



QUARTER 3
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 Q3 2018 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 35 591 million, transferred from Sparebanken Sør, of which NOK 35 528 million is included in the qualified cover pool. Corresponding figures at the end of Q3 2017 were NOK 29 352 million and NOK 29 253 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 30 456 million, compared with NOK 26 021 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 Q3 2018 a profit after tax of NOK 157.2 million, compared with NOK 119.0 million in the same period in 2017.

The company had net interest income of NOK 279.7 million, compared with NOK 254.5 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 minus NOK 1.1 million in Q3 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 51.7 million and tax expenses were NOK 52.4 million at the end of Q3 2018. Corresponding figures at the end of Q3 2017 were NOK 44.4 million and NOK 39.7 million respectively.

Total assets at 30.09.2018 were NOK 37 404 million, of which net loans to customers represented NOK 35 583 million. At the same time in 2017 total assets were NOK 30 372 million, of which net loans to customers were NOK 29 346 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 30 456 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 30.09.2018, was drawn down by NOK 3 601 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 2018, the net subordinated capital in the company was NOK 2 962 million, compared to NOK 2 191 million at the same time in 2017. This corresponds to a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 19.7 percent (17.1 percent in 2017), 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 7.6 percent at the end of Q3 2018.

Board of Director's report

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 30.09.2018 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 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.

Arendal, 1 November 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	30.09.2018	30.09.2017	31.12.2017
Interest income	2, 12	669 389	587 018	787 419
Interest expenses	2, 12	389 663	332 477	427 148
Net interest income	2	279 726	254 542	360 271
Commission income		129	110	149
Commission expenses		3 750	3 750	5 000
Net commission income		-3 621	-3 640	-4 851
Net income from financial instruments	3	-16 781	-47 873	-47 484
Personnel expenses		0	0	54
Depreciation on intangible assets		0	0	0
Other operating expenses		51 690	44 390	60 127
Total expenses		51 690	44 390	60 180
Profit before losses on loans		207 634	158 638	247 756
Losses on loans and undrawn credits		-1 967	0	0
Profit before taxes		209 601	158 638	247 756
Tax expenses	9	52 400	39 666	61 939
Profit for the period		157 201	118 972	185 817
Other comprehensive income				
Profit for the period		157 201	118 972	185 817
Net change in value from basis swaps		-13 553	0	0
Tax effect		3 388	0	0
Total profit for the period		147 036	118 972	185 817

Balance sheet

NOK Thousand				
ASSETS	Notes	30.09.2018	30.09.2017	31.12.2017
Loans to and receivables from credit institutions	12	61 283	70 285	152 957
Net loans to customers	4,7	35 583 259	29 345 838	30 967 963
Bonds and certificates		1 614 549	809 690	808 817
Financial derivatives		96 924	111 495	368 812
Deferred tax assets		23 413	14 875	14 920
Other assets		25 006	19 341	18 097
TOTAL ASSETS		37 404 434	30 371 525	32 331 567
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 604 532	1 833 371	3 360 846
Debt incurred due to issuance of securities	10	30 456 162	26 021 473	26 495 406
Financial derivatives	3	158 871	166 025	22 975
Payable taxes		56 514	34 009	68 166
Other liabilities		7 760	6 761	7 444
TOTAL LIABILITIES		34 283 839	28 061 639	29 954 837
EQUITY				
Paid-in equity		1 625 000	1 025 000	1 025 000
Retained earnings		1 495 595	1 284 885	1 351 730
TOTAL EQUITY CAPITAL		3 120 595	2 309 885	2 376 730
TOTAL LIABILITIES AND EQUITY CAPITAL		37 404 434	30 371 525	32 331 567

Arendal, 1 November 2018

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug
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Member

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Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	30.09.2018	30.09.2017	31.12.2017
Interest received	667 156	585 635	783 006
Interest paid	-372 425	-319 406	-409 601
Operating expenditure	-54 994	-48 302	-64 567
Changes in loans to customers	-4 615 234	-1 218 987	-2 838 082
Income tax paid	-68 099	-82 776	-82 776
Net cash flow from operating activities	-4 443 597	-1 083 836	-2 612 020
Changes in bonds and certificates	-805 732	47 971	48 844
Changes in other assets	-85 934	-9 262	72 431
Changes in deposits from credit institutions	241 557	-223 181	1 304 427
Changes in other liabilities	316	-272	411
Net cash flow from current financing activities	-649 792	-184 744	1 426 113
Paid in share capital	600 000	0	0
Payments received, bond debt	9 863 250	6 201 315	6 201 315
Payments made, bond debt	-5 461 534	-4 916 706	-4 916 706
Net cash flow from long-term financing activities	5 001 716	1 284 610	1 284 610
Net change in liquid funds	-91 673	16 029	98 702
Liquid funds at 01.01	152 957	54 254	54 254
Liquid funds at the end of period	61 283	70 285	152 957

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			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

