SPAREBANKEN SØR
BOLIGKREDITT AS

Annual report 2020

Contents

Board of Director's report

GENERAL

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company's business is operated from Kristiansand. The company is licensed by the Financial Supervisory Authority of Norway to operate as a mortgage company, and is allowed to issue covered bonds. Sparebanken Sør Boligkreditt AS is part of Sparebanken Sør's long-term financial strategy. All shares are owned by Sparebanken Sør, and the financial statements are consolidated into the financial statements of the Sparebanken Sør Group. Sparebanken Sør Boligkreditt AS' operations are subject to supervision by the Financial Supervisory Authority of Norway. An investigator has been especially appointed for the mortgage company to attend to the quarterly analysis of the company's cover pool.

The cover pool consists of secured mortgages, interest bearing securities and financial derivatives. The mortgages are granted by Sparebanken Sør and later taken over by Sparebanken Sør Boligkreditt AS. The secured mortgages meet the requirements established by the company for inclusion in the company's cover pool. One important requirement is that any outstanding loan balance taken over by the company, must not exceed 75 % of the mortgaged property's market value at the date of acquisition.

At the end of 2020, the company had taken on a mortgage loan portfolio totalling NOK 48 910 million, transferred from Sparebanken Sør, of which NOK 48 786 million was included in the cover pool. Sparebanken Sør Boligkreditt AS had issued covered bonds totalling NOK 44 723 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 statements for Sparebanken Sør Boligkreditt AS show a profit after tax of NOK 305.2 million at the end of 2020, compared to NOK 253.3 million in 2019.

The company had net interest income of NOK 506.4 million, compared to NOK 408.8 million in 2019. The increase in net interest income is due to the increase in gross loans, as well as a decline in NIBOR interest rate leading to reduced funding costs.

Net income from financial instruments shows a negative contribution of NOK 3.6 million in 2020, compared to a negative contribution amounting to NOK 8.2 million in 2019. In 2020, there was a positive contribution of NOK 25.7 million related to basis swaps, and a negative contribution of NOK 18.2 million related to buyback of own bonds.

Basis swaps are derivative contracts entered into as part of long term financing in international capital markets, whereby currency is converted to NOK. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the term of the instruments is zero.

Operating expenses totalled NOK 90.0 million in 2020, compared to NOK 78.4 million in 2019.

Total assets as at 31 December 2020 were NOK 58 943 million, of which net loans to customers accounted for NOK 48 899 million. At the same time in 2019, the corresponding figures were NOK 44 280 million and NOK 40 200 million respectively.

As at 31 December 2020 the loan portfolio was financed through the issuance of bonds amounting to NOK 44 723 million and through equity and drawing rights from Sparebanken Sør. At 31 December 2020, the company had paid-in capital totalling NOK 1 875 million, of which NOK 1 375 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, which at 31 December 2020, was drawn down by NOK 3 736 million.

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 2020, the net subordinated capital in the company was NOK 3 409 million. This corresponds to a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 16,5 percent, while regulatory minimum requirements are set at 11.0 percent 12.5 percent and 14.5 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 as a whole. 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 the 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's mission follows from the company's articles of association. The company`s mission is to acquire mortgages and to 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 2020. 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 report 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 internal audit (Sparebanken Sør). PWC has been appointed as an investigator by the Financial Supervisory Authority of Norway. Sparebanken Sør Boligkreditt AS's operations are subject to supervision by the Financial Supervisory Authority of Norway. The Board of Directors and management endeavour to maintain an open and constructive dialogue with the Financial Supervisory Authorities.

RISKS

As a licensed mortgage company, Sparebanken Sør Boligkreditt AS is subject to a number of acts, regulations, recommendations and regulatory provisions. The objective of the company is to finance lending activities through the issuing of covered bonds with a high public rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain a low risk level. The company has established Board approved guidelines and limits for management and control of various areas of risk, which meet regulatory, rating agency and investor requirements. The company places emphasis on identifying, measuring and controlling elements of risks in such a way that the market has high confidence in the company and that the company can achieve a high rating on issued bonds.

The company's credit strategy and credit policy include requirements imposed on borrowers, as well as collateral requirements for loans that may be taken on by the company. The Board of Directors considers the overall quality of the lending portfolio to be very good and the credit risk to be low.

In accordance with Board approved requirements, stress testing of the value of the cover pool was conducted in 2020 by simulation of a sharp fall in house prices. The Board of Directors believes that the result of the stress tests is satisfactory.

The company's mortgages to customers are in NOK at both fixed and floating interest rates with six weeks' notice of interest adjustment. Financing is met by 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 rate. Foreign currency debt and debt at fixed interest rate, is accounted for by using hedge accounting.

The Board of Directors considers the overall market risk to be low.

The company issues bonds with the unilateral right to extend the maturity period by up to 12 months. In other respects, financing needs are met by equity and credit facilities with Sparebanken Sør. The company has a revolving credit facility with Sparebanken Sør, which can be used to refinance outstanding bonds. The Board of Directors considers the company's liquidity risk to be low.

As at 31.12.2020 the company satisfied the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio). The requirement was set at 100 % as from 31.12.2017.

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

EMPLOYEES AND WORKING ENVIRONMENT

At 31 December 2020, 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.

RATING

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

SOCIAL RESPONSIBILITY

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

FUTURE PROSPECTS

Following the necessary measures taken by the Authorities to combat the Covid 19 epidemic, the Norwegian economy was hit negatively by lower international economic growth and falling oil prices. The Norwegian economy has to a certain extent improved in the second half of 2020 and the financial markets have normalized. Following the cut in the Norwegian policy rate to 0 %, mortgage rates have been reduced. As a consequence, house prices have developed positively and private consumption has improved.

Norway has been hit by a second Covid 19 wave this winter, measures taken by the government will affect the economy. In addition lower international economic growth will affect the Norwegian economy negatively going forward. The uncertainty related to further economic growth and house price development is considerable.

Still Norway's strong financial position and the sovereign wealth fund will enable the Government to implement measures to mitigate the effect of the epidemic. The policy rate will most likely stay stable during 2021, and in line with the monetary policies implemented internationally. Loan losses on retail customers are expected to stay low despite the negative economic development.

The Board of Directors anticipates the company's business to continue to be very satisfactory going forward. Sparebanken Sør Boligkreditt AS is well positioned to further acquire loans from Sparebanken Sør, and issue covered bonds towards investors in Norway and abroad.

DISTRIBUTION OF PROFIT

Total profit after tax for 2020 is NOK 300.2 million. The Board of Directors proposes to the annual General Meeting a dividend payment of NOK 300.2 million.

Kristiansand, 1 March 2021

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug	Seunn Smith-Tønnessen	Gunnar P. Thomassen	Steinar Vigsnes
Chairman	Member	Member	Member

Marianne Lofthus

Managing Director

Income statement

NOK Thousand	Notes	31.12.2020	31.12.2019
Interest income, assets recognised at amortised cost	12, 21, 22	1 079 331	1 155 596
Interest income, assets recognised at fair value	12, 21, 22	57 935	62 785
Interest expenses	12, 21, 22	630 823	809 559
Net interest income	**12, 21, 22**	**506 443**	**408 822**
Commission income		197	186
Commission expenses		5 036	5 003
Net commission income		**-4 839**	**-4 817**
Net income from financial instruments	**10, 13**	**-3 600**	**-8 237**
Personnel expenses	23	54	54
Other operating expenses	14, 22	89 932	78 440
Total expenses		**89 986**	**78 494**
Profit before loss		**408 018**	**317 275**
Losses on loans and undrawn credit	2, 8, 26	1 098	3 543
Profit before taxes		**406 920**	**313 732**
Tax expenses	15	101 730	78 453
Profit for the period	**24**	**305 190**	**235 279**

Other comprehensive income

NOK Thousand	Notes	31.12.2020	31.12.2019
Profit for the period		**305 190**	**235 279**
Net change in value from basis swaps		-6 682	-4 954
Tax effect	15	1 671	1 239
Total profit for the period		**300 178**	**231 563**

Notes 1 to 27 are an integral part of the financial statements.

