SPAREBANKEN SØR

ANNUAL REPORT 2021

(This translation from Norwegian has been prepared for information purposes only.)

Contents

The year 2021

SOLID RESULTS IN A CHALLENGING YEAR

The result for 2021 shows that Sparebanken Sør came out stronger after yet another year of the pandemic, and we are a solid bank, well equipped for challenging times. The year's profits of NOK 1 549 million (before taxes) are the best in the history of the Bank, and a clear improvement on the 2020 result of NOK 1 403 million. It was a very solid result as a consequence of high growth in operating income and contributing profits from associated companies, low costs, and a net entry on losses on loans. It has also been a year characterised by a focus on green and sustainable banking, big investments in digitalisation and new technology.

For almost 200 years, Sparebanken Sør has contributed to growth and development in our region. We have also managed to do this in the two years marked by the pandemic, and an economic downturn almost unprecedented in the past 100 years. At the same time, we have delivered profitable growth and sustainable development.

A LEADING FINANCIAL HOUSE

Sparebanken Sør has ambitions for strong growth in income from insurance, leasing, fund savings and real estate. In the past few years, the Bank has, through ownership investments and strengthened distribution power, boosted its position in these business areas. Together with Sørmegleren, Frende Forsikring, Brage Finans, Norne Securities and Balder Betaling, the Bank offers a range of products that makes us a fully-fledged and leading financial house in the region. It strengthens our value propositions to customers and diversifies our top-line revenues. Thanks to our strong regional competence base and short decision-making paths, we have a competitive edge.

As a result of this investment, our wholly owned and partly-owned companies displayed strong growth and a very good development in results through 2021. The results from Frende, Brage, Norne and Balder are marked by strong top-line growth, a continuously improving competitive position and a strengthened return on equity. In Sørmegleren we see strong growth and an increasingly strong market position. In 2021, the bank acquired Sørlandet Forsikringssenter to further strengthen its focus on insurance.

COST EFFICIENCY AMONG THE BEST

The Bank stands out as an extremely cost-effective bank in Norwegian and international contexts. Costs in relation to income were at the turn of the year 39.9 percent, compared with 39.2 percent last year. In terms of a percentage of total assets, the cost ratio is an impressive 0.71 percent. Our strong financial position has been developed throughongoing transformation and efficiency measures.

REVERSAL OF LOSSES ON LOANS AFTER THE PANDEMIC

As a result of the pandemic and extensive infection control measures, the Norwegian and international economies suffered a strong downturn from March 2020 onwards, which led to a considerable increase in the Bank's model-based provisions for loss allowances. From a net reversal of losses on lending of NOK 17 million in the year before, the Bank's provisions for loss allowances increased to NOK 83 million in 2020. In the last quarter of 2020 and through 2021, many of the loss provisions were successfully reversed, and in 2021 the Bank had a net decline in loan losses of NOK 18 million. At the same time, defaults among customers have been further reduced from an already low level. This is a positive sign, seen in the light of the challenging period the Norwegian economy has gone through, but it is also a consequence of the low risk profile of the Bank's lending portfolio.

VERY SOLID CAPITAL ADEQUACY

The Bank's unweighted tier 1 capital ratio of no less than 9.4 percent makes the Bank one of the most solid of the larger banks in Norway and the Nordic countries. At the turn of the year, the Bank's Common Equity Tier 1 ratio was 16.4 percent, well above the regulatory requirement and the Bank's own targets. Based on the Bank's high unweighted tier 1 capital ratio, the return on equity of 9.0 percent in 2021 is regarded as satisfactory.

GOOD GROWTH AND INCREASING NET INTEREST INCOME

The Bank has maintained its strong position in its main market throughout the year. Lending growth in the retail market was 5.3 percent, around half a percent above national credit growth. In the corporate market, growth was 3 percent, which was somewhat under national credit growth but in line with the year's target for corporate market growth. Deposit growth was a solid 5.5 percent. At the turn of the year, net lending to customers amounted to NOK 117 billion and deposits totalled NOK 63 billion. The deposit-to-loan ratio is therefore a comfortable 54 percent. The Bank has a good growth capacity for lending and has a long-term growth ambition of 1 percent over the growth of credit in our market area.

Net interest income increased steadily through the year and was responsible for an improvement in the interest margin in both the retail- and corporate markets. For 2021 overall, net interest income amounted to NOK 1 939 million, which is an increase from the NOK 1 914 million of the year before. A low interest rate level affected the Bank's net interest margin in 2020 negatively, but good growth, lower borrowing costs and a gradually higher interest rate led to a stronger net interest income in the last three quarters of 2021.

STRONG MARKET POSITION IN A REGION WITH GROWTH POSSIBILITIES

In 2021, the region's businesses experienced a strong recovery after the first year of the pandemic. Businesses and industry have shown a good ability to adapt, and the whole region is experiencing a growth in production and rising investments, a growth in jobs and a decline in unemployment in the last quarters. At the same time, the emergence of new business opportunities in the green transition gives the region's businesses the chance to make use of their own considerable comparative advantages.

Sparebanken Sør has maintained its leading market position in the region, and we experience positive effects from the upturn in the form of lower losses, fewer defaults, and good credit demand.

.SECURE ACCESS TO FUNDING

The corona pandemic triggered considerable financial unrest in the capital markets. Sparebanken Sør has been building up a good position and presence in national and international financial markets. In combination with good liquidity buffers, the bank had a very good foundation for dealing with the turmoil that occurred.

Through 2021, the Bank has carried out its strategy in this area, and the Bank's diversified financing ensures stable funding. Through the year, the Bank's financing structure is strengthened by issues of covered bonds, senior non-preferred bonds (SNP), mutual funds and subordinated loans, both in NOK and euros.

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STRATEGIC CHANGE IN COMPETENCE ENSURES RENEWAL

The high rate of change that characterises the financial industry, requires continual renewal. Throughout 2021, therefore, the Bank has continued its strategic shift in competence, with many new hires of highly educated staff with expert knowledge of priority areas like technology, digitalisation, and analysis. At the same time, changed customer behaviour and new digital customer solutions have enabled a systemic cost efficiency in the day-to-day banking business and released resources for competence-intensive customer guidance and increased sales activity. In parallel, considerable investments in new technology are being carried in order to pave the way for future profitability and growth potential.

COMMITMENTS TO NEW DIGITAL SOLUTIONS

In the two years of the pandemic, technology has proved to be more important than ever for maintaining internal collaboration and good customer management. Through smart technology choices and competence building, new services are established, not least in the areas of security and cyber risk. Digital interaction is going well, both internally and with collaboration partners. Bank operations have gone smoothly, even for the long periods when many employees were working from home.

Good customer experiences and efficient processes are the two most important priorities ahead in our development work, and a strong investment in new digital solutions will create value for both the Bank and for customers. Through a strategic shift in expertise towards data analysis and digitalisation, and combined with significant investments in new technology, our ability to deliver good and relevant banking services on a modern digital platform has been strengthened.

INCREASED COMMITMENT TO SUSTAINABILITY

The Bank's mission is to create sustainable growth and development in our region, and sustainability is anchored and integrated in the Bank's overall strategy. Sustainability has been high on the agenda through 2021 and work has been targeted at applying sustainability in all our business areas.

An important part of the work in 2021 was the setting up of a framework for green, socially responsible, and sustainable products. The framework, which is based on internationally recognised principles, will help the Bank develop and provide sustainable products to the Bank's customers. Another central area has been professional development through a cross-disciplinary project that involves different business fields. The goal is to increase competence in sustainable finance, so that the Bank can continue its work on sustainability, especially in the light of new regulations. In this project the Bank is specially looking at the EU taxonomy and the Public Access Regulation, the Statement on Corporate Social Responsibility of the Accounting Act, and the Transparency Act.

This autumn, we became a partner in PCAF (Partnership for Carbon Accounting Financials). Here we have gained access to a global collaboration between financial institutions working to harmonise evaluation and the reporting of greenhouse gas emissions, financed by loans and investments.

Sparebanken Sør was ESG-rated by Sustainalytics for the first time in 2021, and received a score of 11.7, which corresponds to low risk. We are proud to be the top-ranking Norwegian bank, and in 40th place out of the 1 070 banks that were rated.

In 2018 we were the first bank in Norway to be certified in gender equality and diversity. In November 2021, we received proof that we have now been recertified in the scheme called Equality at Work.

LONG-TERM, STRONG CUSTOMER RELATIONS AND LOCAL DECISION MAKING

In the coming years, strong competition and rapid changes in customer behaviour will call for a competent and adaptable organisation. For the two years of the pandemic, we have shown that we are a Bank that rapidly adapts to large shifts in customer behaviour and our competitive situation, at the same time as we meet customers with personal advice and durable digital solutions.

That is why we strongly believe that even going forward we will fulfil the role as the region's relationship bank, with customer satisfaction among the best. Long-term thinking, strong customer relations and local decision-making are what will characterise our business.

At the start of 2022, our ability and opportunity to realise the Bank's mission of creating sustainable growth and development in our region is better than ever before. This is not least thanks to the efforts and commitment from the Bank's capable staff. A big thank you to you all!

