



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2022 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 992 467 002
Organisasjonsform: Aksjeselskap
Foretaksnavn: SPAREBANKEN SØR BOLIGKREDITT AS
Forretningsadresse: Rådhusgata 7-9
4611 KRISTIANSAND S

Regnskapsår

Årsregnskapets periode: 01.01.2022 - 31.12.2022

Konsern

Morselskap i konsern: Nei

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Marianne Lofthus
Dato for fastsettelse av årsregnskapet: 01.03.2023

Grunnlag for avgivelse

År 2022: Årsregnskapet er elektronisk innlevert
År 2021: Tall er hentet fra elektronisk innlevert årsregnskap fra 2022

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 18.04.2024



Resultatregnskap

Beløp i: NOK	Note	2022	2021
RESULTATREGNSKAP			
Renteinntekter og lignende inntekter			
Renteinntekter beregnet etter effektivrentemetoden av utlån til og fordringer på kredittinstitusjone	14	2 059 000	4 645 000
Renteinntekter beregnet etter effektivrentemetoden av utlån til og fordringer på kunder	14	1 496 712 000	960 620 000
Renteinntekter beregnet etter effektivrentemetoden av rentebærende verdipapirer	14	111 230 000	40 279 000
Sum renteinntekter og lignende inntekter	14	1 610 001 000	1 005 544 000
Rentekostnader og lignende kostnader			
Rentekostnader beregnet etter effektivrentemetoden på gjeld til kredittinstitusjoner og finansiering	14	85 862 000	60 161 000
Rentekostnader beregnet etter effektivrentemetoden på utstedte verdipapirer	14	1 068 408 000	372 989 000
Andre rentekostnader beregnet etter effektivrentemetoden	14	9 304 000	7 617 000
Sum rentekostnader og lignende kostnader		1 163 574 000	440 767 000
Netto renteinntekter	14	446 427 000	564 777 000
Provisjonsinntekter og inntekter fra banktjenester		164 000	136 000
Provisjonskostnader og kostnader ved banktjenester		5 140 000	5 095 000
Utbytte og andre inntekter av egenkapitalinstrumenter			
Sum utbytte og andre inntekter av egenkapitalinstrumenter		0	0
Netto verdiendring og gevinst/tap på valuta og finansielle instrumenter			
Netto verdiendring og gevinst/tap på utlån og fordringer	15	-21 000	-113 000
Netto verdiendring og gevinst/tap på rentebærende verdipapirer	15	-24 424 000	-25 784 000
Netto verdiendring og gevinst/tap på finansielle forpliktelser (med unntak av finansielle derivater)	15	-8 392 000	7 020 000
Netto verdiendring og gevinst/tap på valuta og finansielle derivater	15	0	-36 163 000
Sum netto verdiendring og gevinst/tap på valuta og finansielle instrumenter	15	-32 837 000	-55 040 000



Resultatregnskap

Beløp i: NOK	Note	2022	2021
Lønn og andre personalkostnader	26	60 000	54 000
Andre driftskostnader	16	103 394 000	97 087 000
Av-/nedskrivninger, verdiendringer og gevinst/tap på ikke-finansielle eiendeler			
Sum av-/nedskrivninger, verdiendringer og gevinst tap på ikke-finansielle eiendeler		0	0
Kredittap på utlån, garantier mv. og rentebærende verdipapirer			
Kredittap på utlån målt til amortisert kost eller virkelig verdi med verdiendring over andre inntekt 2,7,8		15 644 000	1 804 000
Sum kredittap på utlån, garantier og rentebærende verdipapirer		15 644 000	1 804 000
Resultat før skatt fra videreført virksomhet		289 516 000	405 833 000
Skatt på resultat fra videreført virksomhet	17	30 942 000	101 458 000
Resultat etter skatt fra videreført virksomhet		258 574 000	304 375 000
Resultat før andre inntekter og kostnader		258 574 000	304 375 000
Andre inntekter og kostnader			
Endringer i virkelig verdi på finansielle forpliktelser som skyldes egen kredittrisiko		98 959 000	13 844 000
Skatt på andre inntekter og kostnader som ikke blir omklassifisert til resultatet	17	21 771 000	3 461 000
Sum andre inntekter og kostnader		77 188 000	10 383 000
Totalresultat for regnskapsåret		335 762 000	314 758 000



Balanse

Beløp i: NOK	Note	2022	2021
BALANSE - EIENDELER			
Utlån til og fordringer på kredittinstitusjoner og finansieringsforetak			
Utlån og fordringer på kredittinstitusjoner og finansieringsforetak til amortisert kost	19	76 670 000	256 371 000
Sum utlån og fordringer på kredittinstitusjoner og finansieringsforetak		76 670 000	256 371 000
Utlån til og fordringer på kunder			
Utlån og fordringer på kunder til amortisert kost	5,6,7,8,9	56 561 879 000	49 667 562 000
Sum utlån og fordringer på kunder		56 561 879 000	49 667 562 000
Rentebærende verdipapirer			
Rentebærende verdipapirer til virkelig verdi	18,19,20	6 458 757 000	5 075 647 000
Sum rentebærende verdipapirer		6 458 757 000	5 075 647 000
Finansielle derivater			
Finansielle derivater		493 132 000	737 202 000
Varige driftsmidler			
Sum varige driftsmidler		0	0
Andre eiendeler			
Eiendeler ved utsatt skatt	17	0	12 991 000
Andre eiendeler		73 973 000	42 099 000
Sum andre eiendeler		73 973 000	55 090 000
SUM EIENDELER		63 664 411 000	55 791 872 000
BALANSE - GJELD OG EGENKAPITAL			
GJELD			
Innlån fra kredittinstitusjoner og finansieringsforetak			
Innlån fra kredittinstitusjoner og finansieringsforetak til virkelig verdi	12,14,18	4 027 018 000	4 088 568 000



Balanse

Beløp i: NOK	Note	2022	2021
Sum innlån fra kredittinstitusjoner og finansieringsforetak		4 027 018 000	4 088 568 000
Innskudd og andre innlån fra kunder			
Sum innskudd og andre innlån fra kunder		0	0
Gjeld stiftet ved utstedelse av verdipapirer			
Gjeld stiftet ved utstedelse av verdipapirer til virkelig verdi	12,13, 14	53 277 192 000	47 340 012 000
Sum gjeld stiftet ved utstedelse av verdipapirer		53 277 192 000	47 340 012 000
Finansielle derivater			
Finansielle derivater	18,19, 23	1 821 055 000	522 221 000
Annen gjeld			
Annen gjeld		44 391 000	11 007 000
Avsetninger			
Forpliktelser ved periodeskatt	17	41 317 000	98 387 000
Sum avsetninger		41 317 000	98 387 000
Ansvarlig lånekapital			
Sum ansvarlig lånekapital		0	0
Fondsobligasjonskapital			
Sum fondsobligasjonskapital		0	0
Sum gjeld		59 210 973 000	52 060 195 000
EGENKAPITAL			
Innskutt egenkapital			
Aksjekapital/eierandelskapital	4	2 075 000 000	1 375 000 000
Overkursfond	4	500 000 000	500 000 000
Sum innskutt egenkapital		2 575 000 000	1 875 000 000
Opptjent egenkapital			
Sparebankens fond	4	1 878 438 000	1 856 677 000
Sum opptjent egenkapital		1 878 438 000	1 856 677 000



Balanse

Beløp i: NOK	Note	2022	2021
Sum egenkapital		4 453 438 000	3 731 677 000
SUM GJELD OG EGENKAPITAL		63 664 411 000	55 791 872 000



Skatteetaten

Vår dato 16.01.2020 Din/Deres dato 12.12.2019 Saksbehandler
Joakim Engebretsen

800 80 000 Din/Deres referanse Telefon
Skatteetaten.no 92251412

Org.nr 974761076 Vår referanse 2019/6807385 Postadresse
Postboks 9200 Grønland
0134 OSLO

U.off. offl. § 13, fv. § 13

SPAREBANKEN SØR BOLIGKREDITT AS
Postboks 200
4662 KRISTIANSAND S

Dispensasjon fra kravet om å utarbeide årsregnskap og årsberetning på norsk

Vi viser til Sparebanken Sør Boligkreditt AS' (org.nr. 992 467 002) søknad om dispensasjon fra kravet om å utarbeide årsregnskap og årsberetning på norsk.

Skattekontoret gir på bakgrunn av en konkret helhetsvurdering selskapet dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen forutsetter at engelsk språk benyttes i stedet ved utarbeidelsen, og at øvrige opplysninger som vedtaket baserer seg på, heller ikke endres vesentlig.

Kopi av dette brevet må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn

Fra søknaden siteres:

Årsregnskapet og årsberetningen skal som hovedregel utarbeides på norsk, jf. regnskapsloven § 3-4 første ledd. Etter § 3-4 tredje ledd kan det ved enkeltvedtak gjøres unntak fra språkkravet. På denne bakgrunn søker herved Sparebanken Sør Bolig kreditt AS om å få utarbeide selskapets årsregnskap/årsberetning kun på engelsk.

Sparebanken Sør Boligkreditt AS er et heleid datterselskap av Sparebanken Sør, og selskapets virksomhet drives fra Kristiansand. Selskapet har konsesjon fra Finanstilsynet som kredittforetak med rett til å utstede obligasjoner med fortrinnsrett (OMF), og er en del av Sparebanken Sør sin langsiktige finansieringsstrategi. Samtlige aksjer eies av Sparebanken Sør og regnskapet konsolideres inn i konsernregnskapet til Sparebanken Sør. Morbanken utarbeider sine rapporter på både norsk og engelsk

En vesentlig del av Sparebanken Sør Boligkreditt AS sin virksomhet er rettet mot utenlandske investorer. Pr. 30.11.2019 var obligasjoner pålydende 2 500 mill. euro (tilsvarende 25 238 mill. norske kroner) utstedt i euromarkedet. Det er i 70,4% av den totale obligasjonsporteføljen.

Således er brukerne av selskapets regnskapsinformasjon i det vesentlige engelskspråklige og all kommunikasjon fra selskapet er på engelsk i denne sammenhengen. I tillegg til dette er norske



brukere av selskapets regnskapsinformasjon også vant til engelskspråklige rapporter blant norske boligkredittforetak.

Sparebanken Sør Boligkreditt AS har allerede tillatelse fra Oslo Børs til å bruke engelsk som språk på pliktig informasjon til børsen.

Skattekontorets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal *”årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.”*

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap mv., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon.

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *”informative regnskaper for ulike grupper av regnskapsbrukere”*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte, kunder og lokalsamfunnet.

Det er etter skattekontorets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I dette tilfellet er det opplyst at en vesentlig del av virksomheten er rettet mot utenlandske investorer. I denne forbindelse skjer kommunikasjon fra selskapet på engelsk. Morbanken utarbeider sine rapporter på norsk og engelsk. Selskapet er konsolidert i morbankens konsernregnskap. Skattekontoret finner at disse forholdene samlet tilsier at dispensasjon fra kravet om å utarbeide årsregnskap og årsberetning på norsk kan gis.



Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Roar Thorbjørnsen
underdirektør
Innsats, storbedrift
Skatteetaten

Joakim Engebretsen

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.



SPAREBANKEN SØR
BOLIGKREDITT AS

Annual report 2022

A company in the Sparebanken Sør Group





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Board of Director's report

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. All shares are owned by Sparebanken Sør, and the financial statements are consolidated into the financial statements of the Sparebanken Sør Group. Sparebanken Sør Boligkreditt AS' operations are subject to supervision by the Financial Supervisory Authority of Norway. An investigator has been specially appointed for the mortgage company to attend to the quarterly analysis of the company's cover pool.

The cover pool consists of secured mortgages, substitute assets in interest-bearing securities and financial derivatives. The mortgages are granted by Sparebanken Sør and later taken on 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 on by the company, must not exceed 80 percent of the mortgaged property's market value at the date of acquisition.

The EU directive 2019/2162 (The Covered Bonds Directive) came into force 8 July 2022. Only Premium European covered bonds that satisfy the guidelines and meet the requirement of Article 129 of the CRR, will benefit from preferential regulatory treatment.

The Norwegian Financial Supervisory Authority has approved Sparebanken Sør Boligkreditt AS' European Covered Bond Premium Program. Covered bonds issued by Sparebanken Sør Boligkreditt AS that complied under existing legislation before 8 July 2022, will be grandfathered and eligible for preferential treatment to maturity.

The new regulation restricts funding coverage for mortgage covered bonds to the asset's loan-to-value threshold of 80 percent (from previously 75) for residential mortgages.

At the end of 2022, the company had taken on a mortgage loan portfolio totalling NOK 56 590 million, transferred from Sparebanken Sør, of which NOK 56 265 million was included in the qualified cover pool.

The portfolio of bonds and certificates totalled NOK 6 459 million at the end of 2022.

Sparebanken Sør Boligkreditt AS had issued covered bonds totalling NOK 53 277 million.

The company has established an EMTCN (European Medium Term Covered Note) Programme, which enables the company to diversify funding by issuing covered bonds outside the Norwegian bond market.

INCOME STATEMENT / BALANCE SHEET DEVELOPMENT

The financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 258.6 million at the end of 2022, compared to NOK 304.4 million in the same period in 2021.

The company had net interest income of NOK 446.4 million, compared to NOK 564.8 million in 2021. The decrease is mainly due to the increase in market rates (Nibar) on issued covered bonds. Sparebanken Sør Boligkreditt has changed lending rates on mortgages in line with hikes in the Norwegian key policy rate, which has been lifted from 0 percent in Q3 2021 to 2.75 percent at year-end 2022.

