

ANNUAL REPORT
2016



**SPAREBANKEN SØR
BOLIGKREDITT AS**

Innhold

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Report from the Board of Directors

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 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 2016, the company has taken on a mortgage loan portfolio amounting to NOK 28 131 million, transferred from Sparebanken Sør, of which NOK 28 041 million is included in the cover pool. Sparebanken Sør Boligkreditt AS had issued covered bonds amounting to NOK 24 633 million.

In the third quarter of 2015 an EMTCN (European Medium Term Covered Note) Programme was established with a limit of Euro 4 000 million for Sparebanken Sør Boligkreditt AS. The program allows the company to diversify funding by issuing covered bonds outside the Norwegian bond market. In the first quarter of 2016 the company issued cover bonds amounting to EUR 500 million under the programme.

INCOME STATEMENT / BALANCE SHEET DEVELOPMENT

The financial statement for Sparebanken Sør Boligkreditt AS at the end of 2016 shows a profit after tax of NOK 187.8 million, against NOK 241.6 in 2015.

The company had net interest income of NOK 328.4 million, against NOK 381.0 million in 2015. The reduction in net interest income is due to a decrease in interest on mortgages, without an equivalent decrease in interest on issued covered bonds.

Net income from financial instruments shows a negative contribution amounted to 14.7 million, against a positive contribution amounted to 5.0 million in 2015. Negative effects in 2016 are primarily due to changes in value of basis swaps.

Basis swaps are long term contracts, where the currency is converted to NOK and entered to long term funding in international markets. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the instruments duration equals zero.

Operating expenses amounted to NOK 58.4 million, against NOK 50.1 million in 2015.

Total assets as at 31 December 2016 amounted to NOK 29 207 million, of which net loans to customers represented NOK 28 125 million. At the same time in 2015, corresponding figures were NOK 25 991 million and NOK 25 686 million.

The loan portfolio has been financed through issue of bonds with a nominal value of NOK 24 633 million and through equity and drawing rights from Sparebanken Sør. As at 31 December 2016, 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 an overdraft facility of NOK 2 500 million with Sparebanken Sør that, as at 31 December 2016, was drawn down by NOK 2 055 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 2016, the net equity capital in the company was NOK 2 190.9 million. This corresponds to a total capital ratio/core tier 1 capital ratio of 18.12 per cent, while regulatory minimums requirements constitute respectively 14.5 per cent and 11 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's corporate governance principles include the objectives according to which the company is managed and governed to protect the owners and other stakeholders' interests in the company. The principles are based on The Norwegian Code of Practice for Corporate Governance (NUES). The company has adapted the aforementioned framework, and Sparebanken Sør Boligkreditt AS principles and policy are intended to ensure that its corporate governance is in accordance with generally accepted and recognized perceptions and standards, and in compliance with laws and regulations.

The purpose is to clarify the division of roles between the company's governing bodies and the daily management over and above what follows from the legislation. Furthermore, corporate governance shall ensure a good corporation between different interested parties such as shareholders, lenders, customers, employees, governing bodies, management and society as a whole. The corporate governance principles have been specified in various controlling documents for the company's operations. This includes the company's articles of association, strategies and the governance framework, among other things. In the Board of Directors' opinion, the corporate governance of Sparebanken Sør Boligkreditt AS is satisfactory and in compliance with these principles and policy.

Sparebanken Sør Boligkreditt AS's object follows from the company's articles of association. The object of the company is to acquire mortgages and to fund lending activities primarily by issuing covered bonds. The operations will be run with satisfactory profitability and low risk. The company is wholly owned by Sparebanken Sør. The company's business strategy forms the basis for specification of the level of ambition in the company's overall operations, and thus forms the basis for Sparebanken Sør Boligkreditt's financial return, growth and development.

The Board of Directors of Sparebanken Sør Boligkreditt AS has prepared an annual plan for its work and conducts an annual review of the company's strategic business plan, including vision, objectives and strategies. It is held 7 board meetings in 2016. Follow-up of operations, strategy, risk and capital management and monitoring the markets and framework conditions have been the Board of Directors' focus areas. The company's risk strategy has been adopted by the Board of Directors, who conducts an annual review of the company's risk management and internal control. Identified risk areas and any material deviations are followed up and reported on a regular basis.

Sparebanken Sør Boligkreditt has signed an operating agreement with Sparebanken Sør. This agreement includes, among other things, capital management, risk management, internal audit, financial reporting, internal financial control and internal financial reporting. This includes quarterly financial reporting and the preparation of a solid template

for reporting to ensure completeness of the reporting basis and consistent application of principle.

The company's management is performing, in addition to reviewing the accounts and risk reporting, ongoing operational reporting in relation to the company's objectives for the Board at each board meeting. The company's ethical guidelines include a duty to report matters that warrant criticism, including breaches of internal guidelines, laws and regulations, and a procedure for how such information is to be given. Large companies must provide information about their management of corporate social responsibility (cf. RL §3-3c). The parent bank, Sparebanken Sør, delivers such a statement for the group which also covers its subsidiaries. For further information, we refer to the parent bank's annual report.

Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of Sparebanken Sør and it is therefore exempt from the requirement for a separate audit committee. The Compliance function is taken care of through the company's agreement with Risk Management in Sparebanken Sør. The company has an independent external auditor (PWC) and internal audit (Sparebanken Sør). PWC has been appointed as investigator by the Financial Supervisory Authority of Norway. Sparebanken Sør Boligkreditt AS's operations are subject to supervision by the Financial Supervisory Authority of Norway. The Board of Directors and management endeavour to maintain an open and constructive dialogue with the Financial Supervisory Authority of Norway.

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 issuing of covered bonds with a high 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 2016 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 floating interest rate with six weeks' notice of interest adjustment. Finance is done by issuance of both floating and fixed rate bonds in NOK and Euro. Foreign currency debt is swapped to NOK and liabilities established at fixed rates are swapped to floating rate. Accounting of foreign currency debt and debt at fixed interest rate complies with the rules of hedge accounting.

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 by equity and credit facilities with Sparebanken Sør. In addition, the company also has a revolving credit facilities with Sparebanken Sør, which can be used to refinance outstanding bonds. 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 2016, 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 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.

Based on the company's risk profile, expectations of lending losses are low in 2017.

DISTRIBUTION

Profit after tax for 2016 is NOK 187.8 million. The Board of Directors proposes that the whole amount is transferred to other equity capital.

Arendal, 02 March 2017

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 | 2016 | 2015 |
|--|------------|----------------|----------------|
| Interest income | 11,21 | 765 408 | 762 485 |
| Interest expenses | 11,21 | 437 057 | 381 456 |
| Net interest income | | 328 351 | 381 029 |
| Commission income | | 160 | 162 |
| Commission expenses | | 5 000 | 5 000 |
| Net commission expenses | | 4 840 | 4 838 |
| Net income from financial instruments | 12 | -14 726 | 5 048 |
| Wages and other personal expenses | | 44 | 46 |
| Other operating expenses | 13 | 58 310 | 50 036 |
| Total expenses | | 58 354 | 50 082 |
| Profit before losses on loans | | 250 431 | 331 157 |
| Losses on loans | 5,8 | 0 | 0 |
| Profit before taxes | | 250 431 | 331 157 |
| Tax expenses | 14 | 62 604 | 89 545 |
| Profit for the period | | 187 828 | 241 612 |

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

Other comprehensive income

| NOK Thousand | Notes | 2016 | 2015 |
|------------------------------------|-------|----------------|----------------|
| Profit for the period | | 187 828 | 241 612 |
| Other income and expenses | | 0 | 0 |
| Total profit for the period | | 187 828 | 241 612 |

Balance sheet

| NOK Thousand | Notes | 31.12.2016 | 31.12.2015 |
|---|---------------|-------------------|-------------------|
| ASSETS | | | |
| Loans to and receivables from credit institutions | 15,16,21 | 54 254 | 50 081 |
| Net loans to customers | 5,6,7,8,15,16 | 28 125 467 | 25 686 328 |
| Bonds and certificates | 15,16,17 | 857 661 | 100 268 |
| Financial derivatives | 15,16,18 | 151 191 | 154 124 |
| Deferred tax assets | 14 | 8 693 | 360 |
| Other assets | | 10 079 | 13 |
| TOTAL ASSETS | | 29 207 346 | 25 991 175 |
| LIABILITIES AND EQUITY | | | |
| Debt to credit institutions | 15,21 | 2 055 682 | 1 862 491 |
| Debt incurred due to issue of securities | 10,15,19 | 24 633 278 | 22 027 073 |
| Financial derivatives | 15,16,18 | 249 503 | 2 418 |
| Payable taxes | 14 | 70 937 | 89 398 |
| Other liabilities | | 7 033 | 6 710 |
| Total liabilities | | 27 016 433 | 23 988 090 |
| EQUITY | | | |
| Paid-in equity capital | 4 | 1 025 000 | 1 025 000 |
| Retained earnings | 4 | 1 165 913 | 978 085 |
| Total equity capital | | 2 190 913 | 2 003 085 |
| TOTAL LIABILITIES AND EQUITY CAPITAL | | 29 207 346 | 25 991 175 |

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

Arendal, 02 March 2017

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 | 2016 | 2015 |
|--|-------------------|-------------------|
| Interest payments received | 762 375 | 762 720 |
| Interest payments made | -405 207 | -382 015 |
| Operating cost payment | -62 871 | -55 767 |
| Changes in loans to customers | -2 437 937 | -5 607 166 |
| Tax payment | -94 416 | -94 384 |
| Net cash flow from operational activities | -2 238 056 | -5 376 612 |
| Changes in bonds and certificates | -757 393 | 199 198 |
| Changes in other assets | -10 066 | -13 |
| Changes in deposits from credit institutions | 194 990 | 530 072 |
| Changes in other liabilities | 323 | -428 |
| Net cash flow from investment activities | -572 146 | 728 829 |
| Paid in share capital | - | - |
| Payments received, bond debt | 9 255 500 | 11 423 230 |
| Payments made, bond debt | -6 441 125 | -6 737 954 |
| Net cash flow from long-term financing activities | 2 814 375 | 4 685 276 |
| Net change in liquid assets | 4 173 | 37 493 |
| Liquid assets as at 01.01 | 50 081 | 12 588 |
| Liquid assets at end of period | 54 254 | 50 081 |