Balance sheet

NOK Thousand	Notes	31.12.2020	31.12.2019
ASSETS			
Loans to and receivables from credit institutions	16, 17, 19, 20, 22	2 252 025	399 399
Net loans to customers	5, 6, 7, 8, 9, 16,17, 19, 25, 26	48 898 545	40 199 609
Bonds and certificates	16, 17, 18	5 233 812	3 108 909
Financial derivatives	16, 17, 19	2 508 691	505 900
Deferred tax assets	15	19 518	24 342
Other assets		30 274	41 340
TOTAL ASSETS		**58 942 864**	**44 279 500**
LIABILITIES AND EQUITY			
Debt to credit institutions	10, 16, 17, 19, 21, 22	10 396 332	3 883 843
Debt incurred due to issuance of securities	10, 11, 16, 17, 20, 21, 22	44 723 272	36 700 771
Financial derivatives	16, 17, 19	-	209 942
Payable taxes	15	95 236	73 492
Other liabilities		10 927	9 254
TOTAL LIABILITIES		**55 225 767**	**40 877 302**
EQUITY			
Paid-in equity	4, 24	1 875 000	1 625 000
Retained earnings	4	1 842 096	1 777 197
TOTAL EQUITY CAPITAL	**4**	**3 717 096**	**3 402 197**
TOTAL LIABILITIES AND EQUITY CAPITAL		**58 942 864**	**44 279 500**

Notes 1 to 27 are an integral part of the financial statements.

Kristiansand, 1 March 2021

Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug	Seunn Smith-Tønnessen	Gunnar P. Thomassen	Steinar Vigsnes
Chairman	Member	Member	Member

Marianne Lofthus

Managing Director

Cash flow statement

NOK Thousand	31.12.2020	31.12.2019
Interest received	1 151 299	1 206 935
Interest paid	- 701 519	-765 568
Operating expenditure	- 93 151	-82 800
Changes in loans to customers	-8 713 394	-1 464 284
Income tax paid	- 73 492	-82 279
Net cash flow from operating activities	**-8 430 257**	**-1 187 996**
Payments received, securities	9 725 085	3 367 929
Payments made, securities	-11 849 987	-3 851 175
Changes in other assets	11 066	56 577
Changes in deposits from credit institutions	6 147 070	990 050
Changes in other liabilities	1 673	511
Net cash flow from current financing activities	**4 034 906**	**563 892**
Paid-in share capital	250 000	0
Paid dividend	- 235 279	0
Payments received, bond debt	12 015 826	9 960 155
Payments made, bond debt	-5 782 570	-9 279 735
Net cash flow from long-term financing activities	**6 247 977**	**680 420**
Net change in liquid funds	**1 852 626**	**56 316**
Liquid funds as at 01.01.	399 399	343 083
Liquid funds at the end of the period	**2 252 025**	**399 399**

Equity statement

NOK Thousand	Share capital	Share premium reserve	Retained earnings	Total
Balance 01.01.2019	**1 125 000**	**500 000**	**1 545 635**	**3 170 635**
Profit 2019	0	0	235 279	235 279
Other comprehensive income	0	0	-3 716	-3 716
Balance 31.12.2019	**1 125 000**	**500 000**	**1 777 197**	**3 402 197**
Share capital increase	250 000	0	0	250 000
Dividend	0	0	-235 279	-235 279
Profit 2020	0	0	305 190	305 190
Other comprehensive income	0	0	-5 012	-5 012
Balance 31.12.2020	**1 375 000**	**500 000**	**1 842 097**	**3 717 096**

Notes

NOTE 1 – ACCOUNTING POLICIES

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 75 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 2020 were presented by the Board of Directors on 1 March 2021, and will be adopted with final effect at the General Meeting on 24 March 2021. The General Meeting is the company's supreme body.

BASIS OF PREPARATION OF THE FINANCIAL STATEMENT

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

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

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.

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.

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 essentialy transferred.

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

Classification and measurement

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

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

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

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

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

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

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

Fair value with changes in value recognised through profit or loss

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

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

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

Amortised cost

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

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

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

Derivatives designated as hedging instruments recognised at fair value

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

Subsequent measurement

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

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

Measurement of financial instruments traded on an active market

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

Measurement of financial instruments not traded on an active market

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

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

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

Measurement at amortised cost

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

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

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

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

Derivatives designated as hedging instruments recognised at fair value

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

Offsetting

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

Modification

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

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

Impairment of financial assets

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

Loss allowance are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The model used to calculate provisions for expected losses depends on whether there has been a significantly increased in credit risk since initial recognition. On initial recognition and in cases where the credit risk has not significantly increased since initial recognition, a provision is recognised for expected losses over the next 12 months. Expected losses over the next 12 months are losses that are expected to 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, with the exception o 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 ompany's loan portfolio in accordance with IFRS 9.

For a further description, please refer to Note 26.

Loans with low credit risk

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

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

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

The company deems a financial asset as non-performing if a minimum of one of the following criteria is met:

- The contractual payments have been overdue for more than 90 days and the amount exceeds NOK 1 000.
- Credit losses have been recognised.
- Bankruptcy has been declared.
- 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 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.

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.

For interest 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. Interest rate and currency swaps established before 1 January 2018 are recognised at fair value through profit or loss until these fall 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.

ACCOUNTING OF EXCHANGE EFFECTS

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

INCOME TAX

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

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

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

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.

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.

CHANGES IN ACCOUNTING POLICIES AND NOTES

The accounting policies adopted are consistent with those of the previous financial year, except for the amendments to IFRS, which have been implemented by Sparebanken Sør Boligkreditt AS during the current financial year. In the following both the amendments in IFRS, which have been applicable for Sparebanken Sør Boligkreditt AS's 2020 financial statements, as well as the effects of the amendments are listed.

The following new and amended standards and interpretations have been implemented for the first time in 2020:

Amendments to IAS 1 and IAS 8 – Definition of Materiality

The International Accounting Standards Board (IASB) has published amendments to the "Definition of Material" in order to make it easier for companies to evaluate what is and is not material, and to improve the relevance of the information contained in the notes of financial statements. These amendments introduce a new "Definition of Material", which states that information is material if omitting, misstating or obscuring the information could reasonably be expected to influence the decisions that the primary users of financial statements make on the basis of those financial statements. It is also emphasised that the materiality depends on the nature or magnitude of the information, or both. In addition, these amendments ensure that the concept of materiality is consistent within the entire IFRS framework.

These amendments apply to the accounting periods that begin on or after 1 January 2020.

These amendments have had only minor effects on the annual accounts.

Amendments to IFRS 9 and IFRS 7 as a result of the IBOR reform

These amendments provide temporary relief from the specific requirements related to hedge accounting in a period of uncertainty before the current benchmark interest rates are replaced with alternative, nearly risk-free interest rates.

For hedge conditions where relief has been applied, the company is required to provide further qualitative and quantitative information. However, the amendments include a temporary exemption from the requirements in IAS 8.28f, related to the effect of the amendments for each post of the financial statement in the current and previous period.