Net income from financial instruments shows a negative contribution of NOK 32.8 million in 2022, compared to a negative contribution amounting to NOK 55.0 million in 2021. The improvement is mainly related to a loss on repurchase of own bonds in 2021.

The company has issued covered bonds in Euros under the EMTCN Program. 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 positively affected the income from financial instruments by NOK 5.0 million in 2022. Assuming that the covered 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 totalled NOK 103.5 million in 2022, compared to NOK 97.1 million in 2021.

Tax expenses were NOK 30.9 million in 2022. Corresponding figures in 2021 were NOK 101.5 million. Tax expenses in 2022 were influenced by a refund of too high tax payments in the years 2019-2021.

Total assets as at 31 December 2022 were NOK 63 664 million, of which net loans to customers represented NOK 56 562 million. At the same time in 2021, the corresponding figures were NOK 55 792 million and NOK 49 668 million respectively.

As at 31 December 2022, the loan portfolio was financed through the issuance of bonds amounting to NOK 53 277 million and through equity and drawing rights from Sparebanken Sør. At 31 December 2022, the company had paid-in capital totalling NOK 2 575 million, of which NOK 2 075 million was share capital and NOK 500 million was share premium.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 5 000 million with Sparebanken Sør, of which NOK 4 13 million was drawn down at 31 December 2022.

In accordance with Norwegian accounting legislation, the Board of Directors confirms that the conditions for presenting the financial statements on a going-concern basis are met.



CAPITAL STRENGTH

At the end of 2022, the net subordinated capital in the company was NOK 4 444 million. This corresponds to a common equity tier 1 capital ratio/tier 1 capital ratio/total capital ratio of 19.5 percent, while regulatory minimum requirements are set at 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 financial strength and risk-bearing ability to be very good.

CORPORATE GOVERNANCE

Sparebanken Sør Boligkreditt AS' corporate governance principles are based on the Norwegian Code of Practice for Corporate Governance (NUES). The company has adapted this framework, and Sparebanken Sør Boligkreditt AS's principles and policy intend to ensure that its corporate governance is in accordance with generally accepted and recognised perceptions and standards, and in compliance with laws and regulations.

The company's corporate governance shall ensure good interaction between different stakeholders such as shareholders, lenders, customers, employees, governing bodies, management and society. The corporate governance principles have been specified in various documents governing the company's operations. This includes the company's articles of association, strategies and governance framework. In the Board of Directors' opinion, the corporate governance of Sparebanken Sør Boligkreditt AS is satisfactory and in compliance with applicable principles and policies.

Sparebanken Sør Boligkreditt AS' mission follows from the company's articles of association. The company's mission is to acquire mortgages and fund lending activities primarily by issuing covered bonds. Operations will be run at satisfactory profitability and low risk.

The Board of Directors of Sparebanken Sør Boligkreditt AS has an annual meeting and conducts an annual review of the company's business strategy. 7 board meetings took place in 2022. Follow-up on operations, strategy, risk, and capital management and monitoring of the markets and framework conditions have been the areas of focus for the Board of Directors. The company's risk strategy has been adopted by the Board of Directors, which conducts an annual review of the company's risk management and internal control. Identified areas of risk and any material deviations are followed up and reported on a regular basis.

Sparebanken Sør Boligkreditt AS has signed operating agreements with Sparebanken Sør. These agreements cover capital management, risk management, internal audit, financial reporting, internal financial control and internal financial reporting. In addition to reviewing the accounts and risk reporting, the company's management provides regular operational reports in relation to the company's financial objectives to the Board, at each Board meeting.

The company's ethical guidelines include a duty to report matters that warrant criticism, including breaches of internal guidelines, laws and regulations, and a procedure for how such information is to be given. Large companies must provide information about their management of corporate social responsibility (cf. Section 3-3c of the Norwegian Accounting Act). The Parent Bank, Sparebanken Sør, delivers such a statement for the Group, which also covers its subsidiaries. For further information, please refer to the annual report of Sparebanken Sør.

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør and is exempt from the requirement for a separate audit committee. The Compliance function is taken care of through the company's agreement with Sparebanken Sør. The company has an independent external auditor (PWC) and an internal audit (Sparebanken Sør). PWC has been appointed as an investigator by the Financial Supervisory Authority of Norway. Sparebanken Sør Boligkreditt AS's operations are subject to supervision by the Financial Supervisory Authority of Norway. The Board of Directors and management endeavour to maintain an open and constructive dialogue with the Financial Supervisory Authorities.

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 a high public rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain a low risk level. The company has established Board approved guidelines and limits for management and control of various areas of risk, which meet regulatory, rating agency and investor requirements. The company places emphasis on identifying, measuring and controlling elements of risks in such a way that the market has high confidence in the company and that the company can achieve a high rating on issued bonds.

The company's credit strategy and credit policy include requirements imposed on borrowers, as well as 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.

In accordance with Board-approved requirements, stress testing of the value of the cover pool was conducted in 2022 by simulation of a sharp fall in house prices. The Board of Directors found the result of the stress tests to be satisfactory.

The company's mortgages to customers are in NOK at both fixed and floating interest rates with six weeks' notice of interest adjustment. Financing is met by the issuance of both floating and fixed-rate bonds in NOK and EUR. Foreign currency debt is swapped to NOK and fixed-rate debt is swapped to floating rates. Foreign currency debt and debt at a fixed interest rate, are accounted for by using 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, given an approval by the FSA. 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. As at 31.12.2022 the company had a liquidity portfolio in addition to substitute assets, and was compliant with the liquidity requirements imposed on financial institutions, with a LCR ratio of 578 percent.

As of 31.12.2022 the mortgages in the cover pool had an average loan-to-value of 53.0 percent. Over-collateralization was 14.5 percent and given a stress-test on asset prices of 30 percent, the OC was above the legislative OC level of 5 percent.

A Management Service Agreement has been established with Sparebanken Sør, that encompasses the supply of all necessary services for the operation of the company. The Board of Directors considers the company's operational risk to be low.

EMPLOYEES AND WORKING ENVIRONMENT

At 31 December 2022, the company had no employees and there are no relevant comments regarding the internal working environment. The Board is composed of four persons, one of whom is female.

GREEN COVERED BONDS

Sparebanken Sør Group has a Green and Sustainability Bond Framework in place, under which Sparebanken Sør Boligkreditt AS has issued green covered bonds. The proceeds are allocated to a mortgage portfolio, financing energy-efficient residential buildings in Norway. The bond framework, which is aligned with ICMA Green Bond Principles, was updated in Q1 2022.

RATING

Covered bonds issued by Sparebanken Sør Boligkreditt AS, have been given an Aaa rating by Moody's.

SOCIAL RESPONSIBILITY

The company requires social responsibility work to take place in close cooperation with and according to the same guidelines as in Sparebanken Sør. The company does not carry out any activities that pollute the external environment.

FUTURE PROSPECTS

The activity in the Norwegian economy is high, with little spare capacity and unemployment is on a low level. Going forward economic growth and activity will be affected by an elevated inflation level, further interest rate hikes and geopolitical uncertainty.

Norges Bank raised the key policy rate both in their November and December meetings in 2022, to a rate of 2.75 percent at year-end. The key policy rate forecast indicates a rise to around 3 percent during the first quarter of 2023.

Residential property prices in the Bank's main markets have shown positive, though moderate, growth over several years. Activity in the housing market was weaker in the fourth quarter of 2022 and house price inflation is expected to be negatively affected by higher lending rates and lower demand for mortgages going forward. A strong labour market and wage growth will on the other hand, have a supportive effect on house prices.

The risk premiums on covered bonds have increased in 2022, a reflection of economic and geopolitical uncertainty. Sparebanken Sør Boligkreditt AS has ample access to wholesale funding and sufficient liquidity reserves to handle financial market volatility.

Despite the increase in interest rates and higher household costs, the Board of Directors anticipates the company's business to continue to be satisfactory going forward. Sparebanken Sør Boligkreditt AS is well-positioned to further acquire loans from Sparebanken Sør, and issue covered bonds towards investors in Norway and abroad.



DISTRIBUTION OF PROFIT

The total profit after tax for 2022 is NOK 335.8 million. The Board of Directors proposes that the whole amount is transferred to retained earnings.

Kristiansand, 1 March 2023

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director



Income statement

Interest income, assets recognised at amortised cost	14, 25	1 498 771	965 265
Interest income, assets recognised at fair value	14, 25	111 230	40 279
Interest expenses	14, 25	1 163 574	440 768
Net interest income	14, 25	446 427	564 777
Commission income		164	136
Commission expenses		5 140	5 095
Net commission income		-4 976	-4 959
Net income from financial instruments	12, 15	-32 837	-55 040
Personnel expenses	26	60	54
Other operating expenses	16, 25	103 394	97 087
Total expenses		103 453	97 141
Profit before loss		305 161	407 638
Losses on loans and undrawn credit	2, 7, 8	15 645	1 805
Profit before taxes		289 516	405 833
Tax expenses	17	30 942	101 458
Profit for the period	27	258 574	304 375

Statement of comprehensive income

Profit for the period		258 574	304 375
Net change in value from basis swaps		98 959	13 844
Tax effect	17	-21 771	-3 461
Total comprehensive income		335 762	314 758

Notes 1 to 28 are an integral part of the financial statements.



Balance sheet

ASSETS

Loans to and receivables from credit institutions	18, 19, 21, 23, 25	76 670	256 371
Net loans to customers	5, 6, 7, 8, 9, 10, 11, 18, 19, 22, 23	56 561 879	49 667 562
Bonds and certificates	18, 19, 20	6 458 757	5 075 647
Financial derivatives	18, 19, 23, 24	493 132	737 202
Deferred tax assets	17	0	12 991
Other assets		73 973	42 099
TOTAL ASSETS		63 664 411	55 791 872

LIABILITIES AND EQUITY

Debt to credit institutions	12, 14, 18, 19, 23, 25	4 027 018	4 088 568
Debt incurred due to issuance of securities	12, 13, 14, 18, 19, 21, 25	53 277 192	47 340 012
Financial derivatives	18, 19, 23, 24	1 821 055	522 221
Payable taxes	17	41 317	98 387
Deferred tax liabilities		32 171	0
Other liabilities		12 221	11 008
TOTAL LIABILITIES		59 210 973	52 060 195

EQUITY

Paid-in equity	4, 27	2 575 000	1 875 000
Retained earnings	4	1 878 438	1 856 676
TOTAL EQUITY CAPITAL	4	4 453 438	3 731 676
TOTAL LIABILITIES AND EQUITY CAPITAL		63 664 411	55 791 872

Notes 1 to 28 are an integral part of the financial statements.

Kristiansand, 1 March 2023

Board of Directors of Sparebanken Sør Boligkreditt AS


Geir Bergskalg
Chairman


Seunn Smith-Tønnessen
Member


Gunnar P. Thomassen
Member


Steinar Vignæs
Member


Marianne Lofthus
Managing Director



Cash flow statement

Interest received	1 562 326	1 002 111
Interest paid	-1 023 757	- 448 719
Operating expenditure	- 108 111	- 102 018
Changes in loans to customers	-6 861 995	- 767 569
Income tax paid	- 98 421	- 98 387
Net cash flow from operating activities	-6 529 958	- 414 582
Payments received, securities	8 956 716	9 468 174
Payments made, securities	-10 349 803	-9 461 832
Changes in other assets	- 31 874	- 11 825
Changes in deposits from credit institutions	- 61 550	-6 307 764
Changes in other liabilities	835	81
Net cash flow from current financing activities	-1 485 677	-6 313 165
Paid-in share capital	700 000	0
Paid dividend	- 314 000	- 300 178
Payments received, bond debt	12 144 183	16 828 116
Payments made, bond debt	-4 694 250	-11 795 845
Net cash flow from long-term financing activities	7 835 933	4 732 094
Net change in liquid funds	- 179 701	-1 995 654
Liquid funds as at 01.01.	256 371	2 252 025
Liquid funds at the end of the period	76 670	256 371



Equity statement

Balance 31.12.2020	1 375 000	500 000	1 842 096	3 717 096
Dividend	0	0	-300 178	-300 178
Profit 2021	0	0	304 375	304 375
Other income/expenses *	0	0	10 383	10 383
Balance 31.12.2021	1 375 000	500 000	1 856 676	3 731 676
Dividend	0	0	-314 000	-314 000
Share capital increase	700 000	0	0	700 000
Profit 2022	0	0	258 574	258 574
Other income/expenses *	0	0	77 188	77 188
Balance 31.12.2022	2 075 000	500 000	1 878 438	4 453 438

* Basis adjustments to interest and currency swaps were NOK 63.7 million as of 31.12.2022 and NOK minus 13.0 million as of 31.12.2021. The adjustment is included as a part of other equity.



Notes

NOTE 1 – ACCOUNTING POLICIES

1. GENERAL INFORMATION
2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT
3. REVENUE
4. FINANCIAL INSTRUMENTS
5. HEDGE ACCOUNTING
6. ACCOUNTING OF EXCHANGE EFFECTS
7. INCOME TAX
8. EQUITY
9. CASH FLOW STATEMENT
10. CHANGES IN ACCOUNTING POLICIES AND NOTES
11. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, BUT NOT YET ADOPTED

1. GENERAL INFORMATION

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør and has its registered office in Kristiansand. The company is licensed to operate as a mortgage company with the right to issue covered bonds.

The main object of Sparebanken Sør Boligkreditt AS is to acquire loans secured through mortgages on residential property within 80 percent of the property value, and to issue covered bonds to national and international investors.