Geir Bergskaug

Geir Bergskaug
Adm. direktør

Key figures group

NOK MILLION	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
Profit					
Net interest income	1 939	1 914	1 926	1 729	1 679
Net commission income	419	347	344	318	312
Net income from financial instruments	0	40	24	2	88
Other operating income	191	143	74	23	18
Total net income	**2 549**	**2 444**	**2 368**	**2 072**	**2 097**
Total operating expenses before losses	1 018	958	918	884	811
Operating profit before losses	**1 531**	**1 486**	**1 450**	**1 188**	**1 286**
Losses on loans and guarantees	-18	83	-17	-36	20
Profit before taxes	**1 549**	**1 403**	**1 467**	**1 224**	**1 266**
Tax expenses	323	307	342	285	282
Profit for the period	**1 226**	**1 096**	**1 125**	**939**	**984**
Profit as a percentage of average assets					
Net interest income	1.35 %	1.36 %	1.53 %	1.46 %	1.53 %
Net commission income	0.29 %	0.25 %	0.27 %	0.27 %	0.28 %
Net income from financial instruments	0.00 %	0.03 %	0.02 %	0.00 %	0.08 %
Other operating income	0.13 %	0.10 %	0.06 %	0.02 %	0.02 %
Total net income	**1.78 %**	**1.74 %**	**1.88 %**	**1.75 %**	**1.92 %**
Total operating expenses before losses	0.71 %	0.68 %	0.73 %	0.75 %	0.74 %
Operating profit before losses	**1.07 %**	**1.06 %**	**1.15 %**	**1.00 %**	**1.17 %**
Losses on loans and guarantees	-0.01 %	0.06 %	-0.01 %	-0.03 %	0.02 %
Profit before taxes	**1.08 %**	**1.00 %**	**1.17 %**	**1.03 %**	**1.16 %**
Tax expenses	0.23 %	0.22 %	0.27 %	0.24 %	0.26 %
Profit for the period	**0.86 %**	**0.78 %**	**0.89 %**	**0.79 %**	**0.90 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	9.0 %	8.4 %	9.5 %	8.5 %	9.7 %
Costs as % of income	39.9 %	39.2 %	38.8 %	42.7 %	38.7 %
Costs as % of income, excl. net income from financial instruments	40.0 %	39.9 %	39.2 %	42.7 %	40.4 %
Key figures, balance sheet					
Total assets	144 182	142 126	129 499	121 125	114 310
Average total assets	143 100	140 400	125 900	118 600	109 500
Net loans to customers	116 653	111 577	106 334	102 942	97 518
Grows in loans as %, last 12 mths.	4.5 %	4.9 %	3.3 %	5.6 %	7.2 %
Customer deposits	63 146	59 833	57 949	56 537	55 580
Growth in deposits as %, last 12 mths.	5.5 %	3.3 %	2.5 %	1.7 %	7.8 %
Deposits as % of net loans	54.1 %	53.6 %	54.5 %	54.9 %	57.0 %
Equity (incl. hybrid capital)	14 941	13 752	13 081	11 845	11 108
Losses on loans as % of net loans, annualised	-0.02 %	0.07 %	-0.01 %	-0.17 %	0.02 %
Gross non-performing loans (over 90 days) as % of gross lending	IA	0.29 %	0.27 %	0.21 %	0.28 %
Other key figures					
Liquidity reserves (LCR), Group	140 %	173 %	148 %	159 %	139 %
Liquidity reserves (LCR), Group- EUR	604 %	107 %	1168 %	4727 %	3105 %
Liquidity reserves (LCR), Parent Bank	127 %	154 %	140 %	180 %	134 %
Common equity tier 1 capital ratio	16.4 %	15.7 %	15.7 %	14.8 %	14.9 %
Tier 1 capital ratio	18.1 %	17.1 %	17.6 %	16.6 %	16.7 %
Total capital ratio	20.3 %	19.1 %	20.3 %	18.7 %	18.9 %
Common equity tier 1 capital	13 004	12 204	11 356	10 517	9 890
Tier 1 capital	14 376	13 315	12 767	11 591	10 965
Net total primary capital	16 074	14 864	14 686	13 096	12 347
Leverage ratio	9.4 %	8.9 %	9.3 %	9.1 %	9.2 %
Number of branches	35	35	34	34	34
Number of FTEs in banking operations	464	442	429	434	432
Key figures, equity certificates					
Equity certificate ratio before profit distribution	15.7 %	17.3 %	17.2 %	17.9 %	18.7 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit per equity certificate (Parent Bank)	11.8	10.5	9.3	7.7	8.9
Profit per equity certificate (Group)	12.2	11.3	11.7	10.1	11.2
Dividend last year per equity certificate (Parent Bank)	8.0	14.0	0.0	6.0	6.0
Book equity per equity certificate	136.4	140.0	128.5	123.2	120.0
Price/book value per equity certificate	1.1	0.8	0.9	0.8	0.9
Listed price on Oslo Stock Exchange at end of period	146.0	114.5	110.0	96.9	104.0

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Board of Directors' report

NATURE OF THE BUSINESS

Sparebanken Sør is an independent financial institution whose core business is banking, securities trading and real estate brokerage activities in Agder, Rogaland, Vestfold and Telemark counties. The real estate business is operated by the subsidiary company Sørmegleren. Non-life and personal insurance products are delivered via the insurance company Frende, in which the bank is a part-owner. The bank is also part-owner in the companies Norne Securities AS and Brage Finans AS, suppliers of securities trading, leasing and sales mortgages, respectively. The Bank has 35 branches and the head office is located in Kristiansand.

HIGHLIGHTS

The Sparebanken Sør Group delivered a solid profit in 2021, and the board wishes to highlight the following:

- Good growth in net interest and commission income
- Very good contributions to profit from Frende, Brage and Sørmegleren
- Net income on losses
- Good growth in lending of 4.5 percent
- Good growth in deposits of 5.5 percent
- Return on equity after tax of 9.0 percent
- Common equity Tier 1 capital ratio of 16.4 percent, well above the 13.0 percent requirement
- Leverage ratio of a very solid 9.4 percent
- The board will propose distribution of a dividend for 2021 of NOK 8.00 per equity certificate.

FRAMEWORK 2021

The Norwegian economy

The Norwegian economy has, in the course of 2021, rapidly recovered after the downturn that followed the corona pandemic and the government-imposed restrictions that went with it. A very expansionary monetary and fiscal policy has been pursued to limit the slowdown in the economy. The Central Bank of Norway (Norges Bank) cut the key interest rate to 0 percent in May 2020 and kept the rate unchanged until September 2021, when the interest rate was increased to 0.25 percent. The Central Bank of Norway justified the rise in interest rates with a marked upswing in the Norwegian economy after the reopening, and that business activity in the autumn of 2021 was higher than before the pandemic broke out. The Central Bank of Norway raised the interest rate once more in December, to 0.50 percent, and signaled in its interest rate forecast a further three interest rate hikes in the course of 2022.

Norwegian households have started saving considerably more than in the period before the pandemic. Opportunities for consumption have been limited and, for many, everyday life has been characterised by uncertainty. In step with the gradual abolition of restrictions, it is expected that household consumption will contribute to increased activity in the Norwegian economy in the period ahead.

Electricity prices increased markedly from the late summer of 2021 onward, and the outlook indicates that prices will remain high. These price rises contribute to the reduction of disposable income, even though the government's power support scheme reduces these effects somewhat. The prospect of higher interest costs and fewer transfers from the state, as a result of the abolition of the extraordinary support schemes, may help reduce future growth. On the other hand, higher wage growth is expected, which can make a positive contribution to increasing growth.

Property prices in the Bank's main markets have seen much positive growth in 2021, after several years of relatively moderate development. Activity in the housing market has been high throughout the year. This is also reflected in the results of the Group's real estate business, Sørmegleren. The Bank considers the housing market in the Bank's main markets to be stable and balanced.

Credit growth (C2) increased somewhat in 2021 and amounted to 5.0 percent at the end of the year. Growth in credit to households and business was 5.0 and 4.9 percent respectively, while credit growth to the municipal sector amounted to 5.4 percent.

Developments in the financial markets

The supply of long-term market financing from the Norwegian and European bond market was good in 2021, and market prices were stable throughout the year. The Group's financing structure was solid and the long-term nature of the debt portfolio was strengthened through the mortgage company's issue of EUR 1 000 million worth of covered bonds aimed at international investors, combined with an emission of NOK 1.5 billion worth of senior non-preferred debt. The bank's solid capital adequacy was further improved through the establishment of new fund bonds.

BUSINESS SEGMENTS

Retail market

Throughout 2021, the retail market division has continued to develop services offered to retail customers. The office network has strengthened the quality of advice of available to customers in regard to loans, insurance, pensions and savings. The bank's digital solutions are being increasingly perceived as both functional and user-friendly after the further development of both mobile banking and the internet banking services.

To strengthen its investment in the insurance business, the bank purchased 78 percent of Sørlandet Forsikringssenter AS, with an option to buy the remaining 22 percent.

At the same time as it has been important to improve the quality of consulting in digital services, throughout 2021 there has also been continuous work to further streamline operations. The office network now mainly consists of highly competent, authorised financial advisors. Safety deposit boxes have been abolished, and our customers today get their cash services delivered through the NorgesGruppen's convenience stores. Thanks to the help of new technology, the centralisation of tasks, the standardisation of products and working methods, the department is working increasingly efficiently.

The year 2021 has been marked by the pandemic. Nevertheless, the growth of credit in households has been satisfactory. Sales of insurance (Frende), boat and car-financing (Brage Finans AS) and savings products (Norne Securities AS), all grew in 2021. Demand for the Bank's additional products is expected to continue their positive development in 2022.

