SPAREBANKEN SØR
BOLIGKREDITT AS

Annual report 2023

A company in the Sparebanken Sør Group

Contents

Board of Director's report

GENERAL

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør. 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 2023, the company had taken on a mortgage loan portfolio totalling NOK 55 832 million, transferred from Sparebanken Sør, of which NOK 55 459 million was included in the qualified cover pool.

The portfolio of bonds and certificates totalled NOK 2 158 million at the end of 2023.

Sparebanken Sør Boligkreditt AS had issued covered bonds totalling NOK 49 732 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 299.1 million at the end of 2023, compared to NOK 258.6 million in the same period in 2022.

The company had net interest income of NOK 470.9 million, compared to NOK 446.4 million in 2022.

Net income from financial instruments totalled NOK 7.7 million in 2023, compared to a negative contribution amounting to NOK 32.8 million in 2022. The improvement is related to an increased net income from hedging and positive changes in value from certificates and bonds.

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 affected the income from financial instruments by NOK 0 million in 2023. 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 106.4 million in 2023 compared to NOK 103.5 million in 2022.

Tax expenses were NOK 75.3 million in 2023. Corresponding figures in 2022 were NOK 30.9 million. In 2022, NOK 33,8 million was recognised as income as a result of changed tax rate in the company for the period 2019-2021. In 2023, an additional amount of NOK 7.3 million was recognised for the years 2017-2018 respectively.

Total assets as at 31 December 2023 were NOK 60 057 million, of which net loans to customers represented NOK 55 808 million. At the same time in 2022, the corresponding figures were NOK 63 664 million and NOK 56 562 million respectively.

As at 31 December 2023, the loan portfolio was financed through the issuance of bonds amounting to NOK 49 732 million and through equity and drawing rights from Sparebanken Sør. At 31 December 2023, 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 4 544 million was drawn down at 31 December 2023.

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 2023, the net subordinated capital in the company was NOK 4 390 million. This corresponds to a common equity tier 1 capital ratio/tier 1 capital ratio/total capital ratio of 19.0 percent, while regulatory minimum requirements are set at 14.0 percent, 15.5 percent and 17.5 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 2023. 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). BDO has been appointed as an investigators as of Q1 2023. 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 2023 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 two months' 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 31.12.2023 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_{total} ratio of 443 percent and LCR_{EUR} ratio > 100 percent.

As of 31.12.2023 the mortgages in the cover pool had an average loan-to-value of 53.9 percent. Over-collateralization was 16.6 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 2023, 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 in NOK and EUR have been given an Aaa rating by Moody's. Sparebanken Sør Boligkreditt AS has since June 2023 been assigned an A1/ Prime-1 issuer rating by Moody`s, in line with ratings assigned by Moody`s on the parent bank.

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.

DISTRIBUTION OF PROFIT

The total profit after tax for 2023 is NOK 299.1 million. The Board of Directors proposes to the Annual General Meeting a dividend payment of NOK 250.0 million.

Kristiansand, 26 February 2024

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug	Seunn Smith-Tønnessen	Svein Ole Holvik	Steinar Vigsnes
Chairman	Member	Member	Member

Marianne Lofthus
Managing Director

Income statement

NOK Thousand	Notes	31.12.2023	31.12.2022
Interest income, assets recognised at amortised cost	14, 25	2 643 220	1 498 771
Interest income, assets recognised at fair value	14, 25	169 446	111 230
Interest expenses	14, 25	2 341 755	1 163 574
Net interest income	**14, 25**	**470 911**	**446 427**
Commission income		180	164
Commission expenses		2 664	5 140
Net commission income		**-2 483**	**-4 976**
Net income from financial instruments	**12, 15**	**7 683**	**-32 837**
Personnel expenses	26	86	60
Other operating expenses	16, 25	106 319	103 394
Total expenses		**106 404**	**103 453**
Profit before loss		**369 786**	**305 161**
Losses on loans and undrawn credit	2, 7, 8	-4 615	15 645
Profit before taxes		**374 401**	**289 516**
Tax expenses	17	75 279	30 942
Profit for the period	**27**	**299 123**	**258 574**

Statement of comprehensive income

NOK Thousand	Notes	31.12.2023	31.12.2022
Profit for the period		**299 123**	**258 574**
Net change in value from basis swaps		-118 914	98 959
Tax effect	17	26 161	-21 771
Total comprehensive income		**206 370**	**335 762**

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

Balance sheet

NOK Thousand	Notes	31.12.2023	31.12.2022
ASSETS			
Loans to and receivables from credit institutions	18, 19, 21, 23, 25	973 207	76 670
Net loans to customers	5, 6, 7, 8, 9, 10, 11, 18, 19, 22, 23	55 807 966	56 561 879
Bonds and certificates	18, 19, 20	2 158 343	6 458 757
Financial derivatives	18, 19, 23, 24	1 071 168	493 132
Deferred tax assets	17	16 714	0
Other assets		29 879	73 973
TOTAL ASSETS		**60 057 278**	**63 664 411**
LIABILITIES AND EQUITY			
Debt to credit institutions	12, 14, 18, 19, 23, 25	5 411 372	4 027 018
Debt incurred due to issuance of securities	12, 13, 14, 18, 19, 21, 25	49 732 184	53 277 192
Financial derivatives	18, 19, 23, 24	138 210	1 821 055
Payable taxes	17	105 259	41 317
Deffered tax liabilities		0	32 171
Other liabilities		10 446	12 221
TOTAL LIABILITIES		**55 397 471**	**59 210 973**
EQUITY			
Paid-in equity	4, 27	2 575 000	2 575 000
Retained earnings	4	2 084 807	1 878 438
TOTAL EQUITY CAPITAL	4	4 659 807	4 453 438
TOTAL LIABILITIES AND EQUITY CAPITAL		**60 057 278**	**63 664 411**