All amounts 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.

The financial statements for 2022 were presented by the Board of Directors on 1 March 2023, and will be adopted with final effect at the General Meeting on 31 March 2023. The General Meeting is the company's supreme body.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENT

The company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act.

The measurement basis for the financial statement is historical cost with the exception of financial assets and liabilities, including derivatives that are assessed at fair value with change in value through profit or loss.

3. REVENUE

Interest income and expenses related to assets and liabilities, which are measured at amortised cost, are recognised in income on an ongoing basis using the effective interest method. All charges related to interest-bearing loans and borrowings are included in the calculation of the effective interest rate and amortised over the expected term. Interest income is calculated based on gross loan for loan to customers in stage 1 and 2 and net loans for loans to customers in stage 3.

Commission income and expenses which are a direct payment for services provided are recognised when the services have been delivered. Directly attributable transaction costs associated with financial instruments valued at amortised cost, are amortised over the anticipated lifetime of the instrument.

4. FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset for one enterprise and a financial liability or an equity instrument for another enterprise.

Financial instruments are measured and classified in accordance with IFRS 9. Note disclosures have been prepared in accordance with IFRS 7.

Recognition and deductions

Financial assets and liabilities are recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the company transfers the financial asset in such a way that the risk and profit potential of the asset concerned is essentially transferred.

A financial liability is derecognised when the liability has been discharged, cancelled or has matured. When an existing financial liability is replaced by a new liability from the same lender under terms that have been materially changed, or the terms of an existing liability have been materially modified, the original liability is derecognised and a new liability is recognised. The difference in capitalised value is recognised through profit or loss.

Classification and measurement

Measurement of the financial asset is determined on initial recognition of the asset.

Financial assets are to be measured by the following three categories in IFRS 9:

- Fair value with changes in value recognised through profit or loss.
- Amortized cost.
- Derivatives designated as hedging instruments recognised at fair value.



Classification on initial recognition is based on the instruments being held in a business model both to receive contractual cash flows and for sale, and whether contractual cash flows solely consist of payments of interest and principal on given dates.

Financial instruments that are held to receive contractual cash flows, are to be measured at amortised cost.

Instruments with cash flows that are not only payments of interest and principal or if the purpose of possessing the instrument is not to receive contractual cash flows, are to be measured at fair value with changes in value recognised through profit or loss.

Derivatives used in connection with hedge accounting are measured according to the principles for hedge accounting. See separate section.

Fair value with changes in value recognised through profit or loss

All derivatives are measured at fair value with changes in value recognised through profit or loss. However, derivatives designated as hedging instruments are recognised in accordance with the principles of hedge accounting.

The company has chosen to recognise holdings of interest-bearing bonds and certificates at fair value through profit and loss. These are assets and liabilities that are managed, measured and reported to management at fair value.

This category additionally covers interest rate swaps and currency swaps established before 1 January 2018 and used as instruments for the fair value hedging of bonds issued at fixed interest rates. Hedge accounting is discussed further in a separate section below

Amortised cost

The company measures financial assets at amortised cost if the following conditions are met:

- The financial asset is held in a business model, whose purpose is to receive contractual cash flows, and
- the contractual terms for the financial asset lead to cash flows which consist exclusively of payments of principal and interest on given dates.

Debt instruments which sole purpose is to hold the instrument in order to collect contractual cash flows are to be recognised at amortised cost. All borrowings and lendings at variable interest rates are classified at amortised cost.

Derivatives designated as hedging instruments recognised at fair value

Interest rate swaps and currency swaps used as instruments for the fair-value hedging of bonds issued at fixed interest rates. Hedge accounting is discussed further in a separate section.

Subsequent measurement

Measurement at fair value with changes in value recognised through profit or loss

Fair value is the price that would be obtained upon the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the time of valuation.

Measurement of financial instruments traded on an active market

Financial instruments traded on an active market are valued at observed market prices.

Measurement of financial instruments not traded on an active market

The fair value of financial instruments not traded on an active market is determined using a suitable valuation method. Valuation techniques are based on recent transactions between independent parties, by reference to instruments with approximately the same content or by discounted cash flows. As far as possible, valuations are based on externally observed parameters.

Fair value of interest-bearing securities is determined on the basis of established market values, reported by leading external market players, or at fair value calculated on the basis of the prevailing market yield and credit spread curves.

In calculating the fair value of interest rate swaps, the prevailing market value of the relevant inter-bank interest rate curve is used.

Measurement at amortised cost

Subsequent measurement of financial instruments measured at amortised cost, is performed using the effective interest method and is subject to loss provisions. Gains and losses are recognised through profit or loss when the asset is derecognised, modified or impaired.

Financial assets at amortised cost, include receivables from customers and loans to customers.

Amortized cost is defined as the carrying amount on initial recognition, less received/paid interest and instalments, including accrued effective interest, adjusted for net impairment losses and the net recognised effect of any hedging.

The effective interest method is a method that calculates amortised cost and accrues interest income/expenses for the relevant period. Interest income is recognised using the effective interest method. The effective interest rate is the interest rate that by discounting the loan's cash flows over the anticipated term, gives a value equal to the loan's amortised cost on the date of its establishment.

Derivatives designated as hedging instruments recognised at fair value

Interest rate and currency swaps are measured at fair value in the balance sheet. Changes in value are recognised through profit or loss with the exception of interest rate and currency swaps entered into on or after 1 January 2018. In this case changes in value due to changes in spreads will be recognised through other comprehensive income as a hedging effect.



Offsetting

Financial assets and liabilities are offset and recognised as a net amount in the balance sheet only when the company has a legally enforceable right to offset, and intends to realise the asset and settle the liability simultaneously as a whole.

Modification

When the contractual cash flows from a financial asset are renegotiated or altered in some other way, and the renegotiation or change does not lead to derecognition of the financial asset, the gross recognised value of the financial asset is recalculated and any gain or loss on the change is recognised in profit or loss.

The gross recognised value of the financial asset is recalculated as the present value of the renegotiated or changed cash flows, discounted at the original effective interest rate of the financial asset. Any incurred expenses and fees adjust the recognised value of the changed financial asset and are depreciated over the remaining life of the changed financial asset.

Impairment of financial assets

Provision is made for expected credit losses (ECL) based on relevant information available at the time of reporting, including historical, current and future information.

Loss allowance are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The model used to calculate provisions for expected losses depends on whether there has been a significantly increased in credit risk since initial recognition. On initial recognition and in cases where the credit risk has not significantly increased since initial recognition, a provision is recognised for expected losses over the next 12 months. Expected losses over the next 12 months are losses that are expected to incur over the lifetime of the instrument, of which can be linked to events occurring during the next 12 months. Expected credit losses over the whole term are calculated for assets where the credit risk has increased materially since initial recognition, with the exception of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date.

The expected credit loss for exposures that have been qualitatively assessed is calculated based on the present value of all cash flows over the expected residual lifetime. In effect, this is the difference between the contractual cash flows in accordance with the agreement and the cash flow that the company expects to receive, discounted at the effective interest rate of the instrument. The expected cash flows shall cover cash flows from the sale of collateral or other credit enhancements that are embedded in the contract terms.

In the balance sheet, loan impairments reduce the carrying amounts of the exposures. In the income statement, losses on loans consist of realised losses, changes in loss allowance, income on loans and provisions for guarantees and unused credit facilities, as well as income relating to recovery of previously realised losses. Losses on loans are based on a qualitative assessment of the company's loan portfolio in accordance with IFRS 9.

For a further description, please refer to Note 26.

Loans with low credit risk

The company does not utilize the low credit risk exemption for loans to customers. The simplification rules are applied for lending to credit institutions and central banks. This means that the company assesses whether the instruments that had a low credit risk on initial recognition still have a low credit risk at the balance sheet date. This assessment is made using relevant available information that can be obtained without undue cost or effort.

Reduction in the value on loans as a result of qualitative assessments

Loss allowance based on qualitative assessments is recognised when there are objective and observable indications that a loan is impaired as a result of a credit loss. An loss allowance is reversed when the loss is reduced and the reduction is objectively attributable to an event occurring after the date on which loss allowance was recognised. All loans regarded as significant will be assessed to see whether there is objective evidence of weakened creditworthiness, and the objective indication is highly likely to result in reduced future cash flows for the servicing of the exposure.

A customer's commitment is defined as default if the contractual payments have been overdue for more than 90 days, and the amount exceeds NOK 1,000 and 1 percent of the customer's obligations (payment default).

A customer's commitment is defined as default if it is probable that the borrower will not fulfill its obligations due to objective requirements:

- Loss write-downs have been registered on the customer's obligation
- Incurred losses have been recognised for the customer
- A bankruptcy petition has been filed or the customer has been declared bankrupt
- The customer has applied for or is in a debt settlement
- Sale of credits due to deteriorating credit quality

A customer's commitment is defined as default if qualitative assessments are made that indicate that the borrower is not fulfilling its obligations. Qualitative assessments are made when observable data is available relating to the exposure, for example significant financial difficulties at the issuer or borrower. When the borrower's lender, due to financial or contractual grounds relating to the borrowers' financial difficulties, has granted the borrower concessions that the lender would not otherwise have considered and when it becomes probable that the borrower will enter bankruptcy or undergo another form of financial reorganization.

Reduction in the value of loans and unused credit facilities as a result of model-based calculations

Loans that have not been subject to qualitative impairment assessments are included in the basis of calculation for model-based impairments. The same applies to guarantees and unused credit facilities.



The model assessing the impairment of financial assets under IFRS 9 applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. The standard also contains requirements for loss provisions on new loans, by stipulating that an impairment must be recognised for expected credit losses resulting from expected defaults in the next 12 months. The model calculates losses for all customers at account level. The model also includes loan approvals, guarantees and unused lines of credit. For loans where the credit risk has increased materially after initial recognition, an impairment loss corresponding to the expected credit loss over the term of the loan is recognised.

Realised losses

When it is highly probable that a loss is final, it is recognised as a realised loss. Some realised losses will be covered by previously recognised, qualitatively assessed loss allowance, and will therefore be recognised against the existing provision. Realised losses not covered by qualitatively assessed loss allowance, as well as any surplus or deficit in relation to previously recognised loss allowance are recognised through profit or loss.

Presentation in the balance sheet and income statement

Loans

Loans are recorded as either loans to and receivables from credit institutions or as net loans to customers. Interest is included in the income statement under interest income from assets valued at amortised cost. Changes in value due to loss allowance are included in the income statement under losses on loans, guarantees and unused credit facilities.

Bonds and certificates

This balance sheet item includes the company's certificate and bond portfolio. Interest is included in the income statement under interest income from assets at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

Financial derivatives (assets and liabilities)

This balance sheet item includes financial derivatives. Changes in value related to the derivatives are recognised in the income statement under net income from financial instruments.

Liabilities to credit institutions

Balance sheet items include liabilities to credit institutions. Interests is recognised in the income statement under interest expenses.

Liabilities incurred due to issue of securities

This balance sheet item includes issued securities debt. Interest is recognised in the income statement under interest expenses. In case of early redemption or repurchase of issued bonds, any gains and losses are recognised under net change in the value of financial instruments.

Provisions

A provision is recognised when the company has an obligation (legal or self-imposed) due to a previous event, where it is likely (more likely than not) that there will be a financial settlement as a result of this liability, and the size of the amount can be reliably determined. If the effect is significant, the provision is calculated by discounting the expected future cash flow with a discounted interest rate before tax that reflects the market's pricing of the time value of money, and if relevant, the specific risks associated with this obligation.

5. HEDGE ACCOUNTING

Sparebanken Sør Boligkreditt AS uses hedge accounting in relation to the company's funding at fixed interest rate terms and in foreign currencies. Hedging instruments are used to counteract the interest risk and foreign exchange risk of the bonds.

The criteria for classification of a derivative as a hedging instrument are:

- The hedge accounting is anticipated to be very effective, in that it counteracts changes in the fair value of the bond issued.
- There must be an economic relationship between the hedging instrument and the hedged object, and the effect of credit risk must not dominate any changes in value in the hedging relationship.
- It must be possible to measure the effectiveness of hedging reliably
- Satisfactory documentation has been established prior to hedging which shows, among other things, that the hedging is effective and is expected to remain effective throughout the period.

Sparebanken Sør Boligkreditt AS uses fair value hedging. Hedging is measured and documented every quarter to ensure that it is effective. The dollar-offset method is used to measure the effectiveness of hedging. When the hedging is established and effective, interest rate swaps and currency swaps will be recognised in the balance sheet at fair value and in the income statement under net income from financial instruments.

The hedged item is recognised in the balance sheet at amortised cost. Changes in fair value associated with the hedged risk are accounted for as a supplement or deduction in the book value of the bond debt and is recognised in income under net income from financial instruments.

IFRS 9 applies qualitative requirements for hedge effectiveness, where a prospective effectiveness test is regarded as adequate.

Ineffectiveness in hedge accounting, defined as the difference between the value adjustment of hedging instruments compared to the value adjustment of the hedged risks in the objects, is recognised in the profit and loss. However, the part of the value adjustment due to a change in spreads of the hedging instruments is the exception. For interest rate and currency swaps established on or after 1 January 2018, changes in value due to changes in spreads will be recognised through other comprehensive income as a hedging effect. Basis swaps created before 1 January 2018 are recognised at fair value through profit or loss until these falls due.



If circumstances should occur which render hedging ineffective, the company will amortise the change in value associated with the hedged item over the residual period. The associated hedging instrument will continue to be measured at fair value with changes in value through profit or loss.