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	30.09.2018	30.09.2017	31.12.2017
Interest on loans given to and receivables from credit institutions	763	460	645
Interest on loans given to customers	650 849	576 851	774 119
Interest on certificates/bonds/interest-bearing securities	17 778	9 706	12 655
Total interest income	669 389	587 018	787 419
Interest on debt to credit institutions	47 703	24 409	33 474
Interest on issued securities	341 961	308 067	393 673
Other interest expenses	0	0	1
Total interest expenses	389 663	332 476	427 148
Net interest income	279 726	254 542	360 271

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.09.2018	30.09.2017	31.12.2017
Profit (loss) and change in value from covered bonds	-3 106	329	-541
Net income from covered bonds	-3 106	329	-541
Change in value fixed rate bonds - hedge accounting	434 505	-106 725	-573 039
Change in value derivatives fixed rate bonds - designated as hedging instruments	-447 069	80 229	547 802
Net income hedging	-12 564	-26 496	-25 237
Whereof effects from basis swaps (1)	-1 102	-26 792	-31 072
Profit (loss) buyback of own bonds - amortized cost	-1 111	-21 706	-21 706
Net other financial instruments and derivatives	-1 111	-21 706	-21 706
Net income from financial instruments	-16 781	-47 873	-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

	30.09.2018	30.09.2017	31.12.2017
Average debt to assets ratio in %	55.5 %	55.9 %	57.0 %
Portfolio divided into intervals of debt to assets ratio:			
Less than og equal to 40%	17.9 %	18.2 %	16.9 %
41 - 50 %	13.1 %	13.0 %	12.3 %
51 - 60 %	21.5 %	20.6 %	19.4 %
61 - 70 %	34.6 %	32.1 %	31.9 %
71 - 75 %	9.6 %	11.1 %	13.3 %
More than 75 %	3.3 %	5.1 %	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	30.09.2018	30.09.2017	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	1 338 394	1 165 913	1 351 730
Deductions	-1 870	0	-1 201
Net subordinated capital (common equity tier 1)	2 961 524	2 190 913	2 375 529
Minimum requirement for equity capital			
Credit risk	1 150 679	934 695	990 345
Market risk	0	0	0
Operational risk	53 614	56 264	56 264
CVA addition	0	31 734	45 833
Deductions	0	0	0
Total minimum requirement for equity capital	1 204 293	1 022 693	1 092 442
Risk-weight balance (calculation basis)	15 053 663	12 783 665	13 655 525
Common equity tier 1 capital ratio	19.7 %	17.1 %	17.4 %
Tier 1 capital ratio	19.7 %	17.1 %	17.4 %
Total capital ratio	19.7 %	17.1 %	17.4 %
Leverage Ratio	7.6	6.9 %	7.0 %

7. LOANS TO CUSTOMERS

NOK Thousand			
Loans assessed at amortized cost	30.09.2018	30.09.2017	31.12.2017
Flexi-loans (loans without installments)	8 090 330	7 384 159	7 518 339
Loans with installments	27 501 100	21 967 679	23 455 623
Gross loans	35 591 430	29 351 838	30 973 963
Impairment losses on lending	-8 171	-6 000	-6 000
Net loans	35 583 259	29 345 838	30 967 963
Undrawn credit on Flexi-loans	3 112 052	2 230 027	2 287 410

Loans distributed to sectors and industries			
	30.09.2018	30.09.2017	31.12.2017
Retail customers	35 558 635	29 324 306	30 943 401
Corporate customers*)	0	0	0
Accrued interests	32 795	27 532	30 562
Gross loans	35 591 430	29 351 838	30 973 963
Impairment losses on lending	-8 171	-6 000	-6 000
Net loans	35 583 259	29 345 838	30 967 963

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

Loans distributed by geographical areas							
	30.09.2018		30.09.2017		31.12.2017		
Vest-Agder	14 909 611	41.9 %	12 786 910	43.6 %	13 514 160	43.6 %	
Aust-Agder	9 602 775	27.0 %	8 194 803	28.3 %	8 621 345	27.8 %	
Telemark	3 559 557	10.0 %	2 751 514	9.2 %	3 052 322	9.9 %	
Rogaland	972 035	2.7 %	571 162	1.9 %	624 913	2.0 %	
Oslo	3 174 973	8.9 %	2 292 516	8.0 %	2 324 234	7.5 %	
Akershus	1 498 484	4.2 %	1 217 475	4.1 %	1 275 585	4.1 %	
Other counties	1 865 825	5.2 %	1 531 457	5.2 %	1 555 404	5.0 %	
Total	35 583 259	100.0 %	29 345 838	100.0 %	30 967 963	100.0 %	

8. DEFAULTED LOANS

NOK Thousand			
	30.09.2018	30.09.2017	31.12.2017
Gross non-performing loans > 90 days	986	0	0
Impairment losses on lending	0	0	0
Net non-performing loans	986	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 AND UNDRAWN CREDIT