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

Kristiansand, 26 February 2024

Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Svein Ole Holvik
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	31.12.2023	31.12.2022
Interest received	2 774 496	1 562 326
Interest paid	-2 341 940	-1 023 757
Operating expenditure	- 108 213	- 108 111
Changes in loans to customers	796 583	-6 861 995
Income tax paid	- 41 343	- 98 421
Net cash flow from operating activities	**1 079 583**	**-6 529 958**
Payments received, securities	10 088 748	8 956 716
Payments made, securities	-5 775 719	-10 349 803
Changes in other assets	44 094	- 31 874
Changes in deposits from credit institutions	1 384 354	- 61 550
Changes in other liabilities	- 2 535	835
Net cash flow from current financing activities	**5 738 941**	**-1 485 677**
Paid-in share capital	0	700 000
Paid dividend	0	- 314 000
Payments received, bond debt	0	12 144 183
Payments made, bond debt	-5 921 987	-4 694 250
Net cash flow from long-term financing activities	**-5 921 987**	**7 835 933**
Net change in liquid funds	**896 537**	**- 179 701**
Liquid funds as at 01.01.	76 670	256 371
Liquid funds at the end of the period	**973 207**	**76 670**

Statement of changes in equity

NOK Thousand	Share capital	Share premium reserve	Retained earnings	Total
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**
Dividend	0	0	0	0
Share capital increase	0	0	0	0
Profit 2023	0	0	299 123	299 123
Other income/expenses*	0	0	-92 753	-92 753
Balance 31.12.2023	**2 075 000**	**500 000**	**2 084 807**	**4 659 807**

* Basis adjustments to interest and currency swaps were minus NOK 92.8 million as of 31.12.2023 and NOK 77.2 million as of 31.12.2022. The adjustment is included as a part of other equity.

Notes

NOTE 1 – ACCOUNTING POLICIES

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 2023 were presented by the Board of Directors on 26 Febryary 2024, and will be adopted with final effect at the General Meeting on 26 February 2024. 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 IFRS Accounting Standards 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.
- Amortised 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 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.

Amortised 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 allowances are calculated based on 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 incurre over the lifetime of the instrument, of which can be linked to events occuring 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, except for 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 7.

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. 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 fulfil 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 based on 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. The accounting area provisions for loan losses is subject to a large degree of discretionary assessments. In 2022, there were major turmoil and fluctuations in the financial market that continued into 2023. There was an uncertain macro situation with geopolitical turmoil, hight inflation, increasing wages, rising interest rates, and a weak exchange rate, leading to ongoing uncertainty by the end of the year.

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 Pilar 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 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 handeled 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.

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 to assess whether they are appropriate and proper.

Risk management process

The Group has expedient and appropriate strategies and processes for risk management, the assessment of its capital requirement and how this can be maintained. The collective term for this is ICAAP.

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

Credit risk is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the company, and the value of underlying security not being sufficient to cover the receivables if the security must be realised. Credit risk is the company's greatest risk, and the risk that requires most capital. 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.

Counterpart risk

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 can arise when events in the financial market mean mean that ordinary financing can not be established.

Liquidity risk is managed through the Group's liquidity strategy, overarching and Board-approved guidelines, routines, risk tolerance levels and limits. Key operational management parameters are the requirement for the deposit-to-loan ratio, the long-term funding indicator, and the stress indicator for liquidity disposals within 30 days (LCR), as well as the guidelines for survivability in situations where there is no access to market funding. Liquidity risk is also managed by ensuring that funding from the capital market is distributed across various terms to maturity, sources of funding and instruments. Liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the Group.

In addition to the LCR, the company analyses liquidity risk using stress tests. According to these analyses, the company would be able to continue operating normally for 24 months in a stress alternative, where new market funding is assumed to be unavailable and the regulatory liquidity reserves can be used.

Sparebanken Sør Boligkreditt shall have a moderate to low liquidity risk. Liquidity risk should be on par with comparable companies, but be reconciled with the Bank's overall risk profile and the Board's approved capital requirements. The risk profile should be adapted to the current market situation and outlook.

Market risk

Market risk is the risk of changes in value as a result of changes in market prices. Market risk is divided into interest rate risk, credit spread risk and exchange rate 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.

Exchange rate 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.

The Group has identified seven main risks within operational risk: supplier and outsourcing risk, financial crime, ICT risk, behavioral risk, process risk, compliance risk, risk due to changes and risk related to resources, expertise, and human error. The various main risks have their own qualitative description of risk appetite which is also supplemented with the measurement of quantitative key risk indicators.

The group's overall risk appetite for operational risk is moderate, but for certain subgroups of operational risk, such as financial crime, behavioral risk and compliance risk, the bank has a low risk appetite. The bank has zero tolerance for losses that could threaten strategic goals and the bank's independence.

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.

