



QUARTER 1
2018
(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 Q1 2018 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 34 745 million, transferred from Sparebanken Sør, of which NOK 34 629 million is included in the qualified cover pool. Corresponding figures at the end of Q1 2017 were NOK 27 382 million and NOK 27 345 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 30 518 million, compared with NOK 24 035 million at the same time in 2017. 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 Q1 2018 a profit after tax of NOK 58.5 million, compared with NOK 37.1 million in the same period in 2017.

The company had net interest income of NOK 99.5 million, compared with NOK 73.8 million in 2017. 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 NOK 3.0 million in Q1 2018. 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 17.2 million and tax expenses were NOK 19.8 million at the end of Q1 2018. Corresponding figures at the end of Q1 2017 were NOK 13.7 million and NOK 12.4 million respectively.

Total assets at 31.03.2018 were NOK 36 836 million, of which net loans to customers represented NOK 34 734 million. At the same time in 2017 total assets were NOK 28 389 million, of which net loans to customers were NOK 27 382 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 30 518 million, and through equity and drawing rights from Sparebanken Sør. In January 2018 the company increased the equity capital by NOK 600 million. After the capital increase, the company had paid-in capital of a total 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 31.03.2018, was drawn down by NOK 3 146 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 Q1 2018, the net subordinated capital in the company was NOK 2 953 million, compared to NOK 2 191 million at the same time in 2017. This corresponds to a total capital ratio / tier 1 capital ratio / common equity tier 1 capital ratio of 19.9 percent (18.7 percent in 2017), 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 7.6 percent at the end of Q1 2018.

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 31.03.2018 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 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 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, 3 May 2018

The Board of Directors of 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	31.03.2018	31.03.2017	31.12.2017
Interest income	2, 12	214 233	190 162	787 419
Interest expenses	2, 12	114 692	116 331	427 148
Net interest income	2	99 541	73 831	360 271
Commission income		41	34	149
Commission expenses		1 250	1 250	5 000
Net commission expenses		-1 209	-1 216	-4 851
Net income from financial instruments	3	-1 603	-9 457	-47 484
Personnel expenses		0	0	54
Depreciation on intangible assets		0	0	0
Other operating expenses		17 238	13 695	60 127
Total expenses		17 238	13 695	60 180
Profit before losses on loans		79 490	49 463	247 756
Losses on loans	9	1 161	-	-
Profit before taxes		78 329	49 463	247 756
Tax expenses		19 793	12 366	61 939
Profit for the period		58 536	37 097	185 817
Other comprehensive income				
Profit for the period		58 536	37 097	185 817
Net change in value from basis swaps		-4 804	0	0
Tax effect		1201	0	0
Total profit for the period		54 933	37 097	185 817

Balance sheet

NOK Thousand				
ASSETS	Notes	31.03.2018	31.03.2017	31.12.2017
Loans to and receivables from credit institutions	12	103 025	59 434	152 957
Net loans to customers	4,7	34 734 032	27 382 764	30 967 963
Bonds and certificates		1 820 325	810 176	808 817
Financial derivatives		134 662	116 071	368 812
Deferred tax assets		15 119	10 511	14 920
Other assets		28 585	9 658	18 097
TOTAL ASSETS		36 835 747	28 388 615	32 331 567
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 146 611	1 839 224	3 360 846
Debt incurred due to issuance of securities	10	30 517 990	24 035 290	26 495 406
Financial derivatives	3	83 440	236 310	22 975
Payable taxes		51 850	43 733	68 166
Other liabilities		7 364	6 048	7 444
TOTAL LIABILITIES		33 807 256	26 160 605	29 954 837
EQUITY				
Paid-in equity capital		1 625 000	1 025 000	1 025 000
Retained earnings		1 403 492	1 203 010	1 351 730
TOTAL EQUITY CAPITAL		3 028 492	2 228 010	2 376 730
TOTAL LIABILITIES AND EQUITY CAPITAL		36 835 747	28 388 615	32 331 567

Kristiansand, 3 May 2018

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

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Member

Gunnar P. Thomassen
Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	31.12.2018	31.03.2017	31.12.2017
Interest received	210 826	188 227	783 006
Interest paid	-102 585	-108 858	-409 601
Operating expenditure	-18 526	-15 896	-64 567
Changes in loans to customers	-3 766 824	742 807	-2 838 082
Income tax paid	-34 050	-41 388	-82 776
Net cash flow from operating activities	-3 711 159	764 892	-2 612 020
Changes in bonds and certificates	-1 011 508	47 485	48 844
Changes in other assets	-90 937	421	72 431
Changes in deposits from credit institutions	-213 872	-216 326	1 304 427
Changes in other liabilities	-79	-985	411
Net cash flow from current financing activities	-1 316 396	-169 405	1 426 113
Paid in share capital	600 000	0	0
Payments received, bond debt	4 870 000	0	6 201 315
Payments made, bond debt	-492 377	-588 645	-4 916 706
Net cash flow from long-term financing activities	4 977 623	-588 645	1 284 610
Net change in liquid funds	-49 932	6 842	98 702
Liquid funds at 01.01.	152 957	54 254	54 254
Liquid funds at the end of period	103 025	61 096	152 957

