

# 2014

## ANNUAL REPORT

(This translation from Norwegian has been prepared  
for information purposes only.)



**SPAREBANKEN SØR  
BOLIGKREDITT AS**

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# Report from the Board of Directors

## GENERAL

Pluss Boligkreditt AS and Sør Boligkreditt AS merged on 4 March 2014. Pluss Boligkreditt AS was the acquiring company. The new company changed its name to Sør Boligkreditt AS at the time of the merger, and later in 2014 the name was changed to Sparebanken Sør Boligkreditt AS. The merger was completed with accounts-related effect from 1 January 2014, and has been carried out with continuity for accounting purposes. As a result of the merger, the comparison figures for this year are not directly comparable, as the figures for the same period in 2013 are figures for Pluss Boligkreditt AS.

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 is allowed to issue covered bonds. Sparebanken Sør Boligkreditt AS is part of Sparebanken Sør's long-term financial strategy, according to which the company's main objective is to issue covered bonds. All shares are owned by Sparebanken Sør, and the financial statements are consolidated into the financial statements of Sparebanken Sør Group. Sparebanken Sør Boligkreditt AS' operations are subject to supervision by the Financial Supervisory Authority of Norway. An investigator has been appointed especially for the mortgage company to attend to the quarterly analysis of the company's cover pool.

The cover pool comprises mortgage home loans that are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgage portfolio meets the regulatory requirements and Board approved guidelines for loans that may be included 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 end of the 4th quarter 2014, the company has taken on a home loan portfolio amounting to NOK 20 085 million, transferred from Sparebanken Sør, of which NOK 19 981 million is included in the cover pool, and Sparebanken Sør Boligkreditt AS had issued covered bonds amounting to NOK 17 161 million.

## INCOME STATEMENT / BALANCE SHEET DEVELOPMENT

The financial statement for Sparebanken Sør Boligkreditt AS at the end of the 4th quarter of 2014 show a profit after tax of NOK 254.1 million. The company has interest income of NOK 898.8 million and interest expenses of NOK 473.0 million. Operating expenses amounted to NOK 37.6 million and tax expenses was NOK 94.0 million.

Total assets as at 31 December 2014 are NOK 20 547 million, of which net loans to customers represent NOK 20 079 million. The loan portfolio has been financed through issue of bonds with a nominal value of NOK 17 161 million, through equity and drawing rights from Sparebanken Sør. As at 31 December 2014, the company had paid-in capital of a total of NOK 1 025 million, of which NOK 525 million is share capital and NOK 500 million is share premiums.

Sparebanken Sør Boligkreditt AS has drawing rights of NOK 5 500 million in Sparebanken Sør that, as at 31 December 2014, was drawn down by NOK 1 330 million.

In accordance with Norwegian accounting legislation, the Board of Directors confirms that the conditions for presenting the financial statements on a going concern basis exist.

## CAPITAL STRENGTH

At the end of the fourth quarter, the net equity capital in the company was NOK 1 761.5 million. This corresponds to a total capital ratio/core tier 1 capital ratio of 19.38 per cent, while regulatory minimums requirements constitute respectively 13.5 per cent and 10 per cent. 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 very good.

## CORPORATE GOVERNANCE

Sparebanken Sør Boligkreditt AS follows the Norwegian Code of Practice for Corporate Governance. Sparebanken Sør Boligkreditt AS has been established as part of Sparebanken Sør's long-term funding strategy for the purpose of issuing covered bonds. Sparebanken Sør Boligkreditt AS helps to ensure that the Sparebanken Sør Group has prudent asset management and provides assurance that communicated objectives and strategies are achieved and realised.

## RISK CONDITIONS

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 issuing of covered bonds with a good rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain risk at a low level. The company has established board approved guidelines and limits for management and control of various



risk areas, which meet regulatory, rating agency and investor requirements. 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 the company can achieve a high rating for its bonds.

Therefore, the company's credit strategy and credit policy establishes a framework for 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.

In accordance with Board approved requirements, stress testing of the value of the cover pool was conducted in 2014 with simulation of a sharp fall in house prices. The Board of Directors believes that the result of the stress tests is satisfactory.

The company's mortgages to customers are in NOK at a variable interest rate with eight weeks' notice of interest adjustment. Market funding has been established at revolving 3 months' NIBOR. Sparebanken Sør Boligkreditt AS has not had positions in foreign currency in 2014. The Board of Directors considers the overall market risk to be low.

The company issues bonds with the unilateral right to extend the maturity period by up to 12 months. In other respects, financing needs are met using equity and drawing rights from Sparebanken Sør. In addition, the company also has a revolving drawing right with Sparebanken Sør, which can be used to finance the liquidity due on covered bonds that may not necessarily be refinanced in the market. The Board of Directors considers the company's liquidity risk to be low.

A Management Service Agreement has been reached 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.

## EMPLOYEES AND WORKING ENVIRONMENT

As at 31 December 2014, the company had no employees and there are no relevant comments as regards the internal working environment. The Board is composed of four persons, of which one is female.

## RATING

Covered bonds issued by Sparebanken Sør Boligkreditt AS have been given an Aaa rating by Moody's.

## SOCIAL RESPONSIBILITY

The company assumes that the social responsibility work takes place in close cooperation with and according to the same guidelines as in Sparebanken Sør. The company does not carry out activities that pollute the external environment.

## FUTURE PROSPECTS

The Board of Directors anticipates that the company's future operating business will be very satisfactory. Sparebanken Sør Boligkreditt AS plans further acquisition of loans from Sparebanken Sør, and the company intends to be able to issue new open covered bonds in secured mortgages, aimed at investors in Norway or abroad.

## DISTRIBUTION

Profit after tax for 2014 is NOK 254.1 million. The Board of Directors proposes that the whole amount is transferred to other equity capital.

**Kristiansand, 2 March 2015**

**The Board of Directors for Sparebanken Sør Boligkreditt AS**

Geir Bergskaug  
Chairman

Seunn Smith-Tønnessen  
Member

Rolf H. Søraker  
Member

Bjørn Friestad  
Member

Marianne Lofthus  
Managing Director

# Income statement

NOK THOUSAND	Notes	2014	2013
Interest income	11	898 765	466 003
Interest expenses	11	472 997	253 380
<b>Net interest income</b>		<b>425 768</b>	<b>212 623</b>
Commission income		296	104
Commission expenses		5 000	5 000
<b>Net commission expenses</b>		<b>4 704</b>	<b>4 896</b>
<b>Net value change from financial instruments</b>	<b>12</b>	<b>-35 311</b>	<b>-15 909</b>
Wages and other personal expenses		231	0
Depreciation on intangible assets		7	377
Other operating expenses	13	37 383	8 541
<b>Total expenses</b>		<b>37 621</b>	<b>8 918</b>
<b>Profit before losses on loans</b>		<b>348 132</b>	<b>182 900</b>
Losses on loans	5,8	0	0
<b>Profit before taxes</b>		<b>348 132</b>	<b>182 900</b>
Tax expenses	14	94 009	51 212
<b>Profit for the period</b>		<b>254 123</b>	<b>131 688</b>

Notes 1 to 25 are an integral part of the consolidated financial statements.

# Other comprehensive income

NOK THOUSAND	Notes	2014	2013
Profit for the period		254 123	131 688
Other income and expenses		0	0
<b>Total profit for the period</b>		<b>254 123</b>	<b>131 688</b>

Notes 1 to 25 are an integral part of the consolidated financial statements.

# Balance sheet

NOK THOUSAND	Notes	2014	2013
<b>ASSETS</b>			
Loans to and receivables from credit institutions	15,16,21	12 588	0
Net loans to customers	5,6,7,8,15,16	20 079 397	11 319 904
Bonds and certificates	15,16,17	299 466	
Financial derivatives	15,16,18	155 133	0
Deferred tax assets	14	475	149
Other assets		0	7
<b>TOTAL ASSETS</b>		<b>20 547 060</b>	<b>11 320 060</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>			
Debt to credit institutions	15,21	1 330 485	529 506
Debt incurred due to issue of securities	10,15,19	17 352 100	9 969 755
Financial derivatives	15,16,18	3 184	0
Payable taxes	14	94 384	51 244
Other liabilities		5 434	0
<b>Total liabilities</b>		<b>18 785 587</b>	<b>10 550 505</b>
<b>EQUITY CAPITAL</b>			
Paid-in equity capital	4	1 025 000	525 000
Retained earnings	4	736 473	244 555
<b>Total equity capital</b>		<b>1 761 473</b>	<b>769 555</b>
<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>20 547 060</b>	<b>11 320 060</b>

Notes 1 to 25 are an integral part of the consolidated financial statements.

