

QUARTER 3
2016
(UNAUDITED)



**SPAREBANKEN SØR
BOLIGKREDITT AS**

Contents

Report from the Board of Directors	3
Income statement	5
Balance sheet	6
Cash flow statement	7
Equity statement	8
Notes	9
Quarterly profit trend	12

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.

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 loans 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 2016, Sparebanken Sør Boligkreditt AS has taken on a mortgage loan portfolio amounting to NOK 28 183 million, transferred from Sparebanken Sør, of which NOK 28 115 million is included in the cover pool. Corresponding figures at the end of the third quarter 2015 was respectively NOK 24 402 million and NOK 24 335 million. Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 24 823 million, against NOK 21 010 million at the same time in 2015.

In the third quarter of 2015 an EMTCN (European Medium Term Covered Note) program 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 covered bonds amounted to EUR 500 million as a part of the programme.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS in Q3 2016 shows a profit after tax of NOK 132.5 million, against NOK 175.2 million in the same period in 2015.

The company had net interest income of NOK 253,0 million against NOK 288,5 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.

In March 2016 the company issued its first covered bonds in Euro under the EMTCN program. The earnings impact related to changes in the value of the basis swaps, affected net income from financial instruments by minus NOK 24.7 million in Q3.

Basis swaps are derivative contracts entered into in connection with long-term funding in international capital markets, where funding in foreign currencies are converted into floating interest rate Norwegian kroner funding. Assuming that these hedging instruments are held to maturity, the total changes in fair value will be zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 43.7 million (36.8) and tax expenses were NOK 44.2 million (64.8).

Total assets as at 30.09.2016 are NOK 28 736 million, of which net loans to customers represent NOK 28 177 million. At the same time in 2015 total assets were NOK 24 679 million, of which net loans to customers were NOK 24 396 million. The loan portfolio has been financed through issue of bonds with a value of NOK 24 823 million and through equity and drawing rights from Sparebanken Sør. As at 30.09.2016, 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 30.09.2016, was drawn down by NOK 1 498 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 2016, the net equity capital in the company was NOK 2 003 million, against NOK 1 761 million at the same time in 2015. This corresponds to a total capital ratio/core tier 1 capital ratio of 16.6 percent (15.3 percent in 2015), while regulatory minimums requirements constitute respectively 15.0 percent and 11.5 percent. 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 6.4 percent at the end of Q3 2016.

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 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 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.

The company’s mortgages to customers are in Norwegian kroner (NOK) in floating interest rate. Financing is done by issuance of both floating and fixed 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 on hedge accounting.

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

The company issues bonds with the opportunity to extend the maturity period 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.

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.

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 or abroad.

Kristiansand, 31th October 2016

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

NOK Thousand	Notes	30.09.2016	30.09.2015	31.12.2015
Interest income	2, 12	573 231	575 112	762 485
Interest expenses	2, 12	320 205	286 595	381 456
Net interest income	2	253 026	288 517	381 029
Commision incom		123	123	162
Commision expenses		3 750	3 750	5 000
Net commision income		-3 627	-3 627	-4 838
Net change in value from financial instruments	3	-29 066	-8 123	5 048
Personnel expenses		0	0	46
Depriciation of intagible assets		0	0	0
Other operating expenses		43 691	36 834	50 036
Total expenses		43 691	36 834	50 082
Profit before losses on loans		176 642	239 933	331 157
Losses on loans		0	0	0
Profit before taxes		176 642	239 933	331 157
Tax expenses	4	44 160	64 782	89 545
Profit for the period		132 482	175 151	241 612
Other comprehensive income				
Profit before the period		132 482	175 151	241 612
Other income and expenses			0	0
Total profit for the period		132 482	175 151	241 612

Balance sheet

NOK Thousand				
ASSETS	Notes	30.09.2016	30.09.2015	31.12.2015
Loans to and receivables from credit institutions	12	59 858	40 702	50 081
Net loans to customers	5,8,9,11	28 176 931	24 395 869	25 686 328
Bonds and certificates		302 429	100 269	100 268
Financial derivatives		178 730	141 512	154 124
Deferred tax assets		6 945	462	360
Other assets		10 756	134	13
TOTAL ASSETS		28 735 650	24 678 947	25 991 175
LIABILITIES AND EQUITY CAPITAL				
Debt to credit institutions	6,12	1 498 491	1 614 049	1 862 491
Debt incurred due to issue of securities	10	24 822 752	21 009 829	22 027 073
Financial derivatives	3	226 517	2 634	2 418
Payable tax		45 727	109 738	89 398
Other liabilities		6 596	6 073	6 710
TOTAL LIABILITIES		26 600 083	22 742 323	23 988 090
EQUITY CAPITAL				
Paid-in equity capital		1 025 000	1 025 000	1 025 000
Retained earnings		1 110 567	911 624	978 085
TOTAL EQUITY CAPITAL	7	2 135 567	1 936 624	2 003 085
TOTAL LIABILITIES AND EQUITY CAPITAL		28 735 650	24 678 947	25 991 175

