



QUARTER 2
2018
(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 interest bearing securities. 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 date of acquisition.

At the end of Q2 2018 Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 34 027 million, transferred from Sparebanken Sør, of which NOK 33 945 million is included in the qualified cover pool. Corresponding figures at the end of Q2 2017 were NOK 29 728 million and NOK 29 680 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 28 744 million, compared with NOK 26 501 million at the same time in 2017. The company has achieved a diversified funding by issuing covered bonds outside the Norwegian bond market.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS shows in Q2 2018 a profit after tax of NOK 100.6 million, compared with NOK 65.3 million in the same period in 2017.

The company had net interest income of NOK 191.0 million, compared with NOK 161.1 million in 2017. 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 2.7 million in Q2 2018. 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 34.8 million and tax expenses were NOK 33.5 million at the end of Q2 2018. Corresponding figures at the end of Q2 2017 were NOK 29.1 million and NOK 21.8 million respectively.

Total assets at 30.06.2018 were NOK 35 897 million, of which net loans to customers represented NOK 34 017 million. At the same time in 2017 total assets were NOK 30 833 million, of which net loans to customers were NOK 29 722 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 28 744 million, and through equity and drawing rights from Sparebanken Sør. In January 2018 the company increased the equity capital by NOK 600 million. After the capital increase, the company had paid-in capital of a total of NOK 1 625 million, of which NOK 1 125 million was share capital and NOK 500 million related to share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 4 000 million with Sparebanken Sør that, at 30.06.2018, was drawn down by NOK 3 874 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 2018, the net subordinated capital in the company was NOK 2 943 million, compared to NOK 2 191 million at the same time in 2017. This corresponds to a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 20.5 percent (17.0 percent in 2017), while regulatory minimums requirements constitute 12.0 percent, 13.5 percent and 15.5 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 7.9 percent at the end of Q2 2018.

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 addition, 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. At 30.06.2018 the company satisfies the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio).

A Management Service Agreement has been established 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 an 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 further acquisitions of loans from Sparebanken Sør, and the company intends to be able to issue new open covered bonds, aimed at investors in Norway or abroad.

Arendal, 10 August 2018

The Board of Directors of 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	30.06.2018	30.06.2017	31.12.2017
Interest income	2, 12	444 360	384 556	787 419
Interest expenses	2, 12	253 347	223 501	427 148
Net interest income	2	191 014	161 055	360 271
Commission income		91	74	149
Commission expenses		2 500	2 500	5 000
Net commission income		-2 409	-2 426	-4 851
Net income from financial instruments	3	-19 991	-42 446	-47 484
Personnel expenses		0	0	54
Depreciation on intangible assets		0	0	0
Other operating expenses		34 767	29 075	60 127
Total expenses		34 767	29 075	60 180
Profit before losses on loans		133 846	87 108	247 756
Losses on loans	9	-236	-	-
Profit before taxes		134 083	87 108	247 756
Tax expenses		33 521	21 777	61 939
Profit for the period		100 562	65 331	185 817
Other comprehensive income				
Profit for the period		100 562	65 331	185 817
Net change in value from basis swaps		-12 313	0	0
Tax effect		3 078	0	0
Total profit for the period		91 327	65 331	185 817

Balance sheet

NOK Thousand				
ASSETS	Notes	30.06.2018	30.06.2017	31.12.2017
Loans to and receivables from credit institutions	12	112 134	85 990	152 957
Net loans to customers	4,7	34 016 760	29 722 298	30 967 963
Bonds and certificates		1 616 943	810 191	808 817
Financial derivatives		100 569	180 475	368 812
Deferred tax assets		24 097	13 597	14 920
Other assets		26 795	20 585	18 097
TOTAL ASSETS		35 897 297	30 833 137	32 331 567
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 876 773	2 009 489	3 360 846
Debt incurred due to issuance of securities	10	28 743 629	26 501 081	26 495 406
Financial derivatives	3	166 136	44 480	22 975
Payable taxes		38 628	14 842	68 166
Other liabilities		7 246	7 002	7 444
TOTAL LIABILITIES		32 832 412	28 576 893	29 954 837
EQUITY				
Paid-in equity		1 625 000	1 025 000	1 025 000
Retained earnings		1 439 885	1 231 244	1 351 730
TOTAL EQUITY CAPITAL		3 064 885	2 256 244	2 376 730
TOTAL LIABILITIES AND EQUITY CAPITAL		35 897 297	30 833 137	32 331 567

