

QUARTER 3
2017
(UNAUDITED)



**SPAREBANKEN SØR
BOLIGKREDITT AS**

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General

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company's business is operated from Kristiansand. The company is licensed by the Financial Supervisory Authority of Norway to operate as a mortgage company and issue covered bonds, and is a part of Sparebanken Sør's long-term financial strategy. All shares are owned by Sparebanken Sør and the financial statements are consolidated into the financial statements of the Sparebanken Sør Group.

The cover pool consists of secured mortgages and covered bonds. The mortgages are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgages meet the requirements established by the company for inclusion in the company's cover pool. One important requirement is that any outstanding loan balance taken over by the company must not exceed 75% of the mortgaged property's market value.

At the end of the third quarter of 2017 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio amounting to NOK 29 352 million, transferred from Sparebanken Sør, of which NOK 29 236 million was included in the cover pool. Corresponding figures were at the end of the third quarter 2016 NOK 28 183 million and NOK 28 115 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 26 021 million, relative to NOK 24 823 million at the same time in 2016. The company has achieved a diversified funding by issuing cover bonds outside the Norwegian bond market.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS in Q3 2017 shows a profit after tax of NOK 119.0 million, relative to NOK 132.5 million in the same period in 2016.

The company had net interest income of NOK 254.5 million, relative to NOK 253.0 million in 2016. The increase in net interest income is mainly due to the increase in the mortgage portfolio in the period.

The company has issued cover bonds in Euros under the EMTCN (European Medium Term Covered Note) program. In order to control interest and currency exposure, the company has established swap arrangements (basis swaps), to convert foreign currency into NOK. The impact on earnings related to changes in the value of the basis swap, affected the income from financial instruments by minus NOK 26.8 million in Q3 2017. Assuming that the cover bonds in foreign currency are held to maturity, the total change in fair value is equal to zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 44.4 million and tax expenses were NOK 39.7 million at the end of the third quarter in 2017. Corresponding figures at the end of the third quarter 2016 were NOK 43.7 million and NOK 44.2 million respectively.

Total assets as at 30.09.2017 were NOK 30 372 million, of which net loans to customers represented NOK 29 346 million. At the same time in 2016 total assets were NOK 28 736 million, of which net loans to customers were NOK 28 177 million. The loan portfolio has been financed through the issuance of bonds with a value of NOK 26 021 million, and through equity and drawing rights from Sparebanken Sør. As at 30.09.2017, the company had paid-in capital of a total of NOK 1 025 million, of which NOK 525 million was share capital and NOK 500 million related to share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 2 500 million with Sparebanken Sør that, as at 30.09.2017, was drawn down by NOK 1 832 million. In addition, the company has a revolving credit facility with Sparebanken Sør, which can be used to refinance outstanding bonds.

Capital strength

At the end of Q3 2017, the common equity tier 1 capital in the company was NOK 2 191 million, compared to NOK 2 003 million at the same time in 2016. This corresponds to a total capital ratio/core tier 1 capital ratio of 17.1 percent (16.6 percent in 2016), while regulatory minimums requirements constitute 15.0 percent and 11.5 percent respectively. The capital adequacy ratio has been calculated based on the standard method in the Basel II - regulations. The Board of Directors considers the company's solidity and risk-bearing ability to be good. The company's leverage ratio was 6.9 percent at the end of Q3 2017.

Risks

As a licensed mortgage company, Sparebanken Sør Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. The objective of the company is to finance lending activities through the issuance of covered bonds with high rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain risk at a low level. The company places emphasis on identifying, measuring and controlling risk elements in such a way that the market has high confidence in the company and that bonds issued by the company have high rating.

Therefore, the company's credit strategy and credit policy establish a framework of requirements imposed on borrowers and collateral requirements for loans that may be taken on by the company. The Board of Directors considers the overall quality of the lending portfolio to be very good and the credit risk to be low.

The company's mortgages to customers are in Norwegian kroner (NOK) at floating interest rate. Financing is done by issuance of both floating and fixed interest rate bonds in NOK and EUR. Foreign currency debt is swapped to NOK and liabilities established at fixed rates are swapped to floating rates. Accounting of foreign currency debt and debt at fixed interest rates comply with the rules for hedge accounting.

The Board of Directors considers the overall market risk to be low.