These amendments apply to the accounting periods that begin on or after 1 January 2020. The requirements are applied retrospectively.

Management has assessed that the effect of the amendments to these standards is of little significance for the company.

For further information, see note 17.

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

The following new standards and interpretations of existing standards have been published and will be mandatory for company in future accounting periods, although management has not decided on early applications:

Amendments to Section 10-1 of the Capital Requirements Regulation – New Definition of Default

The Financial Supervisory Authority of Norway has followed up recommendations by the EBA for a more harmonised definition of default across the EU. The amendments to the Capital Requirements Regulation will apply to the accounting periods that begin on or after 1 January 2021.

The recommendations by the EBA are intended to specify how key elements of the definition of default should be interpreted. This includes how the days past due criterion should be calculated, indications for unlikeliness to pay, as well as criteria for the return to non-defaulted status.

As regulations now permit, the bank has decided to define default at the customer level for both mass-market and corporate customers. Based on the new definition, a mass-market customer is considered to be in default if the defaulted amount is at least NOK 1 000 (absolute threshold) or at least 1 percent of the customer's obligations (relative threshold). Overdrafts and arrears must have been extended for more than 90 days.

Based on the new definition, a corporate customer is considered to be in default if the defaulted amount is at least NOK 2,000 (absolute threshold) or at least 1 percent of the customer's obligations (relative threshold). Overdrafts and arrears must have been extended for more than 90 days.

The counting of days begins when both the absolute and relative thresholds are exceeded. Co-borrowers will be affected if there is default on a shared loan.

Default is also defined to exist when there are other objective causes or qualitative assessments and incurred loss. Objective causes may, for instance, be a decision on compulsory winding up/bankruptcy petition, registered incurred loss/loss of customer obligations, or the customer has sought or is currently involved in a debt settlement.

Qualitative assessments will be made when there is observable data related to obligations, such as significant financial difficulties for the borrower. If the bank has granted the borrower concessions that would not otherwise have been granted if the borrower had not had financial problems, the bank must assess the consequences if concessions had not been granted, and potentially categorise the borrower's obligations as defaulted.

The impact of the amendments to the definition of default is under consideration. Preliminary estimates do not indicate that these amendments will have a significant impact on company and consolidated accounts. Defaults on payments are expected to decline in accordance with the new definition, based on relative thresholds, while obligations will remain in default for a longer period, due to the quarantine.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

In August 2020, the IASB issued Phase 2 of its project which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

Phase 2 finalizes the Board's response to the ongoing reform of interbank offer rates (IBOR) and other interest rate benchmarks.

The amendments complement Phase 1 issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.

The Phase 2 amendments mainly consist of the following:

- Practical expedient for particular changes to contractual cash flows
- Relief from specific hedge accounting requirements
- Disclosure requirements

Phase 2 changes only apply if there are financial instrumentsor hedge conditions that include a benchmark interest ratethat will change due to the reform.

These changes will apply to accounting periods that begin on or after 1 January 2021.

The amendments in these standards are considered to have insignificant impact on the accounts from Sparebanken Sør Boligkreditt AS.

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

Assessment of individual and collective provisions for loan losses will always be based on a significant degree of discretion. In 2020, this has been a particularly challenging item due to the ongoing Covid-19 situation. 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.

Predictions based on historical information may prove to be incorrect since the relevance historical data for decisions is not certain. The risk associated with the type of lending provided by the company is considered to be limited as the collateral objects consist of private residential property.

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 strategy and guidelines for the capital plan and composition of the capital and approves the process to ensure an acceptably adequate capital level at all times.

The company's management

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

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

Responsibility for implementation of the annual assessment of the risk situation and the capital adequacy requirement is 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 in order to assess whether these are appropriately taken care of.

Risk control process

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

RISK CATEGORIES

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

Credit risk /counterparty risk

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

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

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

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

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

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

Settlement risk

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

Liquidity risk

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

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

Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Spread risk

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

Business risk

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

Strategic risk

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

Operational risk

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

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

Concentration risk

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

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

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

HEDGING INSTRUMENTS

The Company uses the following hedging instruments:

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

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

NOTE 4 – CAPITAL ADEQUACY

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

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

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

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 11.0 percent, tier 1 capital ratio 12.5 percent and total capital ratio 14.5 percent.

NOK Thousand	31.12.2020	31.12.2019
EQUITY CAPITAL		
Share capital	1 375 000	1 125 000
Share premium reserve	500 000	500 000
Other equity capital	1 842 096	1 777 197
Deductions	-7 765	-3 825
Dividend	-300 178	-235 279
Net subordinated capital (common equity tier 1)	**3 409 153**	**3 163 093**
Minimum requirements for equity capital		
Credit risk	19 985 560	16 128 838
Market risk	0	0
Operational risk	658 898	692 800
CVA addition	0	0
Deductions	0	0
Risk weight balance (calculation basis)	**20 644 458**	**16 821 638**
Common equity tier 1 capital ratio	**16,5 %**	**18,8 %**
Tier 1 capital ratio	**16,5 %**	**18,8 %**
Total capital ratio	**16,5 %**	**18,8 %**
Leverage Ratio	**5,7 %**	**6,8 %**
MINIMUM CAPITAL REQUIREMENTS		
Minimum Tier 1 capital requirements	4,50 %	4,50 %
Conservation buffer	2,50 %	2,50 %
Systemic risk buffer	3,00 %	3,00 %
Countercyclical buffer	1,00 %	2,50 %
CET1 requirements, incl. Pilar 2	11,00 %	12,50 %
Tier1 Capital requirements, incl. Pilar 2	12,50 %	14,00 %
Total capital requirements, incl. Pilar 2	14,50 %	16,00 %
CET1 requirements, incl. Pilar 2	2 250 623	2 102 705
Tier1 Capital requirements, incl. Pilar 2	2 557 527	2 355 029
Total capital requirements, incl. Pilar 2	2 966 731	2 691 462
Above CET1 requirements, incl. Pilar 2	1 138 263	1 060 389
Above Tier1 Capital requirements, incl. Pilar 2	828 596	808 064
Above total capital requirements, incl. Pilar 2	415 707	471 631

NOTE 5 – 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	0.11 %	0.25 %
C	0.26 %	0.50 %
D	0.51 %	0.75 %
E	0.76 %	1.25 %
F	1.26 %	2.00 %
G	2.01 %	3.00 %
H	3.01 %	5.00 %
I	5.01 %	8.00 %
J	8.01 %	99.99 %
K	100.00 %	

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

Specification within risk categories at 31 December 2020

NOK Thousand	Commitments	In %	Gross loans	Potensial exposure
Low risk	44 370 953	83,6 %	40 410 118	3 960 835
Medium risk	6 976 249	13,2 %	6 846 731	129 519
High risk	402 717	0,8 %	398 911	3 806
Non performing and write-downs	46 504	0,1 %	45 560	943
Unclassified	1 252 895	2,4 %	1 208 382	44 514
Total	**53 049 318**	**100,0 %**	**48 909 702**	**4 139 616**

Specification within risk categories at 31 December 2019

NOK Thousand	Commitments	In %	Gross loans	Potensial exposure
Low risk	36 422 177	83,5 %	33 121 866	3 300 311
Medium risk	6 471 815	14,8 %	6 360 916	110 899
High risk	615 664	1,4 %	617 278	-1 614
Non performing and write-downs	31 651	0,1 %	30 979	672
Unclassified	88 461	0,2 %	78 774	9 687
Total	**43 629 768**	**100,0 %**	**40 209 813**	**3 419 955**