Kristiansand, 2 March 2015

Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug  
Chairman

Seunn Smith-Tønnessen  
Member

Rolf H. Søraker  
Member

Bjørn Friestad  
Member

Marianne Lofthus  
Managing Director

# Cash flow statement

NOK THOUSAND	2014	2013
Interest payments received	903 001	464 353
Interest payments made	-495 049	-253 940
Operating cost payments	-43 986	0
Changes in loans to customers	3 125 410	-756 231
Tax payment	-98 186	-33 237
<b>Net cash flow from operational activities</b>	<b>3 391 190</b>	<b>-579 055</b>
Changes in bonds and certificates	-299 466	
Changes in other assets	23	104
Changes in deposits from credit institutions	-399 165	-25 397
Changes in other liabilities	236	-13 918
Transferred cash through merger	1 164 879	0
<b>Net cash from current financing activities</b>	<b>466 507</b>	<b>-39 211</b>
Paid-in share capital	0	75 000
Payment received, bond debt	3 250 000	3 298 000
Payment made, bond debt	-7 095 110	-2 754 734
<b>Net cash flow from long-term financing activities</b>	<b>-3 845 110</b>	<b>618 266</b>
<b>Net change in liquid assets</b>	<b>12 588</b>	<b>0</b>
Liquid assets as at 01.01	0	0
<b>Liquid assets at end of period</b>	<b>12 588</b>	<b>0</b>

Notes 1 to 25 are an integral part of the consolidated financial statements.



# Equity statement

<b>NOK THOUSAND</b>	<b>Share capital</b>	<b>Share premium reserve</b>	<b>Other equity capital</b>	<b>Total</b>
<b>Balance 31.12.2012</b>	<b>450 000</b>	<b>0</b>	<b>112 867</b>	<b>562 867</b>
Profit 01.01 - 31.12.2013			131 688	131 688
Share capital increase 27.09.2013	75 000	0	0	75 000
<b>Balance 31.12.2013 / 01.01.2014</b>	<b>525 000</b>	<b>0</b>	<b>244 555</b>	<b>769 555</b>
Equity added through merger	0	500 000	237 795	737 795
Profit 01.01 - 31.12.2014	0	0	254 123	254 123
<b>Balance 31.12.2014</b>	<b>525 000</b>	<b>500 000</b>	<b>736 473</b>	<b>1 761 473</b>

Notes 1 to 25 are an integral part of the consolidated financial statements.

# Notes

## Note 1 – General Information

Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of Sparebanken Sør and has its registered office in Kristiansand. The company is licensed to operate as a mortgage company with the right to issue covered bonds. The company was founded on 4 March 2008, and Sparebanken Sør Boligkreditt AS was established as a mortgage company and subsidiary of the bank in January 2009.

The main object of Sparebanken Sør Boligkreditt AS is to offer loans secured through mortgages on residential property up to 75 per cent of the property value, and to issue covered bonds to national and international investors.

All sums in the financial statements are stated in NOK thousand, unless otherwise indicated. The company's financial statements are presented in Norwegian kroner, which is the functional currency.

The financial statements for 2014 were presented by the Board of Directors on 2 March 2015, and will be adopted with final effect at the General Assembly on 26 March 2015. The General Assembly is the company's supreme body.

Pluss Boligkreditt AS and Sør Boligkreditt AS merged in the 1st quarter 2014. Pluss Boligkreditt AS was the acquiring company. The new company changed its name to Sør Boligkreditt AS at the time of the merger, and later in 2014 the name was changed to Sparebanken Sør Boligkreditt AS. The merger has been carried out with continuity for accounting purposes.

Comparison figures for previous periods are historical financial figures for Pluss Boligkreditt AS, now Sparebanken Sør Boligkreditt AS. For a relevant comparison, the financial statements should be viewed in context with previously submitted statements for both Pluss Boligkreditt AS and Sør Boligkreditt AS.

## Note 2 – Accounting principles

### 1. BASIS FOR COMPILATION OF THE FINANCIAL STATEMENT

The company financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act.

The financial statements for Sparebanken Sør boligkreditt AS have been compiled in Norwegian kroner (NOK), which is the functional currency of the Company.

Unless stated otherwise, the values used in the financial statements have been rounded to the nearest thousand.

The measurement basis for the financial statement is historical cost with the exception of derivatives that are assessed as fair value with value change through profit or loss.

### 2. REVENUE

Interest income and -costs related to assets and liabilities which are measured at the amortised cost are expensed as incurred using the effective interest method. All charges related to interest-bearing loans and borrowings are included in the calculation of the effective interest rate and are amortised over the expected term.

Commission income, which are a direct payment for services provided are recognised when the services have been delivered. Directly attributable transaction costs associated with financial instruments that are valued at amortised cost, are amortised over the anticipated lifetime of the instrument.

### 3. DISCRETIONARY JUDGMENTS, ESTIMATES AND CONDITIONS

With the preparation of financial statements, the management makes estimates and discretionary judgments. Areas that are largely comprised of discretionary estimates have a high degree of complexity, and where assumptions and estimates are significant for the company's financial statements, are presented below.

#### 3.1. General

In applying accounting principles, the company's leadership exercised discretion in some areas and made assumptions about future events as the basis of accounting. There will naturally be an inherent uncertainty in the financial records based on the use of discretion and assumptions about future events. The exercise of discretion and the determination of assumptions about future events management will look to available information on the balance sheet date, historical experience with similar assessments, as well as market and third-party assessments of current conditions. Although the management use their best discretion and estimates are based on the best estimates available, one must expect that the actual outcome in some cases may differ materially from what is the basis of accounting. Estimates, assumptions and conditions that represent a significant risk of substantial changes in the carrying value of assets and liabilities within the next financial year are discussed below.

#### 3.2. Write-downs on loans

Assessment of individual and group-related write-downs will always be based on a significant degree of discretion.

Predictions based on historical information may prove to be incorrect because it can never be known for certain what relevance historical data's decisions are. The risk associated with the type of lending provided by the company is considered to be limited as the security objects consist of private residential property.

## **4. FINANCIAL INSTRUMENTS**

### **4.1 Recognition and deductions**

Financial assets and liabilities are recognised when the company becomes a party to the contractual decisions. A financial asset is deducted when the contractual rights to the cash flows from the financial asset expire, or the company transfers the financial asset in such a way that the risk and profit potential of the asset in question is substantially transferred. A financial liability is deducted when the financial liability is discharged, cancelled or expired.

### **4.2 Offsetting**

Financial assets and liabilities are only offset and recognised as a net amount in the balance sheet when the Company has a legally enforceable entitlement to offset, and intends to realise the asset and settle the liability simultaneously.

### **4.3 Classification**

Financial instruments are classified into one of the following categories at initial recognition.

- Financial instruments designated as hedging instruments
- Financial instruments subject to voluntary categorised at fair value through profit or loss
- Loans and receivables at amortised cost
- Other liabilities at amortised cost

#### **4.3.1 Financial instruments designated as hedging instruments**

Financial derivatives must be valued at fair value with changes in value recognised through the income statement. Sparebanken Sør Boligkreditt AS has only used interest rate swaps. Financial derivatives will be recognised in the balance sheet at fair value with changes in value being recognised through the income statement. When calculating fair value, the applicable interest rate curve for the market at the time in question is used as a basis. The category includes interest swaps used as hedging instruments for fair value hedging of bonds issued with a fixed rate of interest.

#### **4.3.2 Financial instruments voluntarily categorised at fair value with changes in value through profit or loss**

Financial instruments included in a portfolio measured on an ongoing basis and reported at the fair value are chosen to be recognised at fair value. For Sparebanken Sør Boligkreditt AS this concerns bonds and certificates that are assets.

#### **4.3.3 Loans and receivables at amortised cost**

This category includes loans and receivables that are measured at amortised cost.

#### **4.3.4 Other liabilities at amortised cost**

This category includes borrowings and liabilities that are measured at amortised cost.