Gross lending to retail customers increased by NOK 3.9 billion to NOK 77.5 billion, equivalent to a rise of 5.3 percent. Deposits from retail customers increased by NOK 1.3 billion to NOK 31.2 billion, a growth of 4.5 percent.

Corporate market

In the course of 2021, the Bank has maintained its position as the business bank of choice for Southern Norway, and has strengthened its position in Vestfold and Telemark. Today, the bank stands out as the natural first choice for the business community in large parts of the Bank's area of operation.

Lending to corporate customers increased by NOK 1.1 billion to NOK 39.3 billion in 2021, corresponding to a growth of 3.0 percent. Total deposits from corporate customers increased by NOK 2.0 billion to NOK 32.0 billion. That corresponds to a growth of 6.6 percent.

The Bank's corporate customers represent a solid and balanced portfolio, broadly reflecting the makeup of the business community in the region. In addition to playing the role of chief bank for large parts of the regional business community, as well as the public sector, the Bank also serves a national customer segment through its agreement with the Norwegian Christian Organisation KNIF. This is a low-risk segment which includes private hospitals and other enterprises in the health sector, as well as schools, kindergartens, church bodies, missionary organisations and child and youth organisations.

The Bank offers general insurance, occupational pensions and group life insurance to the corporate market through Frende Forsikring AS and Nordea Liv, and leasing through Brage Finans AS. The cooperation with Frende and Brage has been strengthened in recent years by the increased focus and improved interaction between staff in the bank and in the product companies. As a result of Sørmegleren's investment in business brokering, interaction with the Bank's real estate brokerage has also been strengthened.

The Bank's Corporate Customer Centre CM has a very important role in serving the Bank's corporate customers. The customer centre stands out today as an important centre of expertise in the areas of customer establishment, payment services, cash management and other day-to-day banking services. New digital solutions are constantly being developed, and the Sør Online Dashboard has been particularly important. The product/service offers customers a better and simpler overview of their companies' cash flows.

Throughout 2021, the corona pandemic has affected the Bank's management of its customers in the corporate market. The pandemic has made in-person meetings with customers more difficult, but customer satisfaction surveys show that bank has coped well with maintaining good service and customer management. In a challenging year, the Bank has been an important contributor and ally for the business community in the region. Proactive information about government support schemes, the granting of state-guaranteed loans, and offers of loan forbearances, have been consciously prioritised by the Bank. It is the Bank's view that the region's businesses have coped well through 2021, compared to businesses in other regions.

PROFIT FOR THE YEAR

Accounting policies

Sparebanken Sør's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies are explained in more detail in the notes to the financial statements.

The annual financial statements have been prepared on a going concern basis. The Group has adequate earnings and equity, and in the Board's view there is no indication of anything other than a going concern.

The figures referred to in the board's report are consolidated unless it is specified that they relate to the Parent Bank.

Profit for the year

Sparebanken Sør achieved a profit before taxes of NOK 1 549 million, compared with NOK 1 403 million in 2020. This is a performance improvement of no less than NOK 146 million. The Group has seen positive profit development through 2021, both through banking activities and through good profit contributions from subsidiaries and other associated companies.

Profits after tax in 2021 amounted to NOK 1 223 million compared with NOK 1 094 million in 2020. This corresponded to a return on equity, adjusted for interest on hybrid capital, of 9.0 percent in 2021, compared with 8.4 percent in 2020.

Other comprehensive income, which includes changes recognised directly through equity during the financial year, amounted to NOK 1 234 million in 2021, compared to NOK 1 090 million in 2020.

Net interest income

Net interest income amounted to NOK 1 939 million in 2021, compared with NOK 1 914 million in 2020, an increase of NOK 25 million. Net interest income in 2021 corresponded to 1.35 percent of average total assets, compared with 1.36 percent of total assets in 2020.

Norges Bank (the Central Bank of Norway) raised the key interest rate twice in 2021, from 0 percent at the beginning of the year to 0.50 percent at the end. The Bank has followed up with interest rate increases on loans and deposits. The increased interest rate level has contributed to an improved interest rate margin (lending rate minus deposit rate) during 2021.

An improvement in the Group's net interest income is expected in 2022 as a result of a higher interest rates level. This is partly due to delays in connection with interest rate changes among the Bank's customers. As a result of notice times to customers and rising market rents, borrowing costs rise before the bank sees the effects of the interest rate adjustments.

In 2021 the Bank paid out NOK 46.1 million in interest on hybrid capital, compared with 68.6 million in 2020. Interest on hybrid capital was charged to equity as a profit allocation.

Commission income

Net commission income totalled NOK 419 million, compared with 347 million in 2020. The Group has seen a good increase in most areas through 2021. Sørmegleren has had a solid increase in commission income. There has been a considerable increase in income from insurance and fund saving.

There has also been an increase in commission income from payment services. In this area, there was a large drop in income in 2020 as a result of the falling-off of currency income as the Bank's customers travelled less during the pandemic.

Net commission income corresponded to 0.29 percent of average total assets 2021, compared with 0.25 percent of average total assets in 2020.

Financial instruments

Net income from financial instruments totalled NOK 0 million in 2021, compared with NOK 40 million in 2020.

In 2021 there was an overall positive development in value of NOK 85 million linked to shares, fixed rate loans, currency trade, customer swaps and basis swaps used in connection with interest- and currency hedging.

The liquidity portfolio and repurchases of previously issued bonds made a negative contribution of NOK 70 million in 2021, in contrast to a net positive figure of NOK 45 million in 2020.

The Group is to be refinanced in advance of the maturity of external market financing. In connection with the refinancing, an outstanding bond with a short time to maturity is being redeemed. The debt has been recognised at amortised cost, while redemptions are recognised at market value. Loss on redemption is recognised as net income on financial instruments and made a negative contribution of NOK 15 million in 2021, compared with NOK 12 million in 2020.

Associated companies

Sparebanken Sør has in recent years increased its ownership share of Frende Holding AS and Brage Finans AS. This was done as part of a greater strategic commitment to be better able to offer the customer good, relevant, integrated solutions.

The Bank also has an important strategic investment in Vipps. The Bank has a share of 2.37 percent of the company through its ownership of Balder Betaling AS.

Income from associated companies amounted to NOK 174 million in 2021, up from NOK 136 million in 2020. Shares of profits in 2021 were broken down into NOK 109.9 million from Frende Holding AS and NOK 46.3 million from Brage Finans AS. In 2021 there was a value adjustment of the shares of Vipps, which positively impacted on the shares of Balder Betaling AS. The value adjustment and added profit share for the Bank amounted to a total of NOK 39.8 million.

In connection with the purchase of shares in Frende Holding AS, excess value was identified which will be amortised over the expected lifetime. The Group has amortised the excess value by NOK 21.6 million in 2021, compared to NOK 20.9 million in 2020.

Expenses

Group expenses amounted to NOK 1 018 million in 2021, compared with NOK 958 million in 2020, an increase of NOK 60 million. Bank operating expenses totalled NOK 871 million in 2021 compared with NOK 835 million in 2020. The increase amounted to 4.3 percent and was due to strategic investments in employment and investments in systems.

As a percentage of average total assets, costs corresponded to 0.71 percent, compared with 0.68 percent in 2020. The cost-to-income ratio was 39.9 percent compared with 39.2 percent in 2020.

Personnel expenses amounted to NOK 606 million in 2021, compared to NOK 552 million in the previous year, an increase of NOK 54 million. The increase in costs is mainly related to employment within strategic investment areas. There has also been increased activity in the real estate agency business, where personnel costs increased by NOK 21 million compared to 2020.

Depreciation and write-downs on property, plant and equipment increased by NOK 1 million compared to the previous year, and operating expenses increased by NOK 5 million compared to 2020.

Losses and non-performing loans

Net losses on loans totalled NOK 18 million in 2021, compared with a net loss on loans of NOK 83 million in 2020. The net decline in losses is mainly due to positive developments in macroeconomic conditions, which again have resulted in lower calculated loss provisions related to the Bank's lending.

Write-downs on loans amounted to NOK 424 million at the turn of the year, corresponding to 0.36 per cent of gross lending. The year before, write-downs amounted to NOK 468 million, corresponding to 0.42 percent of gross lending.

Non-performing loans amounted to NOK 783 million, which was equivalent to 0.67 percent of gross lending. This is lower than the end of year 2020, where non-performing loans amounted to NOK 1 009 million.

The definition of default was changed on 1 January 2021 and the comparative figures are not strictly speaking directly comparable, but defaults on loans are still at a very low level.

The Bank's losses in the past two years are considered to be very low in the light of the very demanding period experienced by the Norwegian economy, and this highlights the good quality and low risk profile of the Bank's lending portfolio.

BALANCE SHEET

Total assets

Total assets amounted to NOK 144.2 billion at the end of 2021, compared with NOK 142.1 billion in the previous year.

Lending

Net lending to customers totalled NOK 116.7 billion in 2021, compared with NOK 111.6 billion in 2020. This represented a growth of NOK 5.1 billion, corresponding to 4.5 percent.

Gross lending to retail customers amounted to NOK 77.5 billion, compared with NOK 73.7 billion in 2020. This represents a growth of NOK 3.9 billion, corresponding to 5.3 percent. On a national basis, household lending growth (C2) has been 5.0 percent. At the end of 2021, loans totalling NOK 49.7 billion were transferred to Sparebanken Sør Boligkreditt AS. The company is an important instrument for enabling the Bank to offer competitive terms on the retail market. Loans to retail customers amounted to 66 percent of total lending, which was on par with the previous year.