Arendal, 10 August 2018

The Board of Directors of 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	30.06.2018	30.06.2017	31.12.2017
Interest received	443 581	385 065	783 006
Interest paid	-235 725	-211 233	-409 601
Operating expenditure	-37 374	-31 532	-64 567
Changes in loans to customers	-3 051 923	-1 597 340	-2 838 082
Income tax paid	-68 099	-82 776	-82 776
Net cash flow from operating activities	-2 949 540	-1 537 816	-2 612 020
Changes in bonds and certificates	-808 125	47 470	48 844
Changes in other assets	-89 148	-10 506	72 431
Changes in deposits from credit institutions	513 750	-48 991	1 304 427
Changes in other liabilities	-198	-31	411
Net cash flow from current financing activities	-383 721	-12 058	1 426 113
Paid in share capital	600 000	0	0
Payments received, bond debt	4 870 000	6 201 315	6 201 315
Payments made, bond debt	-2 177 562	-4 619 706	-4 916 706
Net cash flow from long-term financing activities	3 292 438	1 581 610	1 284 610
Net change in liquid funds	-40 823	31 735	98 702
Liquid funds at 01.01	152 957	54 254	54 254
Liquid funds at the end of period	112 134	85 989	152 957

Equity statement

	Equity capital	Equity premium reserve	Other equity capital	Total
NOK Thousand				
Balance 31.12.2016	525 000	500 000	1 165 913	21 909 013
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
Profit 30.06.2017 - 31.12.2017	0	0	120 485	120 485
Balance 31.12.2017	525 000	500 000	1 351 729	2 376 729
Changes according to IFRS 9	0	0	-4 228	-4 228
Tax effect	0	0	1 057	1 057
Balance 01.01.2018	525 000	500 000	1 348 558	2 373 558
Share capital increase	600 000	0	0	600 000
Profit 01.01.2018 - 30.06.2018	0	0	100 562	100 562
Other income/expenses	0	0	-9 235	-9 235
Balance 30.06.2018	1 125 000	500 000	1 439 885	3 064 885

1. ACCOUNTING POLICIES

The quarterly financial statements have been drawn up in accordance with International Financial Reporting Standards, IFRS, including IAS 34. Sparebanken Sør Boligkreditt AS is a part of the Sparebanken Sør Group and follows the same accounting principles as the Group. On 1 January 2018 the company changed accounting principles from IAS 39 to IFRS 9. Please refer to the annual financial statements for 2017 (note 25) for further details of the accounting effects of the transition.

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.

A tax rate of 25 percent is assumed.

The quarterly financial statements have not been audited.

2. NET INTEREST INCOME

NOK Thousand	30.06.2018	30.06.2017	31.12.2017
Interest on loans given to and receivables from credit institutions	707	308	645
Interest on loans given to customers	432 406	377 594	774 119
Interest on certificates/bonds/interest-bearing securities	11 248	6 654	12 655
Total interest income	444 360	384 556	787 419
Interest on debt to credit institutions	30 277	15 819	33 474
Interest on issued securities	223 070	207 682	393 673
Other interest expenses	0	0	1
Total interest expenses	253 347	223 501	427 148
Net interest income	191 014	161 055	360 271

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.06.2018	30.06.2017	31.12.2017
Profitt (loss) and change in value from covered bonds	-755	738	-541
Net income from covered bonds	-755	738	-541
Change in value fixed rate bonds - hedge accounting	417 358	-305 693	-573 039
Change in value derivatives fixed rate bonds - designated as hedging instruments	-435 483	284 215	547 802
Net income hedging	-18 125	-21 478	-25 237
Whereof effects from basis swaps (1)	-2 710	-24 013	-31 859
Profitt (loss) buyback of own bonds - amortized cost	-1 111	-21 706	-21 706
Net other financial instruments and derivatives	-1 111	-21 706	-21 706
Net income from financial instruments	-19 991	-42 446	-47 484

1) The company has issued covered bonds in Euro that have been hedged using basis swaps. Change in the value of the basis swaps as a result of changes in market conditions, is presented as hedging-inefficiency. This ineffective portion is recognized in the income statement.