Equity statement

| NOK Thousand | Share capital | Share premium reserve | Other equity capital | Total |
|---------------------------|----------------|-----------------------|----------------------|------------------|
| Balance 31.12.2014 | 525 000 | 500 000 | 736 473 | 1 761 473 |
| Result 2015 | 0 | 0 | 241 612 | 241 612 |
| Balance 31.12.2015 | 525 000 | 500 000 | 978 085 | 2 003 085 |
| Result 2016 | 0 | 0 | 187 828 | 187 828 |
| Balance 31.12.2016 | 525 000 | 500 000 | 1 165 913 | 2 190 913 |

NOTE 1 – ACCOUNTING PRINCIPLES

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 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 2016 were presented by the Board of Directors on 2 March 2017, and will be adopted with final effect at the General Assembly on 30 March 2017. The General Assembly is the company's supreme body.

2. 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 Group.

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.

3. 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.

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 over 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 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 of establishment adjusted for changes in interest rates until the time of impairment. The income interest rates are based on the loan's impaired 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

4.6.1 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 interest 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 recognised 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 to the income statement under "net value change 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. ACCOUNTING OF EXCHANGE EFFECTS

Revenues and expenses in currencies are converted to NOK according to the exchange rate at time of transaction.

Balance items in foreign currencies are secured by hedging. Debt in foreign currency are converted to NOK according to the company's middle course at balance date. Changes in value are recognized in the income statement as net commission from financial instruments.

The company's currency exposure is related to funding and is fully secured by basis swapps.

7. 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.

8. 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.

9. 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.

10. CHANGES IN ACCOUNTING PRINCIPLES AND NOTES

Sparebanken Sør Boligkreditt AS has not made any changes to its accounting principles in 2016.

11. 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 has begun to identify potential effects of IFRS 9, but has not come far enough in the process to comment on the accounting effects.

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 2018, 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 2 – DISCRETIONARY JUDGMENT, 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.

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.

WRITE-DOWNS ON LOANS

Assessment of individual and collective 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.

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 enterprises. 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 group'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.

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 overall risk and take responsibility for compliance.

Internal auditor

Sparebanken Sør's internal auditors cover internal auditing of Sparebanken Sør Boligkreditt AS, 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).

RISK CATEGORIES

All risks are managed through a framework for risk appetite and risk tolerance. There are targets for the different risk parameters, which are:

Credit risk / counterparty 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. This means loans and credits, 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 Company's policy is that credit risk exposure is low. The Board approves the Company'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 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 low. 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 risk, currency risk 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.

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, robbery, 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. 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
- Basis swaps – agreements to exchange both interest rates and foreign currencies

The purpose of using these instruments are to hedge future interest rate- and currency conditions.

NOTE 4 – CAPITAL ADEQUACY

Sparebanken Sør 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 company 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.

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.

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.

The minimum requirement for core equity tier 1 ratio was 11.5 percent, core capital ratio 13 percent and total capital adequacy 15 percent. With effect from 31.12.2017, the counter-cyclical buffer requirement will increase from 1,5 to 2 percent. The minimum requirement will then be 12 percent for core tier 1 capital ratio. The requirement for core capital ratio will be 13.5 percent, while the requirement for total capital ratio will be 15.5 percent.

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|---|------------------|------------------|
| EQUITY CAPITAL | | |
| Share capital | 525 000 | 525 000 |
| Share premium reserve | 500 000 | 500 000 |
| Other equity | 1 165 913 | 978 085 |
| Deduction | 0 | 0 |
| Net equity capital (core capital) | 2 190 913 | 2 003 085 |
| Minimum requirement for equity capital | | |
| Credit risk | 881 921 | 788 144 |
| Market risk | 0 | 0 |
| Operational risk | 61 545 | 55 247 |
| CVA addition | 24 001 | 18 125 |
| Deductions | 0 | 0 |
| Total minimum requirement for equity capital | 967 467 | 861 516 |
| Risk-weighted balance (calculation basis) | 12 093 338 | 10 768 950 |
| Core tier 1 capital ratio | 18,12 % | 18,60 % |
| Core capital ratio | 18,12 % | 18,60 % |
| Total capital ratio | 18,12 % | 18,60 % |

NOTE 5 – CREDIT AREA AND CREDIT RISK

Credit risk represents the greatest risk area for the company. The Board in the Group sets the 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) next 12 months and expected losses (EL) at customers and portfolio level. 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 from Sparebanken Sør 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 company`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 2016

| NOK Thousand | Commitments | Commitments | | Potential exposure |
|---------------------------------------|-------------------|----------------|-------------------|--------------------|
| | | in % | Gross loans | |
| Low risk | 25 993 025 | 85,5 % | 23 798 376 | 2 194 649 |
| Medium risk | 4 091 435 | 13,5 % | 4 009 933 | 81 502 |
| High risk | 290 171 | 1,0 % | 288 989 | 1 182 |
| Defaulted and write-downs commitments | 1 173 | 0,0 % | 1 173 | 0 |
| Unclassified | 42 534 | 0,1 % | 32 996 | 9 538 |
| TOTAL | 30 418 338 | 100,0 % | 28 131 467 | 2 286 871 |