Compliance risk

The company is interested in having good processes to ensure compliance with current regulations and industry standards. Compliance risk is the risk that the company incurs legal or regulatory sanctions, financial losses, or loss of reputation as a result of non-compliance with laws, regulations or governing documents. Efforts are continuously made to assess the best adaptation to new regulations and new regulations in order to ensure both compliance and efficiency in the organisation. New regulations are implemented in the group's management documents and routines.

Compliance risk is monitored by regular qualitative assessments. The compliance division in Sparebanken Sør Boligkreditt AS has been secured through agreements with Sparebanken Sør. Sparebanken Sør Boligkreditt AS's compliance risk is considered to be low.

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 14.0 percent, tier 1 capital ratio 15.5 percent and total capital ratio 17.5 percent.

NOK Thousand	31.12.2023	31.12.2022
EQUITY CAPITAL		
Share capital	2 075 000	2 075 000
Share premium reserve	500 000	500 000
Other equity capital	2 084 807	1 878 438
Deductions	- 20 082	- 8 773
Dividend	- 250 000	0
Net subordinated capital (common equity tier 1)	**4 389 725**	**4 444 665**
Minimum requirements for equity capital		
Credit risk	21 752 321	21 942 354
Market risk	0	0
Operational risk	868 489	882 133
CVA addition		0
Deductions	448 605	0
Risk weight balance (calculation basis)	**23 069 415**	**22 824 487**
Common equity tier 1 capital ratio	**19.0 %**	**19.5 %**
Tier 1 capital ratio	**19.0 %**	**19.5 %**
Total capital ratio	**19.0 %**	**19.5 %**
Leverage Ratio	**7.0 %**	**6.7 %**
MINIMUM CAPITAL REQUIREMENTS		
Minimum Tier 1 capital requirements	4.50 %	4.50 %
Conservation buffer	2.50 %	2.50 %
Systemic risk buffer	4.50 %	3.00 %
Countercyclical buffer	2.50 %	2.00 %
CET1 requirements. incl. Pilar 2	14.00 %	12.00 %
Tier1 Capital requirements. incl. Pilar 2	15.50 %	13.50 %
Total capital requirements. incl. Pilar 2	17.50 %	15.50 %
CET1 requirements. incl. Pilar 2	3 229 718	2 738 938
Tier1 Capital requirements. incl. Pilar 2	3 575 759	3 081 306
Total capital requirements. incl. Pilar 2	4 037 148	3 537 795
Above CET1 requirements. incl. Pilar 2	1 160 007	1 705 726
Above Tier1 Capital requirements. incl. Pilar 2	813 966	1 363 359
Above total capital requirements. incl. Pilar 2	352 577	906 869

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 percent of the property`s market value (changed from 75 percent to 80 percent in Q4 2022). None of the company`s customers individually accounts for more than 10 percent of the turnover. This applies to both 2023 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:

Risk classes	Lower limit of default (PD-values)	Upper limit of default (PD-values)
A	0.00 %	0.10 %
B	0.10 %	0.25 %
C	0.25 %	0.50 %
D	0.50 %	0.75 %
E	0.75 %	1.25 %
F	1.25 %	2.00 %
G	2.00 %	3.00 %
H	3.00 %	5.00 %
I	5.00 %	8.00 %
J	8.00 %	99.99 %
K	100.00 %	

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

Specification within risk categories at 31.12.2023

NOK Thousand	Commitments	In %	Gross loans	Potensial exposure
Low risk	52 042 951	84.3 %	46 372 214	5 670 737
Medium risk	8 119 272	13.2 %	7 938 733	180 539
High risk	1 131 971	1.8 %	1 132 504	-533
Non performing and write-downs	166 906	0.3 %	166 712	194
Unclassified	256 637	0.4 %	221 347	35 290
Total	**61 717 737**	**100.0 %**	**55 831 510**	**5 886 227**

Specification within risk categories at 31.12.2022

NOK Thousand	Commitments	In %	Gross loans	Potensial exposure
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**

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.

NOK Thousand	31.12.2023	31.12.2022
Assets		
Loans to credit institutions	973 207	76 670
Net loans to customers	55 807 966	56 561 879
Bonds and certificates	2 158 343	6 458 757
Financial derivatives	1 071 168	493 132
Total credit exposure balance items	**60 010 684**	**63 590 438**
Potential exposure		
Undrawn credits	5 886 227	5 349 504
Total potential exposure	**5 886 227**	**5 349 504**
Total credit exposure	**65 896 911**	**68 939 942**

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.

Parameter	RM
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 2023 there is no lifetime PD model integrated.

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 excepted 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.

