

QUARTER 2
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 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 the 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 second quarter of 2017 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio amounting to NOK 29 728 million, transferred from Sparebanken Sør, of which NOK 29 664 million was included in the cover pool. Corresponding figures were at the end of the second quarter 2016 NOK 28 611 million and NOK 28 556 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 26 501 million, relative to NOK 25 158 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 Q2 2017 shows a profit after tax of NOK 65.3 million, relative to NOK 88.9 million in the same period in 2016.

The company had net interest income of NOK 161.1 million, relative to NOK 169.5 million in 2016. The reduction in net interest income is due to the fact that the increase in interest income has been lower than the increase in funding costs.

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 24.0 million in Q2 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 29.1 million and tax expenses were NOK 21.8 million at the end of the second quarter in 2017. Corresponding figures at the end of the second quarter 2016 were NOK 29.0 million and NOK 29.6 million respectively.

Total assets as at 30.06.2017 were NOK 30 833 million, of which net loans to customers represented NOK 29 722 million. At the same time in 2016 total assets were NOK 29 006 million, of which net loans to customers were NOK 28 605 million. The loan portfolio has been financed through the issuance of bonds with a value of NOK 26 501 million, and through equity and drawing rights from Sparebanken Sør. As at 30.06.2017, 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 30.06.2017, was drawn down by NOK 2 009 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 Q2 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 17.0 percent (16.5 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 6.8 percent at the end of Q2 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 30.06.2017 the company satisfies 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, 14th August 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	30.06.2017	30.06.2016	31.12.2016
Interest income	2, 12	384 556	378 980	765 408
Interest expenses	2, 12	223 501	209 464	437 057
Net interest income	2	161 055	169 516	328 351
Commission income		74	85	160
Commission expenses		2 500	2 500	5 000
Net commission income		-2 426	-2 415	-4 840
Net change in value from financial instruments	3	-42 446	-19 469	-14 726
Personnel expenses		-	-	44
Depreciation of intangible assets		-	-	-
Other operating expenses		29 075	29 044	58 310
Total expenses		29 075	29 044	58 354
Profit before losses on loans		87 108	118 588	250 431
Losses on loans		-	32	-
Profit before taxes		87 108	118 557	250 431
Tax expenses	4	21 777	29 639	62 604
Profit for the period		65 331	88 918	187 828
Other comprehensive income				
Profit for the period		65 331	88 918	187 828
Other income and expenses		-	-	-
Total profit for the period		65 331	88 918	187 828

Balance sheet

NOK Thousand				
ASSETS	Notes	30.06.2017	30.06.2016	31.12.2016
Loans to and receivables from credit institutions	12	85 990	51 982	54 254
Net loans to customers	5,8,9,11	29 722 298	28 605 162	28 125 467
Bonds and certificates		810 191	149 822	857 661
Financial derivatives		180 475	183 303	151 191
Deferred tax assets		13 597	4 782	8 693
Other assets		20 585	11 432	10 079
TOTAL ASSETS		30 833 137	29 006 484	29 207 346
LIABILITIES AND EQUITY CAPITAL				
Debt to credit institutions	6,12	2 009 489	1 639 809	2 055 682
Debt incurred due to issuance of securities	10	26 501 081	25 157 774	24 633 278
Financial derivatives	3	44 480	81 601	249 503
Payable tax		14 842	29 043	70 937
Other liabilities		7 002	6 254	7 033
TOTAL LIABILITIES		28 576 893	26 914 481	27 016 433
EQUITY CAPITAL				
Paid-in equity capital		1 025 000	1 025 000	1 025 000
Retained earnings		1 231 244	1 067 003	1 165 913
TOTAL EQUITY CAPITAL	7	2 256 244	2 092 003	2 190 913
TOTAL LIABILITIES AND EQUITY CAPITAL		30 833 137	29 006 484	29 207 346