Specification within risk categories as at 31 December 2015

| NOK Thousand | Commitments | Commitments | | Potential exposure |
|---------------------------------------|-------------------|----------------|-------------------|--------------------|
| | | in % | Gross loans | |
| Low risk | 24.606.846 | 85,6 % | 21 664 628 | 2 942 218 |
| Medium risk | 3.803.011 | 13,2 % | 3 710 331 | 92 680 |
| High risk | 291.177 | 1,0 % | 290 111 | 1 066 |
| Defaulted and write-downs commitments | 0 | 0,0 % | 0 | 0 |
| Unclassified | 30.672 | 0,2 % | 27 258 | 3 414 |
| TOTAL | 28.731.706 | 100,0 % | 25 692 328 | 3 039 378 |

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 | 31.12.2016 | 31.12.2015 |
|---|-------------------|-------------------|
| Gross loans secured by mortgage on residential property (residential mortgage loans)* | 28 041 171 | 25 595 452 |
| Total cover pool | 28 041 171 | 25 595 452 |
| Collateralisation ratio | 14,4 % | 16,8 % |

*Cover pool composition is defined in the Financial Institutions Act section 11-8.

| | 31.12.2016 | 31.12.2015 |
|--|----------------|----------------|
| Average debt to assets ratio in % | 54,7 % | 55,3 % |
| Portfolio divided into intervals of debt to assets ratio: | | |
| Less than or equal to 40% | 20,8 % | 19,9 % |
| 41 - 50 % | 13,3 % | 13,1 % |
| 51 - 60 % | 19,4 % | 19,6 % |
| 61 - 70 % | 30,7 % | 30,4 % |
| 71 - 75 % | 11,7 % | 11,7 % |
| over 75 % | 4,0 % | 5,3 % |
| Total | 100,0 % | 100,0 % |

NOTE 7 - LOANS

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|---|-------------------|-------------------|
| Loans assessed to amortised cost | | |
| Flexi-loans (revolving loans) | 6 758 883 | 7 006 813 |
| Repayment loans | 21 372 584 | 18 685 515 |
| Gross loans | 28 131 467 | 25 692 328 |
| Collective write-downs | 6 000 | 6 000 |
| Net loans | 28 125 467 | 25 686 328 |
| Unused credit on Flexi-loans | 2 286 871 | 3 058 316 |

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|--|-------------------|-------------------|
| Loans distributed by sectors and industries | | |
| Retail costumers | 28 064 368 | 25 511 406 |
| Corporate customers * | 40 950 | 155 975 |
| Accrued interest | 26 149 | 24 947 |
| Net loans | 28 131 467 | 25 692 328 |
| Collective write-downs | 6 000 | 6 000 |
| Net loans | 28 125 467 | 25 686 328 |

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

| | 31.12.2016 | | 31.12.2015 | |
|--|-------------------|----------------|-------------------|----------------|
| Loans distributed by geographical areas | | | | |
| Vest-Agder | 12 431 648 | 44,2 % | 11 371 489 | 44,3 % |
| Aust-Agder | 8 017 979 | 28,5 % | 7 362 269 | 28,7 % |
| Telemark | 2 571 798 | 9,1 % | 2 120 368 | 8,3 % |
| Oslo | 2 197 082 | 7,8 % | 2 188 032 | 8,5 % |
| Akershus | 1 081 387 | 3,8 % | 916 137 | 3,6 % |
| Other counties | 1 825 573 | 6,5 % | 1 728 033 | 6,7 % |
| Total | 28 125 467 | 100,0 % | 25 686 328 | 100,0 % |

NOTE 8 - DEFAULTED LOANS

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|--|---------------|---------------|
| Gross non-performing loans > 90 days | 1 173 | 0 |
| Individual write downs | 0 | 0 |
| Net non performing loans | 1 173 | 0 |
| Net non-performing loans > 90 days in % of gross loans | 0,00 % | 0,00 % |

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 1000 for more than 90 days.

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 points.

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 2016, Sparebanken Sør Boligkreditt AS only has loans with a floating rate of interest in its portfolio.

Two fixed rate interest bonds have been issued, and have been swapped to floating rate interest. In addition one Euro fixed rate bond has been issued, and converted into NOK and floating interest rate via basis swaps (cross currency interest rate swaps). Accounting of both fixed interest rate bonds and foreign currency debt, are recognised in the financial statements under the rules of hedge accounting.

Sparebanken Sør Boligkreditt AS measures interest risk exposure as maximum loss as a result of a parallel displacement of the yield curve by two percentage points. The interest risk exposure was NOK 3.9 million as at 31.12.2016 (NOK 1.2 million as at 31.12.2015).