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	31.12.2020	31.12.2019
Assets		
Loans to credit institutions	2 252 025	399 399
Net loans to customers	48 898 545	40 199 609
Bonds and certificates	5 233 812	3 108 909
Financial derivatives	2 508 691	505 900
Total credit exposure balance items	**58 893 072**	**44 213 818**
Potential exposure		
Undrawn credits	4 166 720	3 463 330
Total potential exposure	**4 166 720**	**3 463 330**
Total credit exposure	**63 059 792**	**47 677 148**

NOTE 6 - LOANS

NOK Thousand	31.12.2020	31.12.2019
Loans assessed at amortized cost		
Flexi-loans	11 039 785	8 558 533
Loans with installments - floating interest	37 828 397	31 600 536
Loans with installments - fixed interest	4 281	0
Gross loans	**48 909 702**	**40 209 813**
Loss allowance	-11 158	-10 204
Net loans	**48 898 545**	**40 199 609**
Undrawn credit on Flexi-loans	4 166 720	3 463 330

NOK Thousand	31.12.2020	31.12.2019
Loans distributed to sectors and industries		
Retail customers	48 873 998	40 160 075
Accured interests	**35 705**	**49 738**
Gross loans	**48 909 702**	**40 209 813**
Loss allowance	-11 158	-10 204
Net loans	**48 898 545**	**40 199 609**

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

NOK Thousand	31.12.2020	
Loans broken down by geographical areas*		
Agder	32 402 834	66,3 %
Vestfold og Telemark	5 766 529	11,8 %
Oslo	4 581 835	9,4 %
Viken	3 008 852	6,2 %
Rogaland	1 836 024	3,8 %
Other counties	1 302 470	2,7 %
Total	**48 898 545**	**100,0 %**

NOK Thousand	31.12.2019	
Loans broken down by geographical areas*		
Vest-Agder	16 528 592	41.1 %
Aust-Agder	10 713 475	26.7 %
Telemark	4 004 896	10.0 %
Rogaland	1 299 637	3.2 %
Oslo	3 779 836	9.4 %
Akershus	1 726 918	4.3 %
Other counties	2 146 255	5.3 %
Total	**40 199 609**	**100.0 %**

*As a result of a public sector reform introduced in 2019 and with effect from 01.01.2020, a number of municipalities and counties have been merged. Hence, the 31.12.2020 setup and figures are not comparable to previous periods.

NOTE 7 - NON-PERFORMING LOANS

The Group assesses a financial asset as non-performing if a minimum of one of the following criteria is met:

- The contractual payments have been overdue for more than 90 days and the amount exceeds NOK 1 000.
- Credit losses have been recognised.
- Bankruptcy has been declared.
- 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	31.12.2020	31.12.2019
Non-performing exposures > 90 days	22 798	9 469
Other non-performing exposures	25 876	20 836
Total non-performing exposures (stage 3)	**48 674**	**30 305**
Stage 3 impairment losses	858	942
Net non performing loans	**49 532**	**31 247**
Provision ratio impairment losses	1,8 %	3,1 %
Gross non-performing loans in % of gross loans	**0,0 %**	**0,0 %**
Gross loans	**48 909 702**	**40 209 813**

FORBEARANCE

NOK Thousand	31.12.2020	31.12.2019
Step 2	27 844	38 932
Step 3	0	879
Total exposures with forbearance measures	**27 844**	**39 811**

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

NOTE 8 – LOSSES ON LOANS AND UNDRAWN CREDIT

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

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

NOK Thousand	31.12.2020	31.12.2019
Changes in impairment losses for the period, stage 1	3 938	769
+ Changes in impairment losses for the period, stage 2	-2 749	1 983
+ Changes in impairments losses for the period, stage 3	-91	790
= Total losses for the period	**1 098**	**3 543**

	Stage 1	Stage 2	Stage 3	
NOK Thousand	Excpected losses in the next 12 months	Lifetime excpected credit losses	Lifetime excpected credit losses	Total
Loss provisions as at 01.01.2020	**2 647**	**6 684**	**958**	**10 289**
Transfers				
Transferred to stage 1	2 951	-2 858	-93	0
Transferred to stage 2	-106	114	-8	0
Transferred to stage 3	-1	-63	**64**	**0**
Losses on new loans	3 609	1 202	153	4 964
Losses on derecognised loans	-703	-1783	-463	-2950
Losses on older loans and other changes	-1 811	639	247	-925
Loss provisions as at 31.12.2020	**6 585**	**3 936**	**858**	**11 379**
Loss provision for loans	6 428	3 887	843	11 158
Loss provisions for undrawn credit	156	50	16	222
Total loss provision as at 31.12.2020	**6 585**	**3 936**	**858**	**11 379**

	Stage 1	Stage 2	Stage 3	
NOK Thousand	Excpected losses in the next 12 months	Lifetime excpected credit losses	Lifetime excpected credit losses	Total
Loss provisions as at 01.01.2019	**1 878**	**4 701**	**1 212**	**7 791**
Transfers				
Transferred to stage 1	1 542	-1 514	-27	0
Transferred to stage 2	-92	112	-20	0
Transferred to stage 3	-4	-26	30	0
Losses on new loans	1 250	2 406	89	3 745
Losses on derecognised loans	-497	-1 548	-41	-2 086
Losses on older loans and other changes	-1 430	2 553	-284	839
Loss provisions as at 31.12.2019	**2 647**	**6 684**	**958**	**10 289**
Loss provision for loans	2 592	6 670	942	10 204
Loss provisions for undrawn credit	55	14	16	85
Total loss provision as at 31.12.2019	**2 647**	**6 684**	**958**	**10 289**

Changes in gross loans in the balance sheet.

NOK Thousand				2020
Gross loan assessed at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loans as at 01.01.2020 assessed at amortised cost	**38 215 829**	**1 963 678**	**30 305**	**40 209 813**
Transferred to stage 1	856 888	-853 005	-3 883	0
Transferred to stage 2	-914 830	916 227	-1 397	0
Transferred to stage 3	-11 192	-10 922	22 114	-
Net change on present loans	-1 555 351	-60 327	-1 797	-1 617 475
New loans	19 040 548	398 544	10 033	19 449 124
Derecognised loans	-8 589 728	-533 963	-8 069	-9 131 760
Gross loans as at 31.12.2020 assessed at amortised cost	**47 042 164**	**1 820 231**	**47 307**	**48 909 702**

NOK Thousand				2019
Gross loan assessed at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loan as at 01.01.2019 assessed at amortised cost	**838 885**	**1 875 256**	**22 394**	**38 736 534**
Transferred to stage 1	390 110	-389 492	-618	0
Transferred to stage 2	-471 783	472 072	-289	0
Transferred to stage 3	-11 940	147	11 794	0
Net change on present loans	-1 442 346	-47 106	-2 542	-1 491 995
New loans	10 223 371	502 136	3 108	10 728 615
Derecognised loans	-7 310 468	-449 334	-3 541	-7 763 342
Gross loan as at 31.12.2019 assessed at amortised cost	**38 215 829**	**1 963 678**	**30 305**	**40 209 813**

NOK Thousand				2020
Undrawn credits (off balance)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Undrawn credits as at 1.1.2020	**3 438 853**	**23 739**	**737**	**3 463 330**
Transferred to stage 1	9 859	-9 859	-	0
Transferred to stage 2	-17 822	17 822	-	0
Transferred to stage 3	-	-	-	0
Net change on undrawn credits	139 883	3 410	195	143 489
New undrawn credits	551 822	6 030	0	557 852
Derecognised undrawn credits	3 979	-1 929	-	2 050
Undrawn credits as at 31.12.2020	**4 126 574**	**39 214**	**933**	**4 166 720**