6. ACCOUNTING OF EXCHANGE EFFECTS

Income and expenses in foreign currencies are translated into Norwegian kroner (NOK) at the exchange rates prevailing on the transaction date.

Balance sheet items denominated in foreign currencies are hedged by corresponding items on the opposite side of the balance sheet, or through hedging transactions. Currency derivatives (currency futures) traded with customers are hedged in a similar manner against another external party. Assets and liabilities in foreign currencies are translated into Norwegian kroner at the banks' median rates on the balance sheet date. Foreign exchange gains and losses are recognised in the income statement under net income from other financial instruments.

7. INCOME TAX

Income tax is accrued as a cost, irrespective of when payment is made. The tax expense reflects this year's and future taxes payable as a result of the year's activity. The tax is expected to offset net income included in this year's tax expense and in the balance sheet and is designated as tax payable.

Deferred tax is calculated on the basis of differences between the reported results for tax and accounting purposes that will be offset in the future. Tax-increasing and tax-reducing temporary differences within the same accounting period, are offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax-reducing differences will be realised. The company will likewise reduce the deferred tax asset to the extent that the company no longer considers it probable that it can make use of the deferred tax asset.

8. EQUITY

The equity in Sparebanken Sør Boligkreditt AS consists of sharecapital, Share premium reserve and retained earnings.

Proposed dividend is presented as equity in the balance sheet until a final decision is made in the general assembly.

9. CASH FLOW STATEMENT

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents are defined as loans to and receivables from credit institutions.

10. CHANGES IN ACCOUNTING POLICIES AND NOTES

Applied accounting policies are consistent with the standards used for the previous accounting period.

11. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, BUT NOT YET ADOPTED

There are no changes in new standards or interpretations of existing standards that are relevant and will affect future accounting periods.



NOTE 2 – DISCRETIONARY ASSESSMENTS, ESTIMATES AND ASSUMPTIONS

With the preparation of the financial statements, the management makes estimates and discretionary assessments. Areas that are largely comprised of discretionary estimates have a high degree of complexity, and assumptions and estimates are significant for the company's financial statements, which are presented below.

GENERAL

In applying the Group's accounting policies, the company's management has exercised discretion in some areas and made assumptions about future events. There will naturally be an inherent uncertainty related to accounting items based on the use of discretion and assumptions about future events. When exercising discretion and making assumptions about future events, management will use information available at the balance-sheet date, previous experience with similar assessments, as well as market and third-party assessments of current conditions. Although management exercises its best judgment and bases itself on the best estimates available, it must be anticipated that the actual outcome may, in some cases, differ materially from the accounting estimates.

Estimates, assumptions and conditions that represent a significant risk of material changes in the carrying value of assets and liabilities within the next financial year are discussed below.

PROVISIONS FOR LOAN LOSSES

The accounting area provisions for loan losses is subject to a large degree of discretionary assessments. This item was in 2020 and 2021 particularly challenging to quantify, due to the ongoing pandemic. In 2022, there are again major turmoil and fluctuations in the financial market. Many macro parameters pointed upwards from the last six months of 2021 and 2022. At the end of the year, there is a significant increase in pessimism in the market with increased commodity prices, an increasing key policy rate, an expected future fall in the property market and an expected future increase in unemployment.

Models used to calculate future credit losses contains forward-looking macro data, and in events of major changes to the economy, the current models and parameters must be changed accordingly. Macro-data used in the model for calculating future credit losses is shown in note 7 in the financial statements.

All loans to customers classified at amortised cost have loss allowances based according to IFRS 9. Loss allowances are to be recognized on all commitments based on expected credit losses (ECL). Each month, all commitments are calculated for future expected losses.

At initial recognition, future expected losses are calculated for the next 12 months and all commitment receive an application score.

For subsequent periods, commitments where there has been no significant increase in credit risk, expected loss for the next 12 months will be calculated and allocated. If there has been a significant increase in credit risk, the expected loss for the entire lifetime will be calculated and allocated.

In cases when there is observable data related to commitments which, for example, relate to significant financial difficulties of the borrower, the loans will be assessed qualitatively. In such cases, an individual assessment of model-calculated losses will be made and, if needed, model-calculated losses will be overdrawn. For qualitative assessments, write-downs will be calculated as difference between the loan's book value and the present value of future cash flows based on the effective interest rate at the time of initial calculation of qualitative impairment.

Provisions for loan losses are mostly based on the Group's risk classification models. The group has models for application scores and portfolio scores that form the basis for the risk classification. Any weaknesses in these models affect the loss provisions calculated in the model.

Assessment of loss allowances, where there is objective evidence of impairment, will always be based on a significant degree of discretion. Predictions based on historical information may prove to be incorrect because it can never be known with certainty what relevance historical data has as a basis for making decisions. When collateral values are linked to particular objects or industries in crisis, collateral will have to be realized in low-liquid markets, and assessment of collateral values will be subject to significant uncertainty in such situations.

The loss model contains data for macroeconomic conditions, and relevant parameters must be adjusted to take account of any changes in the economic climate or macroeconomic conditions. The Group largely uses input from the Monetary Policy Report from Norges Bank and statistics from Statistics Norway as a basis for macro conditions. The timing and selection of parameters to be updated depends on discretionary assessments and may vary between the different banks.

The quality of the Group's score and risk classification models also has a direct impact on calculated losses allowances.

NOTE 3 – RISK MANAGEMENT

The objective of Sparebanken Sør Boligkreditt AS is to be a funding instrument for Sparebanken Sør to secure the long-term value creation for the Group. With this objective, it is essential that risk is subject to active and satisfactory management.

The objective of Sparebanken Sør Boligkreditt AS is to utilize high-quality residential mortgage portfolios to issue covered bonds. Part of the Sparebanken Sør Group's business strategy is to keep a low to moderate risk profile for all enterprises. Taking on risks is a basic feature of banking, and risk management is therefore a key area in both daily operations and the Board's ongoing work. Reference is also made to the Group's Pillar 3 document, which is available on the website of the Parent Bank (www.sor.no).



ORGANISATION

Board of Directors

The Board has overall responsibility for the company's total risk management and aims to ensure that the company has appropriate systems in place for risk management and internal control. The Board determines risk strategies, framework for risk appetite, risk profile and tolerance. The Board also determines the strategy and guidelines for the capital plan and composition of the capital and approves the process to ensure an acceptably adequate capital level at all times.

The company's management

The management and day-to-day operation of Sparebanken Sør Boligkreditt AS is based on a Management Service Agreement between the company and the parent company, Sparebanken Sør.

The Managing Director has overall responsibility for the implementation of the company's credit strategy and credit policy within general mandates and limits adopted by the Board.

Responsibility for implementation of the annual assessment of the risk situation and the capital adequacy requirement is handled by Sparebanken Sør and is regulated by an agreement between the Mortgage Company and Sparebanken Sør. Plans and analyses are integrated with the strategies and plans at Group level.

Risk management in Sparebanken Sør takes place at Group level and includes Sparebanken Sør Boligkreditt AS. The bank's department for monitoring risks will identify, measure and evaluate the overall risk and is in addition handling compliance measures.

Risk management in Sparebanken Sør takes place at Group level and includes Sparebanken Sør Boligkreditt AS. The bank's department for monitoring risks will identify, measure and evaluate the overall risk and is in addition handling compliance measures.

Internal auditor

Sparebanken Sør's internal auditors handle internal auditing of Sparebanken Sør Boligkreditt AS, as regulated in a separate agreement. This is a monitoring function independent of the administration in general, designed to perform risk assessments, controls and investigations of the company's internal control and governance processes in order to assess whether these are appropriately taken care of.

Risk control process

There are reasonable and appropriate strategies and processes for risk and capital management in place. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process).

RISK CATEGORIES

All risks are managed through a framework for risk appetite and risk tolerance. Targets for the different risk parameters are in place, and these are:

Credit risk /counterparty risk

Credit risk is the risk of loss due to the Company's counterparties or customers not having the ability or willingness to meet its payment obligations to Sparebanken Sør Boligkreditt AS. Credit risk concerns all claims on counterparties/customers. This means loans and credits, securities and counterparty risk arising from derivatives and foreign exchange contracts.

Credit risk is a function of two factors (events): ability and willingness to pay, and the value of underlying collateral. Both factors must occur for losses to take place. The first is the lack of ability to pay or willingness to pay of the debtor, and the other is the value of the underlying collateral not being sufficient to cover the Company's requirements for any default and subsequent realization of security.

Credit risk is defined as a significant risk, and the Company's policy is that credit risk exposure should be low. The Board approves the Company's credit strategy and credit policy, and credit risk is controlled by adopted limits and measures linked to the risk profile and exposure on portfolio levels.

The Board receives regular reports on credit risk. The development of lending by the various risk classes and migration between these classes are vital in this respect.

Counterparty risk is the risk of the Company's business partners in the financial field not being able to fulfil their contractual obligations towards the Bank. Derivative contracts must be established with reputable counterparties with a good rating and must be regulated by an underlying ISDA agreement. Derivative contracts must be spread across various counterparties to avoid counterparty concentration.

The Company follows the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) regarding settlement, confirmations, documentation and reporting to authorities. The Company's counterparty risk is regulated through the establishment of agreements on the furnishing of collateral (Collateral Support Annex) between the parties. Under CSA settlement, the value of derivatives is reconciled with the derivative counterparty, and settlement of collateral takes place. In entering into an agreement for collateral settlement for changes in the value of derivatives, the Company maintains the lowest possible counterparty risk.

Settlement risk

Settlement risk is a form of credit risk where a contracting party fails to fulfil its obligations regarding settlements in the form of cash or securities, upon the Company has given notice of the payment or transfer of a security. Settlement risk that the Company is exposed to is considered to be low.

Liquidity risk

Liquidity risk is defined as the risk of Sparebanken Sør Boligkreditt AS being unable to meet its obligations or unable to fund its assets, but also not being able to achieve funding without incurring significant additional costs, impairment in value of assets that must be realized, or funding costs above a normal cost level. Liquidity risk also includes the risk of the financial market ceasing to function.



Sparebanken Sør Boligkreditt AS will manage liquidity risk in accordance with regulatory requirements. The risk must be low and comparable with similar companies and meet the requirements of investors in the company's bonds. Exposure in relation to adopted limits and control of qualitative requirements are monitored.

Market risk

Market risk is divided into interest rate risk, credit spread risk and foreign exchange risk. Sparebanken Sør Boligkreditt AS has a low market risk.

Interest rate risk

Interest rate risk is defined as the risk of financial losses arising from changes in interest rates if the interest period for the Bank's liabilities and assets on and off the balance sheet does not coincide. The interest rate risk limit is determined as an upper limit for losses on unsecured interest rate positions, given shifts or distortions in the interest rate curve.

Foreign exchange risk

Foreign exchange risk is defined as the risk of financial (earnings-related) losses arising from an unfavorable change in the value of asset and liability items (on and off the balance sheet) measured in the base currency (NOK) due to changes in exchange rates. Exposure is measured as the size of the potential losses in a stress scenario, given a change in foreign exchange rate of 25 percent.

Spread risk

Spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in credit spreads. A general increase in credit spreads would lead to a reduction in value of a portfolio of interest-bearing securities. Changes in credit spread are a consequence of changes in investors' requirement for risk premium given an anticipated credit risk and / or changes in other market conditions. The company's credit spread exposure is related to the liquidity portfolio.

Business risk

Business risk is defined as the risk of unexpected revenue fluctuations from other factors than credit risk, market risk and operational risk. The risk can occur in various business and product segments and is linked to cyclical fluctuations and changes in customer behavior. Business risk can also arise as a result of government regulations. The risk also includes the reputational risk, which is associated with increased losses, reduced income and/or increased costs as a result of a deterioration of the company's reputation.

Strategic risk

Strategic risks are defined as internal matters related to the strategy, plans and changes that the Company either has or has proposed.

Operational risk

Operational risk is the company's exposure to financial losses or loss of reputation due to inadequate or failing internal processes or systems, human errors or external events. Operational risk includes risk of default. Examples of operational risk may be several types of adverse actions and events, including money laundering, corruption, embezzlement, insider trading, fraud, robbery, threats to employees, authorization breaches and breaches of adopted procedures and failure of IT systems.

Operational risk is monitored by regular qualitative assessments. The estimated capital requirements for operational risk are carried out under the basic method. The operational business in Sparebanken Sør Boligkreditt AS has been secured through agreements with Sparebanken Sør. Sparebanken Sør Boligkreditt AS's operational risk is considered to be low.

Concentration risk

Concentration risk is defined as credit risk arising from high overall exposure to a single counterparty or issuer of security, associated groups of counterparties, Counterparties with operations in the same sector or geographical area and enterprises that use the same kind of security, trade in the same goods or have the same type of operations.

With regards to credit risk, it is an objective to avoid major risk concentrations, including large exposure to individual customers or customer groups and groups of commitments in classes within high-risk industries or geographic areas.

The company's view is that Sparebanken Sør Boligkreditt AS is not exposed to any additional risk as a result of debtor concentration. This is a result of low credit exposure taken into account the quality of the pledged security.

HEDGING INSTRUMENTS

The Company uses the following hedging instruments:

- Interest rate swaps - agreements to exchange interest rates for a particular nominal amount over a specified number of periods
- Basis swaps - agreements to exchange both interest rates and foreign currencies

The purpose of using these instruments is to hedge interest rate and foreign exchange exposure.