According to the company`s rules and regulations, the total accounting effect by 10 percent exchange rate movement is limited to NOK 10 million. The currency exposure was NOK 0 million as at 31.12.2016 (NOK 0 million as at 31.12.2015).

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 2016, 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 2016, the company`s funding structure complied with all requirements as required by law and the Board of Directors.

As of 31 December 2016, Sparebanken Sør Boligkreditt AS has an overdraft facility amounting to NOK 2 500 million with Sparebanken Sør. In addition, the company has revolving credit facilities with the parent bank, which can be used to refinance outstanding bonds. 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.

LIQUIDITY RISK

The table shows cash flows including contractual interest payments. Therefore, the figures cannot be reconciled with the balance sheet.

| | | | | | | | 31.12.2016 |
|--|---------------|--------------|------------|--------------|---------------|----------------|--------------|
| NOK Million | TOTAL | 1 mth. | 3 mth. | 1 year | 5 year | Over 5 year | |
| Liabilities / non derivative obligations | | | | | | | |
| Debt to credit institutions | 2 056 | 2 056 | | | | | |
| Debt incurred due to issue of securities | 25 881 | 20 | 443 | 945 | 23 456 | | 1 017 |
| Other liabilities | 167 | 3 | 3 | 72 | 6 | | |
| Loan commitments an unused credit facilities | 2 287 | 2 268 | | | | | |
| Total liabilities | 30 372 | 4 347 | 446 | 1 017 | 23 462 | | 1 100 |
| Derivative forpliktelser | | | | | | | |
| Finansielle derivater brutto oppgjør | | | | | | | |
| Utbetalinger | -4 760 | | | | -4 760 | | |
| Innbetalinger | 4 545 | | | | 4 545 | | |
| Sum derivative forpliktelser | -215 | 0 | 0 | 0 | -215 | | 0 |

| | | | | | | | 31.12.2015 |
|--|---------------|--------------|------------|--------------|---------------|----------------|--------------|
| NOK Million | TOTAL | 1 mth. | 3 mth. | 1 year | 5 year | Over 5 year | |
| Liabilities / non derivative obligations | | | | | | | |
| Debt to credit institutions | 1 862 | 1 862 | | | | | |
| Debt incurred due to issue of securities | 23 341 | 31 | 711 | 924 | 18 485 | | 3 192 |
| Other liabilities | 96 | 4 | 3 | 89 | | | |
| Loan commitments an unused credit facilities | 3 058 | 3 058 | | | | | |
| Total liabilities | 28 358 | 4 955 | 714 | 1 013 | 18 485 | | 3 192 |

Debt securities issued as at 31.12.2016

| ISIN Nummer | Ticker | Currency | Nominal value | Whereof owned | Interest rate type | Coupon | Due date | Book value | Fair value |
|--------------|--------|----------|---------------|---------------|--------------------|----------|------------|-------------------|-------------------|
| NO0010641624 | SORB20 | NOK | 737 000 | 392 000 | Flytende | 3M Nibor | 28.03.2017 | 345 191 | 345 588 |
| NO0010623945 | SORB02 | NOK | 1 000 000 | 265 000 | Flytende | 3M Nibor | 24.08.2017 | 735 833 | 738 330 |
| NO0010673296 | SORB21 | NOK | 4 500 000 | - | Flytende | 3M Nibor | 14.09.2018 | 4 504 998 | 4 522 950 |
| NO0010679806 | SORB10 | NOK | 4 500 000 | - | Flytende | 3M Nibor | 22.05.2019 | 4 501 341 | 4 523 000 |
| NO0010664659 | SORB07 | NOK | 28 000 | - | Flytende | 3M Nibor | 27.11.2019 | 28 114 | 28 123 |
| NO0010714058 | SORB24 | NOK | 4 500 000 | - | Flytende | 3M Nibor | 24.06.2020 | 4 458 765 | 4 482 925 |
| XSI383921803 | | EUR | 500 000 | - | Fast | 0,25 % | 22.03.2021 | 4 562 013 | 4 618 534 |
| NO0010778954 | SORB27 | NOK | 4 500 000 | - | Flytende | 3M Nibor | 22.11.2021 | 4 503 796 | 4 506 850 |
| NO0010671597 | SORB09 | NOK | 350 000 | - | Fast | 3,85 % | 13.02.2023 | 398 022 | 395 212 |
| NO0010670409 | SORB08 | NOK | 500 000 | - | Fast | 4,00 % | 24.01.2028 | 595 206 | 584 193 |
| TOTAL | | | | | | | | 24 633 278 | 24 745 705 |

NOTE 11 - INTEREST INCOME AND INTEREST EXPENSES

| NOK Thousand | 2016 | 2015 |
|---|----------------|----------------|
| Interest on loans given to and receivables from credit institutions | 298 | 374 |
| Interest on loans to customers | 762 093 | 760 666 |
| Interest on certificates, bonds and interest-bearing securities | 3 017 | 1 446 |
| Total interest income | 765 408 | 762 485 |
| Interest on debt to credit institutions | 26 453 | 30 642 |
| Interest on issued securities | 410 604 | 350 545 |
| Other interest costs | 0 | 270 |
| Total interest expenses | 437 057 | 381 456 |
| Net interest income | 328 351 | 381 029 |