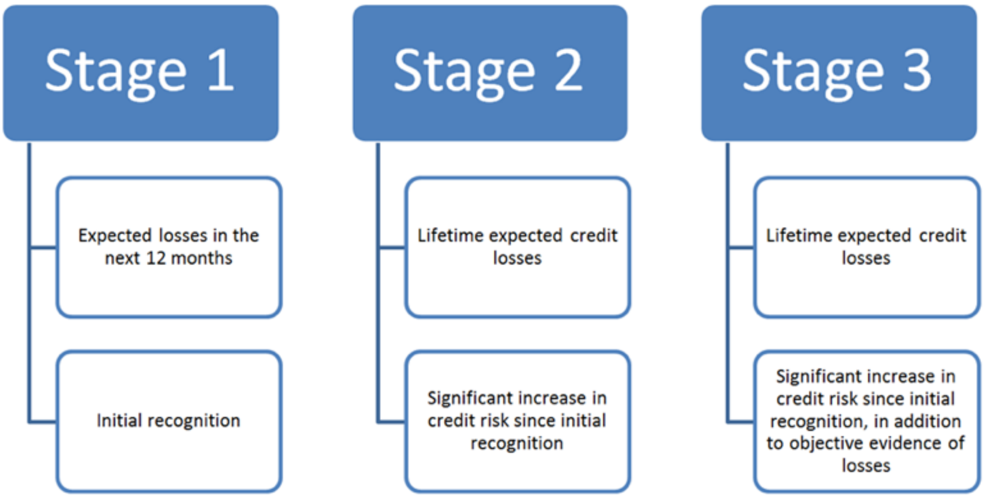
Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The company has made no loss provisions concerning these receivables for the financial year 2023. This is because the bulk of its loans to credit institutions relates to Norwegian banks. These are allocated to risk class B and have a PD of 0.175 percent. 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 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 percent 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 overdraws 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 overdraws 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 Sparebanken Sør Boligkreditt AS, the Parent bank and the Group, 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 in Sparebanken Sør Boligkreditt AS. 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 patent 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 Key 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:

	2023	2024	2025	2026	2027
Housing price %	-0.2	1.0	5.1	6.5	6.5
Housing price region %	7.0	3.7	5.1	6.5	6.5
Unemployment %	3.6	3.9	4.1	4.1	4.1
Oilprice, $	81.9	75.9	73.6	71.5	71.5
Key policy rate, $	3.5	4.5	3.9	3.2	3.2
Import-weighted exchange rate	119.7	121.5	120.5	120.5	120.5
USD	10.4	10.6	10.5	10.5	10.5
GDP %	5.5	4.4	2.8	2.5	2.5

Sparebanken Sør Boligkreditt has 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 percent probability), while the other two scenarios will occur in 1 out of 5 years (20 percent probability each).

Parameter	RM
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 2023. The analysis has been carried out over the coming year by assuming a fall in collateral of 10, 20 and 30 percent respectively. Analysis has also been performed with a 1 percent increase in unemployment. The changes have the following impact on the Group's loss expense:

					31.12.2023
NOK Thousand	Collateral reduction of 10%	Collateral reduction of 20%	Collateral reduction of 30%	Double increase of PD	1 % increase in unempoyment
Provisions on loans	13 249	30 543	51 766	5 439	1 392

					31.12.2022
NOK Thousand	Collateral reduction of 10%	Collateral reduction of 20%	Collateral reduction of 30%	Double increase of PD	1 % increase in unempoyment
Provisions on loans	13 234	29 549	48 947	7 351	6 634

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 2023

Only PD scenarios have been modified according to macro size forecasts. No other significant changes have been made as of 2023.

NOTE 8 – LOSSES AND IMPAIRMENTS ON LOANS, GUARANTEES AND AND UNDRAWN CREDIT FACILITIES

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 model described in note 7 in the annual report.

The various elements contained in losses and loss allowances, guarantees and undrawn credit facilities are discussed under note 1 Accounting Policies. Reference is also made to note 3 regarding Risk Management and to Note 6 regarding credit and credit risk.

NOK Thousand	31.12.2023	31.12.2022
Changes in impairment losses for the period, stage 1	- 3 489	6 867
+ Changes in impairment losses for the period, stage 2	- 119	6 556
+ Changes in impairments losses for the period, stage 3	- 1 007	2 222
= Total losses for the period	**- 4 615**	**15 645**

2022					2023			
Stage 1	Stage 2	Stage 3			Stage 1	Stage 2	Stage 3	
Excpected losses in the next 12 months	Lifetime excpected credit losses	Lifetime excpected credit losses	Total	NOK Thousand	Excpected losses in the next 12 months	Lifetime excpected credit losses	Lifetime excpected credit losses	Total
5 114	**5 502**	**2 416**	**13 032**	Loss provisions as at 01.01	**11 981**	**12 058**	**4 500**	**28 539**
				Transfers				
1 748	-1 516	-232	0	Transferred to stage 1	3 508	-2 896	-612	0
-267	578	-311	0	Transferred to stage 2	-726	1 493	-767	0
-23	-225	248	0	Transferred to stage 3	-33	-370	403	0
								0
6 592	4 253	501	11 345	Losses on new loans	3 245	2 585	221	6 051
-1 512	-1 567	-388	-3 467	Losses on derecognised loans	-3 280	-4 125	-870	-8 275
330	5 033	2 266	7 629	Losses on older loans and other changes	-6 203	3 193	619	-2 391
11 981	**12 058**	**4 500**	**28 539**	**Loss provisions as at 31.12**	**8 492**	**11 939**	**3 493**	**23 924**
11 648	11 961	4 489	28 098	Loss provision for loans	8 189	11 865	3 490	23 543
333	97	11	441	Loss provisions for undrawn credit	303	74	4	380
11 981	**12 058**	**4 500**	**28 539**	**Total loss provision as at 31.12**	**8 492**	**11 939**	**3 493**	**23 924**

NOTE 9 – DISTRIBUTION OF LOANS BETWEEN STAGES

Changes in gross loans in the balance sheet.