Gross lending to corporate customers totalled NOK 39.3 billion in 2021, compared with NOK 38.2 billion the year before. This represents a growth of NOK 1.1 billion, or 3.0 percent on a national basis, lending to corporate customers (C2) grew by 4.9 percent.

Deposits

At the end of the year, total deposits were NOK 63.1 billion, compared with NOK 59.8 billion in 2020. This represented a growth of no less than NOK 3.3 billion, or 5.5 percent.

In the retail market, deposits amounted to NOK 31.2 billion, compared with NOK 29.8 billion in 2020. This represented growth of NOK 1.3 billion, or 4.5 percent. Deposits in the corporate market amounted to NOK 32.0 billion, compared with NOK 30.1 billion in 2020. This represented growth of NOK 2.0 billion, or 6.6 percent.

Growth in deposits has been good since the corona pandemic broke out in 2020 and has contributed to an increase in the bank's deposit coverage from 53.6 percent at the end of 2020 to 54.1 percent at the end of 2021.

Debt established through issuance of securities and debt to financial institutions

The Bank funds itself in the capital market by issuing interest-bearing securities. The Group's debt from securities totalled NOK 60.1 billion at the end of 2021, compared with NOK 58.9 billion at the end of 2020. Long-term bond funding has been established as covered bonds, senior debt and senior non-preferred debt. At the end of 2021, covered bonds accounted for 77 percent of this funding. Long-term funding with a maturity of more than 12 months accounted for 84 percent. The average maturity of long-term funding was 4.1 years and the Group's long-term, funding indicator (NSFR) was 116.2 percent at the end of 2021.

The Group has arranged for long-term funding in the international market by establishing EMTN (Euro Medium-Term Bond Note) programmes for the bank and the mortgage company.

At the end of 2021, the Group had diversified funding from international investors for a total of EUR 3.0 billion. Funding in foreign currency is hedged for interest rate and currency risk.

At the end of 2021, Sparebanken Sør had issued NOK 3.5 billion as senior non-preferred debt to satisfy the authorities' MREL (Minimum Requirement of own Funds and Eligible Liabilities) requirements.

The maturity structure of external funding is well adapted to the Bank's operations and is in accordance with regulatory guidelines and requirements adopted by the Board of Directors.

Securities

The Group's liquidity portfolio of interest-bearing certificates and bonds totalled NOK 22.1 billion at the end of the year.

The security holdings are part of the bank's liquidity reserve, which is to safeguard the Bank's liquidity situation in turbulent market conditions. The securities portfolio can be used as collateral for any loans from the Central Bank of Norway and is included in the Bank's special liquid securities portfolio held to fulfil its Liquidity Coverage Ratio (LCR) requirements.

The Group's liquidity reserve (LCR) stood at 140 percent as of 31 December 2021 (127 percent for the Parent Bank). Investments in shares and equity certificates totalled NOK 193 million.

Capital management, subordinated capital and capital adequacy

Net subordinated capital totalled NOK 16.1 billion, total tier 1 capital was NOK 14.4 billion and total common equity tier 1 capital was NOK 13.0 billion at the end of 2021. The (total) capital ratio was 20.3 percent, the tier 1 capital ratio was 18.1 percent and the common equity tier 1 (CET1) capital ratio was 16.4 percent for the Sparebanken Sør Group. The calculations are based on standard methods in the Basel II regulations. Brage Finans AS is proportionately consolidated in the Group's capital reporting.

The figures for the Parent Bank were a (total) capital ratio of 22.2 percent, a tier 1 capital ratio of 19.7 percent and a CET1 capital ratio of 17.6 percent at the end of 2021.

The Group met the capital requirements of 16.5 percent for total capital, 14.5 percent for tier 1 capital, and 13.0 percent for CET1 capital, by good margin. The Group's internal target for 2021 was 15.3 percent in CET1 capital ratio.

The Group's Leverage Ratio amounted to 9.4 percent at the end of 2021, compared with 8.9 percent at the end of 2020. The Bank's solvency is assessed as being very good.

The Bank's capital management must ensure that the Group has a capital adequacy ratio that satisfies regulatory requirements and requirements from the financial markets. Capital management must also help ensure that market opportunities and ambitions are taken care of, and that the Group receives a satisfactory return in relation to the Bank's risk profile.

An annual assessment of the Bank's capital requirements is made based on calculated total risk. The Internal Capital Adequacy Assessment Process (ICAAP) contributes the Bank to have good risk management and provides an oversight of the risks the Bank is exposed to, while it ensures that the Group is sufficiently well capitalised.

The Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of a risk-weighted balance sheet in 2018. The requirement is linked to an assessment of risk factors not covered by Pillar 1 requirements. The Financial Supervisory Authority of Norway (FSA) was due to have assessed the Group's risk and capital requirements (SREP) in 2020, but as a result of the corona pandemic the Authority did not make any new Pillar 2 decisions in 2020.

Based on the Group's ICAAP for 2021, Sparebanken Sparebanken Sør received on 22 December 2021 the FSA's assessment of risk and capital requirements in connection with the completed SREP (Supervisory Review and Evaluation Process and Pillar 2). The FSA's preliminary assessment of capital requirements under Pillar 2 was 1.8 percent of the calculation basis. This is a reduction of 0.2 percentage points from the current Pillar 2 supplement of 2.0 percent. In addition, FSA assesses that the bank ought to have a margin of

common equity tier 1 capital over the total requirement for CET1 capital ratio, tier 1 capital ratio and total capital ratio of 1.0 percent. The bank has given the Authority its assessments and awaits a final decision. In response, FSA will set final Pillar 2 requirement, and it is expected that this will initiate with effect from 31 March 2022.

In Q1 2020, the Norwegian Ministry of Finance (Finansdepartementet) decided to reduce the countercyclical capital buffer requirements for banks from 2.5 percent to 1 percent, with immediate effect. The buffer requirement was lowered to prevent a stricter lending practice by the banks from intensifying the recession due to Covid-19 pandemic. In Q2 2021, on advice from the FSA, the Norwegian Ministry of Finance decided to increase the requirement for the countercyclical buffer to 1.5 percentage points effective 30 June 2022.

In December, Norges Bank (which took over the decision-making authority for setting the countercyclical capital buffer in September) decided to increase the buffer requirement from 1.5 percent to 2.0 percent with effect from 31 December 2022. According to Norges Bank's assessment of economic development and the prospects for losses and lending capacity in the banks, the buffer requirement will be increased to 2.5 per cent during the first half of 2022, effective for one year ahead. In the Bank's capital plan, it is estimated that there will be full coverage for a total increase of 1.5 percentage points throughout the period 2022 - 2024.

Changes in the EU banking regulations (the "Banking Package") will also be implemented in Norway. Implementation is delayed, and it is expected that it will be implemented in the first half of 2022. This will affect, among other things, Part 2 of the SME discount and the introduction of an infrastructure discount. The Group's analyses show that a reduction in the risk-weighted assets, as a result of Part 2 of the SMB discount and the infrastructure discount, is expected to have a positive effect on the CET1 ratio of approximately 0.7 percentage points.

The Norwegian Ministry of Finance has amended the statutory regulations to put into effect the EU's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV with effect from 31 December 2019. The system risk buffer requirement is increased from 3 to 4.5 percent. The Group, which uses the standard method in the capital adequacy calculation, will meet increased systemic risk buffer requirements with effect from 31 December 2022. The Group will adapt to new requirements by 2022, as well as secure necessary buffers above the minimum requirement.

An important part of the Group's objective is that the CET1 capital ratio should be on a par with comparable banks. Sparebanken Sør is the only major regional bank that uses the standard method to calculate capital adequacy, and the Bank currently has a markedly higher leverage ratio than the other regional banks. Sparebanken Sør also has an ambition to have a quality of risk management that is on a par with comparable banks. The Bank has therefore initiated a process to develop the Bank's risk management framework and modeling in a way that will make it possible to apply to the FSA for approval of internal rating-based (IRB) approach to calculate capital requirements. This work is a high priority for the Bank.

The introduction of the revised Basel III framework (Basel IV) should initially have been implemented in the EU from 2022 with transitional rules until 2027, but this has been postponed. The European Commission has prepared a proposal for the implementation of the last part of the Basel III framework in EU law, and the ambition is that the revised regulations (CRR3/CRD6 and BRRD3) will enter into force in the EU from 1 January 2025. The implementation date in Norway will thus depend on how quickly the new

legislative acts can be incorporated into the EEA Agreement, but this will not occur until 1 January 2025 at the earliest. A key element in the new regulations will be the introduction of a new and more risk-sensitive standard method for credit risk.

Based on the composition of the Group's loan portfolio, it is expected that new standard regulations for credit risk will have a very positive effect for the Group. Based on preliminary information, it is estimated that this may have a positive effect on CET1 capital ratio in the range of 2.0 to 2.5 percentage points.

In connection with a new and more risk-sensitive standard method in Basel IV, that will be beneficial for the Group, some changes have also been outlined in the IRB regulations. It is expected that Basel IV will be implemented in 2025 at the earliest, and it is assumed that important details in the regulations will not be clarified until close to the implementation date.

The Bank plans to submit an application for IRB-F approval by the end of 2023. It is expected that the capital effects of IRB-F will have limited effects compared with the estimated effects of the new standard method that will be introduced in Basel IV. The Bank considers that an IRB approval in any case contains key elements that are important for the Bank's future development.