### **4.4 Measurement at initial recognition**

Initial recognition of financial assets and liabilities is at fair value, in addition to instruments that are not derivatives or valued at fair value through the income statement, transaction costs that are directly attributable to the acquisition or the issuing of the financial asset or financial liability.

### **4.5 Subsequent measurement**

#### **4.5.1 Valuation at fair value**

Fair value is the price that would be obtained upon the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the time of valuation.

##### **4.5.1.1 Measurement of financial instruments which are not traded in an active market**

The fair value of financial instruments not traded in an active market is determined using a suitable valuation method.

Valuation techniques are based on the recently signed transactions between independent parties, by referencing instruments with virtually the same content or by discounting cash flows. As far as possible, valuations are based on externally observed parameter values.

In calculating the fair value of interest swaps entered into, the market value of the relevant inter-bank interest rate curve is used at all times.

#### **4.5.2 Measurement at amortised cost**

Financial instruments not measured at fair value are measured at amortised cost. Revenues are calculated at the instrument's effective interest rate.

Amortised cost is defined as the book value at the initial measurement, adjusted for received/paid installments and any cumulative accrual of fees, commissions etc., with any write-downs.

The effective interest rate method is one which calculates the amortised cost and the accrued interest income/expenses for the relevant period. Interest income is recognised using the effective interest rate method. The effective interest rate is the interest rate that by discounting the loan's cash flows over the anticipated term gives a value equal to the loan's amortised cost on the date of establishment. This means that any difference between the loan's original book value and the accrued value is accrued over the loan's expected maturity.

#### **4.5.3 Write-down of financial assets**

Losses on loans are calculated as the difference between the book value and net present value of estimated future cash flows, discounted using the effective interest rate. Use of the effective interest rate method means that it is made recognition of interest income on impaired loans. These loans are recognised at the internal interest rate at the date adjusted for changes in interest rates until the time of impairment. The income interest rates are based on the loan's recorded value.

In the income statement, recognised losses consist of realised losses, changes in impairment losses on loans and as well as input on past realised losses. Losses on loans are based on an assessment of the Company's loan portfolio in accordance with IAS 39. The company determines the losses on loans on a quarterly basis. Defaulted and doubtful loans are followed up with regular reviews.

##### **4.5.3.1 Reduction in value of loans and individual write-down losses**

Impairment loss is made when there is objective evidence that a loan is impaired as a result of creditworthiness. An impairment loss is reversed when the loss is reduced and can be related objectively to an event occurring after the impairment date. All loans that are considered significantly will be assessed to see whether there is objective evidence of impaired credit, and the objective indication is likely to result in reduced future cash flows to the service of the engagement. Objective evidence may be defaults, bankruptcies, debt settlement, and lack of liquidity or other significant financial problems.

##### **4.5.3.2 Collective write-downs**

Loans that have not been subject to individual impairment write-downs are included in collective write-downs. Loans are divided into groups with similar risk characteristics, with regard to servicing. Collective write-downs are calculated on sub-groups of loans where there is objective evidence that shows that the future cash flow for the service of the engagements is weakened. Collective write-downs made in order to cover expected credit losses caused by incidents that have occurred, shall take into account losses in the portfolio at the time of measurement, but that are not yet identified at the individual's commitment level. Objective events could be a negative trend in risk classification, adverse developments in security values.

##### **4.5.3.3 Realised losses**

When it is highly probable that the loss is final, this is recognised as a realised loss. This includes losses where the Company has lost its claim against the debtor as a result of bankruptcy, a debt settlement, an unsuccessful distress warrant, a legally binding court ruling or debt remission. This applies even if the company has otherwise suspended enforcement or waived part of or all loans. Some realised losses will be covered through the previous decision made

on individual loan loss write-downs, and booked against the former provision. Realised losses, without coverage in individual impairment loss, as well as over-or under coverage in relation to previous impairment loss, are recognised.

#### **4.6 Presentation in balance sheet and income statement**

##### **4.5.1 Loans**

Loans are recorded as either loans and receivables to credit institutions or loans to customers. Interest is included in the income statement under interest income. Changes in value due to impairment charges are recognised in the income statement on losses on loans.

##### **4.6.2 Financial derivatives (assets and liabilities)**

The balance sheet includes financial derivatives. Value adjustments related to derivative instruments are recognised in the income statement under net value change from financial instruments.

##### **4.6.3 Debt to credit institutions**

Balance sheet items include debts to credit institutions. Interests are recognised in the income statement under interest expenses.

##### **4.6.4 Debt incurred due to issue of securities**

The balance sheet item includes securities debt. Interests are recognised in the income statement under interest expenses.

## 5. HEDGE ACCOUNTING

Sparebanken Sør Boligkreditt AS utilises hedge accounting in relation to the company's funding at fixed rate terms. Hedge accounting covers the interest risk on the bonds.

The criteria for classification of a derivative as a hedging instrument are:

- The hedge accounting is anticipated to be very effective, in that it counteracts changes in the fair value of the bond issued.
- The effectiveness of the hedge accounting must be expected to be effective within the range of 80% to 125%.
- The effectiveness must be able to be reliably measured.
- Satisfactory documentation has been established prior to hedging that among other things shows that the hedging is effective and is expected to remain effective throughout the entire period.

Sparebanken Sør Boligkreditt AS utilises fair value hedging. Hedging is measured and documented every quarter to ensure that the hedging is effective. As a method of measuring the effectiveness of hedging, the dollar-offset method is used.

When the hedging is established and effective, interest swaps will be added to the balance sheet at the fair value and be added to the income statement under "Net value change from financial instruments".

The hedge object is added to the balance sheet at amortised cost. Changes in the fair value associated with the hedged risk are accounted for as a supplement or deduction in the balance-added value of the bond debt and is added in the income statement under "Net income from financial instruments".

If circumstances should occur in which the hedging is not effective, the company will amortise the change in value associated with the hedged object over the remaining period. The associated hedging instrument will continue to hold the fair value with a change in value in the income statement.

## 6. FIXED ASSETS

Fixed assets are recognised at cost less accumulated depreciation and impairment. Ordinary depreciation is computed at a straight-line basis over the expected economic life of the asset. There will be an annual reassessment of the remaining useful life and residual values for each asset.

At each reporting date, it will be evaluated as to whether there are any indications of impairment. If there are indications of impairment in the value of an asset, the company will calculate the utility value of the asset. The asset is written-down to the higher of the fair value and the utility value. The basis of previous write-downs is considered at the same time.

## 7. INCOME TAX

Income tax is accrued as a cost, irrespective of the time of payment. The tax charge therefore reflects this year's and future taxes payable as a result of this year's activity. The tax is expected to offset net income included in this year's tax cost and in the balance sheet called payable tax. Deferred tax is calculated on the basis of differences between the reported tax and accounting results that will be offset in the future. Tax increasing and tax reducing have temporary differences within the same time intervals are offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax reducing differences will be realised.

## 8. CASH FLOW STATEMENT

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents are defined as loans to and receivables from credit institutions.

## 9. CHANGES IN ACCOUNTING PRINCIPLES AND NOTES

Sparebanken Sør Boligkreditt AS has not made any changes to its accounting principles in 2014. The following new standards have been implemented.

### IAS 32 Financial Instruments – Presentation

IAS 32 has been amended to clarify the meaning of "currently has a legally enforceable right to set-off", and also to clarify the application of IAS 32s in the offsetting of payment systems such as central clearing house systems which use gross settlement mechanisms that do not happen simultaneously.

### IAS 39 Financial instruments - Recognition and Measurement

IASB had adopted changes regarding the hedge accounting rules under IFRS. The changes mean that hedge accounting need not be concluded in cases where derivatives designated as hedging instruments must be transferred in order to carry out central counterparty clearing (CCP) as required by law or other regulation, provided that certain specified criteria are met.

## 10. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, BUT NOT YET ENTERED INTO FORCE

IASB has published a number of new standards, interpretations and changes to standards that will be mandatory for the company in future financial periods. The changes that are applicable to the company are described below:

### IFRS 9 Financial instruments

In July 2014, IASB published the latest sub-project in IFRS 9 and the standard has now been completed. IFRS 9 will replace changes related to classification and measurement, hedge accounting and write-downs. IFRS 9 will replace IAS 39, Financial instruments – Recognition and measurement. The parts of IAS 39 that have not been changed as part of this project have been transferred and included in IFRS 9. The standard is not yet approved by the EU. For accountable entities outside the EU/EEA, the change will apply with effect from the financial year starting on 1 January 2018 or later. Sparebanken Sør Boligkreditt AS will evaluate the potential effects of IFRS 9 in accordance with the other phases as soon as the final standard, including all phases, is published.