NOK Thousand				2023
Gross loan assessed at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans as at 01.01.2023 assessed at amortised cost	**53 491 301**	**2 924 288**	**174 388**	**56 589 977**
Transferred to stage 1	884 983	- 844 914	- 40 069	0
Transferred to stage 2	-2 083 592	2 110 513	- 26 921	0
Transferred to stage 3	- 55 492	- 44 880	100 372	0
Net change on present loans	-2 386 969	- 104 396	- 5 688	-2 497 052
New loans	14 574 786	546 787	11 484	15 133 057
Derecognised loans	-12 438 209	- 909 409	- 46 854	-13 394 471
Gross loans as at 31.12.2023 assessed at amortised cost	**51 986 809**	**3 677 988**	**166 712**	**55 831 510**

NOK Thousand				2022
Gross loan assessed at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
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 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				2023
Undrawn credits (off balance)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Undrawn credits as at 01.1.2023	**5 298 163**	**50 541**	**800**	**5 349 504**
Transferred to stage 1	13 949	-13 149	-800	0
Transferred to stage 2	-48 007	48 007	0	0
Transferred to stage 3	-143	-98	242	0
Net change on undrawn credits	145 444	-20 945	-48	124 451
New undrawn credits	498 185	3 445	0	549 168
Derecognised undrawn credits	-86 115	-3 242	0	-89 358
Undrawn credits as at 31.12.2023	**5 821 475**	**64 558**	**194**	**5 886 227**

NOK Thousand				2022
Undrawn credits (off balance)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Undrawn credits as at 01.1.2022	**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**

NOTE 10 - LOANS

NOK Thousand	31.12.2023	31.12.2022
Loans assessed at amortised cost		
Flexi-loans	17 734 598	15 499 817
Loans with installments - floating interest	37 970 846	41 002 210
Loans with installments - fixed interest	0	0
Gross loans	**55 831 510**	**56 589 977**
Loss allowance	- 23 543	- 28 098
Net loans	**55 807 966**	**56 561 879**
Undrawn credit on Flexi-loans	5 886 227	5 349 504

NOK Thousand	31.12.2023	31.12.2022
Loans distributed to sectors and industries		
Retail customers	55 706 526	56 503 164
Accured interests	**124 984**	**86 813**
Gross loans	**55 831 510**	**56 589 977**
Loss allowance	- 23 543	- 28 098
Net loans	**55 807 966**	**56 561 879**

NOK Thousand	31.12.2023	
Loans broken down by geographical areas		
Agder	36 167 424	64.8 %
Vestfold og Telemark	6 940 570	12.4 %
Oslo	5 319 276	9.5 %
Viken	3 844 537	6.9 %
Rogaland	2 120 215	3.8 %
Other counties	1 415 944	2.5 %
Total	**55 807 966**	**100.0 %**

NOK Thousand	31.12.2022	
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 %**

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.

NOK Thousand	31.12.2023	31.12.2022
Total non-performing loans (step 3)	166 906	173 159
Stage 3 impairement losses	3 493	4 500
Net non-performing loans	**163 413**	**168 659**
Provisions ratio non-performing loans	2.09 %	2.60 %
Total non-performing loans in % af gross loans	**0.30 %**	**0.31 %**
Gross loans	**55 831 510**	**56 589 977**

FORBEARANCE

NOK Thousand	31.12.2023	31.12.2022
Step 2	438 189	179 023
Step 3	40 647	41 586
Total exposures with forbearance measures	**478 836**	**220 609**

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 2 automatically will take place. If the commitment is in stage or 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 31.12.2023 (NOK 0 million as at 31.12.2022).

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.

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) steepener 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

NOK Thousand	31.12.2023	31.12.2022
Parallel shock up 2 %	-42 006	11 213
Parallel shock down 2 %	42 006	- 11 213
Steepener shock	36 235	- 44 166
Flattener shock	-36 235	44 166
Short rates shock up 3 %	-36 235	44 166
Short rates shock down 3 %	36 235	- 44 166

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 2023, 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 2023, the company's funding structure complied with requirements imposed by law and instructions by the Board of Directors.

As of 31 December 2023, 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.

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.

						31.12.2023
NOK Thousand	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
Liabilities / non derivative obligations						
Debt to credit institutions	5 411 372	5 411 372	0	0	0	0
Debt incurred due to issuance of securities	54 343 923	20 564	328 958	5 299 314	48 695 086	0
Other liabilities	271 860	66 449	87 138	118 274	0	0
Loans commitments and undrawn facilities	5 886 227	5 886 227	0	0	0	0
Total liabilities	**65 913 382**	**11 384 612**	**416 096**	**5 417 587**	**48 695 086**	**0**
Derivative commitments						
Financial derivative gross payments						
Payments made	-25 846 750	0	0	0	-25 846 750	0
Payments received	28 720 000	0	0	0	28 720 000	0
Total derivative commitments	**2 873 250**	**0**	**0**	**0**	**2 873 250**	**0**

						31.12.2022
NOK Thousand	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
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**