Minimum requirement for the sum of subordinated capital and convertible debt (MREL)

The EU Bank Recovery and Resolution Directive (BRRD) was introduced in Norway with effect from 1 January 2019. As a result of the directive, minimum requirements have been introduced for the sum of subordinated capital and convertible debt (MREL). This also includes Sparebanken Sør. A key element in the directive is the requirement for internal capitalization as a crisis measure, in a situation where capital instruments and debt are written down or converted into equity (bail-in). The minimum requirement for the sum of subordinated capital and convertible debt (MREL) is made up of a loss absorption amount and a recapitalization amount.

The MREL requirements are determined by FSA on the basis of capital requirements and the current adjusted calculation basis at any given time. Based on capital requirements and adjusted calculation basis as of 31 December 2020, the effective MREL requirement was set at 32.0 percent and amounted to NOK 20.2 billion

The Authorities clarified in Q3 2021 details of the minimum requirements for subordinate capital and convertible debt (MREL), and a ceiling provision was introduced for the share of convertible debt that can be used in meeting the MREL requirement.

The capital requirement is determined on the basis of requirements for capital adequacy and the Bank's risk-weighted calculation basis at any given time, adjusted for the Bank's involvement with the mortgage company. The Bank is required to adapt to the MREL guidelines through a linear phase-in, and the demand about a sufficient amount of subordinated debt has to be fulfilled by 1 January 2024.

From 1 January 2022, the company has to meet a minimum requirement for subordinated debt of 20.0 percent of the adjusted calculation basis.

This requirement will be considered to be the starting level for the linear phasing-in of the subordination requirements. Before 31 March 2022, the Bank shall send the Financial Supervisory Authority of Norway an updated plan for the phasing in of convertible debt. By the end of 2021, the Bank had issued a total of NOK 3.5 billion in senior non-preferred debt (Tier 3).

ALLOCATION OF PROFIT

In the view of the Board, the submitted income and balance sheet gives a true and fair view of the position and the financial results of the Group and the Parent Bank. The Board is unaware of any circumstances after the turn of the year that would change this view.

The Parent Bank's result of NOK 1 189 million is proposed to be allocated as follows:

Dividend:	NOK 125 million
Interest on hybrid capital:	NOK 46 million
Transferred to donation fund:	NOK 100 million
Transferred to equalisation fund:	NOK 61 million
Transferred to primary capital:	NOK 858 million
Total allocated:	**NOK 1.189 million**

EQUITY CERTIFICATES AND DIVIDEND

The Bank had, as of 31 December 2021, issued a total of 15 633 944 equity certificates with a nominal value of NOK 50.

A list of the 20 biggest equity certificate owners as of 31 December 2021 is presented in Note 35. Earnings per equity certificate were NOK 11.5 for the Parent Bank and NOK 12.2 for the Group.

The ownership ratio for 2021 has been 16.2 percent on average. Hybrid capital (fund bond loans) classified as equity has been excluded from calculations of ownership ratio.

Through sound, stable and profitable operations Sparebanken Sør will ensure that its equity certificate holders achieve competitive returns in terms of dividends and capital appreciation of equity certificates.

The profit will be shared between equity certificate capital (equity certificate holders) and primary capital in proportion to their share of the equity.

In determining the annual dividend, the Bank's capital needs will be taken into consideration, including regulatory requirements for capital adequacy, investor expectations and the Bank's strategic goals.

The objective is for 50 to 70 percent of the equity certificate holders' share of the profit after tax for the year to be distributed as a dividend.

The Bank's solvency is considered to be very satisfactory, with a leverage ratio as high as 9.4 percent at the end of 2021.

The Board of Directors will propose to the Board of Trustees to distribute a dividend for 2021 of NOK 8.00 per equity share certificate, which amounts to approximately 66 percent of the Group's profit per equity certificate. The share price on 31 December 2021 was NOK 146.0 and, measured against this, the proposed dividend gives a direct return of 5.5 percent. In addition, it is proposed to set aside NOK 100 million for the donation fund.

The Bank's ownership ratio amounted to 17.3 percent at the start of 2021. The ownership ratio was reduced in connection to the distribution of dividends both in March and October. With proposed dividends and gift provision, the ownership ratio is reduced to 15.0 percent

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør Boligkreditt AS

Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of Sparebanken Sør, and the company has a licence as a mortgage company with permission to issue covered bonds. The company's main object is to secure the Group's stable and long-term financing on competitive terms.

At the year-end, loans amounting to NOK 49.7 billion were transferred to the mortgage company. Also at that time covered bonds worth NOK 47.3 billion were issued, of which around 60 percent were issued in euros. The cover pool, including interest-bearing securities and derivatives, totalled NOK 53.5 billion. The over-collateralisation ratio calculated from gross outstanding bond debt at market value was 12.6 percent.

The company had a profit of NOK 405.8 million before tax. At the end of the year common equity tier 1 capital ratio was 16.7 percent, well over minimum regulatory requirements. The company has entered into agreements with the Parent Bank which include certain financing liabilities, as well as agreements on delivering important services to the company, including loan administration and treasury functions.

The company completed two covered bond transactions in the Euro-market with international investors. NOK 500 million worth of Euros were issued in January 2021 and a similar amount in September 2021, under the company's EMTCN programme. The bonds were listed on Euronext Dublin.

At the end of 2021, the company had six outstanding benchmark loans denominated in Euros, amounting to 30 NOK billion. Interest and currency exposures were hedged against risk, in that financing was swapped back into floating Norwegian interest rates. The derivatives contracts were entered into with reputable financial counterparts under ISDA/CSA agreements.

Sørmegleren

Sørmegleren is the Bank's real estate company. This real estate business has a dominant position in large parts of the Bank's market areas. In addition to dominating the market for second-hand homes, the company has also a very strong position in the new-build market. This is particularly true in and around the largest towns of Agder County.

Sørmegleren has also strengthened its focus on traditional commercial real estate activity, and there are great hopes for future advances in market share and future interaction effects between the Bank and the Real Estate Agency. The company had 18 offices and 103 employees at the end of 2021.

The company delivered a result before tax in 2021 of no less than NOK 34.5 million, up from NOK 25.8 million in 2020.

Sørlandets Forsikringssenter AS

In 2021, the Bank bought 78 percent of the shares in Sørlandets Forsikringssenter AS, with an option of the remaining 22 percent. The company operates an insurance brokerage and had 14 staff/sales consultants at the end of 2021.

Other subsidiaries and joint ventures

The Bank's other subsidiaries and joint ventures principally manage commercial properties where the Bank operates.

ASSOCIATES

Frende Holding AS

Frende Holding AS (ownership 21.0 percent) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which offers general and life insurance to private individuals and businesses.

Frende Holding AS achieved a profit before tax of NOK 666.6 million in 2021, compared with NOK 721.6 million in the same period last year. The result in 2021 corresponds to a return on equity of no less than 29.4 percent.

Frende Skadeforsikring AS reported a profit before tax in 2021 of NOK 580.1 million, compared with NOK 390.0 million in 2020. The company held a total portfolio of insurances of NOK 2 302 million in 2021, compared with NOK 2 141 million in 2020, distributed among 162 000 customers. The market share was, at the end of the year, 3.3 percent. The loss ratio on 31 December was 65.9 percent, down from 70.3 percent in 2020 and the company's combined ratio was 83.5 percent, down from 88.0 percent in 2020.

Frende Livforsikring AS had a result before taxes of NOK 105.3 million in 2021, compared with NOK 354.3 million the year before. The risk result in this company has been weaker than it was in previous years, especially within disability products. Frende Livforsikring AS's total portfolio of insurances amounted at the end of the year to NOK 528 million, up from NOK 494 million over the same period in 2020.

Brage Finans AS

Brage Finans AS is a financing company owned by 23 independent banks, in which Sparebanken Sør has a 20.8 percent ownership interest. The company was established in 2010 and operates from its head office in Bergen. In addition, the company has sales offices in Kristiansand, Porsgrunn, Sandefjord, Stavanger, Haugesund, Ålesund and Trondheim. The company's business includes leasing (leasing financing agreements) and mortgage loans to both corporate and retail markets. Distribution of the company's products takes place through owner banks, via retailers of capital goods, and through its own sales force.

The company's profit before tax for 2021 amounted to as much as NOK 286.3 million, compared with NOK 221.7 million in 2020. The result corresponded to a return on equity of a solid 11.4 percent, compared with 9.0 percent in 2020

Strong lending growth in both the corporate and retail markets is one of the main reasons for the company's profit growth. At the end of 2021, the company had a gross loan portfolio of NOK 17.0 billion. Lending growth of NOK 2.8 billion amounted to an increase of as much as 19.8 percent.

Norne Securities AS

Norne Securities AS is an investment firm that offers online trading, traditional brokerage services and corporate finance services. Sparebanken Sør has a 14.8 percent ownership interest.

Norne has further developed its role as Norway's leading advisor and issuer of equity certificates in Norwegian savings banks. The company has further sharpened its business in two distinct market areas: Online Equity and Fund Trading for the retail customer market and Corporate Finance and Investment Advice for the corporate customer market and professional investors.

Norne has delivered its highest turnover and the best annual result since it was founded. At the beginning of 2022, the company shows good financial development, has highly qualified employees and is a solid platform for further development of all business areas. The employees joined the ownership side of the company in 2021 and own 12.5 percent of the shares in the company.