NOK Thousand				2019
Undrawn credits (off balance)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Undrawn credits as at 01.01.2019	**3 164 414**	**30 619**	**820**	**3 195 853**
Transferred to stage 1	12 361	-12 361	0	0
Transferred to stage 2	-10 871	10 871	0	0
Transferred to stage 3	0	0	0	0
Net change on undrawn credits	95 141	-3 175	-82	91 884
New undraw credits	224 750	1 192	0	225 942
Derecognised undrawn credits	-46 941	-3 408	0	-50 349
Undrawn credits as at 31.12.2019	**3 438 853**	**23 739**	**737**	**3 463 330**

NOTE 9 – COVER POOL COMPOSITION AND DEBT-TO-ASSETS RATIO

	Fair value	
NOK Thousand	**31.12.2020**	**31.12.2019**
Loans secured by mortgages on residential properties	48 898 545	40 199 609
Deductions on ineligible loans	-112 720	-84 101
Pool of eligible loans	48 785 825	40 115 508
Certificates and bonds	300 825	2 178 549
Financial derivatives	2 508 691	295 958
Total cover pool	**51 595 340**	**42 590 016**
Debt incurred due to issuance of securities	**44 925 120**	**36 814 704**
Collateralisation ratio (OC)	**14,8 %**	**15.7 %**

	Nominal value	
	31.12.2020	**31.12.2019**
OC based on nominal value - eligibles only	16,5 %	16.5 %
OC based on nominal value - total loans	16,7 %	16.7 %

	31.12.2020	**31.12.2019**
Average debt to assets ratio in %	55,0%	57.4 %
Portfolio divided into intervals of debt to assets ratio		
Less than or equal to 40%	16.6 %	16.8 %
41 - 50 %	14.4 %	13.3 %
51 - 60 %	25.9 %	21.9 %
61 - 70 %	34.4 %	35.2 %
71 - 75 %	6.3 %	9.3 %
More than 75%	2.4 %	3.6 %
Total	**100.0 %**	**100.0 %**

NOTE 10 - INTEREST RATE AND EXCHANGE RATE RISK

Interest rate risk occurs in connection with the company's ordinary lending and borrowing activities and in relation to the activities in the Norwegian and international money and capital markets. Interest rate risk exists when interest periods for assets and liabilities differ. An interest risk limit has been adopted by the Board of Directors, and is measured in as maximum loss as a result of a parallel shift in the yield curve by two percentage points.

Interest rate risk is managed by the use of financial derivatives. The company reports to the Board of Directors on a quarterly basis.

At 31 December 2020, Sparebanken Sør Boligkreditt AS`s portfolio of loans to customers consists essentially of floating rate loans.

Two NOK denominated fixed rate interest bonds have been issued and swapped to floating interest rate. In addition EUR denominated fixed rate bond have been issued, and converted into NOK at floating interest rate by the use of basis swaps (cross currency interest rate swaps). Hedge accounting is applied for all fixed interest rate and foreign currency financing.

According to the company`s internal rules, the interest rate risk should not exceed NOK 100 million. The interest risk exposure was NOK 36.8 million as at 31.12.2020 (NOK 48.6 million as at 31.12.2019).

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 31.12.2020 (NOK 0 million as at 31.12.2019).

NOTE 11 - 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 2020, 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 2020, the company's funding structure complied with requirements imposed by law and instructions by the Board of Directors.

As of 31 December 2020, Sparebanken Sør Boligkreditt AS has an overdraft facility amounting to NOK 5 000 million regarding operational purposes, and a short-term credit facility with a notice period of 31 days with Sparebanken Sør. In addition, the company has a revolving credit facility with the Parent Bank, which can be used to refinance outstanding bonds. Annual commission is paid on the drawing rights.

Covered bonds issued by Sparebanken Sør Boligkreditt AS contain a clause giving the borrower an option to extend the loan by 12 months beyond the maturity date (soft bullet).

LIQUIDITY RISK

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

						31.12.2020
NOK Thousand	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
Liabilities / non derivative obligations						
Debt to credit institutions	10 396 332	10 396 332	0	0	0	0
Debt incurred due to issuance of securities	43 126 831	20 000	5 353 268	5 101 725	21 568 973	11 082 865
Other liabilities	106 162	6 233	4 693	95 235	0	0
Loans commitments and undrawn facilities	4 167 720	4 167 720	0	0	0	0
Total liabilities	**57 797 045**	**14 590 285**	**5 357 962**	**5 196 960**	**21 568 973**	**11 082 865**
Derivative commitments						
Financial derivative gross payments						
Payments made	-27 090 250	0	-5 248 050	0	-10 846 100	-10 996 100
Payments received	25 136 750	0	4 760 000	0	9 914 250	10 462 500
Total derivative commitments	**-1 953 500**	**0**	**-488 050**	**0**	**-931 850**	**-533 600**

						31.12.2019
NOK Thousand	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
Liabilities / non derivative obligations						
Debt to credit institutions	3 883 843	3 883 843	0	0	0	0
Debt incurred due to issuance of securities	37 396 948	20 000	131 004	588 341	21 060 591	15 597 012
Other liabilities	82 745	5 259	3 994	73 492	0	0
Loans commitments and undrawn facilities	3 463 330	3 463 330	0	0	0	0
Total liabilities	**44 826 866**	**7 372 432**	**134 998**	**661 832**	**21 060 591**	**15 597 012**
Derivative commitments						
Financial derivative gross payments						
Payments made	-14 814 300	0	0	0	-14 814 300	0
Payments received	14 324 250	0	0	0	14 324 250	0
Total derivative commitments	**-490 050**	**0**	**0**	**0**	**-490 050**	**0**

Debt securities issued as at 31.12.2020

ISIN Number	Ticker	Currency	Nominal value	Interest		Due date	Book value	Fair value
XS1383921803		EUR	500 000	Fixed	0,250 %	22.03.2021	5 273 361	5 267 670
NO0010778954	SORB27	NOK	5 000 000	Floating	3M Nibor	22.11.2021	5 004 954	5 028 008
XS1622285283		EUR	500 000	Fixed	0,125 %	30.05.2022	5 289 642	5 299 564
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	382 372	385 483
XS1775786145		EUR	500 000	Fixed	0,375 %	20.02.2023	5 363 059	5 358 738
NO0010882632	SORB30	NOK	6 000 000	Floating	3M Nibor	19.11.2024	6 011 853	6 055 204
NO0010832637	SORB28	NOK	6 000 000	Floating	3M Nibor	24.09.2025	6 002 885	6 059 150
XS1947550403		EUR	500 000	Fixed	0,50 %	06.02.2026	5 743 994	5 511 259
XS2069304033		EUR	500 000	Fixed	0,01 %	26.10.2026	5 056 898	5 355 165
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	594 254	604 879
TOTAL							**44 723 272**	**44 925 120**

NOTE 12 - INTEREST INCOME AND INTEREST EXPENSES

NOK Thousand	31.12.2020	31.12.2019
Interest income recognised at amortized cost		
Interest on loans to customers	1 068 600	1 155 139
Interest on loans to and receivables from credit institutions	10 730	458
Total interest income recognised at amortized cost	**1 079 331**	**1 155 596**
Interest income recognised at fair value		
Interest on certificates/bonds/interest-bearing securities	57 935	62 785
Total interest income recognised at fair value	**57 935**	**62 785**
Total interest income	**1 137 266**	**1 218 381**
Interest expenses recognised at amortized cost		
Interest on debt to credit institutions	65 228	68 066
Interest on issued securities	559 697	736 920
Other interest expenses	5 898	4 572
Total interest expenses recognised at amortized cost	**630 823**	**809 559**
Total interest expenses	**630 823**	**809 559**
Net interest income	**506 443**	**408 822**