Basis swaps are derivative contracts used to convert obligations in foreign currency into NOK. Basis swaps are used when the company has entered into long term funding in international capital 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. LTV - LOAN TO VALUE

	30.06.2018	30.06.2017	31.12.2017
Average debt to assets ratio in %	55,5 %	54,1 %	57,0 %
Portfolio divided into intervals of debt to assets ratio:			
Less than og equal to 40%	18,1 %	20,1 %	16,9 %
41 - 50 %	13,3 %	14,1 %	12,3 %
51 - 60 %	21,5 %	22,1 %	19,4 %
61 - 70 %	33,1 %	32,7 %	31,9 %
71 - 75 %	10,2 %	8,4 %	13,3 %
More than 75 %	3,8 %	2,5 %	6,1 %
Total	100,0 %	100,0 %	100,0 %

5. DEBT TO CREDIT INSTITUTIONS

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 4 000 million. In addition, the company has revolving drawing rights with Sparebanken Sør, which can be used to refinance outstanding bonds.

6. 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	30.06.2018	30.06.2017	31.12.2017
Equity capital			
Equity capital	1 125 000	525 000	525 000
Equity premium reserve	500 000	500 000	500 000
Other equity capital	1 339 324	1 165 913	1 351 730
Deductions	-20 888	0	-1 201
Net subordinated capital (common equity tier 1)	2 943 436	2 190 913	2 375 529
Minimum requirement for equity capital			
Credit risk	1 093 075	940 561	990 345
Market risk	0	0	0
Operational risk	53 614	56 264	56 264
CVA addition	0	37 498	45 833
Deductions	0	0	0
Total minimum requirement for equity capital	1 146 689	1 034 323	1 092 442
Risk-weight balance (calculation basis)	14 333 613	12 929 038	13 655 525
Common equity tier 1 capital ratio	20,5 %	17,0 %	17,4 %
Tier 1 capital ratio	20,5 %	17,0 %	17,4 %
Total capital ratio	20,5 %	17,0 %	17,4 %
Leverage ratio	7,9	6,8 %	7,0 %

7. LOANS TO CUSTOMERS

NOK Thousand			
Loans assessed at amortized cost	30.06.2018	30.06.2017	31.12.2017
Flexi-loans (loans without installments)	7 931 532	7 697 475	7 518 339
Loans with installments	26 095 132	22 030 823	23 455 623
Gross loans	34 026 665	29 728 298	30 973 963
Write-downs	-9 905	-6 000	-6 000
Net loan	34 016 760	29 722 298	30 967 963
Undrawn credit on Flexi-loans	2 958 071	2 249 636	2 287 410

Loans distributed to sectors and industries			
	30.06.2018	30.06.2017	31.12.2017
Retail customers	33 995 323	29 702 659	30 943 401
Corporate customers*)	0	0	0
Accrued interests	31 341	25 640	30 562
Gross loans	34 026 665	29 728 298	30 973 963
Write-downs	-9 905	-6 000	-6 000
Net loan	34 016 760	29 722 298	30 967 963

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

Loans distributed by geographical areas							
	30.06.2018		30.06.2017		31.12.2017		
Vest-Agder	14 356 951	42,2 %	13 007 697	43,6 %	13 514 160	43,6 %	
Aust-Agder	9 056 894	26,6 %	8 322 872	28,3 %	8 621 345	27,8 %	
Telemark	3 348 944	9,8 %	2 791 221	9,2 %	3 052 322	9,9 %	
Rogaland	806 787	2,4 %	560 354	0,0 %	624 913	2,0 %	
Oslo	3 249 814	9,6 %	2 290 017	8,0 %	2 324 234	7,5 %	
Akershus	1 417 259	4,2 %	1 225 809	4,1 %	1 275 585	4,1 %	
Other counties	1 780 111	5,2 %	1 524 329	7,0 %	1 555 404	5,0 %	
Total	34 016 760	100,0 %	29 722 298	100,0 %	30 967 963	100,0 %	

8. DEFAULTED LOANS

NOK Thousand			
	30.06.2018	30.06.2017	31.12.2017
Gross non-performing loans > 90 days	0	0	0
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.

9. LOSSES ON LOANS

NOK Thousand	30.06.2018	30.06.2017	31.12.2017
Period change in write-downs stage 1	341	0	0
+ Period change in write-downs stage 2	-896	0	0
+ Period change in write-downs stage 3	319	0	0
= Losses in the period	-236	0	0

NOK Million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Allowenses on losses at 01.01.2018	1,6	8,2	0,4	10,2
Transfers				
Transferred to stage 1	4,2	-4,2	0,0	0,0
Transferred to stage 2	-0,2	0,2	0,0	0,0
Transferred to stage 3	0,0	0,0	0,0	0,0
Losses on new loans	0,5	0,5	0,0	1,0
Losses on deducted loans	-0,1	-1,1	-0,1	-1,0
Confirmed losses				
Entered into previous confirmed losses	0,0	0,0	0,0	0,0
Losses on older loans and other changes	-4,0	3,6	0,4	0,0
Allowenses on losses at 30.06.2018	1,9	7,3	0,7	10,0

* In addition to the transfers above, net change consists of losses on older loans as a result of payments / balance increase of loans entered a new stage.