Debt securities issued as at 31.12.2023

ISIN Number	Ticker	Currency	Nominal value	Interest		Due date	Book value	Fair value
NO0010882632	SORB30	NOK	4 300 000	Floating	3M Nibor	19.11.2024	4 327 468	4 337 238
NO0010832637	SORB28	NOK	5 750 000	Floating	3M Nibor	24.09.2025	5 758 738	5 775 009
XS2555209381		EUR	500 000	Fixed	0.31 %	14.11.2025	5 689 461	5 696 144
XS1947550403		EUR	500 000	Fixed	0.50 %	06.02.2026	5 391 179	5 410 997
XS2069304033		EUR	500 000	Fixed	0.01 %	26.10.2026	5 238 021	5 241 499
NO0012535824	SORB32	NOK	5 500 000	Floating	3M Nibor	31.05.2027	5 520 183	5 550 158
NO0011002529	SORB31	NOK	7 000 000	Floating	3M Nibor	20.09.2027	7 134 297	7 093 882
NO0010670409	SORB08	NOK	500 000	Fixed	4.00 %	24.01.2028	517 830	518 225
XS2291901994		EUR	500 000	Fixed	0.01 %	28.01.2028	5 120 500	5 075 296
XS2389362687		EUR	500 000	Fixed	0.01 %	25.09.2028	5 034 506	4 981 638
TOTAL							**49 732 184**	**49 680 085**

NOTE 14 - INTEREST INCOME AND INTEREST EXPENSES

NOK Thousand	31.12.2023	31.12.2022
Interest income recognised at amortised cost		
Interest on loans to customers	2 640 354	1 496 712
Interest on loans to and receivables from credit institutions	2 866	2 059
Total interest income recognised at amortised cost	2 643 220	1 498 771
Interest income effective interest method	**2 643 220**	**1 498 771**
Interest income recognised at fair value		
Interest on certificates/bonds/interest-bearing securities	169 446	111 230
Total interest income recognised at fair value	169 446	111 230
Other interest income	**169 446**	**111 230**
Total interest income	**2 812 666**	**1 610 001**
Interest expenses recognised at amortised cost		
Interest on debt to credit institutions	130 337	85 862
Interest on issued securities	2 200 775	1 068 408
Other interest expenses	10 643	9 304
Total interest expenses recognised at amortised cost	**2 341 755**	**1 163 574**
Total interest expenses	**2 341 755**	**1 163 574**
Net interest income	**470 911**	**446 427**

AVERAGE INTEREST EXPENSES

	Average interes rates		Average volume in NOK million	
NOK Thousand	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Assets				
Loans to credit institutions	0.29 %	0.92 %	983 207	224 885
Loans to customers	4.89 %	2.84 %	53 949 630	52 634 528
Bonds and certificates	4.50 %	2.37 %	3 768 378	4 689 567
Liabilities				
Liabilities to credit institutions	3.33 %	2.47 %	3 916 990	3 482 878
Liabilities related to issue of securities	4.37 %	2.22 %	50 348 725	48 153 888

NOTE 15 - INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2023	31.12.2022
Profit (loss) and changes in value from certificates and bonds	- 4 319	- 24 424
Net income from certificates and bonds	**- 4 319**	**- 24 424**
Change in value fixed rate loans - interest	0	55
Change in value fixed rate loans - margin	0	- 76
Expected credit loss IFRS9	0	0
Net change in value fixed rate loans	**0**	**- 21**
Change in value fixed rate bonds - hedge accounting	-2 417 635	1 542 750
Change in value derivatives fixed rate bonds - designated as hedging instruments	2 431 624	-1 551 142
Net income hedging	**13 989**	**- 8 391**
Whereof effects from basis swaps (1)	0	5 021
Profit (loss) buyback own bonds - amortised cost	- 1 987	0
Currency gains (losses)	0	0
Net other financial instruments and derivatives	**- 1 987**	**0**
Net income from financial instruments	**7 683**	**- 32 837**

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 other comprehensive income.

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

NOK Thousand	2023	2022
External fees	2 776	913
Management of loans / services purchased	100 367	98 590
Other operating expenses*	3 175	3 892
Total other operating expenses	**106 319**	**103 394**

NOK Thousand	2023	2022
Ordinary audit fees, statutory audit	116	253
Other attestation services	163	270
Fees on other services	0	0
Total remuneration of elected auditor (Incl. VAT)	**279**	**505**

*Remuneration to auditors is included in other operating expenses.

NOTE 17 - TAX

NOK Thousand	31.12.2023	31.12.2022
Tax-increasing temporary differences		
Fixed assets	- 58	- 73
Financial derivatives	0	-1 267 025
Change in value from basis swaps recognised over OCI	0	0
Bond assets	- 7 920	- 7 920
Bond debt - adjustment of hedge accounting	-1 074 176	0
Total tax-increasing temporary differences	**-1 082 154**	**-1 275 018**
Tax-reducing temporary differences		
Loans	115	115
Financial derivatives	1 045 684	0
Change in value from basis swaps recognised over OCI	200 569	81 655
Bond assets	0	0
Bond debt - adjustment of hedge accounting	0	1 341 841
Total tax-reducing temporary differences	**1 246 368**	**1 423 610**
Basis for deferred tax (+) / deferred tax assets (-)	**164 214**	**148 592**
Calculated deferred tax (+) / deferred tax assets (-) (22%)	**36 127**	**32 690**
Deferred tax / deferred tax assets as at 01.01.	32 171	- 12 991
Change in deferred tax in the profit	- 22 724	23 391
Change in deferred tax in the total profit	- 26 161	21 771
Deferred tax / deferred tax assets as at 31.12.	**- 16 714**	**32 171**
Profit before tax expenses	374 401	289 516
Permanent differences	757	14
Change in temporary differences	103 292	- 101 596
Taxable income	**478 450**	**187 934**
Tax payable (22%)	**105 259**	**41 345**
Tax not settled previous years	0	0
Prepaid tax	**0**	**0**
Other changes	0	- 29
Tax payable in the balance sheet	**105 259**	**41 317**
Tax payable	105 259	41 345
Changes in deferred tax	- 22 724	23 391
Tax returns from previous years*	- 7 256	- 33 795
Tax cost for the year	**75 279**	**30 942**
Effective tax rate*	20.1 %	10.7 %

