

QUARTER 2
2016
(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 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 2016, Sparebanken Sør Boligkreditt AS has taken on a mortgage loan portfolio amounting to NOK 28 611 million, transferred from Sparebanken Sør, of which NOK 28 556 million is included in the cover pool. Corresponding figures at the end of the second quarter 2015 was respectively NOK 22 234 million and NOK 22 152 million. Sparebanken Sør Boligkreditt AS has issued covered bonds amounting to NOK 25 158 million, against NOK 19 045 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 Q2 2016 shows a profit after tax of NOK 88.9 million, against NOK 118.2 million in the same period in 2015. The company had net interest income of NOK 169.5 million against NOK 196.0 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.

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 18.7 million in Q2.

Basis swaps are long term contracts, where the currency is converted to NOK, entered to hedge 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.

Operating expenses amounted to NOK 29.0 million (23.7) and tax expenses was NOK 29.6 million (43.7).

Total assets as at 30.06.2016 are NOK 29 006 million, of which net loans to customers represent NOK 28 605 million. At the same time in 2015 total assets were NOK 22 669 million, of which net loans to customers were NOK 22 228 million. The loan portfolio has been financed through issue of bonds with a value of NOK 25 158 million and through equity and drawing rights from Sparebanken Sør. As at 30.06.2016, 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 30.06.2016, was drawn down by NOK 1 638 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 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 16.5 percent (16.9 percent in 2015), while regulatory minimums requirements constitute respectively 15 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 6.3 percent at the end of Q2 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, 11th August 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	30.06.2016	30.06.2015	31.12.2015
Interest income	2, 12	378 980	389 434	762 485
Interest expenses	2, 12	209 464	193 453	381 456
Net interest income	2	169 516	195 981	381 029
Commission income		85	85	162
Commission expenses		2 500	2 500	5 000
Net commission income		-2 415	-2 415	-4 838
Net change in value from financial instruments	3	-19 469	-7 897	5 048
Personnel expenses		0	0	46
Depreciation of intangible assets		0	0	0
Other operating expenses		29 044	23 727	50 036
Total expenses		29 044	23 727	50 082
Profit before losses on loans		118 588	161 942	331 157
Losses on loans		32	0	
Profit before taxes		118 557	161 942	331 157
Tax expenses	4	29 639	43 724	89 545
Profit for the period		88 918	118 218	241 612
Other comprehensive income				
Profit for the period		88 918	118 218	241 612
Other income and expenses		0	0	0
Total profit for the period		88 918	118 218	241 612

Balance sheet

NOK Thousand

ASSETS	Notes	30.06.2016	30.06.2015	31.12.2015
Loans to and receivables from credit institutions	10,12	51 982	44 825	50 081
Net loans to customers	5,8,9,11	28 605 162	22 227 609	25 686 328
Bonds and certificates		149 822	300 850	100 268
Financial derivatives		183 303	95 432	154 124
Deferred tax assets		4 782	479	360
Other assets		11 432	254	13
TOTAL ASSETS		29 006 484	22 669 449	25 991 175
LIABILITIES AND EQUITY CAPITAL				
Debt to credit institutions	6,12	1 639 809	1 647 971	1 862 491
Debt incurred due to issue of securities	10,12	25 157 774	19 044 906	22 027 073
Financial derivatives	3	81 601	2 916	2 418
Payable tax		29 043	88 697	89 398
Other liabilities		6 254	5 268	6 710
TOTAL LIABILITIES		26 914 481	20 789 758	23 988 090
EQUITY CAPITAL				
Paid-in equity capital		1 025 000	1 025 000	1 025 000
Retained earnings		1 067 003	854 691	978 085
TOTAL EQUITY CAPITAL	7	2 092 003	1 879 691	2 003 085
TOTAL LIABILITIES AND EQUITY CAPITAL		29 006 484	22 669 449	25 991 175