NOTE 4 – CAPITAL ADEQUACY

The Sparebanken Sør Group has an objective of maximising long-term value creation. In addition the Group has an objective that the risk profile should be moderate to low. This means that effective risk and capital management is a key strategic element. Sparebanken Sør Boligkreditt AS is an instrument to underpin this objective.

The Group has established a strategy and process for risk measurement, -management and -control that provide an overview of the risks the company is exposed to. The setup provides the basis for the assessment and calculation of the Group's total capital needs, and how this can be maintained to cover the specific risks in an adequate manner. This is referred to as ICAAP (Internal Capital Adequacy Assessment Process). The assessment of capital needs includes the evaluation of size, composition and capital distribution according to each risk to which the Group is

or will be exposed to. ICAAP includes stresstesting of relevant macroeconomic variables, which could inflict significant losses on the company.

Sparebanken Sør Boligkreditt AS uses the standard method for credit- and market risk and applies basic method for operational risk to calculate capital adequacy in accordance with the capital adequacy rules – CRR/CRD.

Capital adequacy has to ensure that the company has the necessary buffer capital for events that arise in addition to ordinary loss provisions. In order to have greater flexibility in terms of strategic choices and business opportunities, the Sparebanken Sør Group has higher equity and subordinated loan capital above the requirements given by ICAAP.

The minimum requirement for common equity tier 1 ratio was 12.0 percent, tier 1 capital ratio 13.5 percent and total capital ratio 15.5 percent.

EQUITY CAPITAL		
Share capital	2 075 000	1 375 000
Share premium reserve	500 000	500 000
Other equity capital	1 878 438	1 856 676
Deductions	- 8 773	- 6 339
Dividend	0	- 314 000
Net subordinated capital (common equity tier 1)	4 444 665	3 411 337
Minimum requirements for equity capital		
Credit risk	2 194 354	19 519 952
Market risk	0	0
Operational risk	882 133	874 094
CVA addition	0	0
Deductions	0	0
Risk weight balance (calculation basis)	22 824 487	20 394 046
Common equity tier 1 capital ratio	19.5 %	16.7 %
Tier 1 capital ratio	19.5 %	16.7 %
Total capital ratio	19.5 %	16.7 %
Leverage Ratio	6.7 %	5.9 %
MINIMUM CAPITAL REQUIREMENTS		
Minimum Tier 1 capital requirements	4.50 %	4.50 %
Conservation buffer	2.50 %	2.50 %
Systemic risk buffer	3.00 %	3.00 %
Countercyclical buffer	2.00 %	1.00 %
CET1 requirements, incl. Pilar 2	12.00 %	11.00 %
Tier1 Capital requirements, incl. Pilar 2	13.50 %	12.50 %
Total capital requirements, incl. Pilar 2	15.50 %	14.50 %
CET1 requirements, incl. Pilar 2	2 738 938	2 243 345
Tier1 Capital requirements, incl. Pilar 2	3 081 306	2 549 256
Total capital requirements, incl. Pilar 2	3 537 795	2 957 137
Above CET1 requirements, incl. Pilar 2	1 705 726	1 167 992
Above Tier1 Capital requirements, incl. Pilar 2	1 363 359	862 081
Above total capital requirements, incl. Pilar 2	906 869	454 200



NOTE 5 – SEGMENT REPORTING

The company consists of one segment only, lending to consumers in Norway. Please refer to note 10 regarding geographical break down of loans. The company's activity consists of residential mortgages up to 80% of the property's market value (changed from 75% to 80% in Q4 2022). None of the company's customers individually accounts for more than 10% of the turnover. This applies to both 2021 and 2022.

NOTE 6 – CREDIT AREA AND CREDIT RISK

Credit risk represents the greatest area of risk for the company. The Board of the Group sets the credit strategy, which together with credit policies and guidelines for credit processes ensure that the customer portfolio has an acceptable risk profile and contribute to maximise the long-term value creation of the Group.

Loans broken down by risk classes

The models used have been based on internal and external data for calculation of probability of default (PD) in the next 12 months and expected credit losses (ECL) at customers and portfolio level. Customers are scored each month, and are divided into 11 classes (A – K) based on the probability of default. Class K consists of defaulted loans and commitments with individual write-downs. The table below shows the intervals for the different risk classes based on the probability of default.

All customers must be classified in terms of risk before the loan is transferred from Sparebanken Sør to Sparebanken Sør Boligkreditt AS. Loans that are taken on by Sparebanken Sør Boligkreditt AS must have a probability of default (PD value) not exceeding 3.00 percent.

The company's risk categories are as follows:

A	0.00 %	0.10 %
B	0.11 %	0.25 %
C	0.26 %	0.50 %
D	0.51 %	0.75 %
E	0.76 %	1.25 %
F	1.26 %	2.00 %
G	2.01 %	3.00 %
H	3.01 %	5.00 %
I	5.01 %	8.00 %
J	8.01 %	99.99 %
K	100.00 %	

Low risk (A-D)	0.00 - 0.75%
Medium risk (E-G)	0.76 - 3.00 %
High risk (H-J)	3.01 - 99.99 %
Default (K)	100 %

Specification within risk categories at 31 December 2022

Low risk	51 598 909	83,4 %	46 551 828	5 047 082
Medium risk	8 274 301	13,4 %	8 098 758	175 543
High risk	899 509	1,5 %	900 514	-1 005
Non performing and write-downs	176 382	0,3 %	172 132	4 250
Unclassified	905 251	1,5 %	866 746	38 506
Total	61 854 352	100,0 %	56 589 977	5 264 375

Specification within risk categories at 31 December 2021

Low risk	46 050 359	84,8 %	41 632 655	4 417 704
Medium risk	7 087 966	13,1 %	6 946 833	141 133
High risk	507 054	0,9 %	500 133	6 921
Non performing and write-downs	89 811	0,2 %	88 655	1 155
Unclassified	549 995	1,0 %	512 073	37 922
Total	54 285 184	100,0 %	49 680 350	4 604 835

Commitments include gross loans and potential exposure. Potential exposure consists of undrawn credit facilities on flexi-loans.



Maximum credit exposure

Maximum exposure towards credit risk in balance items, including derivatives. The exposure appears as gross before eventual pledges and offsettings.

Assets		
Loans to credit institutions	76.670	256.371
Net loans to customers	56.561.879	49.667.562
Bonds and certificates	6.458.757	5.075.647
Financial derivatives	493.132	737.202
Total credit exposure balance items	63.590.438	55.736.782
Potential exposure		
Undrawn credits	5.349.504	4.640.260
Total potential exposure	5.349.504	4.640.260
Total credit exposure	68.939.942	60.377.042

NOTE 7 - DESCRIPTION OF THE LOSS MODEL UNDER IFRS 9

Impairment model

The model assessing the impairment of financial assets under IFRS 9 applies to financial assets measured at amortised cost. The new standard was implemented on 1 January 2018. See Note 1 for a discussion of accounting policies implemented to comply with this standard. The same calculation model is used for Sparebanken Sør Boligkreditt AS, the Parent Bank and the Group, but with different dates being defined for initial recognition.

Provision must be made for expected losses, based on relevant information available at the time of reporting, including historical, current and future information. The loss is shown in the accounts before a loss event has occurred, and future expectations are included in the calculations.

Loss allowances are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The principal rule is that the loss provision is calculated on the basis of expected credit loss over the next 12 months or expected credit loss over the whole term. Expected credit loss over the whole term is calculated for assets where the credit risk has increased materially since initial recognition, with the exception of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date. If there has not been a material increase in credit risk since initial recognition, a loss provision will be calculated for expected credit loss in the next 12 months. IFRS 9 also introduces requirements for loss provisions on new loans, by stating that impairment must be recognised for expected credit losses resulting from default in the next 12 months.

Assessment of a significant increase in credit risk

The company uses the PD-level as the main criteria to assess a significant increase in credit risk. A significant increase in credit risk is assessed on the basis of both the relative increase in PD and the absolute change. It requires the relative change to be material and the level of risk itself to be not insignificant compared with the low-risk consideration. In addition, any large absolute change must be, under any circumstances, regarded as a significant increase.

The limits for significant increase and PD checks are summarised in the table below.

Absolute limit (a)	0.625 %
Relative change (b)	2 %
Absolute change (c)	5 %

Absolute limit corresponds to risk class D.

If the economic cycle or national/regional development trends indicate that there is a higher risk in individual sectors/industries, this is taken into account by changing the PD level of customers in the sectors/industries concerned.

PD as basis for expected loss

The PD model gives PD at customer level, 12 months ahead. At the end of 2022 there is no lifetime PD model integrated, but the Parent Bank is in the process of introducing one.

When calculating the expected credit loss over the lifetime of the commitment, it is the probability of default over the same lifetime that should be used. A methodology has been developed to estimate PD over a commitment's lifetime. This is based on breaking lifetime down into separate years and estimating PD for each year ahead of time.

The PD models are validated every year. Validations show that the models overestimate. Since the loss model is expected oriented, calibrating PD is done to an expected oriented estimate before used in the loss model.

Population

The model is intended to calculate the expected loss for all customers, at account level and on not already recognised losses. Loss is calculated based on the situation statement at the end of the month. The model also includes loan approvals, guarantees and unused credit limits. For loans where the credit risk has increased significantly after initial recognition, an impairment loss must be recognised for expected credit losses over the term of the loans. All model calculations are made at the account level.

Data that exists only at the customer level is linked to the individual account. For example, risk class is allocated at the customer level so that all the customer's accounts have the same score. The most important variables in the extract are risk class and PD with associated interest, balance, approval and collateral at the time of calculation.

Loans approved but not discounted at the time of measurement must also be included in the basis of calculation.

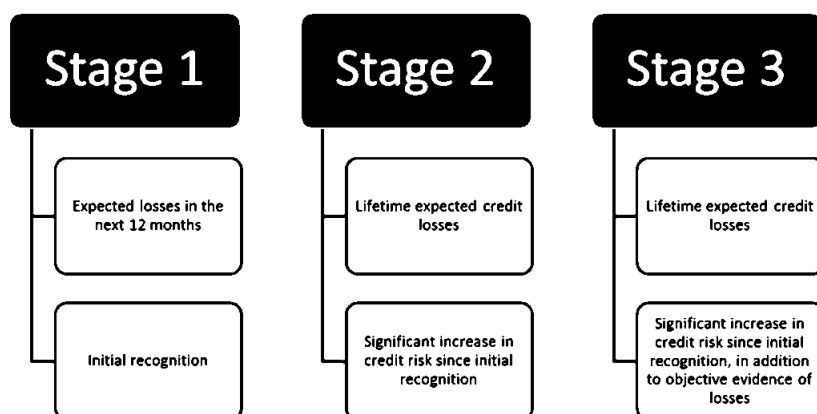
Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The company has made no loss provisions concerning these receivables for the financial year 2022. This is because the bulk of its loans to credit institutions relates to Norwegian banks. These are allocated to risk class B and have a PD of 0.175 %. LGD are regarded as being low as they have a high rating from external agencies. The company considers the requirements for low credit risk to have been met as at the balance sheet date.

After the dataset has been defined, the various account commitments are noted and allocated to the different stages. Allocation to one of the three “stages” in the model is based on their change of risk since approval (change of credit risk). For a description of the individual “stages”, see the subsequent explanations. All commitments are placed in stage 1 upon initial recognition and are subsequently moved to stage 2 or 3 if there has been a significant increase in credit risk. Commitments for which qualitatively assessed loss allowances have been recognised are excluded from the model-based calculation of impairment losses. Qualitatively assessed loss allowances are added to those in stage 3.

Non-performing account commitments are defined in the model as all account commitments where the customer has risk-class K. Default is defined at the customer level for both mass-market and corporate customers. For an overview of the Bank’s risk classes, refer to Note 6 – Credit and credit risk.

From 01.01.2021 non-performing has been assessed according to a new definition. A customer’s engagement is defined as in default if a claim is overdue by more than 90 days and the amount exceeds 1 per cent of exposure on the balance sheet and NOK 1,000 for the mass market (payment default).

A customer’s commitment is defined as in default if it is likely that the borrower will not fulfil its obligations due to objective requirements. See note 1 for a description of when qualitative assessments are made. When a customer has one or several defaulted loans, it is the customer’s total commitment that is reported as default and not the individual loan. See also Note 11.



Stage 1

In most cases, this is the starting point for all financial assets that come under the general impairment model. Financial instruments that have the same credit risk as at initial recognition and which have not been classified under stages 2 and 3, come under this stage. The estimated expected losses recognised in the balance sheet are equivalent to the expected losses over the next 12 months.

Stage 2

The financial assets that have had a significant increase in credit risk since initial recognition is placed in stage 2. Whether an account commitment has been significantly deteriorated or not, is defined as a function of the probability of default (PD) at the measurement date and the probability of default on the date of initial recognition (loan approval). Expected losses on assets in stage 2 are calculated over the remaining term of the asset.

The model has the following additional indicators and overriding rules for customer commitments (loans to customers):

- For commitments that qualify for a one-year loss calculation (stage 1), it will be checked whether there is a 30-day default/ account overdrawn. If this exists, the loan commitment will be transferred to lifetime ECL (stage 2). This applies to overdrafts from the first krone, but older than 30 days.
- For commitments that qualify for a one-year loss calculation (stage 1), it will be checked whether there is a larger overdraw. If this exists, the loan commitment will be transferred to lifetime ECL (stage 2). This applies to overdrafts exceeding the credit limit, starting from the first day.
- Commitments with changed payment obligations or refinancing resulting from payment issues (forbearance) are automatically moved to stage 2 (if initially under stage 1).
- In addition, commitments are checked against an internal watch-list that will capture specific commitment forward-looking risk.