Balder Betaling AS

Balder Betaling AS is owned by Sparebanken Sør together with 12 other savings banks. The Bank's ownership interest is 24.8 percent. The company has an ownership share of 9.57 percent in Vipps AS and aims to further develop Vipps together with other owners. Sparebanken Sør thus has an indirect ownership interest in Vipps AS of 2.37 per cent.

RISK MANAGEMENT

Risk is a fundamental feature of banking, and there are various types of risk in all parts of the Bank's operations with differing levels of actual risk exposure. Risk management is essential to the daily operations of the bank and for the follow-up of the Board of Directors. Risk management is not about eliminating risk, but about taking a calculated risk and assessing it correctly.

Risk culture is a critical factor in achieving the desired level of the Bank's risk management. And it is the foundation on which other elements of comprehensive risk management are based. The Bank's risk management is based on sound practice combined with sound theory, and the Bank must have a culture to assess and deal with risk in all contexts. The Bank must develop and maintain a good risk culture through communication, information and training on the Bank's strategies, activities and risk profile.

Active risk management means that risk evaluation is an integrated part of the evaluations made in both the first line and the second line. The Bank's risk management and internal control activities have to contribute to a management of risk in a way that supports the Bank's strategic goals and safeguards the bank's long-term value creation.

Management objectives have been set for the Group's overall level of risk, as well as specific concrete management objectives for each individual area of risk. There is an established system and structure for the measuring, management, follow-up and control of risk. The Group's exposure to risk and capital adequacy is followed up by periodic reports.

The overall guidelines for the Bank's risk management and the framework for risk exposure is evaluated and established annually by the Board of Directors in connection with the maintenance of the Bank's internal strategy and management documents. The Board sets frameworks for the appetite for risk, including concrete management objectives and limits to tolerance of risk in different risk categories including credit risk, market risk, liquidity risk and operational risk.

The most significant risk factors can be grouped into financial risk, operational risk (including money laundering risks, ICT risks and cyber risks), compliance risk and strategic and business risk. There is also ESG (Environmental, Social and Governance) risk which is linked to climate and environment, social conditions and business management. This is not an independent risk, but a risk that has to be evaluated in connection with other risks, for example credit risk.

Financial risk includes credit risk, market risk (linked to the Bank's exposure in the interest-, currency- and equity markets) as well as liquidity risk. Operational risk is a risk for losses that result from inadequate or failing internal processes or systems, human error or external events.

Strategic risk is linked to strategies, plans and changes that the bank is doing or plans on doing, while business risk is the risk of unexpected income or expense fluctuations which follow from changes in external conditions like business cycle fluctuations, competition, customer behaviour, lack of business development and public regulation. Reputational risk is the risk of a decline in earnings or access to capital as a result of declining trust and judgement in the market. Reputational risk is a part of business risk.

The Bank has an ongoing process linked to the monitoring and assessment of the various risk factors. In accordance with relevant regulations, every principal area undergoes internal control processes. The Bank's Group management handles issues linked to risk management on an ongoing basis and provides Board's risk committee regular reports.

The Bank's management and control of risk has to be on a par with comparable banks, and the Bank's aim is to have low risk exposure. Developing and improving the Bank's risk management is a continuous process. The view of the Board is that the Bank's risk management functions well.

Credit risk

Credit risk is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the Bank, and the value of underlying security not being sufficient to cover the Bank's receivables if the security has to be realised. Credit risk is the Group's greatest risk and the risk that demands the greatest amount of capital. The Bank's future development of losses will also be affected by the general economic climate and one of the most important areas for the Bank's management is thus linked to the giving of credit and all the business surrounding this.

Concentration risk is credit risk in the form of risk of loss due to large total exposure to a single counterparty or associated groups of counterparties (large commitments), counterparties with activities within the same industry (business concentration) or geographical area (geographical concentration).

The Board adopts the Bank's credit strategy and credit policy, and credit risk is also managed through operational credit guidelines, credit assessment processes and grant authorizations. The Board has set objectives and directions, as well as quantitative limits that specify limitations and limits for risk tolerance. Compliance with the Bank's credit policy is monitored by the Risk Management division, which is an independent entity.

The Bank's risk classification system is used both in the credit assessment process and for ongoing follow-up of risk at portfolio level. Classification of customers is based on the probability of default during a 12-month period, where the probability is calculated on the basis of various internal and external financial data. Scorecards are used to divide customers into 10 different risk classes as well as a risk class for non-performing commitments. Risk development in the portfolio is mapped and followed up on an ongoing basis.

The Bank's total credit risk must be on a par with comparable banks

Market risk

Market risk includes risk related to profit variations on unsecured interest rate, currency and equity positions, as a result of changes in market interest rates and credit spreads, as well as by variation in exchange rates and share prices. In addition, there will be temporary earnings effects related to the valuation of derivative contracts, which are used to hedge interest rate and currency risk in connection with financing in foreign markets.

Sparebanken Sør shall have a low market risk, and various financial instruments are used to hedge market risk that arises in connection with the Bank's ordinary customer activities and financial operations.

The Board has set guidelines for risk tolerance levels for investment in shares, bonds and for positions in interest rate and currency markets. Compliance with the management objectives is monitored on an ongoing basis and reported to the Board.

The interest rate risk limit is set as an upper limit for how large the loss on uncovered interest rate positions can be in the event of shifts and distortions in the interest rate curve. Interest rate risk arises from the Group's ordinary activities in the form of fixed-rate customer loans, interest rate derivatives against customers, fixed-rate investments, as well as funding at fixed interest rates and in foreign currency are hedged on an ongoing basis. At the end of 2021, measured long-term interest rate risk after hedging transactions amounted to 33 percent of the risk tolerance level approved by the Board of Directors.

The Bank is exposed to earnings effects from the fact that the time when interest rates on the Bank's market financing are set, linked to the 3-month NIBOR (the Norwegian Interbank Offered Rate), does not coincide with the time for possible interest change on the Bank's lending to customers.

In addition to the framework for interest rate risk, an upper risk tolerance for credit spread risk has also been set. This is given as an earnings effect calculated against the background of an assumed market change in credit spread, which will lead to changes in the value of the Group's interest-bearing securities portfolio. For the calculation of risk exposure, the Financial Supervisory Authority of Norway's stress test model for credit spread risk is used. The Bank's credit spread exposure is linked to the liquidity portfolio. At the end of 2021, the measured credit spread risk was 56.0 percent of the limit set by the Board of Directors.

The Group is affected by fluctuations in the currency market through its currency activities with customers. To hedge against currency exposure, derivatives (currency futures, swaps and options) are used. Currency exposure is measured by a 25 percent change in the exchange rate of the currency position. The Bank's currency exposure as a result of customer transactions is very low.

When financing in a foreign currency, interest and currency risks arise as a result of the fact that financing is carried out at fixed interest rates in a currency other than NOK. The same thing applies in the purchase of interest-bearing securities in a foreign currency.

The Bank hedges interest rate and currency exposure by entering into derivative contracts with reputable financial counterparties. Hedge accounting is the basis for reporting on changes of value.

At the end of 2021, the Group's entire equity investments amounted to NOK 1 201 million. Among the biggest expenses were the Bank's strategic investments in the product-based companies Frende Holding AS, Norne Eierselskap AS and Brage Finans AS. In addition, there is the Bank's ownership interest in Balder Betaling AS.

Liquidity risk

Liquidity risk is the risk that the Group is not able to meet its obligations, nor is it able to finance ordinary lending growth and its assets, and that financing cannot be obtained without creating significant extra costs. Liquidity risk can arise when events in the financial markets mean that regular financing cannot be established.

Liquidity risk is managed through the Group's liquidity strategy, its general guidelines and through the board-approved risk tolerance levels and limits. Key operational management parameters are the requirement for the deposit-to-loan ratio, the long-term funding indicator and the stress indicator for liquidity disposals within 30 days, as well as the guidelines for survivability in situations where there is no access to market funding. Liquidity risk is also managed by ensuring the distribution of funding from the capital market over different maturities, sources of funding and instruments. Liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the Group.

Deposits from customers are the Bank's largest and most stable source of finance. The Board emphasizes that the relationship between deposits from customers and lending to customers must reflect the Group's overall financing situation. At the end of 2021, the Group's deposit-to-loan ratio was 54.0 percent.

Sparebanken Sør Boligkreditt AS represents an important funding instrument for the Group, which secures access to long term financing through the issuance of covered bonds. To be able to issue covered bonds, mortgages equivalent to 64 percent of all loans to the retail market were transferred from the Parent Bank to the mortgage company in 2021.

Board-approved risk tolerance levels for the Bank's liquidity risk is based on guidelines from the Financial Supervisory Authority of Norway. At the turn of the year, liquidity risk levels were within the board-approved requirements.

The indicator for long-term funding was 116 percent at the end of 2021. The Group has a liquidity reserve in the form of liquid interest-bearing securities which satisfy regulatory and board-approved requirements for LCR-holding and liquidity stress-testing. In addition, the Bank has a buffer of mortgages cleared for transfer to the mortgage company and which can secure financing from the Central Bank of Norway through the issuance of covered bonds. The Bank's interest-bearing liquidity portfolio consists of government securities, other interest-bearing securities with zero capital weight and covered bonds.

The Bank's short term liquidity risk is managed by conforming to the Liquidity Coverage Ratio (LCR). At the end of 2021, the Bank's interest-bearing liquidity portfolio, which qualified as LCR reserves, was sufficient to meet assumed liquidity outflows under stress within the next 30 days by a good margin. The Group and the Parent Company had an LCR ratio of respectively 140 percent and 127 percent as of 31 December 2021. The minimum regulatory requirement was 100 percent. The Group's liquidity risk is reported periodically to the board.