Kristiansand, 14th August 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

Cash flow statement

NOK Thousand	30.06.2017	30.06.2016	31.12.2016
Interest payment received	385 065	379 547	762 375
Interest payment made	-211 233	-202 817	-405 207
Operating cost payment	-31 532	-31 914	-62 871
Change in loans to customers	-1 597 340	-2 919 401	-2 437 937
Tax payment	-82 776	-94 416	-94 416
Net cash flow from operational activities	-1 537 816	-2 869 001	-2 238 056
Changes in bonds and certificates	47 470	-49 554	-757 393
Changes in other assets	-10 506	-11 419	-10 066
Changes in deposits from credit institutions	-48 991	-222 538	194 990
Changes in other liabilities	-31	-456	323
Net cash flow from current financing activities	-12 058	-283 967	-572 146
Paid-in share capital	-	-	-
Payments received, bond debts	6 201 315	4 760 000	9 255 500
Payments made, bond debt	-4 619 706	-1 605 131	-6 441 125
Net cash flow from long-term financing activities	1 581 610	3 154 869	2 814 375
Net change in liquid assets	31 735	1 901	4 173
Liquid assets as at 01.01	54 254	50 081	50 081
Liquid assets at the end of period	85 989	51 982	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 - 30.06.2016	0	0	88 918	88 918
Balance 30.06.2016	525 000	500 000	1 067 003	2 092 003
profit 30.06.2016 - 31.12.2016	0	0	98 910	98 910
Balance 31.12.2016	525 000	500 000	1 165 913	2 190 913
Profit 01.01.2017 - 30.06.2017	0	0	65 331	65 331
Balance 30.06.2017	525 000	500 000	1 231 244	2 256 244

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	30.06.2017	30.06.2016	31.12.2016
Interest on loans given to and receivables from credit institutions	308	128	298
Interest on loans granted to customers	377 594	378 592	762 093
Interest on certificates/bonds/interest-bearing securities	6 654	259	3 017
Total interest income	384 556	378 980	765 408
Interest on debt to credit institutions	15 819	11 634	26 453
Interest on issued securities	207 682	197 830	410 604
Other interest cost	-	0	0
Total interest expenses	223 501	209 464	437 057
Net interest income	161 055	169 516	328 351

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.06.2017	30.06.2016	31.12.2016
Profit/loss and change in value from covered bonds	738	-120	-867
Net income from covered bonds	738	-120	-867
Change in value fixed rate bonds - hedge accounting	-305 693	3 244	209 745
Change in value derivatives fixed rate bonds - designated as hedging instruments	284 215	-21 042	-242 821
Net income hedging	-21 478	-17 797	-33 076
Whereof effects from basis swaps (1)	-24 013	-18 659	-31 859
Profit/loss buying back own bonds - amortized cost	-21 706	-1 552	19 217
Net other financial instruments and derivatives	-21 706	-1 552	19 217
Net income from financial instruments	-42 446	-19 469	-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

	30.06.2017	30.06.2016	31.12.2016
Average debt to assets ratio in %	54,1 %	52,7 %	54,7 %
Portfolio divided into intervals of debt to assets ratio			
Less than or equal to 40%	20,1 %	22,3 %	20,8 %
41 - 50 %	14,1 %	14,5 %	13,3 %
51 - 60 %	22,1 %	22,4 %	19,4 %
61 - 70 %	32,7 %	33,4 %	30,7 %
71 - 75 %	8,4 %	5,5 %	11,7 %
over 75 %	2,5 %	1,9 %	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	30.06.2017	30.06.2016	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	940 561	878 992	881 921
Market risk			
Operational risk	56 264	61 545	61 545
CVA addition	37 498	29 180	24 001
Deductions			
Total minimum requirement for equity capital	1 034 323	969 717	967 467
Risk-weight balance (calculation basis)	12 929 038	12 121 463	12 093 338
Common equity tier 1 capital ratio	17,0 %	16,5 %	18,1 %
Tier 1 capital ratio	17,0 %	16,5 %	18,1 %
Total capital ratio	17,0 %	16,5 %	18,1 %
Leverage Ratio	6,8 %	6,3 %	7,2 %

8. LOANS TO CUSTOMERS

NOK Thousands	30.06.2017	30.06.2016	31.12.2016
Loans assessed at amortized cost			
Flexi-loans (loans without installments)	7 697 475	7 638 255	6 758 883
Loans with installments	22 030 823	20 972 907	21 372 584
Gross loans	29 728 298	28 611 162	28 131 467
Collective write-downs	6 000	6 000	6 000
Net loans	29 722 298	28 605 162	28 125 467
Undrawn credit on Flexi-loans	2 249 636	2 389 717	2 286 871