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. In 2023 an additional amount of NOK 7.3 million was recognized for the years 2017-2018 respectively.

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.

NOK Thousand	Fair value	Hedge accounting	Amortized cost	31.12.2023 Total
Loans to credit institutions			973 207	973 207
Net loans to customers			55 807 966	55 807 966
Bonds and certificates	2 158 343			2 158 343
Financial derivatives		1 071 168		1 071 168
Total financial assets	**2 158 343**	**1 071 168**	**56 781 173**	**60 010 684**
Debt to credit institutions			5 404 574	5 404 574
Debt incurred due to issuance of securities		26 991 498	22 740 686	49 732 184
Financial derivatives		138 210		138 210
Total financial liabilities	**0**	**27 129 708**	**28 145 260**	**55 274 968**

NOK Thousand	Fair value	Hedge accounting	Amortized cost *	31.12.2022 Total
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**

* Debt included in hedge accounting is presented as financial assets and liabilities at amortised 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 markets players that offer these types of services.

Level 3:

Instruments valued by valuation techniques and of wich 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.

				31.12.2023
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
Assets recognised at amortised cost				
Loans to and receivables from credit institutions	973 207		973 207	
Net loans to customers (floating interest rate)	55 807 966			55 807 966
Assets recognised at fair value				
Bonds and certificates	2 158 343		2 158 343	
Financial derivatives	1 071 168		1 071 168	
Total financial assets	**60 010 684**	**0**	**4 202 718**	**55 807 966**
Liabilities recognised at amortised cost				
Debt to credit institutions	5 404 574		5 404 574	
Debt incurred due to issuance of securities	49 732 184		49 680 085	
Liabilities recognised at fair value				
Financial derivatives	138 210		138 210	
Total financial liabilities	**55 274 968**	**0**	**55 222 868**	**0**

				31.12.2022
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
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**

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

NOK Thousand	2023	2022
Result / ineffectiveness in hedge accounting		
Net income from other financial instruments	13 989	- 8 391
Total	**13 989**	**- 8 391**
Whereof effects from basis swaps	0	- 5 021
Change in value from basis swaps before tax - recognised in other comprehensive income	*-118 914*	*98 959*

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.

NOK Thousand	2023	2022
Recognitions concerning hedge accounting		
Financial derivatives (clean value)	1 132 872	476 490
Total financial assets	**1 132 872**	**476 490**
Nominal hedge items	25 846 750	31 066 750
Adjustments of hedge items - hedged risk	1 074 176	-1 341 841
Financial derivatives (clean value)	87 188	1 743 515
Total financial liabilities	**27 008 114**	**31 468 424**

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

NOK Thousand	31.12.2023	31.12.2022
Short-term investments designated at fair value through profit		
Certificates and bonds issued by public sector	827 767	2 042 255
Certificates and bonds issued by others	1 314 518	4 387 875
Accrued interests	16 058	28 627
Total	**2 158 343**	**6 458 757**

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 (AA rated) as at 31 December 2023.

NOTE 21 - DEBT DUE TO ISSUANCE OF SECURITIES

NOK Thousand	31.12.2022	Issued	Matured / redeemed	Other changes in period	31.12.2023
Bonds, nominal value	55 737 400	0	-5 921 987	1 454 587	51 270 000
Value adjustments	-2 607 556			933 040	-1 674 517
Accrued interest	147 349			- 10 648	136 701
Total debt due to issuance of securities	**53 277 192**	**0**	**-5 921 987**	**2 376 978**	**49 732 184**

NOK Thousand	31.12.2021	Issued	Matured / redeemed	Other changes in period	31.12.2022
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**

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

	Nominal value	
NOK Thousand	31.12.2023	31.12.2022
Loans secured by mortgages on residential properties	55 706 526	56 503 164
Deductions on ineligible loans *	-248 008	-237 935
Pool of eligible loans	55 458 518	56 265 229
Certificates and bonds	990 000	5 950 000
Total cover pool	**56 448 518**	**62 215 229**
Debt incurred due to issuance of securities	48 396 750	54 316 750
Total	**48 396 750**	**54 316 750**
Collateralisation ratio (OC)	**16.6 %**	**14.5 %**

	Fair value	
NOK Thousand	31.12.2023	31.12.2022
Loans secured by mortgages on residential properties	55 807 966	56 561 879
Deductions on ineligible loans *	-248 008	-237 935
Pool of eligible loans	55 559 959	56 323 944
Sertificates and bonds	1 002 797	6 032 542
Financial derivatives (assets)	0	0
Total cover pool	**56 562 755**	**62 356 486**
Debt incurred due to issuance of securities	49 680 085	53 242 213
Financial derivatives (debt)	-932 958	1 327 922
Total	**48 747 126**	**54 570 136**
Collateralisation ratio (OC)	**16.0 %**	**14.3 %**

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

	31.12.2023	31.12.2022
Average debt to assets ratio in %	53.9 %	53.0%
Portfolio divided into intervals of debt to assets ratio		
Less than or equal to 40 %	19.6 %	19.5 %
41 - 50 %	17. 8 %	18.5 %
51 - 60 %	25.4 %	27.9 %
61 - 70 %	22.5 %	24.2 %
71 - 75 %	9.1 %	6.9 %
76 - 80 %	4.2 %	2.0 %
Above 80 %	1.3 %	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, whith 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.

