 201
Total commitments	26 645 880	24 982 201
Collateralisation ratio (OC)	19,3 %	12,8 %

1) Cover pool composition is defined in the Norwegian Financial Institution Act Section 11-8.

2) Loans with LTV (loan to value) higher than 75 % is included in the cover pool. However, the part of the loan exceeding 75 % (ineligibles) is excluded when calculating the OC above. Assuming the ineligible is included, the OC would have been 19.6 % as at 31.12.2017 and 13.1 % as at 31.12.2016.

	Nominal value	
	31.12.2017	31.12.2016
OC based on nominal value, eligibles only	19.0 %	14.5 %
OC based on nominal value	19.4 %	14.8 %

The calculation of OC has been slightly restated compared to previous periods, and as a result corresponding figures for 2016 have been changed.

12. ASSOCIATED PARTIES

NOK Thousand	31.12.2017	31.12.2016
Income statement		
Interest income from Sparebanken Sør on deposits	645	298
Interest expenses/credit commissions from Sparebanken Sør on loans/credits	38 474	31 453
Interest expenses on debts to Sparebanken Sør	0	529
Paid administration fees to Sparebanken Sør	55 409	52 888
Balance		
Bank deposit with Sparebanken Sør	152 957	54 254
Covered bonds owned by Sparebanken Sør	0	0
Loan/credit in Sparebanken Sør	3 359 909	2 055 482

13. IFRS 9 AND THE EFFECTS OF TRANSITION

On the 1st of January 2018, IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments - recognition and measurement. The company changes from this date it's accounting principles according to the new standard.

Changes in balance sheet items

The transition to new standard on the 1st of January 2018, leads to the following changes in the balance sheet items.

NOK Thousand	IAS 39		IFRS 9		Change
	Measurement	Book value	Measurement	Book value	
Financial liabilities					
Loans to and receivables from credit institutions	Amortized cost	152 957	Amortized cost	152 957	0
Net loan to customers	Amortized cost	30 967 963	Amortized cost	30 963 735	-4 228
Bonds and certificates	Fair value	808 817	Fair value	808 817	0
Financial derivatives	Fair value	368 812	Fair value	368 812	0
Financial liabilities	Measurement	Book value	Measurement	Book value	Change
Debt to credit institutions	Amortized cost	3 360 846	Amortized cost	3 360 846	0
Debt incurred due to issue of securities	Amortized cost	26 504 804	Amortized cost	26 504 804	0
Financial derivatives	Fair value	22 975	Fair value	22 975	0

Write-downs according to IAS 39 have been based on objective evidence of credit impairment losses, an accrued loss model.

Write-downs according to the new IFRS 9 standard are based on an expected credit loss model. The calculation of expected credit losses in the company as at 1.1.2018, leads to an increase of NOK 4.2 million.

Basis swaps established until 31.12.2017 have been recognized at fair value through profit or loss, and will be recognized similarly until maturity.

According to IFRS 9, basis swaps established as from 1.1.2018 will be recognized at fair value through other comprehensive income (OCI).

Equity changes

NOK Thousand	Equity		Other equity capital	Total
	Equity capital	premium reserve		
Balance as at 31.12.2017	525 000	500 000	1 351 730	2 376 730
Changes as a result of IFRS 9			-4 228	-4 228
Effect on taxes as a result of IFRS 9			1 057	1 057
Balance as at 1.1.2018	525 000	500 000	1 348 559	2 373 559

Changes in write-downs as a result of IFRS 9 leads to a negative effect on the equity amounted to NOK 3.2 million.

Further information regarding the calculation basis will be elaborated in the 2017 annual report.

QUARTERLY PROFIT TREND

NOK Thousand	Q4	Q3	Q2	Q1	Q4
	2017	2017	2017	2017	2016
Net interest income	105 730	93 487	87 224	73 831	75 325
Net other operating income	-822	-6 641	-34 199	-10 673	13 128
Operating expenses	15 790	15 316	15 380	13 695	14 663
Profit before losses on loans	89 118	71 530	37 645	49 463	73 790
Losses on loans	0	0	0	0	0
Profit before tax	89 118	71 530	37 645	49 463	73 790
Tax expenses	22 273	17 889	9 411	12 366	18 444
Profit for the period	66 844	53 641	28 234	37 097	55 346

Net interest income is slightly higher than normal in Q4 2017. Amongst others, this was caused by an incorrect accrual which has been corrected.



SPAREBANKEN SØR BOLIGKREDITT AS

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