NOTE 13 - INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2020	31.12.2019
Profit (loss) and changes in value from covered bonds	-21 526	-6 878
Net income from covered bonds	**-21 526**	**-6 878**
Change in value fixed rate loans - interest	-64	0
Change in value fixed rate loans - margin	41	0
Expected credit loss IFRS9	-2	0
Net change in value fixed rate loans	**-26**	**0**
Change in value fixed rate bonds - hedge accounting	-1 770 402	42 207
Change in value derivatives fixed rate bonds - designated as hedging instruments	1 806 529	-19 852
Net income hedging	**36 127**	**22 356**
Whereof effects from basis swaps (1)	25 687	17 808
Profit (loss) buyback own bonds - amortised cost	-18 175	-23 715
Net other financial instruments and derivatives	**-18 175**	**-23 715**
Net income from financial instruments	**-3 600**	**-8 237**

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

Basis swaps and derivative contracts are used to convert obligations in foreign currency into NOK. Basis swaps are used when the company has entered into long term funding in international capital markets. These are hedging instruments, and assuming the underlying bond is held to maturity, the change in market value over the instruments duration equals zero. Accounting effects are therefore reversed over time.

NOTE 14 - OTHER OPERATING EXPENSES

NOK Thousand	2020	2019
External fees	1 355	1 457
Management of loans / services purchased	84 472	73 618
Other operating expenses*	4 105	3 365
Total other operating expenses	**89 932**	**78 440**

NOK Thousand	2020	2019
Ordinary audit fees, statutory audit	282	68
Other attestation services	224	156
Fees on other services	20	0
Total remuneration of elected auditor (Incl. VAT)	**527**	**224**

*Remuneration to auditors is included in other operating expenses.

NOTE 15 - TAX

NOK Thousand	31.12.2020	31.12.2019
Tax-increasing temporary differences		
Fixed assets	-113	-142
Loans	-23	0
Change in value from basis swaps recognised over OCI	-31 147	0
Bond assets	-7 216	0
Bond debt - adjustment of hedge accounting	-2 486 831	-712 100
Total tax-increasing temporary differences	**-2 525 331**	**-712 242**
Tax-reducing temporary differences		
Financial derivatives	2 447 259	647 412
Change in value from basis swaps recognised over OCI	0	-24 465
Bond assets	0	-8 071
Total tax-reducing temporary differences	**2 447 259**	**614 876**
Basis for deferred tax (+) / deferred tax assets (-)	**-78 071**	**-97 366**
Calculated deferred tax (+) / deferred tax assets (-) (25%)	**-19 518**	**-24 341**
Deferred tax / deferred tax assets as at 01.01.	-24 341	-28 064
Change in deferred tax in the profit	6 494	3 904
Change in deferred tax in the total profit	-1 671	-1 239
Accounting effects of transition to IFRS 9	0	1 057
Deferred tax / deferred tax assets as at 31.12.	**-19 518**	**-24 341**
Profit before tax expenses	406 920	313 732
Permanent differences	0	80
Change in temporary differences	-25 976	-19 845
Taxable income	**380 943**	**293 967**
Tax payable (25%)	**95 236**	**73 492**
Tax not settled previous years	0	0
Other changes	0	0
Tax payable in the balance sheet	**95 236**	**73 492**
Tax payable	95 236	73 492
Changes in deferred tax	6 494	3 904
Accounting effects of transition to IFRS 9	0	1 057
Tax cost for the year	**101 730**	**78 453**
Effective tax rate	25,0 %	25,0 %

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

NOTE 16 - 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 amortized 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.

Classification as at 31.12.2020

NOK Thousand	Fair value	Hedge accounting	Amortized cost (1)	31.12.2020 Total
Loans to credit institutions			2 252 025	2 252 025
Net loans to customers			48 898 545	48 898 545
Bonds and certificates	5 233 812			5 233 812
Financial derivatives		2 508 691		2 508 691
Total financial assets	**5 233 812**	**2 508 691**	**51 150 569**	**58 831 640**
Debt to credit institutions			10 392 073	10 392 073
Debt incurred due to issuance of securities			44 723 272	44 723 272
Financial derivatives		0		0
Total financial liabilities	**0**	**0**	**55 115 345**	**55 115 345**

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

Classification as at 31.12.2019

NOK Thousand	Fair value	Hedge accounting	Amortized cost (1)	31.12.2019 Total
Loans to credit institutions			399 399	399 399
Net loans to customers			40 199 609	40 199 609
Bonds and certificates	3 108 909			3 108 909
Financial derivatives		505 900		505 900
Total financial assets	**3 108 909**	**505 900**	**40 599 008**	**44 213 818**
Debt to credit institutions			3 881 408	3 881 408
Debt incurred due to issuance of securities			36 700 771	36 700 771
Financial derivatives		209 942	0	209 942
Total financial liabilities	**0**	**209 942**	**40 582 179**	**40 792 121**

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

NOTE 17 - FAIR VALUES OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

General

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

Interest rate swaps

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

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

Certificates and bonds

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

Loans

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

Debt

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

Deposits

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

Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

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

Level 2:

Instruments valued by valuation techniques and assumptions on directly or indirectly observable market data. Values can be obtained from external market players or reconciled with the external market players that offer these types of services.

Level 3:

Instruments valued by valuation techniques and of 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.

				31.12.2020
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
Assets recognised at amortised cost				
Loans to and receivables from credit institutions	2 252 025		2 252 025	
Net loans to customers (floating interest rate)	48 898 545			48 898 545
Assets recognised at fair value				
Bonds and certificates	5 233 812		5 233 812	
Financial derivatives	2 508 691		2 508 691	
Total financial assets	**58 893 072**	**0**	**9 994 527**	**48 898 545**
Liabilities recognised at amortised cost				
Debt to credit institutions	10 392 073		10 392 073	
Debt incurred due to issuance of securities	44 723 272		44 828 418	
Liabilities recognised at fair value				
Financial derivatives	0		0	
Total financial liabilities	**55 115 345**	**0**	**55 220 490**	**0**

				31.12.2019
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
Assets recognised at amortised cost				
Loans to and receivables from credit institutions	399 399		399 399	
Net loans to customers (floating interest rate)	40 199 609			40 199 609
Assets recognised at fair value				
Bonds and certificates	3 108 909		3 108 909	
Financial derivatives	505 900		505 900	
Total financial assets	**44 213 818**	**0**	**4 014 209**	**40 199 609**
Liabilities recognised at amortised cost				
Debt to credit institutions	3 881 408		3 881 408	
Debt incurred due to issuance of securities	36 700 771		36 079 881	
Liabilities recognised at fair value				
Financial derivatives	209 942		209 942	
Total financial liabilities	**40 792 121**	**0**	**40 171 231**	**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	2020	2019
Result / ineffectiveness in hedge accounting		
Net income from other financial instruments	36 127	22 356
Total	**36 127**	**22 356**
Whereof effects from basis swaps	25 687	17 808

Inefficiency in hedge accounting is recognised as a change in value and appears in Note 13 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	2020	2019
Recognitions concerning hedge accounting		
Financial derivatives (clean value)	2 447 259	836 380
Total financial assets	**2 447 259**	**836 380**
Nominal hedge items	25 136 750	25 136 750
Adjustments of hedge items - hedged risk	2 486 831	712 100
Financial derivatives (clean value)	0	188 968
Total financial liabilities	**27 623 581**	**26 037 818**

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.