The company issues covered bonds with the opportunity to extend the maturities by up to 12 months. In other respects, financing needs are met by using equity and credit facilities with Sparebanken Sør. The Board of Directors considers the company's liquidity risk to be low. As at 30.09.2017 the company satisfied the liquidity requirements imposed on European banks and finance companies (Liquidity Coverage Ratio – LCR of 80% throughout 2017).

A Management Service Agreement is in place with Sparebanken Sør which encompasses the supply of all necessary services for the operation of the company. Consequently, the Board of Directors considers the company's operational risk to be low.

Rating

Covered bonds issued by Sparebanken Sør Boligkreditt AS in NOK and EUR have been given a Aaa rating by Moody's.

Future prospects

The Board of Directors anticipates that the company's future operating business will be very satisfactory.

Sparebanken Sør Boligkreditt AS plans to further acquire loans from Sparebanken Sør, and the company intends to be able to issue new public covered bonds towards investors in Norway and abroad.

Kristiansand, 24th October 2017

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

NOK Thousand	Notes	30.09.2017	30.09.2016	31.12.2016
Interest income	2, 12	587 018	573 231	765 408
Interest expenses	2, 12	332 477	320 205	437 057
Net interest income	2	254 542	253 026	328 351
Commission income		110	123	160
Commission expenses		3 750	3 750	5 000
Net commission expenses		-3 640	-3 627	-4 840
Net change in value from financial instruments	3	-47 873	-29 066	-14 726
Personnel expenses		-	-	44
Depreciation of intangible assets		-	-	-
Other operating expenses		44 390	43 691	58 310
Total expenses		44 390	43 691	58 354
Profit before losses on loans		158 638	176 642	250 431
Losses on loans		-	-	-
Profit before taxes		158 638	176 642	250 431
Tax expenses	4	39 666	44 160	62 604
Profit for the period		118 972	132 482	187 828
Other comprehensive income				
Profit for the period		118 972	132 482	187 828
Other income and expenses		-	-	-
Total profit for the period		118 972	132 482	187 828

Balance sheet

NOK Thousand				
ASSETS	Notes	30.09.2017	30.09.2016	31.12.2016
Loans to and receivables from credit institutions	12	70 285	59 858	54 254
Net loans to customers	5,8,9,11	29 345 838	28 176 931	28 125 467
Bonds and certificates		809 690	302 429	857 661
Financial derivatives		111 495	178 730	151 191
Deferred tax assets		14 875	6 945	8 693
Other assets		19 341	10 756	10 079
TOTAL ASSETS		30 371 525	28 735 650	29 207 346
LIABILITIES AND EQUITY CAPITAL				
Debt to credit institutions	6,12	1 833 371	1 498 491	2 055 682
Debt incurred due to issuance of securities	10	26 021 473	24 822 752	24 633 278
Financial derivatives	3	166 025	226 517	249 503
Payable tax		34 009	45 727	70 937
OTHER LIABILITIES		6 761	6 596	7 033
TOTAL LIABILITIES		28 061 639	26 600 083	27 016 433
EQUITY CAPITAL				
Paid-in equity capital		1 025 000	1 025 000	1 025 000
RETAINED EARNINGS		1 284 885	1 110 567	1 165 913
TOTAL EQUITY CAPITAL	7	2 309 885	2 135 567	2 190 913
TOTAL LIABILITIES AND EQUITY CAPITAL		30 371 525	28 735 650	29 207 346

Kristiansand, 24th October 2017

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Geir Bergskaug
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Member

Bjørn Friestad
Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Interest payment received	585 635	570 630	762 375
Interest payment made	-319 406	-303 350	-405 207
Operating cost payment	-48 302	-47 432	-62 871
Change in loans to customers	-1 218 987	-2 491 285	-2 437 937
Tax payment	-82 776	-94 416	-94 416
Net cash flow from operational activities	-1 083 836	-2 365 853	-2 238 056
Changes in bonds and certificates	47 971	-202 161	-757 393
Changes in other assets	-9 262	-10 742	-10 066
Changes in deposits from credit institutions	-223 181	-362 491	194 990
Changes in other liabilities	-272	-114	323
Net cash flow from current financing activities	-184 744	-575 508	-572 146
Paid-in share capital	-	-	-
Payments received, bonds debts	6 201 315	4 760 000	9 255 500
Payments made, bond debts	-4 916 706	-1 808 862	-6 441 125
Net cash flow from long-term financing activities	1 284 610	2 951 138	2 814 375
Net change in liquid assets	16 029	9 777	4 173
Liquid assets as at 01.01	54 254	50 081	50 081
Liquid assets at the end of period	70 285	59 858	54 254