### IFRS 15 Income from customer contracts

IFRS 15 concerns recognition of income. The standard requires a division of the customer contract into individual performance obligations. A performance obligation may be goods or a service. Income is recognised when a customer gains control of goods or a service and thus is able to determine the use and may receive the benefits of the goods or service. The standard replaces IAS 18 Operating income and IAS 11, Construction contracts and related interpretations. The standards come into effect for financial year 2017, but early adoption is permitted. The company has not completed any assessment regarding the impact of IFRS 15.

In addition to the aforementioned new standard and interpretation, there have also been changes to other standards that may affect the company's future reporting. The management considers the effect of the changes to these standards to have little significance to the company.

## Note 3 – Risk management

The objective of Sparebanken Sør Boligkreditt AS is to be a funding instrument for Sparebanken Sør so that the group can maximise its long-term value creation. With this objective, it is essential that the risk is subject to an active and satisfactory management.

The objective of Sparebanken Sør Boligkreditt AS is to utilise high-quality residential mortgage portfolios to allow the issuing of covered bonds. Part of the Sparebanken Sør Group's business strategy is to keep a low to moderate risk profile for all activities. Taking risks is a basic feature of banking, and risk management is therefore a key area in both daily operations as well as the Board's ongoing work. We also refer to the Bank's Pilar 3 document, which is available on the Bank's website.

## ORGANISATION

### Board of Directors

The Board has overall responsibility for the company's total risk management and aims to ensure that the company has appropriate systems in place for risk management and internal control. The Board determines risk strategies, framework for risk appetite, risk profile and tolerance. The Board also determines the strategy and guidelines for the capital plan and composition of the capital and approves the process to ensure an acceptably adequate capital level at any time (ICAAP)

### The company's management

The management and daily operation of Sparebanken Sør Boligkreditt AS is based on a Management Service Agreement between the company and the parent company, Sparebanken Sør.

The Managing Director has overall responsibility for the implementation of the company's credit strategy and credit policy within general mandates and limits adopted by the Board.

Responsibility for implementation of the annual assessment of the risk situation and the capital adequacy requirement has been delegated to division Risk Management in Sparebanken Sør and is regulated by a supply agreement between the Mortgage Company and Sparebanken Sør. This analysis must be coordinated and integrated with other planning and strategy work in the group.

Sparebanken Sør has risk management that covers the whole group, including Sparebanken Sør Boligkreditt AS. This unit must identify, measure and evaluate the Company's overall risk and take responsibility for compliance. Risk Management does not perform activities intended for monitoring by the control function.



### **Risk management committee**

Risk management committee shall deal with matters and provide input regarding the Group's management and control of total risk. The risk management committee is to take decisions regarding the Group's total risk exposure and reconcile this in relation to the Group's capital requirements. The risk management committee is responsible for auditing the Group's ICAAP documents and recommending any changes to the ICAAP process.

### **Internal auditor**

Sparebanken Sør has employed internal auditors and these also cover internal auditing of Sparebanken Sør Boligkreditt AS regulated in a separate agreement. This is a monitoring function regardless of the administration in general, designed to perform risk assessments, controls and investigations of the company's internal control and governance processes to assess whether they are appropriate and proper.

### **Risk control process**

There are justifiable and appropriate strategies and processes for risk management and the assessment of capital needs and how this can be maintained. The term for this is ICAAP (the Internal Capital Adequacy Assessment Process).

### **Control committee**

Sparebanken Sør Boligkreditt AS shall have a Control Committee that is identical to the parent company Sparebanken Sør. The Control Committee shall oversee the company's operations, including the Board of Directors' decisions, and ensure that the business is run in accordance with the applicable laws and regulations.

## **RISK CATEGORIES**

All risks are managed through a framework for risk appetite and risk tolerance. There are targets for the different risk parameters. Sparebanken Sør Group operates with the following risk categories:

### **Credit risk / counterpart risk**

Credit risk is the risk of loss due to the Company's counterparties or customers not having the ability or willingness to meet its payment obligations to Sparebanken Sør Boligkreditt AS. Credit risk concerns all claims on counterparties/customers. Essentially this means loans and credits, but also responsibilities under issued guarantees, securities and counterparty risk arising from derivatives and foreign exchange contracts.

Credit risk is a function of two factors: servicing and the will, and the value of underlying collateral. Both factors must occur for it to be able to experience losses. The first is the lack of ability to pay or the will of the debtor, and the other is that the value of the underlying collateral is not sufficient to cover the Company's requirements for any default and subsequent realisation of security.

Credit risk is defined as a significant risk, and the Group's policy is that credit risk exposure is low to moderate. The Board approves the Group's credit strategy and credit policy, and credit risk is controlled by fixed limits and goals linked to the risk profile and exposure on the portfolio level.

The Board, Management and control bodies receive regular reports of credit risk. Central to this is the development of lending by the various risk classes and movement between these classes.

### **Settlement risk**

Settlement risk is a form of credit risk where a contracting party fails to fulfil its obligations regarding settlements in the form of cash or securities, and that the Company has given notice of the payment or transfer of a security or safety. Settlement risk that the Company is exposed to is considered to be low.

### **Liquidity risk**

Liquidity risk is defined as the risk that Sparebanken Sør Boligkreditt AS is unable to meet its obligations or is unable to fund its assets and also that funding cannot be achieved without incurring significant additional costs, in the form of an impairment in value of assets that must be realised, or in the form of funding at an above normal cost level. Liquidity risk also includes the risk that the financial markets, which the company wishes to use, will cease to function.

Sparebanken Sør Boligkreditt AS will have a liquidity risk in accordance with the regulatory requirements. The risk must be moderate and adapted to the Group's other activities. It must be possible to compare the Company's adaptation with comparable companies and meet the requirements of investors in the Company's securities. The monitoring is done by the control of exposure in relation to adopted limits and control of qualitative requirements.

### **Market risk**

Market risk includes risks related to profit variations on unsecured interest rate -, currency - and equity transactions due to changes in interest and exchange rate and adjustments in share prices and may be divided into interest rate, currency, share and credit spread risk. Sparebanken Sør Boligkreditt AS will have a low market risk.

### **Interest rate risk**

Interest rate risk is defined as the risk for the revenue losses arising from changes in interest rates if the fixed rate period for the Company's liabilities and assets, not coincides. The interest rate risk limit is determined as an upper limit for how great the loss on unsecured interest rate positions may be in case of a 2 percentage point parallel shift in the interest rate level.

### **Currency risk**

Risk of financial (earnings-related) losses arising from an unfavorable change in the value of asset and liability items (on and off the balance sheet) measured in the base currency (NOK) due to changes in the exchange rates. Exposure is measured as the size of the potential losses in a stress scenario where the exchange rates change by 10 per cent and the currency risk is regulated by limits for maximum aggregated currency position. Limits have been set for exposure in individual currencies. Sparebanken Sør Boligkreditt AS had no foreign exchange exposure as of the end of 2014.

### **Spread risk**

Spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in the credit spread. A general increase in credit spreads would lead to a reduction in value of a portfolio of interest-bearing securities. Changes in the credit spread are a consequence of changes in investors' requirement for risk premium for a shift in anticipated credit risk and/or changes in other market conditions. The company's credit spread exposure is mainly related to the liquidity portfolio.

### **Business risk**

Business risk is defined as the risk of unexpected revenue fluctuations based on factors other than credit risk, market risk and operational risk. The risk can occur in various business and product segments and is linked to cyclical fluctuations and changes in customer behavior. Business risk can also arise as a result of government regulations. The risks also include the reputation- or the reputational risk, which is the risk, associated with increased losses, reduced income and/or increased costs as a result of the company's reputation having been damaged.

### **Strategic risk**

Strategic risks are defined as internal matters on which the strategic risks relate to the strategies, plans and changes that the Company either has or has proposed.