Uncertainty arising from the interest rate benchmark reform

On December 2020, the Ministry of Finance decided amendments to the Reference Interest Act that implements the regulations (EU 2016/1011) in Norwegian law.

All hedging instruments in NOK are exposed to NIBOR and all hedging instruments in EUR are exposed to EURIBOR and NIBOR.

Nominal value hedge accounting:

Thousands	31.12.2020	31.12.2019
Nominal value		
Interest rate swaps NOK	850 000	850 000
Interest rate swaps EUR	2 500 000	2 500 000

In 2020, a project group was established to deal with issues regarding to the interest rate benchmark reform. The company are exposed to NIBOR and EURIBOR, and considers the complexity of changing necessary systems to be limited.

The company assumes that NIBOR and EURIBOR will be quotas for a further couple of years, and the company will adapt to market practices going forward. 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.

NOTE 18 - BONDS AND CERTIFICATES

NOK Thousand	31.12.2020	31.12.2019
Short-term investments designated at fair value through profit		
Certificates and bonds issued by public sector	1 877 077	1 454 087
Certificates and bonds issued by others	3 349 817	1 646 756
Accrued interests	6 918	8 066
Total	**5 233 812**	**3 108 909**

Classification of financial investments

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

Sparebanken Sør Boligkreditt AS owns only instruments with the lowest credit risk (Aaa rated) as at 31 December 2020.

NOTE 19 - 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.

31.12.2020

NOK Thousand	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	2 508 691	0	2 508 691	-1 921 516	587 174
Derivatives - liabilities	0	0	0	0	0
Net	**2 508 691**	**0**	**2 508 691**	**-1 921 516**	**587 174**

31.12.2019

NOK Thousand	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	505 900	209 942	295 958		295 958
Derivatives - liabilities	-209 942	-209 942	0		0
Net	**295 958**	**0**	**295 958**		**295 958**

Sparebanken Sør Boligkreditt AS reclassified the presentation of the received collateral as of 01.01.2020. Previously received/paid collateral was presented in the line financial derivatives. Received collateral is now presented as debt to credit institutions and paid collateral area is presented as deposits from credit institutions. Comparative figures have not been restated.

NOTE 20 - DEBT DUE TO ISSUANCE OF SECURITIES

NOK Thousand	31.12.2019	Issued	Matured / redeemed	Other changes in period	31.12.2020
Bonds, nominal value	36 305 500	12 015 826	-5 782 570	1 551 494	44 090 250
Value adjustments	297 778			238 542	536 320
Accrued interest	97 493			-791	96 702
Total debt due to issuance of securities	**36 700 771**	**12 015 826**	**-5 782 570**	**1 789 246**	**44 723 272**

NOK Thousand	31.12.2018	Issued	Matured / redeemed	Other changes in period	31.12.2019
Bonds, nominal value	35 488 000	9 960 155	-9 279 735	137 080	36 305 500
Value adjustments	445 002	0	0	-147 224	297 778
Accrued interest	81 177	0	0	16 316	97 493
Total debt due to issuance of securities	**36 014 179**	**9 960 155**	**-9 279 735**	**6 172**	**36 700 771**

NOTE 21 - AVERAGE INTEREST EXPENSES

NOK Thousand	31.12.2020	31.12.2019
Debt to credit institutions		
Debt to credit institutions	0,83 %	2.13 %
Debt incurred due to issuance of securities		
Bond debt, floating interest rate	1,17 %	1.97 %
Bond debt, fixed interest rate	3,94 %	3.94 %
Bond debt, fixed interest rate in Euro	0,25 %	0.25 %

Average interest rate, defined as annual interest in arrears, has been calculated as a weighted average of the actual interest rate conditions at 31 December 2020. No liabilities have special conditions. For fixed rate covered bonds, the coupon rate is specified. Fixed rate in NOK and foreign currency are swapped to floating rate in NOK.

NOTE 22 - RELATED PARTIES

NOK Thousand	31.12.2020	31.12.2019
Income statement		
Interest income from Sparebanken Sør on deposits	709	458
Interest expenses and commission from Sparebanken Sør on loans/credit	70 264	73 068
Interest expenses on bond debts to Sparebanken Sør	29 637	45 955
Paid administration fees to Sparebanken Sør	84 434	73 582
Balance sheet		
Bank deposit in Sparebanken Sør	2 252 025	399 399
Covered bonds owned by Sparebanken Sør	2 018 096	0
Loans/credit in Sparebanken Sør	8 470 556	3 881 408

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

NOTE 23 - EMPLOYEES, MANAGEMENT AND REPRESENTATIVES

The company had no employees at 31 December 2020.

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

NOTE 24 - SHARE CAPITAL AND SHARE OWNERS

NOK Thousand						2020
Shareholders	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	Profit for the period (1)	Profit per share (1)
Sparebanken Sør	100 000	13 750	1 375 000	235 279	305 190	3 051,90

NOK Thousand						2019
Shareholders	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	Profit for the period (1)	Profit per share (1)
Sparebanken Sør	100 000	11 250	1 125 000	0	231 563	2 315,63

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

NOTE 25 - SEGMENT REPORTING

The company consists of only one segment, lending to consumers in Norway. Please refer to Note 6 regarding the geographical break down of loans. The company's activity consists of residential mortgages up to 75% of the property's market value. None of the company's customers individually accounts for more than 10% of the turnover. This applies to both 2019 and 2020.

NOTE 26 - 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 the new 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 of 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 %

The absolute limit corresponds to risk class D. Risk class D for RM corresponds to the range 0.5% to 0.75%. The absolute limit is in the middle of the range.

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 2020 there is no lifetime PD model integrated, but the Parent Bank is in the process of introducing one.

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

The PD models are validated every year. The PD-models are hybrid-models and gives expectation oriented estimates. Since the loss model is expected oriented, calibrating PD is done to a excepted oriented estimate before used in the loss model.

Population

The model is intended to calculate expected loss for all customers, at the account level and not already recognised losses. The model also includes undrawn credit on flexi-loans. For loans where the credit risk has increased materially after initial recognition, an impairment loss must be recognised for expected credit losses over the term of the loans.

From April 2018 until April 2019, the calculation of impairment losses under IFRS 9 was based on extracts at the end of the previous months for all the customers. From May 2019, the calculation is based on extracts at the end of the current reporting month. 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.

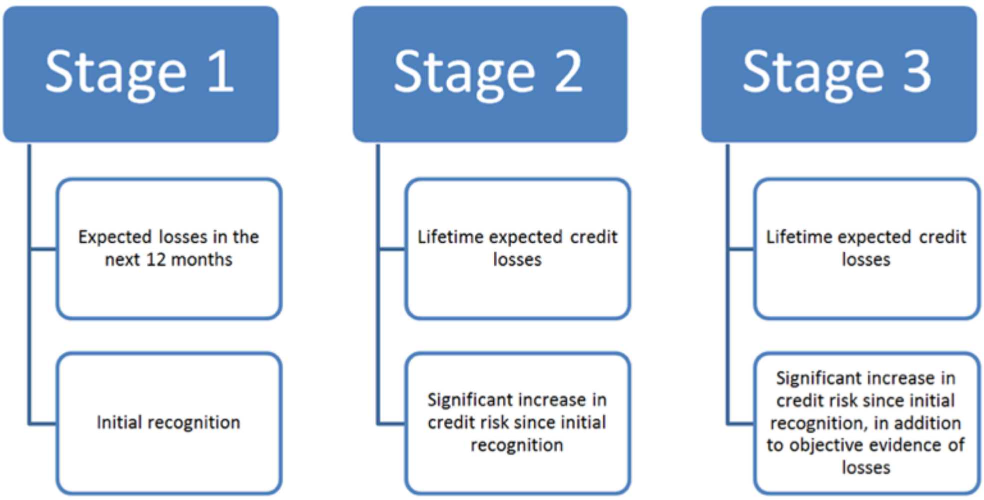
Loans approved but not discounted at the time of measurement must also be included in the basis of calculation.