Equity statement

	Equity capital	Equity premium reserve	Other equity capital	Total
NOK Thousand				
Balance 01.01.2016	525 000	500 000	978 085	2 003 085
Profit 01.01.2016 - 30.09.2016	0	0	132 482	132 482
Balance 30.09.2016	525 000	500 000	1 110 567	2 135 567
Profit 30.09.2016 - 31.12.2016	0	0	55 346	55 346
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 01.01.2017 - 30.09.2017	0	0	118 972	118 972
Balance 30.09.2017	525 000	500 000	1 284 885	2 309 885

1. ACCOUNTING PRINCIPLES

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

The quarterly financial statements have not been audited.

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

2. NET INTEREST INCOME

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Interest on loans given to and receivables from credit institutions	460	201	298
Interest on loans granted to customers	576 851	572 505	762 093
Interest on certificates/bonds/interest-bearing securities	9 706	525	3 017
Total interest income	587 018	573 231	765 408
Interest on debt to credit institutions	24 409	18 632	26 453
Interest on issued securities	308 067	301 573	410 604
Other interest cost	1	0	0
Total interest expenses	332 477	320 205	437 057
Net interest income	254 542	253 026	328 351

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Profit/loss and change in value from covered bonds	329	-145	-867
Net income from covered bonds	329	-145	-867
Change in value fixed rate bonds - hedge accounting	-106 725	154 926	209 745
Change in value derivatives fixed rate bonds - designated as hedging instruments	80 229	-181 486	-242 821
Net income hedging	-26 496	-26 559	-33 076
Whereof effects from basis swaps (1)	-26 792	-24 652	-31 859
Profit/loss bying back own bonds - amortized cost	-21 706	-2 362	19 217
Net other financial instruments and derivatives	-21 706	-2 362	19 217
Net income from financial instruments	-47 873	-29 066	-14 726

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

Basis swaps are long term contracts, in which foreign currency is converted into 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.

4. TAXES

A tax rate of 25 percent is assumed.

5. LTV - LOANS TO VALUE

	30.09.2017	30.09.2016	31.12.2016
Average debt to assets ratio in %	55,9 %	52,8 %	54,7 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40%	18,2 %	22,4 %	20,8 %
41 - 50 %	13,0 %	14,4 %	13,3 %
51 - 60 %	20,6 %	22,1 %	19,4 %
61 - 70 %	32,1 %	33,6 %	30,7 %
71 - 75 %	11,1 %	5,4 %	11,7 %
More than 75 %	5,1 %	2,1 %	4,0 %
Total	100,0 %	100,0 %	100,0 %

6. DEBT TO CREDIT INSTITUTIONS

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 2 500 million. In addition, the company has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

7. CAPITAL ADEQUACY

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

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Equity capital			
Equity capital	525 000	525 000	525 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	1 165 913	978 085	1 165 913
Deductions			
Common equity tier 1 capital	2 190 913	2 003 085	2 190 913
Minimum requirement for equity capital			
Credit risk	934 695	878 373	881 921
Market risk			
Operational risk	56 264	61 545	61 545
CVA addition	31 734	27 742	24 001
Deductions			
Total minimum requirement for equity capital	1 022 693	967 660	967 467
Risk-weight balance (calculation basis)	12 783 665	12 095 750	12 093 338
Common equity tier 1 capital ratio	17,1 %	16,6 %	18,1 %
Tier 1 capital ratio	17,1 %	16,6 %	18,1 %
Total capital ratio	17,1 %	16,6 %	18,1 %
Leverage Ratio	6,9 %	6,7 %	7,2 %

8. LOANS TO CUSTOMERS

NOK Thousands	30.09.2017	30.09.2016	31.12.2016
Loans assessed at amortized cost			
Flexi-loans (loans without installments)	7 384 159	7 179 827	6 758 883
Loans with installments	21 967 679	21 003 104	21 372 584
Gross loans	29 351 838	28 182 931	28 131 467
Collective write-downs	6 000	6 000	6 000
Net loans	29 345 838	28 176 931	28 125 467
Undrawn credit on Flexi-loans	2 230 027	2 343 035	2 286 871