Loans distributed to sectors and industries	30.06.2017	30.06.2016	31.12.2016
Retail customers	29 702 659	28 419 141	28 064 368
Corporate customers *)	0	167 641	40 950
Accrued interests	25 640	24 380	26 149
Gross loans	29 728 298	28 611 162	28 131 467
Collective write-downs	6 000	6 000	6 000
Net loans	29 722 298	28 605 162	28 125 467

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

Loans distributed by geographical areas	30.06.2017		30.06.2016		31.12.2016	
Vest-Agder	13 007 697	43,8 %	12 726 991	44,5 %	12 431 648	44,2 %
Aust-Agder	8 322 872	28,0 %	8 114 843	28,4 %	8 017 979	28,5 %
Telemark	2 791 221	9,4 %	2 410 025	8,4 %	2 571 798	9,1 %
Oslo	2 290 017	7,7 %	2 362 067	8,3 %	2 197 082	7,8 %
Akershus	1 225 809	4,1 %	1 086 487	3,8 %	1 081 387	3,8 %
Others	2 084 683	7,0 %	1 904 750	6,7 %	1 825 573	6,5 %
Total	29 722 298	100,0 %	28 605 162	100,0 %	28 125 467	100,0 %

9. DEFAULTED LOANS

NOK Thousands	30.06.2017	30.06.2016	31.12.2016
Gross non-performing loans > 90 days	0	0	0
Individual write-downs	0	0	0
Net non performing loans	0	0	0
Net non-performing loans > 90 days in % of gross loans	0,0 %	0,0 %	0,0 %

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

10. DEBT SECURITIES ISSUED AS AT 30.06.2017

ISIN Number	Ticker	Currency	Nominal value	Interest rate	Interest rate	Due date	Book value
NO0010623945	SORB02	NOK	297 000	Floating	3M Nibor	24.08.2017	297 453
NO0010673296	SORB21	NOK	685 000	Floating	3M Nibor	14.09.2018	684 627
NO0010679806	SORB10	NOK	5 000 000	Floating	3M Nibor	22.05.2019	5 005 046
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 095
NO0010714058	SORB24	NOK	5 000 000	Floating	3M Nibor	24.06.2020	4 965 190
XS1383921803		EUR	500 000	Fixed	0,25 %	22.03.2021	4 758 207
NO0010778954	SORB27	NOK	5 000 000	Floating	3M Nibor	22.11.2021	5 007 858
XS1622285283		EUR	500 000	Fixed	0,125 %	30.05.2022	4 782 774
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	389 775
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	582 056
TOTAL							26 501 081

11. COVER POOL

NOK Thousand	30.06.2017	30.06.2016	31.12.2016
Gross loans secured by mortgages on residential property *)	29 664 382	28 555 518	28 041 171
Total cover pool	29 664 382	28 555 518	28 041 171
Collateralisation ratio	12,2 %	14,3 %	14,4 %

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

12. ASSOCIATED PARTIES

NOK Thousand	30.06.2017	30.06.2016	31.12.2016
Income statement			
Interest income from Sparebanken Sør on deposits	308	128	298
Interest expenses/credit commission from Sparebanken Sør on loans/credits	18 319	14 134	31 453
Interest expenses on debts to Sparebanken Sør	0	94	529
Paid administration fees to Sparebanken Sør	26 965	25 894	52 888
Balance			
Bank deposit with Sparebanken Sør	85 990	51 982	54 254
Cover bonds owned by Sparebanken Sør	0	0	0
Loan/credit in Sparebanken Sør	2 006 491	1 637 954	2 055 482

QUARTERLY PROFIT TREND

NOK Thousand	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net interest income	87 224	73 831	75 325	83 510	86 785
Net other operating income	-34 199	-10 673	13 128	-10 809	-6 537
Operating expenses	15 380	13 695	14 663	14 648	15 345
Profit before losses on loans	37 645	49 463	73 790	58 054	64 902
Losses on loans	0	-32	-200	232	-200
Profit before tax	37 645	49 463	73 790	58 085	65 103
Tax expenses	9 411	12 366	18 444	14 521	16 312
Profit for the period	28 234	37 097	55 346	43 564	48 791

Declaration in Accordance with Section 5-6 of the Norwegian Securities Trading Act

The Board of Directors and managing director of Sparebanken Sør Boligkreditt AS hereby confirm that the company's half-yearly financial statements for 2017 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall result.

In addition, we confirm that the half year report provides a true and fair view of the company's development, result and position, together with a description of the most significant risk and uncertainty factors facing the company.

Kristiansand, 14th August 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



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