NOTE 12 - INCOME FROM FINANCIAL INSTRUMENTS

| NOK Thousand | 2016 | 2015 |
|--|----------------|--------------|
| Profit / loss and change in value from covered bonds | -867 | 0 |
| Net income from covered bonds | -867 | 0 |
| Change in value fixed rate bonds - hedge accounting | 209 745 | 1 240 |
| Change in value derivatives fixed rate bonds - designated as hedging instruments | -242 821 | -1 009 |
| Net income hedging | -33 076 | 231 |
| Whereof effects from basis swaps (1) | -31 859 | |
| Profit / loss buyback of own bonds - amortised cost | 19 217 | 4 817 |
| Net other financial instruments and derivatives | 19 217 | 4 817 |
| Net income from financial instruments | -14 726 | 5 048 |

1) The company issued covered bonds in Euro, secured by basis swaps. Change in value of basis swaps is a result of changes in capital markets and emerges as hedging- inefficiency. This effect is recognized in the income statement.

Basis swaps are long term contracts, where the currency is converted to NOK, entered to long term funding in international markets. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the instruments duration equals zero. Accounting effects are therefore reversed over time.

NOTE 13 - OTHER OPERATING EXPENSES

| NOK Thousand | 2016 | 2015 |
|--|---------------|---------------|
| External fees | 1 501 | 2 493 |
| Management of loans / services purchased | 52 934 | 44 246 |
| Other operating expenses | 3 874 | 3 297 |
| Total other operating expenses | 58 310 | 50 036 |

Remuneration to auditors is included in other operating expenses

| NOK Thousand | 2016 | 2015 |
|--|------------|------------|
| Ordinary audit fees, statutory audit | 132 | 174 |
| Other attestation services | 373 | 513 |
| Fees from other services | 0 | 6 |
| Total remuneration of elected auditor (incl. VAT) | 505 | 693 |

NOTE 14 - TAX

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|--|-----------------|-----------------|
| CALCULATION OF DEFERRED TAX / TAX DEFERRED ASSETS | | |
| Tax-increasing temporary differences | | |
| Fixed assets | -278 | -346 |
| Bond debt - adjustment of hedge accounting | 85 575 | -124 592 |
| Total tax-increasing temporary differences | 85 297 | -124 938 |
| Financial derivatives | -119 325 | 123 496 |
| Bonds assets | -747 | 0 |
| Total tax-reducing temporary differences | -120 072 | 123 496 |
| Basis for deferred tax (+) / deferred tax assets (-) | -34 775 | -1 441 |
| Calculated deferred tax (+) / deferred tax assets (-) (25 % 31.12.2016) | -8 694 | -360 |
| Deferred tax / deferred tax assets as at 01.01 | -360 | -475 |
| Change in deferred tax in the profit | -8 334 | 115 |
| Deferred tax / deferred tax assets as at 31.12 | -8 694 | -360 |
| Profit before tax expenses | 250 431 | 331 157 |
| Permanent differences | -16 | 264 |
| Change in temporary differences | 33 334 | -317 |
| Taxable income | 283 749 | 331 104 |
| Tax payable in the balance (25%) | 70 937 | 89 398 |
| Effective tax rate | 28,3 % | 27,0 % |
| Tax payable on net income | 70 937 | 89 398 |
| Changes in deferred tax | -8 334 | 115 |
| To little tax provision in previous year | 0 | 32 |
| Tax cost for the year | 62 604 | 89 545 |

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) | 31.12.2016 Total |
|--|---|---|--|---------------------|
| Loans to credit institutions | | | 54 254 | 54 254 |
| Net loans to customers | | | 28 125 467 | 28 125 467 |
| Bonds and certificates | 857 661 | | | 857 661 |
| Financial derivatives | | 151 191 | | 151 191 |
| Total financial assets | 857 661 | 151 191 | 28 179 721 | 29 188 573 |
| Debt to credit institutions | | | 2 055 482 | 2 055 482 |
| Debt incurred due to issue of securities | | | 24 663 278 | 24 663 278 |
| Financial derivatives | | 249 503 | | 249 503 |
| Total financial liabilities | 0 | 249 503 | 26 718 760 | 26 968 263 |

| NOK Thousand | Financial instruments voluntarily categorised at fair value (1) | Financial derivatives used as hedging instruments | Financial assets and liabilities at amortised cost (2) | 31.12.2015 Total |
|--|---|---|--|---------------------|
| Loans to credit institutions | | | 50 081 | 50 081 |
| Net loans to customers | | | 25 686 328 | 25 686 328 |
| Bonds and certificates | 100 268 | | | 100 268 |
| Financial derivatives | | 154 124 | | 154 124 |
| Total financial assets | 100 268 | 154 124 | 25 736 409 | 25 990 801 |
| Debt to credit institutions | | | 1 862 491 | 1 862 491 |
| Debt incurred due to issue of securities | | | 22 027 073 | 22 027 073 |
| Financial derivatives | | 2 418 | | 2 418 |
| Total financial liabilities | 0 | 2 418 | 23 889 564 | 23 891 982 |