Kristiansand, 31th October 2016

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

Cash flow statement

NOK Thousand	30.09.2016	30.09.2015	31.12.2015
Interest payment received	570 630	576 684	762 720
Interest payment made	-303 350	-291 274	-382 015
Operating cost payment	-47 432	-39 825	-55 767
Change in loans to costumers	-2 491 285	-4 318 043	-5 607 166
Tax payment	-94 416	-49 416	-94 384
Net cash flow from operational activities	-2 365 853	-4 121 876	-5 376 612
Changes in bonds and certificates	-202 161	199 197	199 198
Changes in other assets	-10 742	-134	-13
Changes in deposits from credit institutions	-362 491	283 268	530 072
Changes in other liabilities	-114	3	-428
Net cash flow from current financing activities	-575 508	482 335	728 829
Paid in share capital	-	-	-
Payments received, bond debt	4 760 000	5 994 325	11 423 230
Payments made, bond debt	-1 808 862	-2 326 670	-6 737 954
Net cash flow from long-term financing activities	2 951 138	3 667 655	4 685 276
Net change in liquid assets	9 777	28 114	37 493
Liquid assets as at 01.01	50 081	12 588	12 588
Liquid assets at end of period	59 858	40 702	50 081

Equity statement

	Equity			Total
	Equity capital	premium reserve	Other equity capital	
NOK Thousand				
Balance 31.12.2013	525 000	0	244 555	769 555
Equity added through merger	0	500 000	237 795	737 795
Profit 2014	0	0	254 123	254 123
Balance 31.12.2014	525 000	500 000	736 473	1 761 473
Profit 2015	0	0	241 612	241 612
Balance 31.12.2015	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

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 2015 for further details of accounting principles.

The quarterly financial statements have not been audited.

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.

2. NET INTEREST INCOME

NOK Thousand	30.09.2016	30.09.2015	31.12.2015
Interest on loans given to and receivables from credit institutions	201	297	374
Interest on loans given to customers	572 505	573 684	760 666
Interest on certificates/bonds/interest-bearing securities	525	1131	1 446
Total interest income	573 231	575 112	762 485
Interest on debt to credit institutions	18 632	22 832	30 642
Interest on issued securities	301 573	263 762	350 545
Other interest cost	0	1	270
Total interest expenses	320 205	286 595	381 456
Net interest income	253 026	288 517	381 029

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.09.2016	30.09.2015	31.12.2015
Profit (loss) and change in value from covered bonds	-145	0	0
Net income from covered bonds	-145	0	0
Change in value fixed rate bonds - hedge accounting	154 926	5 231	1 240
Change in value derivatives fixed rate bonds - designated as hedging instruments	-181 486	-5 184	-1 009
Net income hedging	-26 559	47	231
Whereof effects from basis swaps (1)	-24 652		
Profit (loss) buyback of own bonds - amortized cost	-2 362	-8 170	4 817
Net other financial instruments and derivatives	-2 362	-8 170	4 817
Net income from financial instruments	-29 066	-8 123	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 derivative contracts entered into in connection with long-term funding in international capital markets, where funding in foreign currencies are converted into floating interest rate Norwegian kroner funding. Assuming that these hedging instruments are held to maturity, the total changes in fair value will be zero. The accounting effects will therefore be reversed over time.

4. TAXES

A tax rate of 25 percent is assumed.

5. DEBT TO ASSET RATIO

	30.09.2016	30.09.2015	31.12.2015
Average debt to asset ratio in %	52.8 %	54.3 %	55.3 %
Portfolio divided into intervals of debt to asset ratio			
Less than or equal to 40 %	22.4 %	20.9 %	19.9 %
41 - 50 %	14.4 %	13.5 %	13.1 %
51 - 60 %	22.1 %	20.2 %	19.6 %
61 - 70 %	33.6 %	32.4 %	30.4 %
71 - 75 %	5.4 %	9.5 %	11.7 %
over 75 %	2.1 %	3.5 %	5.3 %
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 also has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

7. CAPITAL ADEQUACY

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 current capital adequacy rules - Basel II.

NOK Thousand	30.09.2016	30.09.2015	31.12.2015
Equity capital			
Equity capital	525 000	525 000	525 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	978 085	736 473	978 085
Deductions	0	0	0
Common equity tier 1 capital	2 003 085	1 761 473	2 003 085
Minimum requirement for equity capital			
Credit risk	878 373	850 909	788 144
Market risk	0	0	0
Operational risk	61 545	55 274	55 247
CVA addition	27 742	16 109	18 125
Deductions	0	0	0
Total minimum requirement for equity capital	967 660	922 292	861 516
Risk-weight balance (calculation basis)	12 095 750	11 528 650	10 768 950
Common equity tier 1 capital ratio	16.56 %	15.28 %	18.60 %
Tier 1 capital ratio	16.56 %	15.28 %	18.60 %
Total capital ratio	16.56 %	15.28 %	18.60 %