### **Operational risk**

Operational risk is the risk that the company has for financial losses or loss of reputation due to inadequate or failing internal processes or systems, human errors or external events. Operational risk includes risk of default. Examples of operational risk relationships can be several types of adverse actions and events, including money laundering, corruption, embezzlement, insider trading, fraud, threats to employees, authorisation failures and violations on adopted procedures, the failure of IT-systems, among other things.

The monitoring of operational risk is done by regular qualitative assessments. The estimated capital requirements for operational risk are carried out under the basic method, and it is assessed whether these ICAAP capital calculations are adequate. It is considered that the Group has a low operational risk. The operational business in Sparebanken Sør Boligkreditt AS has been secured through supply agreements

with Sparebanken Sør. Sparebanken Sør Boligkreditt AS' operational risk is considered to be low.

### **Concentration risk**

Concentration risk is credit risk arising from high overall exposure to a single counterparty or issuer of security, associated groups of counterparties, counterparties with operations in the same sector or geographical area and enterprises that use the same kind of security, trade with the same goods or have the same type of operations.

With regards to credit risk, it is an objective to avoid major risk concentrations, including large exposure to individual customers or customer groups and groups of commitments in classes within high-risk industries or geographic areas.

It is the company's perception that Sparebanken Sør Boligkreditt AS is not exposed to any additional risk as a result of debtor concentration. This is a result of low credit exposure when taking into account the quality of collaterals.

## **HEDGING INSTRUMENTS**

### **The Company uses the following hedging instruments:**

- Interest rate swaps - agreements to exchange interest rates for a particular nominal amount over a specified number of periods.

The purpose of the use of interest rate instruments are to hedge future interest rate conditions.

## Note 4 – Capital adequacy

Sparebanken Sør Group has a goal of maximising long-term value creation. The Group also has a goal that the risk profile should be moderate to low. This means that effective risk and capital management is a key strategic element. Sparebanken Sør Boligkreditt AS is an instrument to underpin this objective.

Sparebanken Sør has established a strategy and process for risk measurement, -management and -control that provides an overview of the risks the Group is exposed to. This therefore provides the basis for the assessment and calculation of the Group's total capital needs, and how this can be maintained to meet the specific risks in an adequate manner. The process is described as ICAAP (the Internal Capital Adequacy Assessment Process) or "Total Capital Assessment Process." The assessment of capital needs including size, composition and the distribution of their capital needs and the level of the risks the Group is or may be subjected to, is based on the completed stress tests that show what changes in macro variables can do to inflict greater Group losses.

Capital adequacy ratio shall ensure that the company has the necessary buffer capital for events that arise in addition to ordinary loss provisions. In order to have greater flexibility in terms of strategic choices and business opportunities, the Sparebanken Sør Group has a higher equity and subordinated loan capital than the demand which is calculated from ICAAP.

A legislative amendment has been adopted and involves a new minimum requirement for core tier 1 capital and four new buffer capital requirements for banks, financial institutions and parent companies in banking groups. With effect from 1 July 2014, the total of the new minimum requirement for core tier 1 capital ratio and the buffer requirements is 10 per cent core tier 1 capital ratio. The requirement for core capital ratio will be 11.5 per cent, while the requirement for total capital ratio will be 13.5 per cent.

Sparebanken Sør Boligkreditt AS uses the standard method for credit- and market risk and the basic method for operational risk to calculate capital adequacy in accordance with the capital adequacy rules – Basel II.

NOK THOUSAND	31.12.2014	31.12.2013
<b>EQUITY CAPITAL</b>		
Share capital	525 000	525 000
Share premium reserve	500 000	
Other equity	736 473	244 555
Deduction	0	0
<b>Net equity capital (core capital)</b>	<b>1 761 473</b>	<b>769 555</b>
<b>Minimum requirement for equity capital</b>		
Credit risk	670 079	341 923
Market risk	0	0
Operational risk	39 753	11 567
CVA addition	17 289	-
Deductions	-	0
<b>Total minimum requirement for equity capital</b>	<b>727 121</b>	<b>353 490</b>
Risk-weighted balance (calculation basis)	9 089 013	4 418 625
<b>Core tier 1 capital ratio</b>	<b>19,38 %</b>	<b>17,42 %</b>
<b>Core capital ratio</b>	<b>19,38 %</b>	<b>17,42 %</b>
<b>Total capital ratio</b>	<b>19,38 %</b>	<b>17,42 %</b>

## Note 5 – Credit area and credit risk

Credit risk represents the greatest risk area for the company. The Board sets the Group's credit strategy, that together with credit policies and guidelines for credit processes shall ensure that the customer portfolio has an acceptable risk profile and helps the Group to maximise its long-term value creation.

### Loans distributed in risk classes

The models used have been based on internal and external data for calculation of probability of default (PD) and expected losses (EL) at customers and portfolio level. Retail customers and corporate customers are scored each month, and are divided into 11 classes (A – K) based on the probability of default. Class K consists of defaulted loans and commitments with individual write-downs. The table below shows the intervals for the different risk classes based on the probability of default.

All customers must be risk-classified before the loan is transferred to Sparebanken Sør Boligkreditt AS, and loans that are taken on by Sparebanken Sør Boligkreditt AS must have a probability of default (PD value) not exceeding 2.00 per cent. Customers who have a weaker risk classification after transfer to the company may remain as part of the cover pool if the requirement of a loan-to-value ratio within 75 per cent is met.

The bank's risk categories are as follows:

Risk classes	Lower limit of default (PD-values)	Upper limit of default (PD-values)
A	0,00 %	0,10 %
B	0,10 %	0,25 %
C	0,25 %	0,50 %
D	0,50 %	0,75 %
E	0,75 %	1,25 %
F	1,25 %	2,00 %
G	2,00 %	3,00 %
H	3,00 %	5,00 %
I	5,00 %	8,00 %
J	8,00 %	99,99 %
K	100,00 %	

Probability of default	
Low risk (A-D)	0,00 - 0,75%
Medium risk (E-G)	0,76 - 3,00 %
High risk (H-J)	3,01 - 99,99 %
Default (K)	100 %

### Specification within risk categories as at 31 December 2014

NOK THOUSAND	Commitments	Commitments in %	Gross loans	Potential exposure
Low risk	18 785 010	83,6 %	16 511 770	2 273 240
Medium risk	3 301 543	14,7 %	3 202 994	98 549
High risk	343 962	1,5 %	341 068	2 894
Defaulted and write-downs commitments	0	0,0 %	0	0
Unclassified	34 429	0,2 %	29 565	4 864
<b>TOTAL</b>	<b>22 464 944</b>	<b>100,00 %</b>	<b>20 085 397</b>	<b>2 379 547</b>

### Specification within risk categories as at 31 December 2013

NOK THOUSAND	Commitments	Commitments in %	Gross loans	Potential exposure
Low risk	10 259 061	78,7 %	8 892 725	1 366 336
Medium risk	2 097 950	16,1 %	1 822 544	275 406
High risk	601 831	4,6 %	524 206	77 625
Defaulted and write-downs commitments	441	0,0 %	441	0
Unclassified	81 510	0,6 %	79 988	1 522
<b>TOTAL</b>	<b>13 040 793</b>	<b>100,00 %</b>	<b>11 319 904</b>	<b>1 720 889</b>

Commitments include gross loans and potential exposure. Potential exposure consists of unused credit facilities on flexi-loans.

## Note 6 – Cover pool and loan-to-value ratio

NOK THOUSAND	31.12.2014	31.12.2013
Gross loans secured with mortgage-on dwelling (residential mortgage loans)*	19 980 952	11 319 904
Receivables representing collateral	12 588	0
<b>Total cover pool</b>	<b>19 993 540</b>	<b>11 319 904</b>
Collateralisation ratio	116 %	114 %

\* Cover pool composition is defined in the Financial Institutions Act section 2-28.