Kristiansand, 11th August 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	30.06.2016	30.06.2015	31.12.2015
Interest payment received	379 547	391 193	762 720
Interest payment made	-202 817	-196 959	-382 015
Operating cost payment	-31 914	-25 808	-55 767
Change in loans to customers	-2 919 401	-2 149 971	-5 607 166
Tax payment	-94 416	-49 410	-94 384
Net cash flow from operational activities	-2 869 001	-2 030 955	-5 376 612
Changes in bonds and certificates	-49 554	-1 384	199 198
Changes in other assets	-11 419	-254	-13
Changes in deposits from credit institutions	-222 538	316 944	530 072
Changes in other liabilities	-456	-500	-428
Net cash flow from current financing activities	-283 967	314 806	728 829
Paid in share capital	0	0	0
Payments received, bond debt	4 760 000	0	11 423 230
Payments made, bond debt	-1 605 131	1 748 387	-6 737 954
Net Cash flow from long-term financing activities	3 154 869	1 748 387	4 685 276
Net change in liquid assets	1 901	32 237	37 493
Liquid assets as at 01.01.	50 081	12 588	12 588
Liquid assets at end of period	51 982	44 825	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 - 30.06.2016	0	0	88 918	88 918
Balance 30.06.2016	525 000	500 000	1 067 003	2 092 003

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	30.06.2016	30.06.2015	31.12.2015
Interest on loans given to and receivables from credit institutions	128	251	374
Interest on loans given to customers	378 592	388 625	760 666
Interest on certificates/bonds/interest-bearing securities	259	558	1 445
Total interest income	378 980	389 434	762 485
Interest on debt to credit institutions	11 634	15 235	30 642
Interest on issued securities	197 830	178 217	350 545
Other interest cost	0	0	270
Total interest expenses	209 464	193 453	381 456
Net interest income	169 516	195 981	381 029

3. NET CHANGE IN VALUE FROM FINANCIAL INSTRUMENTS

NOK Thousand	30.06.2016	30.06.2015	31.12.2015
Profit (loss) and change in value from covered bonds	-120	0	0
Net income from covered bonds	-120	0	0
Change in value fixed rate bonds - hedge accounting	3 244	42 812	1 240
Change in value derivatives fixed rate bonds - designated as hedging instrument	-21 041	-42 826	-1 009
Net income hedging	-17 797	-14	231
Whereof effects from basis swaps (1)	-18 659	0	
Profit (loss) buyback of own bonds - amortized cost	-1 552	-7 883	4 817
Net other financial instruments and derivatives	-1 552	-7 883	4 817
Net income from financial instruments	-19 469	-7 897	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.

4. TAXES

A tax rate of 25 percent is assumed.

5. DEBT TO ASSET RATIO

	30.06.2016	30.06.2015	31.12.2015
Average debt to asset ratio in %	52,7 %	54,3 %	55,3 %
Portfolio divided into intervals of debt to asset ratio			
Less than or equal to 40 %	22,3 %	20,5 %	19,9 %
41 - 50 %	14,5 %	14,0 %	13,1 %
51 - 60 %	22,4 %	20,6 %	19,6 %
61 - 70 %	33,4 %	32,2 %	30,4 %
71 - 75 %	5,5 %	8,5 %	11,7 %
over 75 %	1,9 %	4,2 %	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	30.06.2016	30.06.2015	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
Net equity capital (core capital)	2 003 085	1 761 473	2 003 085
Minimum requirement for equity capital			
Credit risk	878 992	762 513	788 144
Market risk	0	0	0
Operational risk	61 545	55 247	55 247
CVA addition	29 180	13 263	18 125
Deductions	0	0	0
Total minimum requirement for equity capital	969 717	831 023	861 516
Risk-weight balance (calculation basis)	12 121 463	10 387 788	10 768 850
Core tier 1 capital ratio	16,53 %	16,96 %	18,60 %
Core capital ratio	16,53 %	16,96 %	18,60 %
Total capital ratio	16,53 %	16,96 %	18,60 %

8. LOANS TO CUSTOMERS

NOK Thousand			
Loans assessed at amortized cost			
	30.06.2016	30.06.2015	31.12.2015
Flexi-loans (revolving loans)	7 638 255	6 816 375	7 006 813
Repayment loans	20 972 907	15 417 234	18 685 515
Gross loans	28 611 162	22 233 609	25 692 328
Collective write-downs	6 000	6 000	6 000
Net loans	28 605 162	22 227 609	25 686 328
Unused credit on Flexi-loans	2 389 718	2 920 584	3 058 316

Loans distributed to sectors and industries			
	30.06.2016	30.06.2015	31.12.2015
Retail customers	28 419 141	22 057 919	25 511 406
Corporate customers *)	167 641	152 267	155 975
Accrued interests	24 380	23 423	24 947
Gross loans	28 611 162	22 233 609	25 692 328
Collective write-downs	6 000	6 000	6 000
Net loans	28 605 162	22 227 609	25 686 328