Stage 3

Stage 3 includes assets that have had a significant change in credit risk since initial recognition and where there is objective evidence of loss at the time of reporting. In this stage, the model calculates an expected loss over the remaining term of the asset. If qualitative loss allowances have been made, these override the model-based calculation.

Qualitative assessments are made when observable data related to significant financial issues are present. If the bank, based on economic and contractually matters related to the customers financial issues, has provided any forbearances, it is likely that the customer will go bankrupt or be exposed to a financial reorganization. If observable data related to impairment are present, a future reduction in cash flow will be evaluated.

The same model is used in the Group, Parent Bank and a wholly-owned mortgage company, but with different dates being defined for initial recognition. At the Group level, the account's approval date is used, while the transfer date is used for the mortgage company. As a general rule, the approval date will be used for the Parent Bank, unless the account has been registered in the mortgage company. If so, the date of transfer to the Parent Bank is used.

Estimated losses will be calculated based on 12 months probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data basis contains historical data about the observed PD and LGD. This will form the basis for producing estimates of future PD and LGD values. The parent bank's PD model gives PD at an individual customer level, one year ahead. The Parent Bank does not have a lifetime PD model. When calculating the expected credit loss over the lifetime of the commitment, it is the probability of default over the same lifetime that should be used.

Migration to a lower stage

A commitment that has migrated to stage 2 can migrate back to stage 1 if it no longer fulfils the criteria for migration stated above. Migration to a lower stage is not subject to any explicit quarantine period, except for the loans market with forbearance. Commitments that have gone into default will migrate to stage 1 or 2 when they are no longer in default.

Forbearance and probation

Commitments provided with forbearance may be performing or initially non-performing. If a customer receives payment relief, this means that the customer's commitment receives a forbearance mark. The commitments are listed as forbearance in the data warehouse. Factors causing forbearance will be changes in repayments, e.g., instalments postponements and refinancing as a result of payment issues.

When a commitment is listed forbearance, a transfer to stage 2 automatically will take place from stage 1. If the commitment is in stage 2 or 3 initially, no transfers will take place. In case of forbearance, PD may be adjusted.

If a commitment is listed forbearance there is a probation period, before regarded as performing and transferring back to stage 1.

Macroeconomic conditions and scenarios

The group adopted a macro model that calculates estimated changes in PD. The PD values from the macro model are used further into the IFRS9 model.

The model contains data for macroeconomic conditions, and relevant parameters must be adjusted to take account of any changes in economic climate or macro conditions before the model can be run. Primary, the parameters are set based on empiricism related to monetary policy and financial stability obtained from Norges Bank.

The following macro parameters are used in the model:

1. Level of policy rate
2. Growth in unemployment
3. Growth in house price
4. National growth in GDP
5. Exchange rate related to import
6. Oil price (USD)

Macroeconomic variables as a basis of scenarios:

Housing price %	4.9	-4.3	2.1	3.7	3.7
Housing price region %	4.9	-4.3	2.1	3.7	3.7
Unemployment %	3.3	3.7	3.7	4.1	4.1
Oilprice, \$	101.6	76.5	74.6	72.7	72.7
Key policy rate, \$	1.3	3	2.9	2.5	2.5
Import-weighted exchange rate	110	110.5	108.3	107.4	107.4
USD	10.0	10.0	9.8	9.7	9.7
GDP %	5.8	4.8	2.8	2.6	2.6



Sparebanken Sør Boligkreditt has mainly secured loans in real estate and setting parameters for house prices (including real estate) is considered to be a parameter that has major effects on LGD (Loss Given Default).

In addition, there is a great deal of uncertainty associated with future unemployment and the determination of this parameter is also of significant importance for the group's model-calculated loss impairments.

Three scenarios are defined in the model, realistic (base) scenario, optimistic scenario, and pessimistic scenario. All the scenarios are applicable with effect from the date of calculation. This means that the first scenario period is in progress at the time calculation. This is done so that the scenarios will have an impact on the whole calculation, including stages 1 and 3. The background to the assessments is an overall assessment of all the central elements affecting the development of the Norwegian and regional economy, and whether these factors suggest that changes should be made to the PD and/or LGD level in individual sectors, products and market segments or the whole portfolio.

The realistic (base) scenario is a macroeconomic scenario that represents expected future economic growth over the next 5 years. The realistic scenario is comparable to the ICAAP scenario Base Case. The scenario is based on stable and moderate global economic growth being expected, as well as stable growth in the Norwegian economy over the next 5 years. It is further expected that regional economic growth over the next 5 years will be on par with the rest of the country.

The optimistic scenario is a macroeconomic scenario that represents an economic upturn with strong economic growth. Positive development and strong economic growth over the next 5 years are expected in this scenario. Oil prices will rise, and the Norwegian economy will experience strong economic growth. Regional economic growth is expected to be on par with the rest of the country.

The pessimistic scenario represents a downturn, with weak economic growth. The pessimistic scenario may represent an economic downturn based on a 25-year cycle, but one that will be considerably milder than the credit crisis in the early 1990s. In this scenario, it is expected that growth in emerging markets will decline. Increased protectionism will create trade barriers, and global economic growth will stall. Oil prices fall and take together with weak economic growth among our most important trading partners, this will lead to weak development and growth in the Norwegian economy. Regional economic growth is expected to be on a par with the rest of the country.

The company has further assessed the scenarios described above and weighted them to determine ECL. Weighting was performed based on an expectation that a realistic scenario will occur in 3 out of 5 years (60% probability), while the other two scenarios will occur in 1 out of 5 years (20% probability each).

Weighted optimistic scenario	20.00%
Weighted realistic scenario	60.00%
Weighted pessimistic scenario	20.00%

Sensitivities

Loans to customers in the company are secured by real estate. This is considered to be one of the parameters that affect LGD mostly. Another important parameter that significantly affects the loss expense relates to the probability of default (PD).

A sensitivity analysis relating to changes in the portfolio's collateral was therefore performed as at 31 December 2022. The analysis has been carried out over the coming year by assuming a fall in collateral of 10%, 20% and 30% respectively. Analysis has also been performed with a 1 % increase in unemployment. The changes have the following impact on the Group's loss expense:

	31.12.2022				
Provisions on loans	13 234	29 549	48 947	7 351	6 634
	31.12.2021				
Provisions on loans	5 972	13 622	22 958	2 336	650



Validation

The purpose of validating the IFRS 9-system is to confirm that, both the model and the process, are working as intended and provide the best estimates. The system shall provide the best estimate for expected credit loss (ECL), based on access to information and knowledge at the reporting date. Calculations and assumptions are subjected to annual validation. The validation provides a report investigated by the Validation Committee. Based on the results there will be an assessment related to the satisfaction of the model and process – and any needs for adjustments.

Changes in the loss model in 2022

In 2022, the factor for “prepayment” has changed due to tougher times in the economy with a lower rate of early repayment. No other significant changes in 2022. Furthermore, only PD scenarios have been changed in accordance with forecasts to macro forecasts.



NOTE 8 – LOSSES ON LOANS AND UNDRAWN CREDIT

Different elements included in losses and provisions on loan losses and undrawn credit, is discussed under accounting policies. Please also refer to note 3 – Risk management and note 5 – Credit Area and credit risk.

Provisions on loan losses and total losses for the period, are calculated according to the IFRS 9 standard based on expected credit loss by using a 3 stage method described in note 26 in the annual report.

				2021		2022		
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Changes in impairment losses for the period, stage 1					6 867		-1 471	
+ Changes in impairment losses for the period, stage 2					6 556		1 566	
+ Changes in impairments losses for the period, stage 3					2 222		1 709	
= Total losses for the period					15 645		1 805	
<hr/>								
				2021		2022		
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	6 585	3 936	858	11 379				
Loss provisions as at 01.01					5 114	5 502	2 416	13 032
Transfers								
1 468	-1 308	-160	0	Transferred to stage 1	1 748	-1 516	-232	0
- 297	314	-17	0	Transferred to stage 2	-267	578	-311	0
- 12	- 145	157	0	Transferred to stage 3	-23	-225	248	0
2 179	1 300	79	3 559	Losses on new loans	6 592	4 253	501	11 345
-1 869	-1 069	- 301	-3 239	Losses on derecognised loans	-1 512	-1 567	-388	-3 467
-2 941	2 474	1 801	1 334	Losses on older loans and other changes	330	5 033	2 266	7 629
5 114	5 502	2 416	13 032	Loss provisions as at 31.12	11 981	12 058	4 500	28 539
<hr/>								
4 967	5 405	2 415	12 788	Loss provision for loans	11 648	11 961	4 489	28 098
146	97	1	245	Loss provisions for undrawn credit	333	97	11	441
5 114	5 502	2 416	13 032	Total loss provision as at 31.12	11 981	12 058	4 500	28 539



NOTE 9 – DISTRIBUTION OF LOANS BETWEEN STAGES

Changes in gross loans in the balance sheet.

NOK Thousand				2022
Gross loans as at 01.01.2022 assessed at amortised cost	47 402 143	2 186 818	91 388	49 680 350
Transferred to stage 1	688 896	-668 669	-20 227	0
Transferred to stage 2	-1 481 199	1 498 045	-16 846	0
Transferred to stage 3	-77 675	-51 687	129 362	0
Net change on present loans	-2 137 485	-104 501	-6 705	-2 248 690
New loans	20 759 812	699 956	19 774	21 479 542
Derecognised loans	-11 663 192	-635 673	-22 359	-12 321 224
Gross loans as at 31.12.2022 assessed at amortised cost	53 491 301	2 924 288	174 388	56 589 977

NOK Thousand				2021
Gross loans as at 01.01.2020 assessed at amortised cost	47 042 164	1 820 231	47 307	48 909 702
Transferred to stage 1	679 933	-666 574	-13 358	0
Transferred to stage 2	-1 277 718	1 279 659	-1 942	0
Transferred to stage 3	-44 318	-20 872	65 191	0
Net change on present loans	-2 127 237	-102 096	-5 272	-2 234 605
New loans	14 573 987	409 659	5 157	14 988 803
Derecognised loans	-11 444 667	-533 188	-5 695	-11 983 550
Gross loans as at 31.12.2021 assessed at amortised cost	47 402 143	2 186 818	91 388	49 680 350

NOK Thousand				2022
Undrawn credits as at 1.1.2022	4,577,379	62,631	251	4,640,260
Transferred to stage 1	25,198	-25,198	0	0
Transferred to stage 2	-31,931	31,931	0	0
Transferred to stage 3	-4,285	0	4,285	0
Net change on undrawn credits	130,670	-13,008	-3,736	113,927
New undrawn credits	676,722	5,254	0	681,976
Derecognised undrawn credits	-75,590	-11,069	0	-86,659
Undrawn credits as at 31.12.2022	5,298,163	50,541	800	5,349,504

NOK Thousand				2021
Undrawn credits as at 1.1.2021	4 126 574	39 214	933	4 166 720
Transferred to stage 1	15 780	-15 084	-696	0
Transferred to stage 2	-27 050	27 050	0	0
Transferred to stage 3	0	0	0	0
Net change on undrawn credits	165 760	7 011	14	172 785
New undrawn credits	423 721	7 790	0	431 510
Derecognised undrawn credits	-127 406	-3 349	0	-130 755
Undrawn credits as at 31.12.2021	4 577 379	62 631	251	4 640 260



NOTE 10 - LOANS

Loans assessed at amortized cost

Flexi-loans	15 499 817	12 234 931
Loans with installments - floating interest	41 002 210	37 400 796
Loans with installments - fixed interest	0	4 304
Gross loans	56 589 977	49 680 350
Loss allowance	- 28 098	- 12 788
Net loans	56 561 879	49 667 562
Undrawn credit on Flexi-loans	5 349 504	4 640 260

Loans distributed to sectors and industries

Retail customers	56 503 164	49 641 212
Accrued interests	86 813	39 138
Gross loans	56 589 977	49 680 350
Loss allowance	- 28 098	- 12 788
Net loans	56 561 879	49 667 562

Loans broken down by geographical areas

Agder	36 629 215	64.8 %
Vestfold og Telemark	7 074 798	12.5 %
Oslo	5 313 447	9.4 %
Viken	3 809 776	6.7 %
Rogaland	2 151 928	3.8 %
Other counties	1 582 715	2.8 %
Total	56 561 879	100.0 %

Loans broken down by geographical areas

Agder	32 997 348	66.4 %
Vestfold og Telemark	5 970 346	12.0 %
Oslo	4 414 675	8.9 %
Viken	3 224 157	6.5 %
Rogaland	1 775 542	3.6 %
Other counties	1 285 494	2.6 %
Total	49 667 562	100.0 %

NOTE 11 - NON-PERFORMING LOANS

The Group assesses a financial asset as non-performing if the contractual payments have been overdue for more than 90 days, and the amount exceeds NOK 1,000 and 1 percent of the customer's obligations (payment default).

A customer's commitment is defined as default if it is probable that the borrower will not fulfill its obligations due to objective requirements:

- The contractual payments have been overdue for more than 90 days, and the amount exceeds NOK 1 000 and 1 percent of the customer's obligations
- Loss write-downs have been registered on the customer's obligation
- Incurred losses have been recognised for the customer
- bankruptcy petition has been filed or the customer has been declared bankrupt
- The customer has applied for or is in a debt settlement
- A company has been requested to be dissolved, or a forced dissolution has been decided
- Sale of credits due to deteriorating credit quality
- Qualitative assessments and default notices have been made.