Equity statement

	Equity capital	Equity premium reserve	Other equity capital	Total
NOK Thousand				
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 01.01.2017 - 31.03.2017	0	0	37 097	37 097
Balance 31.03.2017	525 000	500 000	1 203 010	2 228 010
Profit 01.04.2017 - 31.12.2017	0	0	148 720	148 720
Balance 31.12.2017	525 000	500 000	1 351 730	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	1 348 559	2 373 559
Share capital increase	600 000	0	0	600 000
Profit 01.01.2018 - 31.03.2018	0	0	58 536	58 536
Other income/expenses	0	0	-3 603	-3 603
Balance 31.03.2018	1 125 000	500 000	1 406 663	3 028 492

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. On 1 January 2018 the company changed accounting principles from IAS 39 to IFRS 9. Please refer to the annual financial statements for 2017 (note 25) for further details of the accounting effects of the transition.

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	31.03.2018	31.03.2017	31.12.2017
Interest on loans given to and receivables from credit institutions	379	146	645
Interest on loans given to customers	209 297	186 596	774 119
Interest on certificates/bonds/interest-bearing securities	4 556	3 420	12 655
Total interest income	214 233	190 162	787 419
Interest on debt to credit institutions	13 353	9 436	33 474
Interest on issued securities	101 339	106 895	393 673
Other interest cost	0	0	1
Total interest expenses	114 692	116 331	427 148
Net interest income	99 541	73 831	360 271

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.03.2018	31.03.2017	31.12.2017
Profit (loss) and change in value from covered bonds	-59	644	-541
Net income from covered bonds	-59	644	-541
Change in value fixed rate bonds - hedge accounting	314 584	-20 374	-573 039
Change in value derivatives fixed rate bonds - designated as hedging instruments	-315 839	11 419	547 802
Net income hedging	-1 255	-8 955	-25 237
Whereof effects from basis swaps (1)	3 041	-8 673	-31 859
Profit (loss) buyback of own bonds -amortized cost	-290	-1 145	-21 706
Net other financial instruments and derivatives	-290	-1 145	-21 706
Net income from financial instruments	-1 603	-9 457	-47 484

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

	31.03.2018	31.03.2017	31.12.2017
Average debt to assets ratio in %	57.2 %	53.7 %	57.0 %
Portfolio divided into intervals of debt to assets ratio:			
Less than og equal to 40%	16.7 %	21.1 %	16.9 %
41 - 50 %	12.4 %	14.2 %	12.3 %
51 - 60 %	19.2 %	21.5 %	19.4 %
61 - 70 %	31.6 %	33.6 %	31.9 %
71 - 75 %	14.1 %	6.9 %	13.3 %
More than 75 %	6.1 %	2.6 %	6.1 %
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	31.03.2018	31.03.2017	31.12.2017
Equity capital			
Equity capital	1 125 000	525 000	525 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	1 344 955	1 165 913	1 351 730
Deductions	-17 158	0	-1 201
Net subordinated capital (common equity tier 1)	2 952 797	2 190 913	2 375 529
Minimum requirement for equity capital			
Credit risk	1 105 038	860 859	990 345
Market risk	0	0	0
Operational risk	53 614	56 264	56 264
CVA addition	31 382	21 309	45 833
Deductions	0	0	0
Total minimum requirement for equity capital	1 190 034	938 432	1 092 442
Risk-weight balance (calculation basis)	14 875 425	11 730 400	13 655 525
Common equity tier 1 capital ratio	19.9 %	18.7 %	17.4 %
Tier 1 capital ratio	19.9 %	18.7 %	17.4 %
Total capital ratio	19.9 %	18.7 %	17.4 %
Leverage Ratio	7.6 %	7.4 %	7.0 %

7. LOANS TO CUSTOMERS

NOK Thousand	31.03.2018	31.03.2017	31.12.2017
Loans assessed at amortized cost			
Flexi-loans (loans without installments)	8 100 057	6 304 332	7 518 339
Loans with installments	26 645 254	21 084 431	23 455 623
Gross loans	34 745 310	27 388 764	30 973 963
Write-downs	-11 279	-6 000	-6 000
Net loans	34 734 032	27 382 764	30 967 963
Undrawn credit on Flexi-loans	2 598 792	1 977 890	2 287 410