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 with respect to these receivables for the financial year 2020. This is because the bulk of its loans to credit institutions relates to Norwegian banks. These are allocated to risk class B and have a PD of 0.175%. LGD are regarded as being low as they have a high rating from external agencies. The company considers the requirements for low credit risk to have been met as of 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. For an overview of the company`s risk classes, refer to Note 5 – Credit and credit risk.

A customers commitment is until 31.12.2020 assessed as being non performing if an installment has not been paid 90 days after its due date and the amount exceeds 1 000 NOK, in case of bankruptcy, losses are confirmed, or qualitative assessments and marks have been made. From 01.01.2021 non performing have been assessed according to a new definition. See note 1 for a description of the new definition and when qualitative assessments are made. When a customer has one or several defaulted loans, it is the customer's total commitment which is reported as default and not the individual loan. Se also Note 7.



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 stage 2 and 3 comes 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 are 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.
- Commitment with changed payment obligations or refinancing (forbearance) is automatically moved to stage 2.
- 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, and it is likely that the customer will go bankrupt or exposed to a financial reorganization. If observable data related to impairment are present, a future reduction in cash flow will be evaluated.

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

Estimated losses will be calculated on the basis of 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 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 fulfills the criteria for migration stated above. Migration to a lower stage is not subject to any explicit quarantine period. Commitments that have gone into default will migrate to stage 1 or 2 when they are no longer in default.

Forbearance and quarantine

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 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 and later on regarded as performing, there is a quarantine before transferring back to stage 1.

Macroeconomic conditions and scenarios

Q1 2020, 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 on the basis of empiricism related to monetary policy and financial stability obtained from Norges Bank.

The following macro parameters are used in the model:

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

Macroeconomic variables as a basis of scenarios:

	2020	2021	2022	2022	2024
Housing price %	4,4	6,7	2,4	1,8	1,8
Housing price region %	3,4	5,7	1,4	0,8	0,8
Unemployment %	5,5	4,5	3,8	3,7	3,7
Oil-price, $	41,7	49,6	48,6	48,2	48,2
Key policy rate, $	0,4	0,0	0,3	0,8	0,8
Import-weighted exchange rate	115,0	111,8	111,1	110,7	110,7
GDP %	2,2	1,3	2,2	2	1,7
Key interest rate	**1,00**	**1,50**	**2,00**	**2,25**	**2,25**

Determining macro variables involves the exercise of discretion as no one knows how large and long-lasting the effects of the crisis will be.

Sparebanken Sør Boligkreditt has mainly secured loans in real estate, and setting parameters for house prices (including real estate) is considered to be a parameter that has major affects 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, product 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 a 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 a 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 barriers to trade and global economic growth will stall. Oil prices fall and, taken 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 on the basis of an expectation that a realistic scenario will occur in 3 out of 5 years (60% probability), while the other two scenarios will occur in 1 out of 5 years (20% probability each).

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

Sensitivities

Loan 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 2020. The analysis has been carried out over the coming year by assuming a fall in collateral of 10%, 20% and 30% respectively. Analysis have also been performed with 1 % increase in unemployment. The changes have the following impact on the Group's loss expense:

					31.12.2020
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	5 634	12 793	21 431	3 173	3 741

				31.12.2019
NOK Thousand	Collateral reduction of 10%	Collateral reduction of 20%	Collateral reduction of 30%	Double increase of PD
Provisions on loans	4 660	10 510	17 558	3 166

Validation

The purpose of validate the IFRS 9-system, is to confirm that, both the model and the process, is working as intended and provides 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 an annual validation. The validation provides a report investigated by the Validation Committee. Based on the results there will be an assessment related to the satisfactory of the model and process – and any needs for adjustments.

Changes in the loss model in 2020

- The following changes have been made in 2020 and effects calculations of model based impairments:
- Equal LGD recovery rate for step 1 and step 2 + 3. Until the autumn 2020, the IFRS9 model has had a different recovery rate for stage 1 and stage 2 + 3. Following feedback from, among others, Finanstilsynet, adjustments have been made so that there is only one recovery rate for each customer segment. The model is run for the segments CM and RM, and different parameter values are used for them.
- Changed absolute limit for migration to stage 2. Until the autumn of 2020, the IFRS9 model has had an absolute limit (equal for both CM and RM) for migration between stages 1 and 2 of 0.75. This was in Q4 2020 changed to 0.625.

NOTE 27 – SUBSEQUENT EVENTS

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

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 2020 financial statements have been prepared in accordance with applicable accounting standards and that the information provided in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall result of operation.

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

Kristiansand, 1 March 2021

The Board of Directors of Sparebanken Sør Boligkreditt AS

Geir Bergskaug	Seunn Smith-Tønnessen	Gunnar P. Thomassen	Steinar Vigsnes
Chairman	Member	Member	Member

Marianne Lofthus

Managing Director

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, which comprise the balance sheet as at 31 December 2020, the income statement, other comprehensive income, equity statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 laws and regulations, 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.

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.

The company's business activities are largely unchanged compared to the year before. We have not identified regulatory changes, transactions or other events that qualify as new Key Audit Matters. As a result, the focus areas of our audit have been the same in 2020 as in the previous year.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to customers and regulations related to cover pool	
Sparebanken Sør Boligkreditt AS has provided mortgage loans to private individuals, secured by real estate, that are subject to special requirements related to over-collateralisation and has issued covered bonds. Processes have been implemented to ensure the company complies with the requirements related to the cover pool when covered bonds are issued. The processes include formal controls and segregation of duties to ensure controls have been performed prior to sale of loans from the parent company to Sparebanken Sør Boligkreditt AS. We focused on this area because compliance with regulations is fundamental to the company's operation.	In accordance with regulations, the company has engaged us as independent investigator to test, each quarter, that the cover pool fulfils the requirements for companies that issue covered bonds. Our procedures included assessment and testing of the company's systems and controls as well as scrutinizing documentation on the composition and value of the cover pool. Further, we performed sample testing of loans sold from the parent company to Sparebanken Sør Boligkreditt AS during the year to test whether these loans fulfilled the requirements. Our procedures showed that the company complied with the requirements for companies that issue covered bonds. The company uses external service organisations to operate certain key IT systems. The auditors of the respective service organisations evaluated design and tested operating effectiveness of the controls addressing integrity of the IT systems that are relevant to financial reporting. The auditors have issued a report on computer generated reports and application controls. The procedures performed included testing of key calculations within the IT systems such as interest income and loan amortizations. Further, work was performed on data integrity, systems changes and systems access. To assess whether we could rely on the work performed by other auditors, we satisfied ourselves regarding the auditors' competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed our own testing of access controls related to the company's IT systems and segregation of duties where this was considered necessary to our audit. Our assessments and testing showed that we could rely on the data handled and calculations performed within the IT systems that are relevant to financial reporting. Refer to note 9 to the financial statements for information about the cover pool. We have examined the information disclosed in the financial statements and found this to be sufficient and adequate.

Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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

Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

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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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 1 March 2021
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

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SPAREBANKEN SØR
BOLIGKREDITT AS

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