Qualitative assessments are made when observable data is available relating to the exposure, for example significant financial difficulties at the issuer or borrower. When the borrower's lender, due to financial or contractual grounds relating to the borrowers' financial difficulties, has granted the borrower concessions that the lender would not otherwise have considered and when it becomes probable that the borrower will enter bankruptcy or undergo another form of financial re-organisation.



Total non-performing loans (step 3)	173 159	91 388
Stage 3 impairment losses	4 500	2 416
Net non-performing loans	168 659	88 972
Provisions ratio non-performing loans	2.60 %	2.64 %
Total non-performing loans in % of gross loans	0.31 %	0.18 %
Gross loans	56 589 977	49 680 350

FORBEARANCE

Step 2	179 023	118 069
Step 3	41 586	6 290
Total exposures with forbearance measures	220 609	124 359

Commitments provided with forbearance, may be performing or initially non-performing. The commitments are listed as forbearance in the data warehouse. Factors causing forbearance will be changes in repayments, e.g. installments postponements and refinancing as result of payment issues. When a commitment is listed forbearance, a transfer to stage 3 automatically will take place. If the commitment is in stage 3 initially, no transfers will take place in case of forbearance. If a commitment is listed forbearance and later on regarded as performing, there is a quarantine before transferring back to stage 1.

NOTE 12 - INTEREST RATE AND EXCHANGE RATE RISK

Exchange rate risk

According to the company's internal rules, the total accounting effect by a 25 percent exchange rate movement should not exceed NOK 10 million. The currency exposure was NOK 0 million as at 31.12.2022 (NOK 0 million as at 31.12.2021).

Interest rate risk

Interest rate risk occurs in connection with the company's ordinary lending activities, and in relation to activity in the Norwegian and international money and capital markets. Interest rate risk is a result of the fixed-interest period for the company's assets and liabilities, as well as for off-balance sheet items, not coinciding. Interest rate risk must be assessed on the basis of a stress test scenario where there is a 2-percentage point parallel shift in the yield curve. An assessment must also be made on how stress test scenarios (six scenarios) with various distortions in the yield curve affect the company's positions. The scenario with the greatest loss potential is taken as a basis for measuring interest rate risk. The interest rate risk framework also includes interest rate risk in foreign currency.

Parallel shock up 2 %	11 213	21 279
Parallel shock down 2 %	- 11 213	- 21 279
Steeper shock	- 44 166	- 44 651
Flattener shock	44 166	44 651
Short rates shock up 3 %	44 166	44 652
Short rates shock down 3 %	- 44 166	- 44 652

Calculation of interest rate risk follows guidelines from The Financial Supervisory Authority of Norway. The company's Board of Directors has adopted limits for interest rate risk, and receives quarterly reports thereon.

Interest rate sensitivity

The tables below show the financial consequences in the value of the total balance sheet in the company of a given change in interest rate. From 2020, the company has measured and managed interest rate risk based on six different shock scenarios across 19 time bands, cf. EBA Guideline 2018/02 and the Financial Supervisory Authority's guidelines. The six interest rate shock scenarios are as follows:

- 1) parallel shock up
- 2) parallel shock down
- 3) steeper shock – short rates down, long rates up
- 4) flattener shock – short rates up, long rates down
- 5) short rates shock up
- 6) short rates shock down



NOTE 13 - LIQUIDITY RISK

Liquidity risk is defined as the risk of the company failing to fulfill its obligations as they fall due. The company's liquidity risk was generally low in 2022, as illustrated by the fact that most of the company's loans were financed on a long-term basis through covered bonds. Long-term financing is defined as funding with maturities exceeding one year, as well as unutilised committed drawing rights. The company has to have sufficient liquid funds in order to fulfill its obligations at all times. In 2022, the company's funding structure complied with requirements imposed by law and instructions by the Board of Directors.

As of 31 December 2022, Sparebanken Sør Boligkreditt AS has an overdraft facility amounting to NOK 5 000 million for operational purposes, and a short-term credit facility with a notice period of 31 days with Sparebanken Sør. In addition, the company has a revolving credit facility with the Parent Bank, which can be used to refinance outstanding bonds. Annual commission is paid on the drawing rights.

The company issues covered bonds with the opportunity to extend the maturities by up to 12 months, given an approval by the FSA.

LIQUIDITY RISK

The table shows cash flows including contractual interest payments. The figures therefore cannot be reconciled with the balance sheet.

	31.12.2022					
Liabilities / non derivative obligations						
Debt to credit institutions	4 027 018	4 027 018	0	0	0	0
Debt incurred due to issuance of securities	60 495 356	20,527	5,906,327	854,199	42,487,466	11,226,836
Other liabilities	54 306	13,123	25,774	15,409	0	0
Loans commitments and undrawn facilities	5 349 504	5 349 504	0	0	0	0
Total liabilities	69 926 184	9 410 172	5 932 101	869 608	42 487 466	11 226 836
Derivative commitments						
Financial derivative gross payments						
Payments made	-31,066,750	0	-5,220,000	0	-15,091,750	-10,755,000
Payments received	32,487,400	0	5,622,900	0	15,818,700	11,045,800
Total derivative commitments	1,420,650	0	402,900	0	726,950	290,800

	31.12.2021					
Liabilities / non derivative obligations						
Debt to credit institutions	4 088 568	4 088 568	0	0	0	0
Debt incurred due to issuance of securities	49 027 864	20 499	113 510	5 215 798	27 516 437	16 161 619
Other liabilities	109 395	6 274	4 734	98 387	0	0
Loans commitments and undrawn facilities	4 640 260	4 640 260	0	0	0	0
Total liabilities	57 866 087	8 755 601	118 244	5 314 186	27 516 437	16 161 619
Derivative commitments						
Financial derivative gross payments						
Payments made	- 30 076 500	0	- 4 987 750	0	- 15 063 250	- 10 025 500
Payments received	29 931 750	0	4 694 250	0	14 932 500	10 305 000
Total derivative commitments	- 144 750	0	- 293 500	0	- 130 750	279 500



Debt securities issued as at 31.12.2022

NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	361 894	362 097
XS1775786145		EUR	500 000	Fixed	0,38 %	20.02.2023	5 277 006	5 279 646
NO0010882632	SORB30	NOK	5 000 000	Floating	3M Nibor	19.11.2024	5 024 472	5 038 695
NO0010832637	SORB28	NOK	5 750 000	Floating	3M Nibor	24.09.2025	5 760 177	5 770 276
XS2555209381		EUR	500 000	Fixed	0,31 %	14.11.2025	5 265 313	5 263 769
XS1947550403		EUR	500 000	Fixed	0,50 %	06.02.2026	5 085 183	4 866 156
XS2069304033		EUR	500 000	Fixed	0,01 %	26.10.2026	4 408 713	4 660 557
NO0012535824	SORB32	NOK	5 500 000	Floating	3M Nibor	31.05.2027	5 513 004	5 538 650
NO0011002529	SORB31	NOK	7 000 000	Floating	3M Nibor	20.09.2027	7 163 208	7 088 249
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	523 980	524 775
XS2291901994		EUR	500 000	Fixed	0,01 %	28.01.2028	4 495 001	4 474 413
XS2389362687		EUR	500 000	Fixed	0,01 %	25.09.2028	4 399 240	4 374 929
TOTAL							53 277 192	53 242 213

NOTE 14 - INTEREST INCOME AND INTEREST EXPENSES

Interest income recognised at amortized cost				
Interest on loans to customers			1 496 712	960 620
Interest on loans to and receivables from credit institutions			2 059	4 645
Total interest income recognised at amortized cost			1 498 771	965 265
Interest income recognised at fair value				
Interest on certificates/bonds/interest-bearing securities			111 230	40 279
Total interest income recognised at fair value			111 230	40 279
Total interest income			1 610 001	1 005 544
Interest expenses recognised at amortized cost				
Interest on debt to credit institutions			85 862	60 161
Interest on issued securities			1 068 408	372 989
Other interest expenses			9 304	7 618
Total interest expenses recognised at amortized cost			1 163 574	440 768
Total interest expenses			1 163 574	440 768
Net interest income			446 427	564 777

AVERAGE INTEREST EXPENSES

Assets				
Loans to credit institutions	0,92 %	0,55 %	224.885	851160
Loans to customers	2,84 %	1,97 %	52.634.528	48 683 323
Bonds and certificates	2,37 %	1,05 %	4.689.567	3 843 091
Liabilities				
Liabilities to credit institutions	2,47 %	1,09 %	3.482.878	5 511 398
Liabilities related to issue of securities	2,22 %	0,83 %	48.153.888	44 870 229



NOTE 15 - INCOME FROM FINANCIAL INSTRUMENTS

Profit (loss) and changes in value from certificates and bonds	- 24 424	- 25 784
Net income from certificates and bonds	- 24 424	- 25 784
Change in value fixed rate loans - interest	55	- 134
Change in value fixed rate loans - margin	- 76	18
Expected credit loss IFRS9	0	2
Net change in value fixed rate loans	- 21	- 113
Change in value fixed rate bonds - hedge accounting	1 542 750	2 282 967
Change in value derivatives fixed rate bonds - designated as hedging instruments	- 1 551 142	- 2 275 945
Net income hedging	- 8 391	7 021
Whereof effects from basis swaps (1)	5 021	15 952
Profit (loss) buyback own bonds - amortised cost	0	- 36 314
Currency gains (losses)	0	151
Net other financial instruments and derivatives	0	- 36 163
Net income from financial instruments	- 32 837	- 55 040

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 recognised in the income statement.

Basis swaps and derivative contracts are 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.

NOTE 16 - OTHER OPERATING EXPENSES

External fees	913	1 701
Management of loans / services purchased	98 590	91 066
Other operating expenses*	3 892	4 321
Total other operating expenses	103 394	97 087

Ordinary audit fees, statutory audit	253	153
Other attestation services	270	133
Fees on other services	0	0
Total remuneration of elected auditor (Incl. VAT)	505	286

*Remuneration to auditors is included in other operating expenses.



NOTE 17 - TAX

Tax-increasing temporary differences		
Fixed assets	- 73	- 91
Financial derivatives	-1 267 025	0
Change in value from basis swaps recognised over OCI	0	- 17 304
Bond assets	- 7 920	- 17 635
Bond debt - adjustment of hedge accounting	0	- 202 183
Total tax-increasing temporary differences	-1 275 018	- 237 212
Tax-reducing temporary differences		
Loans	115	92
Financial derivatives	0	185 158
Change in value from basis swaps recognised over OCI	81 655	0
Bond assets	0	0
Bond debt - adjustment of hedge accounting	1 341 841	0
Total tax-reducing temporary differences	1 423 610	185 250
Basis for deferred tax (+) / deferred tax assets (-)	148 592	- 51 962
Calculated deferred tax (+) / deferred tax assets (-) (22%/25%)	32 690	- 12 991
Deferred tax / deferred tax assets as at 01.01.	- 12 991	- 19 518
Change in deferred tax in the profit	23 391	3 066
Change in deferred tax in the total profit	21 771	3 461
Deferred tax / deferred tax assets as at 31.12.	32 171	- 12 991
Profit before tax expenses	289 516	405 833
Permanent differences	14	0
Change in temporary differences	- 101 596	- 12 266
Taxable income	187 934	393 568
Tax payable (22%/25%)	41 345	98 392
Tax not settled previous years	0	0
Prepaid tax	0	- 5
Other changes	- 29	0
Tax payable in the balance sheet	41 317	98 387
Tax payable	41 345	98 392
Changes in deferred tax	23 391	3 066
Tax returns from previous years*	- 33 795	0
Tax cost for the year	30 942	101 458
Effective tax rate*	10.7 %	25.0 %

Deferred tax assets are recognised and justified based on expected future earnings.

* In 2022, NOK 33.8 million was recognized as income as a result of a changed tax rate in Sparebanken Sør Boligkreditt AS, for the period 2019-2021.

NOTE 18 - FINANCIAL INSTRUMENTS BY CATEGORY

Amortised cost

Debt instruments, which sole purpose is to hold the instrument in order to collect contractual cash flows will be recognised at amortised cost. All borrowing and lending instruments with floating interest rates, are classified at amortised cost.

Fair value through profit and loss

All derivatives will be measured at fair value, with the changes in value through profit and loss.

Sparebanken Sør Boligkreditt AS has chosen to keep holdings of interest-bearing securities at fair value through profit and loss. These are assets that are managed, measured and reported to the management at fair value.

Hedge accounting

Sparebanken Sør Boligkreditt AS employs hedge accounting in relation to the company's funding at fixed interest rate terms and in foreign currencies. Hedging instruments are used to counteract the interest risk and foreign exchange risk of the bonds.



Loans to credit institutions			76 670	76 670
Net loans to customers			56 561 879	56 561 879
Bonds and certificates	6 458 757			6 458 757
Financial derivatives		493 132		493 132
Total financial assets	6 458 757	493 132	56 638 549	63 590 438
Debt to credit institutions			4 013 408	4 013 408
Debt incurred due to issuance of securities		29 816 330	23 460 863	53 277 192
Financial derivatives		1 821 055		1 821 055
Total financial liabilities	0	31 637 384	27 474 271	59 111 655

Loans to credit institutions			256 371	256 371
Net loans to customers			49 667 562	49 667 562
Bonds and certificates	5 075 647			5 075 647
Financial derivatives		737 202		737 202
Total financial assets	5 075 647	737 202	49 923 933	55 736 782
Debt to credit institutions			4 079 614	4 079 614
Debt incurred due to issuance of securities *			47 340 012	47 340 012
Financial derivatives		522 221		522 221
Total financial liabilities	0	522 221	51 419 625	51 941 846

* Debt included in hedge accounting is presented as financial assets and liabilities at amortized cost.