Loans distributed to sectors and industries	31.03.2018	31.03.2017	31.12.2017
Retail customers	34 711 342	27 362 512	30 943 401
Corporate customers *)	0	0	0
Accrued interests	33 968	26 252	30 562
Gross loans	34 745 310	27 388 764	30 973 963
Write-downs	-11 279	-6 000	-6 000
Net loan	34 734 032	27 382 764	30 967 963

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

Loans distributed by geographical areas	31.03.2018		31.03.2017		31.12.2017	
Vest-Agder	14 722 255	42.4 %	11 936 193	43.6 %	13 514 160	43.6 %
Aust-Agder	9 235 894	26.6 %	7 748 800	28.3 %	8 621 345	27.8 %
Telemark	3 395 636	9.8 %	2 531 097	9.2 %	3 052 322	9.9 %
Rogaland	797 526	2.3 %	500 790	1.8 %	624 913	2.0 %
Oslo	3 288 986	9.5 %	2 182 152	8.0 %	2 324 234	7.5 %
Akershus	1 467 975	4.2 %	1 117 127	4.1 %	1 275 585	4.1 %
Other counties	1 825 760	5.3 %	1 366 606	5.0 %	1 555 404	5.0 %
Total	34 734 032	100.0 %	27 382 764	100.0 %	30 967 963	100.0 %

8. DEFAULTED LOANS

NOK Thousand	31.03.2018	31.03.2017	31.12.2017
Gross non-performing loans > 90 days	1 635	0	0
Write downs	317	0	0
Net non performing loans	1 952	0	0
Net non performing loans > 90 days 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	31.03.2018	31.03.2017	31.12.2017
Period change in write-downs stage 1	194	0	0
+ Period change in write-downs stage 2	596	0	0
+ Period change in write-downs stage 3	372	0	0
= Losses in the period	1161	0	0

NOK Million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Allowenses on losses at 01.01.2018	1.6	8.2	0.4	10.2
Transfers				
Transferred to stage 1	1.8	-1.8	0.0	0.0
Transferred to stage 2	0.0	0.0	0.0	0.0
Transferred to stage 3	0.0	0.0	0.0	0.0
Losses on new loans	0.3	1.0	0.0	1.3
Losses on deducted loans	0.0	-0.3	0.0	-0.3
Confirmed losses				
Entered into previous confirmed losses	0.0	0.0	0.0	0.0
Losses on older loans and other changes	-1.8	1.6	0.4	0.2
Allowenses on losses at 31.03.2018	1.9	8.7	0.8	11.4

* In addition to the transfers above, net change consists of losses on older loans as a result of payments / balance increase of loans entered a new stage.

10. DEBT SECURITIES ISSUED AT 31.12.2018

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010673296	SORB21	NOK	580 000	Floating 3M Nibor	14.09.2018	580 123	581 694
NO0010679806	SORB10	NOK	4 615 000	Floating 3M Nibor	22.05.2019	4 620 549	4 644 711
NO0010664659	SORB07	NOK	28 000	Floating 3M Nibor	27.11.2019	28 080	28 224
NO0010714058	SORB24	NOK	5 000 000	Floating 3M Nibor	24.06.2020	4 974 537	5 023 780
XS1383921803		EUR	500 000	Fixed 0.250 %	22.03.2021	4 784 651	4 843 937
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 007 905	5 066 577
XS1622285283		EUR	500 000	Fixed 0.125 %	30.05.2022	4 770 367	4 798 665
NO0010671597	SORB09	NOK	350 000	Fixed 3.85 %	13.02.2023	375 976	379 137
XS1775786145		EUR	500 000	Fixed 0.375 %	20.02.2023	4 816 574	4 822 728
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	559 228	562 101
TOTAL						30 517 990	30 751 555

QUARTERLY PROFIT TREND

NOK Thousand	Q1	Q4	Q3	Q2	Q1
	2018	2017	2017	2017	2017
Net interest income	99 541	105 730	93 487	87 224	73 831
Net other operating income	-2 812	-822	-6 641	-34 199	-10 673
Operating expenses	17 238	15 790	15 316	15 380	13 695
Profit before losses on loans	79 490	89 118	71 530	37 645	49 463
Losses on loans	1 161	0	0	0	0
Profit before tax	78 329	89 118	71 530	37 645	49 463
Tax expenses	19 793	22 273	17 889	9 411	12 366
Profit for the period	58 536	66 844	53 641	28 234	37 097

Net interest income is slightly higher than normal in Q42017. Amongst others, this was caused by an incorrect accrual which has been corrected.