NOK Thousand	30.09.2018	30.09.2017	31.12.2017
Change in impairment losses for the period, stage 1	134	0	0
Change in impairment losses for the period, stage 2	-2 112	0	0
Change in impairment losses for the period, stage 3	11	0	0
Loss expenses during the period	-1 967	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	1 600	8 200	400	10 200
Transfers				
Transferred to stage 1	3 892	-3 892	0	0
Transferred to stage 2	-173	173	0	0
Transferred to stage 3	0	0	0	0
Losses on new loans	468	565	5	1 037
Losses on deducted loans *	-235	-1 624	-125	-1 984
Confirmed losses	0	0	0	0
Entered into previous confirmed losses	0	0	0	0
Losses on older loans and other changes	-3 815	2 700	95	-1 020
Allowenses on losses at 30.09.2018	1 736	6 122	375	8 233

* Losses on deducted loans are related to losses on fully repaid loans and loans transferred between the company and the parent bank. Write-downs on off-balance items (undrawn credit on flexi-loans) are also included in the table above.

Stage	Commitment		Calculated	
	amount	In %	loss	In %
1	33 966	94,6 %	2	20,3 %
2	1 938	5,4 %	6	65,0 %
3	19	0,1 %	0	2,9 %
Total	35 923	100,0 %	8	100,0 %

10. DEBT SECURITIES ISSUED AT 30.09.2018

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010679806	SORB10	NOK	2 732 000	Flytende 3M Nibor	22.05.2019	2 734 884	2 744 885
NO0010664659	SORB07	NOK	28 000	Flytende 3M Nibor	27.11.2019	28 070	28 196
NO0010714058	SORB24	NOK	5 000 000	Flytende 3M Nibor	24.06.2020	4 980 698	5 022 901
XS1383921803		EUR	500 000	Fast 0.250 %	22.03.2021	4 749 476	4 770 736
NO0010778954	SORB27	NOK	5 000 000	Flytende 3M Nibor	22.11.2021	5 008 566	5 062 542
XS1622285283		EUR	500 000	Fast 0.125 %	30.05.2022	4 730 600	4 726 559
NO0010671597	SORB09	NOK	350 000	Fast 3.85 %	13.02.2023	379 567	382 649
XS1775786145		EUR	500 000	Fast 0.375 %	20.02.2023	4 783 436	4 759 842
NO0010832637	SORB28	NOK	2 500 000	Flytende 0.430 %	24.09.2025	2 497 386	2 503 531
NO0010670409	SORB08	NOK	500 000	Fast 4.00 %	24.01.2028	563 479	565 890
TOTAL						30 456 162	30 567 730

11. COVER POOL COMPOSITION AND OC

NOK Thousand	Fair value		
	30.09.2018	30.09.2017	31.12.2017
Loans secured by mortgages on residential properties	35 583 259	29 345 838	30 967 963
Deductions of ineligible loans	-55 572	-92 716	-87 624
Pool of eligible loans	35 527 687	29 253 122	30 880 339
Certificates and bonds	1 156 014	555 957	556 484
Receivables on derivatives	107 346	-54 530	345 837
Total cover pool	36 791 046	29 754 550	31 782 659
Debt incurred due to issuance of securities	30 511 163	26 164 923	26 645 880
Commitments on derivatives	169 293	0	0
Total commitments	30 680 456	26 164 923	26 645 880
Collateralisation ratio (OC)	19.9 %	13.7 %	19.3 %

	Nominal value		
	30.09.2018	30.09.2017	31.12.2017
OC based on nominal value, eligibles only	20.9 %	15.0 %	19.0 %
OC based on nominal value, total loans	21.1 %	15.4 %	19.4 %

12. RELATED PARTIES

NOK Thousand	30.09.2018	30.09.2017	31.12.2017
Income statement			
Interest income from Sparebanken Sør on deposits	763	460	645
Interest expenses and commission from Sparebanken Sør on loans/credit	51 453	28 159	38 474
Interest expenses on bond debts to Sparebanken Sør	0	0	0
Paid administration fees to Sparebanken Sør	48 382	41 021	55 409
Balance sheet			
Bank deposit in Sparebanken Sør	61 283	70 285	152 957
Cover bonds	0	0	0
Loans/credit in Sparebanken Sør	3 601 466	1 832 300	3 359 909

QUARTERLY PROFIT TREND

NOK Thousand	Q3	Q2	Q1	Q4	Q3
	2018	2018	2018	2017	2017
Net interest income	88 712	91 473	99 541	105 730	93 487
Net other operating income	1 999	-19 588	-2 812	-822	-6 641
Operating expenses	16 923	17 529	17 238	15 790	15 316
Profit before losses on loans	73 788	54 356	79 490	89 118	71 530
Losses on loans	-1 731	-1 397	1 161	0	0
Profit before tax	75 518	55 753	78 329	89 118	71 530
Tax expenses	18 879	13 728	19 793	22 273	17 889
Profit for the period	56 639	42 025	58 536	66 844	53 641

In Q4 2017, net interest income was slightly higher than normal. This was related to an incorrect accrual which has been corrected.