NOTE 19 - FAIR VALUES OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

General

For financial instruments, for which the booked value is a reasonable approximation of fair value, valuation methods to calculate fair value are not used. This relates mainly to assets and liabilities that mature within three months or when interest is due or fixed within three months.

Interest rate swaps

Valuation of interest rate swaps at fair value is done through the use of valuation techniques, in which the expected future cash flows are discounted to the present value. The calculation of expected cash flows and the discounting of these are carried out by the use of observable market rates for different currencies and observable exchange rates.

The estimated present value is reconciled against the corresponding estimates from the counterparties in the contracts.

Certificates and bonds

The valuation of certificates and bonds is through the use of valuation techniques based on future cash flows and credit risk, assessed on the balance sheet date. The valuation is based on interest rates, which can be observed in the market.

Loans

For loans with a floating interest rate, fair value is considered to be equal to the nominal value

Debt

For debt the valuation is made through the use of valuation techniques and the discounting of expected future cash flows. The interest rate on loans between credit-worthy banks is regarded as the risk free interest rate. The mark-up is made on the basis of the assessments made by market players of the Company's creditworthiness.

Deposits

For floating rate deposits, the fair value is considered to be equal to the nominal value.



Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

Includes financial assets and liabilities valued using the unadjusted observable market values. This includes listed shares, derivatives traded on the market place and other securities with quoted market values.

Level 2: Instruments valued by valuation techniques and assumptions on directly or indirectly observable market data.

Values can be obtained from external market players or reconciled with the external market players that offer these types of services.

Level 3:

Instruments valued by valuation techniques and of which at least one essential valuation factor can not be supported by observable market values. This category includes investments in unlisted companies and fixed rate loans, for which no market information exists.



Assets recognised at amortised cost

Loans to and receivables from credit institutions	76 670		76 670	
Net loans to customers (floating interest rate)	56 561 879			56 561 879

Assets recognised at fair value

Bonds and certificates	6 458 757		6 458 757	
Financial derivatives	493 132		493 132	
Total financial assets	63 590 438	0	7 028 559	56 561 879

Liabilities recognised at amortised cost

Debt to credit institutions	4 013 408		4 013 408	
Debt incurred due to issuance of securities	53 277 192		53 094 865	

Liabilities recognised at fair value

Financial derivatives	1 821 055		1 821 055	
Total financial liabilities	59 111 655	0	58 929 327	0



Assets recognised at amortised cost

Loans to and receivables from credit institutions	256 371		256 371	
Net loans to customers (floating interest rate)	49 667 562			49 667 562

Assets recognised at fair value

Bonds and certificates	5 075 647		5 075 647	
Financial derivatives	737 202		737 202	
Total financial assets	55 736 782	0	6 069 220	49 667 562

Liabilities recognised at amortised cost

Debt to credit institutions	4 079 614		4 079 614	
Debt incurred due to issuance of securities	47 340 012		47 437 586	

Liabilities recognised at fair value

Financial derivatives	522 221		522 221	
Total financial liabilities	51 941 846	0	52 039 420	0



Hedge accounting

Sparebanken Sør Boligkreditt AS has implemented hedge accounting for debt issued at fixed interest rate and for bonds issued in foreign currency. The bonds included in hedge accounting are initially recognised at cost. Subsequent measurements are at amortised cost, with the change in fair value related to the hedged risk. Derivative instruments are used as a hedge of interest rate and foreign exchange risk.

Sparebanken Sør Boligkreditt AS uses fair value hedge accounting.

Result of hedge accounting

Result / ineffectiveness in hedge accounting		
Net income from other financial instruments	- 8 391	7 021
Total	- 8 391	7 021
Whereof effects from basis swaps	- 5 021	15 952

Inefficiency in hedge accounting is recognised as a change in value and appears in Note 15 as well.

Hedge accounting in the balance sheet

The hedging instrument is recognised as financial derivatives. Value related to the hedged risk is recognised as debt incurred due to issuance of securities.

Recognitions concerning hedge accounting		
Financial derivatives (clean value)	476 490	687 252
Total financial assets	476 490	687 252
Nominal hedge items	31 066 750	30 631 750
Adjustments of hedge items - hedged risk	-1 341 841	202 183
Financial derivatives (clean value)	1 743 515	502 095
Total financial liabilities	31 468 424	31 336 028

The table shows changes in value of the hedging instrument during the financial year.

The change in fair value of the hedged item that relates to the hedged risk is recognised as an adjustment of the hedged item in the balance sheet.

NOTE 20 - BONDS AND CERTIFICATES

Short-term investments designated at fair value through profit		
Certificates and bonds issued by public sector	2 042 255	3 555 086
Certificates and bonds issued by others	4 387 875	1 505 898
Accrued interests	28 627	14 664
Total	6 458 757	5 075 647

Classification of financial investments

Certificates and bonds are rated externally. For securities with an official rating this will be used, and in cases where an official rating does not exist an external broker will provide a credit assessment as a basis for risk classification.

Sparebanken Sør Boligkreditt AS owns only instruments with the lowest credit risk (Aaa rated) as at 31 December 2022.



NOTE 21 - DEBT DUE TO ISSUANCE OF SECURITIES

Bonds, nominal value	47 026 500	12 144 183	-4 694 250	1 260 967	55 737 400
Value adjustments	228 744			-2 836 300	-2 607 556
Accrued interest	84 768			62 581	147 349
Total debt due to issuance of securities	47 340 012	12 144 183	-4 694 250	-1 512 752	53 277 192

Bonds, nominal value	44 090 250	16 828 116	-11 795 845	-2 096 021	47 026 500
Value adjustments	536 320			- 307 577	228 744
Accrued interest	96 702			- 11 934	84 768
Total debt due to issuance of securities	44 723 272	16 828 116	-11 795 845	-2 415 532	47 340 012

NOTE 22 – COVER POOL COMPOSITION AND DEBT-TO-ASSETS RATIO

	Nominal value	
Loans secured by mortgages on residential properties	56.503.164	49.680.350
Deductions on ineligible loans *	-237.935	-169.912
Pool of eligible loans	56.265.229	49.510.438
Certificates and bonds	5.950.000	3.745.000
Total cover pool	62.215.229	53.255.438
Debt incurred due to issuance of securities	54.316.750	46.881.750
Total	54.316.750	46.881.750
Collateralisation ratio (OC)	14,5 %	13,6 %

	Fair value	
Loans secured by mortgages on residential properties	56.561.879	49.667.562
Deductions on ineligible loans *	-237.935	-169.912
Pool of eligible loans	56.323.944	49.497.650
Certificates and bonds	6.032.542	3.794.861
Financial derivatives (assets)	0	214.981
Total cover pool	62.356.486	53.507.492
Debt incurred due to issuance of securities	53.242.213	47.522.354
Financial derivatives (debt)	1.327.922	0
Total	54.570.136	47.522.354
Collateralisation ratio (OC)	14,3 %	12,6 %

* Non-performing loans and loans above 80% LTV (changed from 75% in Q4 2022)



Average debt to assets ratio in %	53.0%	52.9%
Portfolio divided into intervals of debt to assets ratio		
Less than or equal to 40 %	19.5 %	19.0 %
41 - 50 %	18.5 %	17.3 %
51 - 60 %	27.9 %	29.5 %
61 - 70 %	24.2 %	27.2 %
71 - 75 %	6.9 %	5.1 %
76 - 80 %	2.0 %	1.0 %
Above 80 %	1.0 %	1.0 %
Total	100.0 %	100.0 %

NOTE 23 - FINANCIAL DERIVATIVES

Sparebanken Sør Boligkreditt AS has in place agreements that regulate counterparty risk and netting of derivatives.

ISDA agreements have been concluded with financial counterparties, with a supplementary agreement regulating collateral requirements (CSA). Sparebanken Sør Boligkreditt AS has the right to offset balances if certain events occur. The amounts are not offset in the balance sheet due to the fact that the transactions are normally a gross settlement. The assets and liabilities are presented in the table below.

31.12.2022

Derivatives - assets	493 132	0	493 132	492 805	5	322
Derivatives - liabilities	-1 821 055	0	-1 821 055	- 492 805	0	-1 328 249
Net	-1 327 922	0	-1 327 922	0	5	-1 327 928

31.12.2021

Derivatives - assets	737 202	0	737 202	352 710	-223 651	608 143
Derivatives - liabilities	-522 221	0	-522 221	-352 710	0	-169 511
Net	214 981	0	214 981	0	-223 651	438 632

Received collateral is presented as debt to credit institutions and paid collateral area is presented as deposits from credit institutions.

* Netting agreements are not offset in the balance sheet because the transactions are normally not settled on a net basis.

NOTE 24 - IBOR REFORM

IBOR reform and the establishment of alternative reference interest rates have been a priority area for authorities worldwide in recent years. Some IBOR interest rates have been replaced with other reference interest rates, while others have received better regulatory monitoring and new requirements for calculation methodology and transparency in the calculations. Sparebanken Sør Boligkreditt AS is exposed to NIBOR and EURIBOR, both of which are approved financial reference rates and there are currently no plans to replace these rates. With regard to hedge accounting, the company expects that established hedging relationships can be continued, without any deduction and recognition to be made, and that the hedges can be continued without major accounting effects.

The table below shows nominal amount for derivatives in hedging relationships, categorised by the relevant IBOR rate. All hedging instruments in NOK are exposed to NIBOR and all hedging instruments in EUR are exposed to EURIBOR and NIBOR.

Nominal value		
Interest rate swaps NOK	850 000	850 000
Interest rate swaps EUR	3 000 000	3 000 000

The group is exposed to NIBOR and EURIBOR rates and considers the complexity of changing the necessary systems to be limited. The group uses standard bond agreements from Nordic Trustee. All the bond loans are listed in VPS and settlement routines are coordinated in VPS. Derivative agreements are based on ISDA documentation and standards for alternative reference interest rates are incorporated there, including fallback-clauses. The group's EMTN programs are updated annually and also contain fallback-clauses.

NOTE 25 - RELATED PARTIES

Income statement		
Interest income from Sparebanken Sør on deposits	1 698	938
Interest expenses and commission from Sparebanken Sør on loans/credit	90 862	65 161
Interest expenses on bond debts to Sparebanken Sør	4 088	10 059
Paid administration fees to Sparebanken Sør	98 593	91 027
Balance sheet		
Bank deposit in Sparebanken Sør	76 666	255 887
Covered bonds owned by Sparebanken Sør	0	757 500
Loans/credit in Sparebanken Sør	4 013 403	3 855 963

Sparebanken Sør Boligkreditt AS has a revolving credit facility with Sparebanken Sør, that can be used to refinance outstanding bonds.

NOTE 26 - EMPLOYEES, MANAGEMENT AND REPRESENTATIVES

The company had no employees at 31 December 2022.

External board members receive a fixed annual fee determined by the General Meeting.



NOTE 27 - SHARE CAPITAL AND SHARE OWNERS

[REDACTED]						
Sparebanken Sør	100 000	20 750	2 075 000	314 000	258 574	2 585,74

[REDACTED]						
Sparebanken Sør	100 000	13 750	1 375 000	300 178	304 375	3 043,75

1) For equity movements and allocations, we refer to the equity statement.

NOTE 28 - SUBSEQUENT EVENTS

Events of major significance to the accounts have not occurred after the balance sheet date.

Alternative performance measures

Sparebanken Sør Boligkreditt AS presents alternative performance measures (APMs) which provide useful information to supplement the financial statements. These performance measures are not defined in IFRS (International Financial Reporting Standards) and by necessity are not directly comparable with the performance measures of other companies. Alternative performance measures are not intended to replace or overshadow accounting figures under IFRS, but are included in our reports to better highlight the underlying operation

Key figures regulated in IFRS or other legislation are not regarded as alternative performance measures. The same applies to non-financial information. Sparebanken Sør Boligkreditt AS's alternative performance measures are presented in the overviews of key figures, calculations and the Board of Directors' report. All APMs are presented with comparative figures. The APMs mentioned below have been used consistently over time. Sparebanken Sør Boligkreditt AS' alternative performance measures and definitions:

[REDACTED]

Loan to value (LTV)

The key figure provides information on the loan-to-value ratio in the loan portfolio and is relevant for assessing risk of loss. Calculated as the loans to customers divided by the market value of secured assets.



Declaration from the Board of Directors and Managing Director

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

The Board of Directors and Managing Director of Sparebanken Sør Boligkreditt AS hereby confirm that the Company's 2022 financial statements have been prepared in accordance with applicable accounting standards and that the information provided in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall result of operation.

In addition, we confirm that the Report of the Board of Directors gives a true and fair view of the Company's development, results and financial position, together with a description of the most central risks and uncertainties facing the Company.

Kristiansand, 1 March 2023

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Gunnar P. Thomassen
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director



Auditor's report 2022



To the General Meeting of Sparebanken Sør Boligkreditt AS

Independent Auditor's Report

Opinion

We have audited the financial statements of Sparebanken Sør Boligkreditt AS (the Company), which comprise the balance sheet as at 31 December 2022, the income statement, statement of comprehensive income, equity statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 9 years from the election by the general meeting of the shareholders in 2014 for the accounting year 2014 with a renewed election in March 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters to communicate in our report.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report.

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

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In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditor's report 2022



- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Kristiansand, 1 March 2023
PricewaterhouseCoopers AS

Fredrik Botha
State Authorised Public Accountant



**SPAREBANKEN SØR
BOLIGKREDITT AS**