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 VALUES 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 floating 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 credit-worthy 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.

| | | | 31.12.2016 | |
|---|-------------------|----------|--------------------|-------------------|
| NOK Thousand | Recognised value | Level 1 | Fair value Level 2 | Level 3 |
| Assets recognised at amortised cost | | | | |
| Loans to and receivables from credit institutions | 54 254 | | 54 254 | |
| Net loans to customers (floating interest rate) | 28 125 467 | | | 28 125 467 |
| Assets recognised at fair value | | | | |
| Bonds and certificates | 857 661 | | 857 661 | |
| Financial derivatives | 151 191 | | 151 191 | |
| Total financial assets | 29 188 573 | 0 | 1 063 106 | 28 125 467 |
| Liabilities recognised at amortised cost | | | | |
| Debt to credit institutions | 2 055 482 | | 2 055 482 | |
| Debt incurred due to issue of securities | 24 663 278 | | 24 746 022 | |
| Liabilities recognised at fair value | | | | |
| Financial derivatives | 249 503 | | 249 503 | |
| Total financial liabilities | 26 968 263 | 0 | 27 051 007 | 0 |

| | | | 31.12.2015 | |
|---|-------------------|----------|--------------------|-------------------|
| NOK Thousand | Recognised value | Level 1 | Fair value Level 2 | Level 3 |
| Assets recognised at amortised cost | | | | |
| Loans to and receivables from credit institutions | 50 081 | | 50 081 | |
| Net loans to customers (floating interest rate) | 25 686 328 | | | 25 686 328 |
| Assets recognised at fair value | | | | |
| Bonds and certificates | 100 268 | | 100 268 | |
| Financial derivatives | 154 124 | | 154 124 | |
| Total financial assets | 25 990 801 | 0 | 304 473 | 25 686 328 |
| Liabilities recognised at amortised cost | | | | |
| Debt to credit institutions | 1 862 491 | | 1 862 491 | |
| Debt incurred due to issue of securities | 22 027 073 | | 21 889 507 | |
| Liabilities recognised at fair value | | | | |
| Financial derivatives | 2 418 | | 2 418 | |
| Total financial liabilities | 23 891 982 | 0 | 23 754 416 | 0 |

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.

Result of hedge accounting

| NOK Thousand | 2016 | 2015 |
|--|----------------|------------|
| Result / ineffectiveness in hedge accounting | | |
| Net income from other financial instruments | -33 076 | 231 |
| Total | -33 076 | 231 |
| Whereof effects from basis swap | -31 859 | |

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 | 2016 | 2015 |
|--|------------------|----------------|
| Recognitions concerning hedge accounting | | |
| Financial derivatives (clean value) | 111 687 | 123 496 |
| Total financial assets | 111 687 | 123 496 |
| Nominal hedged items | 5 610 000 | 850 000 |
| Adjustment of hedged items - hedged risk | -98 797 | 124 592 |
| Financial derivatives (clean value) | 244 234 | 0 |
| Total financial liabilities | 5 755 437 | 974 592 |

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 | 31.12.2016 | 31.12.2015 |
|--|----------------|----------------|
| Short-term investments designated at fair value through profit | | |
| Certificates and bonds issued by public sector | 200 300 | 100 210 |
| Certificates and bonds issued by others | 655 548 | |
| Investments in securities | 855 848 | 100 210 |

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 2016.

NOTE 18 - FINANCIAL DERIVATIVES

| NOK Thousand | 31.12.2016 | 31.12.2016 (1) presented as net | 31.12.2015 | 31.12.2015 (1) presented as net |
|-----------------------|------------|------------------------------------|------------|------------------------------------|
| Assets | | | | |
| Financial derivatives | 151 191 | 137 889 | 154 124 | 151 706 |
| Liabilities | | | | |
| Financial derivatives | 249 503 | 236 201 | 2 418 | 0 |

1) Shows assets and liabilities if the company 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 2016 or 31 December 2015 because the transactions are generally not settled on a net basis.

NOTE 19 - DEBT DUE TO ISSUE OF SECURITIES

| NOK Thousand | 31.12.2015 | Issued | Matured / redeemed | Other changes during period | 31.12.2016 |
|--|-------------------|------------------|-----------------------|--------------------------------|-------------------|
| Bonds, nominal value | 21 921 500 | 9 260 000 | -6 463 500 | | 24 718 000 |
| Value adjustment | 58 612 | | | -204 650 | -146 038 |
| Accrued interest | 46 961 | | | 14 355 | 61 316 |
| Total debt due to issue of securities | 22 027 073 | 9 260 000 | -6 463 500 | -190 295 | 24 633 278 |