8. LOANS TO CUSTOMERS

NOK Thousand	30.09.2016	30.09.2015	31.12.2015
Loans assessed at amortized cost			
Flexi-loans (revolving loans)	7 179 827	7 575 125	7 006 813
Repayment loans	21 003 104	16 826 744	18 685 515
Gross loans	28 182 931	24 401 869	25 692 328
Collective write-downs	6 000	6 000	6 000
Net loans	28 176 931	24 395 869	25 686 328
Unused credit on Flexi-loans	2 343 035	3 135 613	3 058 316

Loans distributed to sectors and industries	30.09.2016	30.09.2015	31.12.2015
Retail customers	27 979 002	24 223 329	25 511 406
Corporate customers*)	179 664	154 929	155 975
Accrued interests	24 265	23 611	24 947
Gross loans	28 182 931	24 401 869	25 692 328
Collective write-downs	6 000	6 000	6 000
Net loans	28 176 931	24 395 869	25 686 328

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

Loans distributed by geographical areas

	30.09.2016		30.09.2015		31.12.2015	
Vest-Agder	12 527 524	44.5 %	10 839 165	44.4 %	11 371 489	44.3 %
Aust-Agder	8 032 995	28.5 %	7 314 729	30.0 %	7 362 269	28.7 %
Telemark	2 417 778	8.6 %	1 996 251	8.2 %	2 120 368	8.3 %
Oslo	2 271 917	8.1 %	1 802 284	7.4 %	2 188 032	8.5 %
Akershus	1 050 355	3.7 %	840 991	3.4 %	916 137	3.6 %
Others	1 876 363	6.7 %	1 602 449	6.6 %	1 728 033	6.7 %
Total	28 176 931	100.0 %	24 395 869	100.0 %	25 686 328	100.0 %

9. DEFAULTED LOANS

NOK Thousands	30.09.2016	30.09.2015	31.12.2015
Gross non-performing loans > 90 days	1 000	0	0
Individual write-downs	0	0	0
Net non performing loans	1 000	0	0
Net non-performing loans > 90 days in % of gross loans	0.00 %	0.00 %	0.00 %

A non-performing loan is 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 30.09.2016

ISIN Number	Ticker	Currency	Nominal value	Interest rate type	Coupon	Due date	Book value
NO0010641624	SORB20	NOK	737 000	Flytende	3M Nibor	28.03.2017	737 308
NO0010623945	SORB02	NOK	1 000 000	Flytende	3M Nibor	24.08.2017	1 001 002
NO0010673296	SORB21	NOK	4 500 000	Flytende	3M Nibor	14.09.2018	4 504 856
NO0010679806	SORB10	NOK	4 500 000	Flytende	3M Nibor	22.05.2019	4 500 570
NO0010664659	SORB07	NOK	28 000	Flytende	3M Nibor	27.11.2019	28 117
NO0010714058	SORB24	NOK	4 500 000	Flytende	3M Nibor	24.06.2020	4 455 645
NO0010733421	SORB26	NOK	2 000 000	Flytende	3M Nibor	24.09.2020	1 998 071
XS1383921803		EUR	500 000	Fast	0,25 %	22.03.2021	4 573 654
NO0010730146	SORB25	NOK	2 000 000	Flytende	3M Nibor	16.06.2021	1 999 764
NO0010671597	SORB09	NOK	350 000	Fast	3,85 %	13.02.2023	404 363
NO0010670409	SORB08	NOK	500 000	Fast	4,00 %	24.01.2028	619 401
TOTAL							24 822 751

11. COVER POOL

NOK Thousands	30.09.2016	30.09.2015	31.12.2015
Gross loans secured by mortgages on residential property *	28 115 378	24 334 532	25 595 452
Total cover pool	28 115 378	24 334 532	25 595 452
Collateralisation ratio	14.2 %	16.8 %	16.8 %

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

12. ASSOCIATED PARTIES

NOK Thousands	30.09.2016	30.09.2015	31.12.2015
Income statement			
Interest income from Sparebanken Sør on deposits	201	297	374
Interest cost and credit commission from Sparebanken Sør on loans and credit	22 382	26 582	35 642
Interest cost on security debts to Sparebanken Sør	390	1 850	2 573
Paid administration fees to Sparebanken Sør	39 472	32 421	44 228
Balance sheet			
Bank deposits with Sparebanken Sør	59 858	40 702	50 081
Cover bonds owned by Sparebanken Sør	0	0	0
Loan/credit in Sparebanken Sør	1 498 001	1 613 688	1 860 492

QUARTERLY PROFIT TREND

NOK Thousands	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Net interest income	83 510	86 785	82 731	92 512	92 536
Net other operating income	-10 809	-6 537	-15 347	11 960	-1 438
Operating expenses	14 648	15 345	13 698	13 248	13 107
Profit before loss on loans	58 054	64 902	53 686	91 224	77 991
Losses on loans	-32	-200	232	0	0
Profit before taxes	58 085	65 103	53 454	91 224	77 991
Tax expenses	14 521	16 312	13 327	24 763	21 058
Profit for the period	43 564	48 791	40 127	66 461	56 933



SPAREBANKEN SØR BOLIGKREDITT AS

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