	31.12.2014	31.12.2013
Average debt to asset ratio in %	52,8 %	58,1 %
<b>The portfolio divided into intervals of debt to assets ratio:</b>		
Less than or equal to 40 %	25,0 %	17,9 %
41 - 50 %	14,5 %	11,6 %
51 - 60 %	18,9 %	16,4 %
61 - 70 %	27,0 %	25,0 %
71 - 75 %	8,6 %	16,3 %
over 75 %	5,9 %	12,8 %
<b>Total</b>	<b>100,0 %</b>	<b>100,0 %</b>

## Note 7 - Loans

NOK THOUSAND	31.12.2014	31.12.2013
<b>Loans assessed at amortised cost</b>		
Flexi-loans (revolving loans)	6 208 435	5 386 007
Repayment loans	13 876 962	5 933 897
<b>Gross loans</b>	<b>20 085 397</b>	<b>11 319 904</b>
Collective write-downs	6 000	0
<b>Net loans</b>	<b>20 079 397</b>	<b>11 319 904</b>
Unused credit on Flexi-loans	2 398 489	1 730 440

NOK THOUSAND	31.12.2014	31.12.2013
<b>Loans distributed to sectors and industries</b>		
Retail customers	19 808 285	11 243 902
Corporate customers *)	251 930	63 153
Accrued interest	25 182	12 849
<b>Gross loans</b>	<b>20 085 397</b>	<b>11 319 904</b>
Collective write-downs	6 000	0
<b>Net loans</b>	<b>20 079 397</b>	<b>11 319 904</b>

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

	31.12.2014		31.12.2013	
<b>Loans distributed by geographical areas</b>				
Vest-Agder	8 623 012	42,9 %	7 410 329	65,5 %
Aust-Agder	6 248 037	31,1 %	2 014 471	17,8 %
Telemark	1 771 772	8,8 %	47 022	0,4 %
Oslo	1 467 275	7,3 %	723 667	6,4 %
Akershus	694 479	3,5 %	344 801	3,0 %
Other counties	1 274 822	6,3 %	779 614	6,9 %
<b>Total</b>	<b>20 079 397</b>	<b>100,0 %</b>	<b>11 319 904</b>	<b>100,0 %</b>

## Note 8 - Defaulted loans

NOK THOUSAND	31.12.2014	31.12.2013
Gross defaulted commitments		
31 - 60 days	0	441
61 - 90 days	0	0
Over 90 days	0	0
<b>Total gross defaulted commitments</b>	<b>0</b>	<b>441</b>

## Note 9 - Interest rate risk

Interest rate risk occurs in connection with the company's ordinary lending and borrowing activities and in relation to the activities in the Norwegian and international money and capital markets. Interest risk may occur when reprising dates on assets and liabilities, are not matched. An interest risk limit has been adopted by the Board of Directors, and is measured as a maximum loss as a result of a parallel displacement of the yield curve by two percentage point.

Interest rate risk is managed through the choice of fixed interest rates for asset and liability items and through the use of financial derivatives. The company reports to the Board on a quarterly basis.

As at 31 December 2014, Sparebanken Sør Boligkreditt AS only has loans with a floating rate of interest in its portfolio. Two fixed rate bond loans have been issued. These have been swapped to a floating rate of interest and recognised in the financial statements under the rules on hedge accounting.

According to the model Sparebanken Sør Boligkreditt AS uses to calculate interest risk, risk exposure is NOK 5.7 million as at 31.12.2014 (NOK 0 as at 31.12.2013).

## Note 10 Liquidity risk

Liquidity risk is defined as the risk of the company failing to fulfil its obligations as they fall due. The company's liquidity risk was generally low in 2014, as illustrated by the fact that most of the company's loans were financed on a long-term basis through covered bonds. Long-term financing is defined as financing from the money and capital markets with maturities exceeding one year, as well as unutilised committed drawing rights. The company shall have sufficient liquid assets in order to fulfil its obligations at all times. In 2014, the company's funding structure complied with all requirements as required by law and the Board of Directors.

As of 31 December 2014, Sparebanken Sør Boligkreditt AS has an overdraft facility amounting to NOK 5 500 million with Sparebanken Sør. In addition, the company also has revolving drawing rights with the parent bank, which can be used to finance the liquidity due on covered bonds that may not necessarily be refinanced. Annual commission is paid on the drawing rights.

Covered bonds issued by Sparebanken Sør Boligkreditt AS contain a clause giving the borrower an option to extend the loan by 12 months beyond the maturity date.

The table below specifies the financial assets and obligations classified in accordance with the maturity structure. Credits and flexi-loans are presented as loans to customers with a maturity date falling within one month as a result of there being no agreed repayment date for these loans. All amounts are undiscounted cash flows. The table does not include future interest payments beyond the accrued interest on the balance sheet date. Other assumptions have been used as a basis in the ongoing management of the liquidity risk with regard to the due date of these balance sheet items.



31.12.2014

NOK MILLION	TOTAL						31.12.2014	
		Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years	Undefined	
Assets								
Loans to and receivables from credit institutions	13	13						
Loans to customers	20 085	6 271	85	387	1 991	11 351		
Bonds and certificates	299		299					
Other assets	155						155	
<b>Total assets</b>	<b>20 552</b>	<b>6 284</b>	<b>385</b>	<b>387</b>	<b>1 991</b>	<b>11 351</b>	<b>155</b>	
Liabilities / obligations								
Debt to credit institutions	1 330	1 330						
Debt incurred due to issue of securities	17 210	49	367	1 552	12 392	2 850		
Other liabilities	103		3	2	94		3	
<b>Total liabilities</b>	<b>18 643</b>	<b>1 379</b>	<b>370</b>	<b>1 554</b>	<b>12 486</b>	<b>2 850</b>	<b>3</b>	

31.12.2013

NOK MILLION	TOTAL						31.12.2013	
		Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years	Undefined	
Assets								
Loans to customers	11 320	5 413	33	156	758	4 960		
Other assets	0							
<b>Total assets</b>	<b>11 320</b>	<b>5 413</b>	<b>33</b>	<b>156</b>	<b>758</b>	<b>4 960</b>	<b>0</b>	
Liabilities / obligations								
Debt to credit institutions	530	530						
Debt incurred due to issue of securities	9 973	12		144	8 018	1 800		
Other liabilities	51		26	26				
<b>Total liabilities</b>	<b>10 554</b>	<b>542</b>	<b>26</b>	<b>169</b>	<b>8 018</b>	<b>1 800</b>	<b>0</b>	

### Maturity structure of bonds issued as at 31.12.2014

ISIN Number	Ticker	Nominal value	Book value	Repayment- structure	Coupon	Due date
NO0010520406	SORB14	11 000	11 010	No installments	Nibor 3 mths	16.03.2015
NO0010633415	SORB05	356 000	356 277	No installments	Nibor 3 mths	23.03.2015
NO0010572118	SORB11	249 000	250 020	No installments	Nibor 3 mths	23.04.2015
NO0010503410	SORB18	6 500	6 501	No installments	Nibor 3 mths	28.09.2015
NO0010625841	SORB03	356 000	358 422	No installments	Nibor 3 mths	05.10.2015
NO0010575210	SORB12	327 000	327 657	No installments	Nibor 3 mths	26.11.2015
NO0010593437	SORB13	612 000	612 557	No installments	Nibor 3 mths	14.12.2015
NO0010512502	SORB17	1 500	1 502	No installments	Nibor 3 mths	14.12.2015
NO0010515406	SORB16	142 000	142 133	No installments	Nibor 3 mths	16.03.2016
NO0010605801	SORB19	1 000 000	999 865	No installments	Nibor 3 mths	30.03.2016
NO0010614688	SORB01	1 200 000	1 200 584	No installments	Nibor 3 mths	29.06.2016
NO0010641624	SORB20	1 000 000	1 000 984	No installments	Nibor 3 mths	28.03.2017
NO0010623945	SORB02	1 200 000	1 200 700	No installments	Nibor 3 mths	24.08.2017
NO0010649056	SORB06	1 250 000	1 256 215	No installments	Nibor 3 mths	20.06.2018
NO0010673296	SORB21	2 000 000	2 006 936	No installments	Nibor 3 mths	14.09.2018
NO0010699341	SORB23	800 000	801 424	No installments	Nibor 3 mths	13.03.2019
NO0010679806	SORB10	2 000 000	2 011 630	No installments	Nibor 3 mths	22.05.2019
NO0010689680	SORB22	1 000 000	999 593	No installments	Nibor 3 mths	18.09.2019
NO0010664659	SORB07	800 000	801 006	No installments	Nibor 3 mths	27.11.2019
NO0010714058	SORB24	2 000 000	2 000 628	No installments	Nibor 3 mths	24.06.2020
NO0010671597	SORB09	350 000	406 056	No installments	fixed 3,85 %	13.02.2023
NO0010670409	SORB08	500 000	600 403	No installments	fixed 4,00 %	24.01.2028
<b>Total</b>		<b>17 161 000</b>	<b>17 352 100</b>			