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

Loans distributed by geographical areas							
	30.06.2016		30.06.2015		31.12.2015		
Vest-Agder	12 726 991	44,5 %	9 820 212	44,2 %	11 371 489	44,3 %	
Aust-Agder	8 114 843	28,4 %	6 800 500	30,6 %	7 362 269	28,7 %	
Telemark	2 410 025	8,4 %	1 786 073	8,0 %	2 120 368	8,3 %	
Oslo	2 362 067	8,3 %	1 630 071	7,3 %	2 188 032	8,5 %	
Akershus	1 086 487	3,8 %	753 523	3,4 %	916 137	3,6 %	
Øvrige fylker	1 904 750	6,7 %	1 437 230	6,5 %	1 728 033	6,7 %	
Total	28 605 162	100,0 %	22 227 609	100,0 %	25 686 328	100,0 %	

9. DEFAULTED LOANS

NOK Thousands			
Gross defaulted loans			
	30.06.2016	30.06.2015	31.12.2015
31 - 60 days	6 652	3 569	1 443
61 - 90 days	0	1 455	0
Over 90 days	0	0	0
Total gross defaulted loans	6 652	5 024	1 443

10. DEBT SECURITIES ISSUED AS AT 30.06.2016

ISIN Number	Ticker	Currency	Nominal value	Interest rate type	Coupon	Due date	Book value
NO0010641624	SORB20	NOK	737 000	Floating	3M Nibor	28.03.2017	737 413
NO0010623945	SORB02	NOK	1 200 000	Floating	3M Nibor	24.08.2017	1 201 019
NO0010673296	SORB21	NOK	4 500 000	Floating	3M Nibor	14.09.2018	4 504 872
NO0010679806	SORB10	NOK	4 500 000	Floating	3M Nibor	22.05.2019	4 499 173
NO0010664659	SORB07	NOK	28 000	Floating	3M Nibor	27.11.2019	28 123
NO0010714058	SORB24	NOK	4 500 000	Floating	3M Nibor	24.06.2020	4 452 883
NO0010733421	SORB26	NOK	2 000 000	Floating	3M Nibor	24.09.2020	1 998 055
XS1383921803		EUR	500 000	Fixed	0,25 %	22.03.2021	4 705 594
NO0010730146	SORB25	NOK	2 000 000	Floating	3M Nibor	16.06.2021	1 999 623
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	407 966
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	623 053
TOTAL							25 157 774

11. COVER POOL

NOK Thousands	30.06.2016	30.06.2015	31.12.2015
Gross loans secured by mortgages on residential property *	28 555 519	22 151 809	25 595 452
Total cover pool	28 555 519	22 151 809	25 595 452
Collateralisation ratio	114 %	117 %	117 %

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

12. ASSOCIATED PARTIES

NOK Thousands	30.06.2016	30.06.2015	31.12.2015
Income statement			
Interest income from Sparebanken Sør on deposits	128	251	374
Interest cost and credit commission from Sparebanken Sør on loans/credit	14 134	17 735	35 642
Interest cost on security debts to Sparebanken Sør	94	1 572	2 573
Paid administration fees to Sparebanken Sør	25 894	21 516	44 228
Balance sheet			
Bank deposits with Sparebanken Sør	51 982	44 825	50 081
Covered bonds owned by Sparebanken Sør	0	0	0
Loan/credit in Sparebanken Sør	1 637 954	1 647 364	1 860 492

QUARTERLY PROFIT TREND

NOK Thousands	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Net interest income	86 785	82 731	92 512	92 536	97 996
Net other operating income	-6 537	-15 347	11 960	-1 438	-6 402
Operating expenses	15 345	13 698	13 248	13 107	12 162
Profit before losses on loans	64 902	53 686	91 224	77 991	79 432
Losses on loans	-200	232	0	0	0
Profit before taxes	65 103	53 454	91 224	77 991	79 432
Tax expenses	16 312	13 327	24 763	21 058	21 446
Profit for the period	48 791	40 127	66 461	56 933	57 986

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

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The Board of Directors and managing director of Sparebanken Sør Boligkreditt AS hereby confirm that the company's half-yearly financial statements for 2016 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, 11th August 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



SPAREBANKEN SØR BOLIGKREDITT AS

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