Counterparty risk

CCounterparty risk is the risk that the bank's financial partners are unable to fulfil their commitments in accordance with their agreement with the Bank.

Derivative contracts are entered into to hedge risks which arise when managing the Bank's liquidity risk. Also, there are customer contracts that involve fixed interest rate and currency exposure. The derivative contracts must be established with respectable counterparties with good ratings and regulated by the underlying ISDA agreements. Derivative contracts must be distributed among various counterparties to avoid counterparty concentration.

The Bank follows the regulation for derivatives trading set by EMIR (European Market Infrastructure Regulation) regarding settlement, confirmations, documentation and reporting to authorities.

The Bank's counterparty risk is regulated in the establishment of agreements on furnishing of collateral (Collateral Support Annex) between the parties. Under the CSA settlement, values of derivatives are reconciled with the derivative counterparty and settlement of collateral takes place. By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. The Bank has established clearing against the London Clearing House through a clearing agent.

Operational risk

Operational risk is the risk of losses due to weak or inadequate internal processes or systems, human error or external events. Examples of operational risk factors can include undesirable actions and incidents such as failures of IT systems, money laundering, corruption, embezzlement, insider trading, fraud, robbery, threats against employees, breaches of authority, breaches against adopted routines, etc.

Risk management and internal control means processes to identify, analyse, manage and follow up the risks so that the combined risk exposure is in accordance with strategic objectives. This will also ensure that applicable laws and regulations, internal routines and guidelines are complied with. Internal control is an important tool for reducing operational risk, with respect to both its identification and follow-up.

The Bank aims to have good systems for monitoring and control, and to have low operational risk.

Business Risk

Business risk is defined as the risk of unexpected income fluctuations from factors other than credit risk, liquidity risk, market risk and operational risk. This can arise, among other things, as a result of the authorities introducing changes in regulations, or through the implementation of fiscal or monetary policy measures, including changes in tax, duty and currency legislation, which could have a negative effect on the business.

Reputation risk is a risk of failure in earnings or access to capital due to failing trust and reputation in the market. Reputation risk is included as a part of business risk.

It is a prerequisite for Sparebanken Sør that risk must be subject to active and satisfactory management, based on the board's objectives and limits for risk exposure and risk tolerance.

The Bank must have a low business risk that ensures stable and diversified earnings, and the Group shall not be involved in individual incidents or activities that may threaten reputation and strategic goals.

Ownership risk

Ownership risk is the risk of the Group incurring negative results from ownership interests in subsidiaries and associates and/or having to contribute new equity to these companies. Ownership is defined as companies in which Sparebanken Sør has a significant ownership interest or influence. Sparebanken Sør is to have an ownership risk based upon strategic aims and where profitability is in proportion to risk.

The management and boards of subsidiaries are dealt with in accordance with the provisions of the Limited Liability Companies Act. Several of the companies use managers and/or employees from the Group on their boards of directors or in other positions.

The Bank's ownership risk is considered to be low.

Compliance risk

The Group focuses on having good processes to ensure compliance with applicable laws and regulations. Compliance risk is the risk of the Group incurring legal or regulatory sanctions, financial losses or impaired reputation as a result of non-compliance with laws, regulations or policy documents. Work is done continuously to assess best adaptation to new rules and regulations to maintain both compliance and efficiency in the organisation. New rules and regulations are implemented in the Group's policy documents and procedures.

The Group's compliance function is organised independently of the business units.

The Group must have a low compliance risk.

RATING

In order to utilise the opportunities for funding, both internationally and from various investors, the Bank has an international rating from Moody's, one of the world's most respected rating agencies. In addition to the fact that the rating outcome is of value to the Bank, the Board also considers the actual rating process and maintenance of the rating to be of value in terms of raising the quality of various processes and procedures.

Sparebanken Sør has a long-term rating of A1 with a 'Stable Outlook'.

All covered bonds issued by Sparebanken Sør Boligkreditt AS have also been rated by Moody's and have a triple A rating (Aaa).

CORPORATE GOVERNANCE

Sparebanken Sør's principles and policy for corporate governance are based on the current recommendation of the Norwegian Corporate Governance Board (NUES). The Financial Supervisory Authority of Norway's module for evaluating overall management and control, which reflects principles from the European Banking Authority (EBA), is used as far as these are relevant to the Group.

Sparebanken Sør's principles and policy shall ensure that the bank's corporate governance is in line with general and recognized perceptions and standards, as well as law and regulations. Furthermore, corporate governance must ensure good interaction between the bank's various stakeholders, such as equity certificate holders, lenders, customers, employees, governing bodies, management and society in general. The Board is of the opinion that the Bank's corporate governance is satisfactory and in accordance with principles and policy. See the complete statement on corporate governance attached to the Annual Report.

Liability insurance has been taken out for the general manager and board members. The insurance coverage is NOK 100 million per claim and total per year for all insured. The insurance has full retroactivity and covers Sparebanken Sør with its subsidiaries, as well as the Sparebankstiftelsen Sparebanken Sør.

STAFF AND WORKING ENVIRONMENT

At year-end 2021, the Bank had 464 full-time equivalent employees (FTEs) and the Group had 564 FTEs. Sickness absence in 2021 was only 3.7 percent, up from the low figure of 2.6 percent in 2020. Short-term sickness absence remains consistently low at about 0.5 percent.

The increase in sickness absence can be explained by an increase in long-term absence from 1.49 percent in 2020 to 2.53 percent in 2021.

The Bank works systematically and continually to monitor sickness absence and has the ambition to keep sickness absence under 4 percent.

The Bank has arrangements for employees with disabilities. New-builds and refurbishments have been designed for universal access, which means that the buildings are arranged so that everyone can use them without any special adaptations or assistive devices.

Continuous efforts are made to ensure that the Bank's employees have appropriate skills. In addition to ongoing training on products, systems and routines, there has been training in new digital collaboration tools. Through access to digital learning platforms, all employees have the E-guide, NanoLearning and Workplace opportunities to acquire specially adapted competence. The Bank's various training measures are described in more detail in the Sustainability Report for 2021, which is published under Sustainability on the bank's website.

Throughout 2021, there has been extensive use of the home as an office among the Bank's employees as a result of the corona pandemic. In some periods, this has been imposed by the authorities, and in other periods as a result of internal risk assessments as a result of the local infection situation. Both employees and managers have stated that the opportunity to work from a home office is also desirable in normal circumstance when there is no pandemic. The Bank has therefore established a separate agreement that regulates work from home. Due to the pandemic, the bank's social activities have naturally taken place at a lower level than desired. The same applies to the use of the Bank's holiday cabins and apartments.

Diversity and equal opportunity

At the year's end the Bank had 476 employees, 246 men and 230 women. Women accounted for 38.9 percent of the Bank's managers, up from 38.5 percent the year before. In the Bank's governing bodies, the proportion of women was 54 percent on the Board of Trustees and 50 percent on the Board of Directors.

The Bank has prepared a separate policy for gender equality and diversity. The Sustainability Report for 2021 contains gender equality accounts, as well as various statistics on the status of the area of gender equality and diversity. The policy on gender equality and diversity, as well as the Sustainability Report, are published under Sustainability on the Bank's website.

In 2018 the Bank was certified in gender equality and diversity for the period 2018-2020. A recertification process was started up in the spring of 2021, and the Bank was recertified in the field of gender equality and diversity in November 2021. In connection with the recertification process, a separate action plan has been prepared which also meets the requirements of the new activity and reporting obligation (ARP). The action plan is attached to the Sustainability Report for 2021, which is published under Sustainability on the Bank's website.

RESEARCH AND DEVELOPMENT

The Group does not carry out any own research activities.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is integral to Sparebanken Sør's business activities. Sparebanken Sør's corporate social responsibility is expressed in the Bank's business concept of contributing to growth and development in the region. Sparebanken Sør has a long tradition as a responsible social actor and has taken part in the development of local communities in the Bank's market areas for generations. The work on sustainability is a natural enhancement of the role the Bank has played for almost 200 years. For Sparebanken Sør, responsibility for sustainable development means that the Bank has to contribute to positive development in ESG (environmental, social, governance) in those areas where the Bank operates. Work on sustainability is to strengthen the Bank's competitiveness and reduce the Bank's ESG risk. As an employer, investor, lender and supplier of financial products and services, the Bank has to contribute to sustainable growth by strengthening the positive and reducing the negative impacts on people, society, climate, nature and the environment.

Sparebanken Sør also returns some of its profits in the form of donations for public benefit in the region. The Bank has prepared social accounts that can be found in the Sustainability Report for 2021 and are published under Sustainabilityon the Bank's website.

Climate challenges and the external environment

The Bank uses input factors or methods of production that directly pollute the external environment to an insignificant degree. The Bank prepares an annual climate report to be able to identify emissions, quantify pollution and enable the Bank to implement targeted measures. The report, which is published on the Group's website, is based on the international "A Corporate Accounting and Reporting Standard". The report covers consumption related to transport, energy, waste and air travel. The Bank is not aware of any environmental impact, other than consumption, that can be converted to carbon equivalents, and therefore does not publish emission figures.

The greatest adverse impact of the Bank's operations on climate and nature, comes indirectly through customers, suppliers and partners. Sparebanken Sør has its own guidelines on climate and the environment which provide clear principles on implementing sustainability in interactions with customers, suppliers and partners. These policy details and other relevant guidelines are published under Sustainability on the Bank's website.