## Note 11 - Interest income and interest expenses

NOK THOUSAND	2014	2013
Interest on loans given to and receivables from credit institutions	16 437	4
Interest on loans to customers	882 163	465 999
Interest on certificates, bonds and interest-bearing securities	165	
<b>Total interest income</b>	<b>898 765</b>	<b>466 003</b>
Interest on debt to credit institutions	41 319	12 935
Interest on issued securities	431 514	240 445
Other interest costs	164	
<b>Total interest expenses</b>	<b>472 997</b>	<b>253 380</b>
<b>Net interest income</b>	<b>425 768</b>	<b>212 623</b>

## Note 12 - Value change from financial instruments

NOK THOUSAND	2014	2013
Gains / losses and changes in value - certificates and bonds	0	0
<b>Certificates, bonds and shares - designated at fair value through profit</b>	<b>0</b>	<b>0</b>
Change in value - bonds at fixed interest rate - hedge accounting	-225 752	0
Change in value - derivatives fixed rate bonds - designated as hedging instrument	224 245	0
<b>Net issued securities at fixed rate - hedge accounting</b>	<b>-1 507</b>	<b>0</b>
Gains / losses from buy-back of own bonds - amortised cost	-33 804	-16 036
Other financial derivatives - liable to fair value through profit	0	127
<b>Net other financial instruments and derivatives</b>	<b>-33 804</b>	<b>-15 909</b>
<b>Net value change from financial instruments</b>	<b>-35 311</b>	<b>-15 909</b>

## Note 13 - Other operating expenses

NOK THOUSAND	2014	2013
IT costs	204	2 600
External fees	707	315
Management of loans/services purchased	32 577	3 384
Other operating expenses	3 895	2 241
<b>Total other operating expenses</b>	<b>37 383</b>	<b>8 540</b>

### Remuneration to auditors is included in other operating expenses

NOK THOUSAND	2014	2013
Ordinary audit fees, statutory audit	132	188
Other attestation services	109	53
Fees from other services	8	7
<b>Total remuneration to elected auditor (incl. VAT)</b>	<b>249</b>	<b>248</b>

## Note 14 - Tax

NOK THOUSAND	2014	2013
Profit before tax expenses	348 132	182 900
Permanent differences	32	0
Change in temporary differences	1 406	115
Taxable income	349 570	183 015
<b>Tax payable (27% in 2014 - 28% in 2013)</b>	<b>94 384</b>	<b>51 244</b>
Effective tax rate	27,1 %	28,0 %
	<b>2014</b>	<b>2013</b>
Tax payable on net income	94 384	51 244
Changes in deferred tax	-375	-32
<b>Tax cost for the year</b>	<b>94 009</b>	<b>51 212</b>
<b>CALCULATION OF DEFERRED TAX/TAX DEFERRED ASSETS</b>		
	<b>31.12.2014</b>	<b>31.12.2013</b>
Tax-increasing temporary differences		
Fixed assets	-433	-534
Bond debt - adjustment of hedge accounting	-125 831	0
<b>Total tax-increasing temporary differences</b>	<b>-126 264</b>	<b>-534</b>
Tax-reducing temporary differences		
Financial derivatives	124 506	0
<b>Total tax-reducing temporary differences</b>	<b>124 506</b>	<b>0</b>
Deferred tax (+) / deferred tax assets (-)	-1 758	-534
<b>Calculated deferred tax (+) / deferred tax assets (-)</b>	<b>-475</b>	<b>-149</b>
	<b>31.12.2014</b>	<b>31.12.2013</b>
Deferred tax / deferred tax assets as at 01.01.	-149	-117
Recognised in the merger 01.01.2014	49	
Change in deferred tax in the profit	-375	-32
<b>Deferred tax / deferred tax asset as at 31.12.</b>	<b>-475</b>	<b>-149</b>

Deferred tax assets are recognised and may be justified based on an expectation of future earnings

## Note 15 - Financial instruments by category

NOK THOUSAND	Financial instruments voluntarily categorised at fair value (1)	Financial derivatives used as hedging instruments	Financial assets and liabilities at amortised cost (2)	31.12.14 Total
Loans to credit institutions			12 588	12 588
Net loans to customers			20 079 397	20 079 397
Bonds and certificates	299 466			299 466
Financial derivatives		155 133		155 133
<b>Total financial assets</b>	<b>299 466</b>	<b>155 133</b>	<b>20 091 985</b>	<b>20 546 584</b>
Debt to credit institutions			1 330 485	1 330 485
Debt incurred due to issue of securities			17 352 100	17 352 100
Financial derivatives		3 184		3 184
<b>Total financial liabilities</b>	<b>0</b>	<b>3 184</b>	<b>18 682 585</b>	<b>18 685 769</b>

NOK THOUSAND	Financial assets and liabilities at amortised cost (2)	31.12.13 Total
Net loans to customers	11 319 904	11 319 904
Bonds and certificates		
Financial derivatives		
<b>Total financial assets</b>	<b>11 319 904</b>	<b>11 319 904</b>
Debt to credit institutions	529 506	529 506
Debt incurred due to issue of securities	9 969 755	9 969 755
Financial derivatives		
<b>Total financial liabilities</b>	<b>10 499 261</b>	<b>10 499 261</b>

1 - Maximum credit risk is equivalent to the recognised value of financial instruments voluntarily categorised at fair value.

2 - Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

## Note 16 - Fair value of financial instruments

### METHODS TO DETERMINE FAIR VALUE

#### GENERAL

For financial instruments where the booked value is a reasonable approximation of fair value, valuation methods to calculate fair value are not used. This relates mainly to assets and liabilities within a short time (three months) due for payment or where there is a short time (three months) to the next interest due date / regulation.

#### INTEREST RATE SWAPS

Valuation of interest rate swaps at fair value is done through the use of valuation techniques in which the expected future cash flows are discounted to the present value. The calculation of expected cash flows and the discounting of these are carried out on the use of observable market rates for different currencies and observable exchange rates. The estimated present value is checked against the corresponding estimates from the counterparties in the contracts.

#### CERTIFICATES AND BONDS

The valuation of certificates and bonds is through the use of valuation techniques based on future cash flows and credit risk, assessed on the balance sheet date. The valuation is based on observable market interest rates. The Company's assessment of credit risk is based on information from various brokers.

#### LOAN

Fair value is considered to be equal to the nominal value for loans with a variable interest rate.

#### BORROWING

For borrowings the valuation is made through the use of valuation techniques and the discounting of expected future cash flows. A risk-free interest rate is regarded as the interest rate on loans between banks, particularly creditworthy ones. The mark-up for credit is made on the basis of the ongoing assessments which other market players make on the Company's creditworthiness.

#### DEPOSITS

For floating rate deposits, the fair value is considered to be equal to nominal value.

## Classification of financial instruments

Financial instruments are classified in different levels:

### Level 1:

Includes financial assets and liabilities valued using the unadjusted observable market values. This includes listed shares, derivatives traded on active market places and other securities with quoted market values.

### Level 2:

Instrument value based on valuation techniques in which all the assumptions (all input) is based on directly or indirectly observable market data. Values here can be obtained from external market players or reconciled with the external markets which offer these types of services.

### Level 3:

Instruments are based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. This category includes investments in companies and fixed rate loans where there is no market information.