Loans distributed to sectors and industries	30.09.2017	30.09.2016	31.12.2016
Retail customers	29 324 306	27 979 002	28 064 368
Corporate customers *)	0	179 664	40 950
Accrued interests	27 532	24 265	26 149
Gross loans	29 351 838	28 182 931	28 131 467
Collective write-downs	6 000	6 000	6 000
Net loans	29 345 838	28 176 931	28 125 467

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

Loans distributed by geographical areas	30.09.2017		30.09.2016		31.12.2016	
Vest-Agder	12 786 910	43,6 %	12 527 524	44,5 %	12 431 648	44,2 %
Aust-Agder	8 194 803	27,9 %	8 032 995	28,5 %	8 017 979	28,5 %
Telemark	2 751 514	9,4 %	2 417 778	8,6 %	2 571 798	9,1 %
Oslo	2 292 516	7,8 %	2 271 917	8,1 %	2 197 082	7,8 %
Akershus	1 217 475	4,1 %	1 050 355	3,7 %	1 081 387	3,8 %
Others	2 102 619	7,2 %	1 876 363	6,7 %	1 825 573	6,5 %
Total	29 345 838	100,0 %	28 176 931	100,0 %	28 125 467	100,0 %

9. DEFAULTED LOANS

NOK Thousands	30.09.2017	30.09.2016	31.12.2016
Gross non-performing loans > 90 days	0	1 000	0
Individual write-downs	0	0	0
Net non-performing loans	0	1 000	0
Net non-performing loans > 90 days in % of gross loans	0,0 %	0,0 %	0,0 %

A non-performing loan is defined as the sum of a customer's total loan amount, if part of the loan has been overdrawn or has arrears exceeding NOK 1,000 for more than 90 days.

10. DEBT SECURITIES ISSUED AS AT 30.09.2017

ISIN Number	Ticker	Currency	Nominal value	Interest	Interest	Due date	Book value
NO0010673296	SORB21	NOK	685 000	Floating	3M Nibor	14.09.2018	684 774
NO0010679806	SORB10	NOK	5 000 000	Floating	3M Nibor	22.05.2019	5 004 922
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 087
NO0010714058	SORB24	NOK	5 000 000	Floating	3M Nibor	24.06.2020	4 968 315
XSI383921803		EUR	500 000	Fixed	0,25 %	22.03.2021	4 663 286
NO0010778954	SORB27	NOK	5 000 000	Floating	3M Nibor	22.11.2021	5 007 423
XSI622285283		EUR	500 000	Fixed	0,125 %	30.05.2022	4 687 291
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	391 914
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	585 462
TOTAL							26 021 473

11. COVER POOL

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Gross loans secured by mortgages on residential properties *)	29 236 301	28 115 378	28 041 171
Covered bonds	550 000	0	0
Total cover pool	29 786 301	28 115 378	28 041 171
Collateralisation ratio	14,7 %	14,2 %	14,4 %

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

12. ASSOCIATED PARTIES

NOK Thousand	30.09.2017	30.09.2016	31.12.2016
Income statement			
Interest income from Sparebanken Sør on deposits	460	201	298
Interest expenses/credit commissions from Sparebanken Sør on loans/credits	28 159	22 382	31 453
Interest expenses on debts to Sparebanken Sør	0	390	529
Paid administration fees to Sparebanken Sør	41 021	39 472	52 888
Balance			
Bank deposit with Sparebanken Sør	70 285	59 858	54 254
Covered bonds owned by Sparebanken Sør	0	0	0
Loan/credit in Sparebanken Sør	1 832 300	1 498 001	2 055 482

QUARTERLY PROFIT TREND

NOK Thousand	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Net interest income	93 487	87 224	73 831	75 325	83 510
Net other operating income	-6 641	-34 199	-10 673	13 128	-10 809
Operating expenses	15 316	15 380	13 695	14 663	14 648
Profit before losses on loans	71 530	37 645	49 463	73 790	58 054
Losses on loans	0	0	0	0	32
Profit before tax	71 530	37 645	49 463	73 790	58 085
Tax expenses	17 889	9 411	12 366	18 444	14 521
Profit for the period	53 641	28 234	37 097	55 346	43 564



SPAREBANKEN SØR BOLIGKREDITT AS

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