NOTE 20 - AVERAGE INTEREST RATE EXPENSES

| NOK Thousand | 31.12.2016 | 31.12.2015 |
|---|------------|------------|
| Debt to credit institutions | | |
| Debt to credit institutions | 1,82 % | 1,77 % |
| Debt incurred due to issue of securities | | |
| Bond debt - floating interest rate | 1,57 % | 1,59 % |
| Bond debt - fixed interest rate | 3,94 % | 3,94 % |
| Bond debt - fixed interest rate in Euro | 0,25 % | 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 | 2016 | 2015 |
|--|-----------|-----------|
| Income statement | | |
| Interest income from Sparebanken Sør on deposits | 298 | 374 |
| Interest expenses from Sparebanken Sør on loans/credit | 26 453 | 30 642 |
| Commission expenses | 5 000 | 5 000 |
| Interest expenses on bond debts to Sparebanken Sør | 529 | 2 573 |
| Paid administration fees to Sparebanken Sør | 52 934 | 44 246 |
| Balance sheet | | |
| Bank deposits in Sparebanken Sør | 54 254 | 50 081 |
| Cover bonds | 0 | 0 |
| Loans/credit in Sparebanken Sør | 2 055 482 | 1 860 492 |

Sparebanken Sør Boligkreditt AS has revolving credit facility with Sparebanken Sør which can be used to refinance outstanding bonds.

NOTE 22 - EMPLOYEES, MANAGEMENT AND REPRESENTATIVES

The company had no employees as at 31 December 2016.

External board members receive a fixed annual fee determined by the General Assembly.

NOTE 23 - SHARE CAPITAL AND SHARE OWNERS

| NOK Thousand | Numbers of shares | Nominal value per share | Share capital (1) | Dividend (1) | Profit for the period (1) | 2016 Profit per share |
|---------------------|-------------------|-------------------------|-------------------|--------------|---------------------------|-----------------------|
| Shareholders | | | | | | |
| Sparebanken Sør | 100 000 | 5 250 | 525 000 | 0 | 187 828 | 1 878,28 |

| NOK Thousand | Numbers of shares | Nominal value per share | Share capital (1) | Dividend (1) | Profit for the period (1) | 2015 Profit per share |
|---------------------|-------------------|-------------------------|-------------------|--------------|---------------------------|-----------------------|
| Shareholders | | | | | | |
| Sparebanken Sør | 100 000 | 5 250 | 525 000 | 0 | 241 612 | 2 416,12 |

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 2016 and 2015.

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 2016 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 accounts 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.

Arendal, 02 March 2017

The Board of Directors for Sparebanken Sør Boligkreditt AS



Geir Bergskaug

Chairman



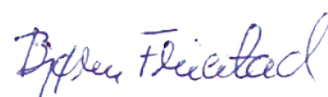
Seunn Smith-Tønnessen

Member



Rolf H. Søraker

Member



Bjørn Friestad

Member



Marianne Lofthus

Managing Director

Auditor's report 2016



To the General Meeting of Sparebanken Sør Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør Boligkreditt AS which comprise the balance sheet as at 31 December 2016, income statement, other comprehensive income, equity statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| <i>Loans to customers and regulations related to cover pool</i> | |
| Sparebanken Sør Boligkreditt AS has provided mortgage loans to private individuals that are subject to special requirements related to over-collateralisation and has issued covered bonds. Processes have been implemented | In accordance with regulations, the company has engaged us as independent investigator to test, each quarter, that the cover pool fulfils the requirements for companies that issue covered bonds. Our procedures included assessment and testing of the company's systems and controls as well as scrutinizing |

PricewaterhouseCoopers AS, Gravane 26, Postboks 447, NO-4664 Kristiansand
T: 02316, org.no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

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Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

to ensure the company complies with the requirements related to the cover pool when covered bonds are issued. The processes include formal controls and segregation of duties to ensure controls have been performed prior to sale of loans from the parent company to Sparebanken Sør Boligkreditt AS.

We focused on this area because compliance with regulations is fundamental to the company's operation.

See note 6 to the annual report for information on the cover pool.

documentation on the composition and value of the cover pool. Further, we performed sample testing of loans sold from the parent company to Sparebanken Sør Boligkreditt AS during the year to test whether these loans fulfilled the requirements. Our procedures show that the company has complied with the requirements for companies that issue covered bonds.

IT systems supporting financial reporting

We focused on this area because the company's financial reporting system and business as a whole are dependent on complex IT systems. Potential weaknesses in automated processes and related IT dependent manual controls may disrupt the continuous operation of the IT systems and cause risk of misstatements.

The company uses external service organisations to run certain key IT systems. The auditors of the respective service organisations are contracted to evaluate design and test operating effectiveness of the controls addressing integrity of the IT systems that are relevant to financial reporting. We reviewed the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the company's IT systems and segregation of duties where this was considered necessary to our audit.

Our assessment and testing shows that we can rely on the IT systems for the purposes of our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of The Board of Directors and the Managing Director for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the

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audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 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 2017
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

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



SPAREBANKEN SØR BOLIGKREDITT AS

Sparebanken Sør Pb. 200, 4662 Kristiansand | www.sor.no | tlf. 09200