NOK THOUSAND	Recognised value	31.12.2014		
		Level 1	Fair value Level 2	Level 3
<b>Assets recognised at amortised cost</b>				
Loans to and receivables from credit institutions	12 588			12 588
Net loans to customers (floating interest rate)	20 079 397			20 079 397
<b>Assets recognised at fair value</b>				
Bonds and certificates	299 466		299 466	
Financial derivatives	155 133		155 133	
<b>Total financial assets</b>	<b>20 533 996</b>	<b>0</b>	<b>454 599</b>	<b>20 079 397</b>
<b>Liabilities recognised at amortised cost</b>				
Debt to credit institutions	1 330 485		1 330 485	
Debt incurred due to issue of securities	17 352 100		17 517 905	
<b>Liabilities recognised at fair value</b>				
Financial derivatives	3 184		3 184	
<b>Total financial liabilities</b>	<b>18 685 769</b>	<b>0</b>	<b>18 851 574</b>	<b>0</b>

NOK THOUSAND	Recognised value	31.12.2013		
		Level 1	Fair value Level 2	Level 3
<b>Assets recognised at amortised cost</b>				
Net loans to customers (floating interest rate)	11 319 904			11 319 904
<b>Total financial assets</b>	<b>11 319 904</b>	<b>0</b>	<b>0</b>	<b>11 319 904</b>
<b>Liabilities recognised at amortised cost</b>				
Debt to credit institutions	529 506		529 506	
Debt incurred due to issue of securities	9 969 755		10 029 219	
<b>Total financial liabilities</b>	<b>10 499 261</b>	<b>0</b>	<b>10 558 725</b>	<b>0</b>

## Hedge accounting

Sparebanken Sør Boligkreditt AS uses hedge accounting for the portion of the debt securities that is issued as fixed rate bonds. The bonds included in the hedge accounts are recognised at cost. Subsequent measurements are recorded at amortised cost, with the change in fair value related to the hedged risk. The hedges reveal the interest rate risk in issued fixed rate bonds. Hedge accounting requires the Company to keep the system for measuring and documenting hedge effectiveness.

Each bond issued as a fixed rate is included in the hedge accounting. Sparebanken Sør Boligkreditt AS uses fair value hedges. The hedge is measured and documented every quarter to ensure that it is effective within 80-125%. The dollar offset method' is used to measure the effectiveness of the hedge.

## Results of hedge accounting

NOK THOUSAND	2014	2013
Result / ineffectiveness in hedge accounting		
Net income from other financial instruments	-1 507	0
<b>Total</b>	<b>-1 507</b>	<b>0</b>

Inefficiency in hedge accounting is recognised as a change in value and also appears in note 12.

## Hedge accounting in the balance sheet

The hedging instrument is recognised under financial derivatives. Value tied to the hedged risk is recognised under the debt incurred due to issue of securities.

NOK THOUSAND	2014	2013
Recognitions concerning hedge accounting		
Financial derivatives (clean value)	124 506	0
<b>Total financial assets</b>	<b>124 506</b>	<b>0</b>
Nominal hedged items	850 000	0
Adjustment of hedge items - hedged risk	125 831	0
<b>Total financial liabilities</b>	<b>975 831</b>	<b>0</b>

The table shows changes in value of the hedging instrument during the financial year.

Change in fair value of the hedged item that may be referred to the hedged risk is recognised as an adjustment of the hedged item in the balance sheet.

## Note 17 - Bonds and certificates

NOK THOUSAND	31.12.2014	31.12.2013
Short-term investments designed at fair value through profit		
Certificates and bonds issued by public sector	299 460	0
<b>Investments in securities</b>	<b>299 460</b>	<b>0</b>

## Classification of financial investments

Certificates and bonds are rated externally. Where securities have an official rating that will be used, in cases where the official rating does not exist an external broker will provide a shadow rating as a basis for risk classification.

Sparebanken Sør Boligkreditt AS owns only Aaa rated securities with the lowest risk as at 31 December 2014.



## Note 18 - Financial derivatives

NOK THOUSAND	31.12.2014	31.12.2014 (1) presented as net	31.12.2013	31.12.2013 (1) presented as net
Assets				
Financial derivatives	155 133	151 949	0	0
Liabilities				
Financial derivatives	3 184	0	0	0

1) Shows assets and liabilities if the bank and group had netted their financial derivatives for individual counterparty.

The company's counter-claim rights adhere to common Norwegian law. Sparebanken Sør Boligkreditt AS has the right to offset other outstanding accounts through ISDA agreements and a master agreement in cases where certain events occur. The amounts have not been offset in the balance sheet as at 31 December 2014 or 31 December 2013 because the transactions are generally not settled on a net basis.

## Note 19 - Debt due to issue of securities

NOK THOUSAND	31.12.13	Added in the merger	Issued	Matured/ Redeemed	Other changes during the period	31.12.14
Bonds, nominal value	9 961 000	11 025 000	3 250 000	-7 075 000		17 161 000
Value adjustment	-3 386	10 423			135 037	142 074
Accrued interest	12 141	57 149			-20 264	49 026
<b>Total debt incurred due to issue of securities</b>	<b>9 969 755</b>	<b>11 092 572</b>	<b>3 250 000</b>	<b>-7 075 000</b>	<b>114 773</b>	<b>17 352 100</b>

## Note 20 - Average interest rate expenses

NOK THOUSAND	31.12.2014	31.12.2013
<b>Debt to credit institutions</b>		
Debt to credit institutions	2,41 %	2,73 %
<b>Debt incurred due to issue of securities</b>		
Bond debt - floating interest rate	2,04 %	2,26 %
Bond debt - fixed interest rate	3,94 %	IA

Average interest rate has been calculated as a weighted average of the actual interest rate conditions as at 31 December, defined as annual interest in arrears. No liabilities have special conditions. The fixed rate has been swapped to a floating rate of interest, what is specified in the table above applies to actual interest rate on issued bonds.

## Note 21 - Information on associated parties

NOK THOUSAND	2014	2013
<b>Income statement</b>		
Interest from Sparebanken Sør on deposits	16 437	0
Interest and credit commissions from Sparebanken Sør in loans/credit	41 319	17 876
Interest costs on bond debts to Sparebanken Sør	44 892	90 684
Paid administration fees to Sparebanken Sør	32 521	3 384
<b>Balance sheet</b>		
Bank deposits in Sparebanken Sør	12 588	0
Covered bonds owned by Sparebanken Sør (nominal value)	0	1 833 000
Loans/credit i Sparebanken Sør	1 330 419	529 506

Sparebanken Sør Boligkreditt AS has revolving drawing rights with Sparebanken Sør which can be used to finance liquidity due on bonds issued that may not necessarily be refinanced in the market.

## Note 22 - Employees, management and representatives

The Company had no employees as at 31 December 2014.

External board members receive a fixed annual fee determined by the Board of Trustees.

## Note 23 - Share capital and shareowners

NOK THOUSAND	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	per share	Profit for the year (1)	2014 Profit per share
Shareholders							
Sparebanken Sør	100 000	5 250	525 000	0	0	254 123	2 541,23

NOK THOUSAND	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	per share	Profit for the year (1)	2013 Profit per share
Shareholders							
Sparebanken Pluss	100 000	5 250	525 000	0	0	131 688	1 316,88

1) For equity movements and allocations, we refer to the equity statement.

## Note 24 - Segment reporting

The company consists of only one segment; lending to consumers in Norway. Please refer to note 7 regarding the geographical distribution of loans. The company's activity consists of residential mortgages up to 75% of the property's market value. None of the company's customers individually accounts for more than 10% of the turnover. This applies to both 2014 and 2013.

## Note 25 - Subsequent events

It has not been any events of major significance to the accounts after the balance sheet date.

# Declaration from the Board of Directors and Managing Director

## **Declaration in accordance with the Securities Trading ACT, Paragraph 5-5**

The Board of Directors and Managing Director in Sparebanken Sør Boligkreditt AS hereby confirm that the Company's 2014 financial statements have been prepared in accordance with the currently accounting standards and that the information provided in the accounting gives a true and correct picture of the Company's assets, liabilities, financial position and overall result.

In addition, we confirm that the annual report give a true and correct picture of the Company's development, result and financial position, together with a description of the most central risk- and uncertainty factor facing the Company.

**Kristiansand, 2 March 2015**

**The Board of Directors for Sparebanken Sør Boligkreditt AS**

Geir Bergskaug  
Chairman

Seunn Smith-Tønnessen  
Member

Rolf H. Søraker  
Member

Bjørn Friestad  
Member

Marianne Lofthus  
Managing Director

# Auditor's report for 2014



To the Annual Shareholders' Meeting of Sparebanken Sør Boligkreditt AS

## **Independent auditor's report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Sparebanken Sør Boligkreditt AS, which comprise the balance sheet as at 31 December 2014, income statement, other comprehensive income, equity statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Sparebanken Sør Boligkreditt AS as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

# Auditor's report for 2014



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## **Report on Other Legal and Regulatory Requirements**

### *Opinion on the Board of Directors' report and the statement on Corporate Social Responsibility*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and in the statement on Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

### *Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 2 March 2015  
**PricewaterhouseCoopers AS**

Reidar Henriksen  
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.