Stage	Gross loans	In %	Calculated	
			loss	In %
1	35 548	94,3 %	2	19,3 %
2	2 120	5,6 %	8	75,1 %
3	25	0,1 %	1	5,6 %
Total	37 693	100,0 %	10	100,0 %

10. DEBT SECURITIES ISSUED AT 30.06.2018

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010673296	SORB21	NOK	225 000	Floating 3M Nibor	14.09.2018	225 093	225 464
NO0010679806	SORB10	NOK	3 292 000	Floating 3M Nibor	22.05.2019	3 295 572	3 312 795
NO0010664659	SORB07	NOK	28 000	Floating 3M Nibor	27.11.2019	28 076	28 221
NO0010714058	SORB24	NOK	5 000 000	Floating 3M Nibor	24.06.2020	4 977 403	5 025 242
XS1383921803		EUR	500 000	Fixed 0,250 %	22.03.2021	4 741 469	4 782 985
NO0010778954	SORB27	NOK	5 000 000	Floating 3M Nibor	22.11.2021	5 008 891	5 069 780
XS1622285283		EUR	500 000	Fixed 0,125 %	30.05.2022	4 730 919	4 744 491
NO0010671597	SORB09	NOK	350 000	Fixed 3,85 %	13.02.2023	379 966	383 130
XS1775786145		EUR	500 000	Fixed 0,375 %	20.02.2023	4 789 095	4 781 531
NO0010670409	SORB08	NOK	500 000	Fixed 4,00 %	24.01.2028	567 145	569 759
TOTAL						28 743 629	28 923 398

11. COVER POOL COMPOSITION AND OC

NOK Thousand	Fair value		
	30.06.2018	30.06.2017	31.12.2017
Loans secured by mortgages on residential properties	34 016 760	29 722 298	30 967 963
Deduction of ineligible loans	-71 353	-42 264	-87 624
Pool of eligible loans	33 945 407	29 680 034	30 880 339
Certificates and bonds	1 358 222	658 360	556 484
Receivables on derivatives	6 055	135 995	345 837
Total cover pool	35 309 684	30 474 390	31 782 659
Debt incurred due to issuance of securities	28 883 628	26 681 503	26 645 880
Commitments on derivatives	71 622	0	0
Total commitments	28 955 250	26 681 503	26 645 880
Collateralisation ratio (OC)	21,9 %	14,2 %	19,3 %

	Nominal value		
	30.06.2018	30.06.2017	31.12.2017
OC based on nominal value, eligibles only	23,4 %	14,8 %	19,0 %
OC based on nominal value, total loans	23,7 %	14,9 %	19,4 %

The calculation of OC has been slightly restated compared to previous periods, and as a result corresponding figures for 2016 have been changed.

12. RELATED PARTIES

NOK Thousand	30.06.2018	30.06.2017	31.12.2017
Income statement			
Interest income from Sparebanken Sør on deposits	707	308	645
Interest expenses and commission from Sparebanken Sør on loans/credit	32 777	18 319	38 474
Interest expenses on bond debts to Sparebanken Sør	0	0	0
Paid administration fees to Sparebanken Sør	32 223	26 965	55 409
Balance sheet			
Bank deposit in Sparebanken Sør	112 134	85 990	152 957
Cover bonds			
Loans/credit in Sparebanken Sør	3 873 659	2 006 491	3 359 909

QUARTERLY PROFIT TREND

NOK Thousand	Q2	Q1	Q4	Q3	Q2
	2018	2018	2017	2017	2017
Net interest income	91 473	99 541	105 730	93 487	87 224
Net other operating income	-19 588	-2 812	-822	-6 641	-34 199
Operating expenses	17 529	17 238	15 790	15 316	15 380
Profit before losses on loans	54 356	79 490	89 118	71 530	37 645
Losses on loans	-1 397	1 161	0	0	0
Profit before tax	55 753	78 329	89 118	71 530	37 645
Skattekostnad	13 728	19 793	22 273	17 889	9 411
Resultat for perioden	42 025	58 536	66 844	53 641	28 234

In Q4 2017 the net interest income was slightly higher than normal, which was due to an incorrect accrual which has been corrected.