31.12.2023

				Related amounts not presented net		
NOK Thousand	Gross carrying amount	Net presented *	Net financial assets in the balance sheet	Financial instruments (net settlements)	Other collateral, received/pledged	Net amount
Derivatives - assets	1 071 168	0	1071 168	69 066	860 371	141 731
Derivatives - liabilities	-138 210	0	-138 210	-69 066	0	-69 144
Net	**932 958**	**0**	**932 958**	**0**	**860 371**	**72 587**

31.12.2022

				Related amounts not presented net		
NOK Thousand	Gross carrying amount	Net presented *	Net financial assets in the balance sheet	Financial instruments (net settlements)	Other collateral, received/pledged	Net amount
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**

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 hegdes 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.

Thousands	31.12.2023	31.12.2022
Nominal value		
Interest rate swaps NOK	500 000	850 000
Interest rate swaps EUR	2 500 000	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

NOK Thousand	31.12.2023	31.12.2022
Income statement		
Interest income from Sparebanken Sør on deposits	2 836	1 698
Interest expenses and commission from Sparebanken Sør on loans/credit	132 837	90 862
Interest expenses on bond debts to Sparebanken Sør	0	4 088
Paid administration fees to Sparebanken Sør	100 197	98 603
Balance sheet		
Bank deposit in Sparebanken Sør	973 173	76 666
Covered bonds owned by Sparebanken Sør	0	0
Loans/credit in Sparebanken Sør	4 544 202	4 013 403

NOTE 26 - EMPLOYEES, MANAGEMENT AND REPRESENTATIVES

The company had no employees at 31 December 2023.

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

NOTE 27 - SHARE CAPITAL AND SHARE OWNERS

NOK Thousand Shareholders	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	Profit for the period (1)	2023 Profit per share (1)
Sparebanken Sør	100 000	20 750	2 075 000	0	299 123	2 991,23

NOK Thousand Shareholders	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	Profit for the period (1)	2022 Profit per share (1)
Sparebanken Sør	100 000	20 750	2 075 000	314 000	258 574	2 585,74

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 occured after the balance sheet date.

Alternative perfomance 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's alternative performance measures and definitions:

MEASURE	DEFINITION
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 2023 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, 26 February 2024

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug	Seunn Smith-Tønnessen	Svein Ole Holvik	Steinar Vigsnes
Chairman	Member	Member	Member

Marianne Lofthus

Managing Director

Auditor's report 2023

To the General Meeting of Sparebanken Sør Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør Boligkreditt AS (the Company), which comprise the balance sheet as at 31 December 2023, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information.

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 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the 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 10 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 and the other information accompanying the financial statements. 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 nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required to report if there is a material misstatement in the Board

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

of Directors’ report or the other information accompanying the financial statements. 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.

Our opinion on the Board of Director’s report applies correspondingly to the statement on Corporate Governance.

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 IFRS Accounting 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.

- 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.

Report on Other Legal and Regulatory Requirements

Report on Compliance with Requirement on European Single Electronic Format (ESEF)

Opinion
As part of the audit of the financial statements of Sparebanken Sør Boligkreditt AS, we have performed an assurance engagement to obtain reasonable assurance about whether the financial statements included in the annual report, with the file name Sparebanken Sør Boligkreditt AS – Annual Report 2023, have been prepared, in all material respects, in compliance with the requirements of the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) and regulation pursuant to Section 5-5 of the Norwegian Securities Trading Act, which includes requirements related to the preparation of the annual report in XHTML format.

In our opinion, the financial statements, included in the annual report, have been prepared, in all material respects, in compliance with the ESEF regulation.

Management’s Responsibilities
Management is responsible for the preparation of the annual report in compliance with the ESEF regulation. This responsibility comprises an adequate process and such internal control as management determines is necessary.

Auditor’s Responsibilities
Our responsibility, based on audit evidence obtained, is to express an opinion on whether, in all material respects, the financial statements included in the annual report have been prepared in compliance with ESEF. We conduct our work in compliance with the International Standard for Assurance Engagements (ISAE) 3000 – “Assurance engagements other than audits or reviews of historical financial information”. The standard requires us to plan and perform procedures to obtain reasonable assurance about whether the financial statements included in the annual report have been prepared in compliance with the ESEF Regulation.

As part of our work, we have performed procedures to obtain an understanding of the Company's processes for preparing the financial statements in compliance with the ESEF Regulation. We examine whether the financial statements are presented in XHTML-format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Kristiansand, 26 February 2024
PricewaterhouseCoopers AS

Fredrik Botha
State Authorised Public Accountant

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