Sparebanken Sør has committed itself to supporting the precautionary principle in connection with climate and natural challenges through the UN Global Compact and UNEP Principles for Responsible Banking.

Measures and guidelines for operationalizing climate-related risks and opportunities in the business areas are described in more detail under the thematic areas in the Sustainability Report 2021 and in the TCFD Report for 2021, which is published under Sustainability on the bank's website. .

Human rights

Sparebanken Sør supports and respects the protection of international human rights,

The Bank's relationship to human rights, employee rights and social conditions follows what is standard and required for Norwegian companies. The Bank is a member of Finance Norway (Finans Norge) and is bound by collective agreements within this collective agreement area. The Bank has also entered into a separate agreement (company agreement) with employee representatives in the company. The Bank has all its offices and staff in Norway. The few corporate customers who are registered as a foreign branch of a Norwegian company (NUF) or as a Ltd company are subject to a special review. The Bank has developed its own guidelines for workers' rights and human rights, which are published in Sustainability section of the Bank's website.

Money laundering and financing of terrorism

Detecting and preventing economic crime, including money laundering and terrorist financing, is a very important social responsibility that is taken very seriously in Sparebanken Sør. The Bank has a comprehensive framework of management documents, policies and guidelines to ensure compliance with the applicable legal requirements at all times, and significant resources are invested in fulfilling the Bank's role in protecting the Bank's customers, the financial system and society as a whole. Based on a business-oriented risk analysis, the Bank has a risk-based approach, after which adequate measures are implemented to manage the risk to which the Bank is exposed. The risk analysis is regularly updated to strengthen and develop efforts through adaptation of measures. The Bank's "Anti-corruption and Anti-bribery Policy" provides guidelines for the Bank's positions on, and efforts against, corruption, influence trading, bribery and the use of facilitation money.

The Bank is active in several national networks in the fight against financial crime. The Bank experiences that there is a low threshold for sharing experience and expertise across industry players, supervisory authorities and public bodies. There are detailed checks on a considerable number of suspect transactions over the year. If suspicions are not dispelled by the Bank's investigation, the suspicion is reported to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). The activities in the Bank's work against financial crime are described in more detail in the sustainability report which is published under Sustainability on the bank's website.

Ethics, conflicts of interest, anti-corruption measures and notification procedures

UIn accordance with the Bank's ethical guidelines and regulations for handling conflicts of interest, the Bank's employees must act with care and honesty, and strive for behaviour that is trustworthy and in accordance with the norms, laws and rules that apply in society. This should characterise all activities so that the Bank gains confidence in the market and ensures its competitiveness and reputation. The guidelines for ethics and conflicts of interest show the expectations and requirements that Sparebanken Sør sets for its employees' actions and behaviour. Everyone who is covered by these norms must act so that confidence in Sparebanken Sør is not weakened. Management, employees, employee representatives, temporary staff and hired consultants are all covered by the Code of Conduct, which describes, among other things, how employees should handle challenges related to impartiality and conflicts of interest, participation in other business activities, and trading in financial instruments. The ethical guidelines and document conflicts of interest are published under Sustainability on the Bank's website. No breaches of the guidelines in relation to conflicts of interest or the ethical guidelines in 2021 have been reported.

The Bank is working actively to prevent corruption and bribery of employees, customers and other partners. The Bank has adopted its own guidelines for anti-corruption and bribery, which are published under Sustainability on the Bank's website. No cases have been reported that can be defined as corruption in 2021.

The Bank has good routines for alerts about undesirable events, questionable conditions, threats, etc. The routines are reviewed and revised annually by a broad-based group of managers, shop stewards and employees from risk, HR and internal auditing. Alerts are sent to a neutral external body (BDO). The alert routine is easily available for the Bank's employees on the Bank's office network. There is also a separate notification option for customers and outsiders on the Bank's website.

DONATIONS FOR THE PUBLIC BENEFIT

Sparebanken Sør has defined donations as a strategic priority area. In making donations, the Bank is concerned with ensuring that projects which receive funding are of real benefit to the community. In that way, donations provide an opportunity to promote sustainable growth and development in the region.

The Donations Committee considered 486 applications in 2021. Of these, 154 were granted funding in a total amount of NOK 39 million. Children and young people are a priority target group for the Bank's donation strategy, and the awards have largely been aimed at projects in the areas of upbringing, sport and culture.

The Bank has prioritised broad rather than narrow target groups, and teams rather than individual operators. The Board of Directors proposes that NOK 100.0 million of the Bank's profit for 2021 be allocated for distribution in 2022.

OUTLOOK

The Covid-19 pandemic has affected society significantly since March 2020 and has had a negative effect on the economy in Norway and our trading partners. The reopening of society in 2021 led to a marked improvement in the Norwegian economy, and economic activity increased to a higher level than before the corona pandemic. But the reopening did not last long. In December strict restrictions and closures were once again imposed as a result of rising infection levels and new virus variants. In 2022, easing of the measures has been implemented, which leads to expectations that the economic upswing can possibly continue beyond the spring. The normalisation of the economy indicates a gradual normalisation of the key interest rate in the Bank of Norway, so a somewhat higher interest rate level is expected in the future.

The world picture has changed dramatically in 2022 as a result of Russia's war of aggression against Ukraine. This causes a significantly increased uncertainty in the financial markets. The consequences for Norwegian banks is currently unclear.

Sparebanken Sør has guidelines adopted by the Board that ensure that refinancing in the bond market is normally carried out well before the final debt maturity. This has contributed to the Bank's solid financing situation. The Bank has a low-risk lending portfolio, and high loss-absorbing capacity through a high equity capital ratio.

The Bank is run cost-effectively and has good underlying operations. Profitability in the banking business has been under pressure as a result of the low interest rates, but the outlook for the future is positive. Investment in other income sources, for instance through ownership of Frende, Brage and Sørmegleren has contributed very positively, and future positive development is expected. The Bank is well positioned for profitable future growth.

Property prices in the Bank's main markets have experienced positive but moderate development for several years. The statistics for 2021 show a very positive growth in property prices in the Bank's main market area. Activity in the property market has been high in 2021, something that is reflected in the results from the Group's real estate agency business, Sørmegleren. A long period of low interest rates raises the danger of growing financial imbalances, and this development is followed closely. The Group's mortgage lending is well secured, and the Group is well equipped to meet any fall in house prices. This is supported by completed stress tests.

The Group has a requirement for CET 1 capital, including a Pillar 2 supplement of 2.0 percent, which amounts to 13.0 percent. The Ministry of Finance has adopted regulatory changes which meant the EU's capital requirements regulations CRR/CRD IV came into force on 31 December 2019. Among other things, the systemic risk buffer requirement is increased from 3 to 4.5 percent. The Group uses the standard method and will satisfy the increased systemic risk buffer requirement with effect from 31 December 2022. The Group will adapt to new requirements before the deadline and secure the necessary buffers above the minimum requirement. The Group has an internal objective of a CET 1 capital ratio of 16.3 percent, which takes future requirements into account. At the end of 2021, CET 1 capital ratio was 16.4 percent, well over the regulatory requirement.

The Group has a long-term ambition of lending growth in excess of credit growth. The Group has a goal of a return on equity of more than 10 percent by 2025.

In line with the adopted strategy, the Bank will pay close attention to costs and long-term value creation. The Bank's investments in technology will continue, and will contribute to cost-effective operations, as well as enable a streamlining of the office structure. Together with the good quality in the credit management, this will contribute to continued profitable growth and development for Sparebanken Sør. t for Sparebanken Sør.

CLOSING REMARKS

The Board of Directors wishes to express its gratitude to the Bank's employees for their important contributions throughout 2021. At the same time, the Board of Directors wishes to thank the Bank's customers, equity certificate holders and other business associates for supporting the Bank and for the confidence they have shown in the Bank over the past year.

THE BOARD

Kristiansand, 31 December 2021 / 10 March 2022

Stein Hannevik

Chair

Inger Johansen

Deputy chair

Erik Tønnesen

Merete Østby

Knut Ruhaven Sæthre

Mette Ramfjord Harv

Jan Erling Tobiassen

Employee representative

Gunnhild Tveiten Golid

Employee representative

Geir Bergskaug

CEO

Income statement

PARENT BANK		NOK MILLION		GROUP	
2020	**2021**		**Notes**	**2021**	**2020**
1 431	1 206	Interest income	15.33.34	2 494	2 833
796	682	Interest income from assets at fair value through profit and loss	15.33	326	434
824	511	Interest expenses	15.33.34	881	1 354
1 404	**1 378**	**Net interest income**	**5.15**	**1 939**	**1 914**
350	400	Commission income	16.34	484	409
62	70	Commission expenses	34	66	62
288	**329**	**Net commission income**		**419**	**347**
265	325	Dividend	34	7	25
33	25	Net income from other financial instruments	12.13	-7	15
297	**350**	**Net income from financial instruments**	**17**	**0**	**40**
136	174	Income from associated companies	34	174	136
11	19	Other operating income		17	7
147	**193**	**Total other income**		**191**	**143**
2 136	**2 249**	**Total net income**		**2 549**	**2 444**
445	475	Wages and other personnel expenses	18	606	552
42	44	Depreciation, amortization and impairment of non-current assets	28	44	43
348	348	Other operating expenses	19.34	368	363
835	**866**	**Total operation expenses before losses**	**5**	**1 018**	**958**
1 301	**1 383**	**Operating profit before losses**		**1 531**	**1 486**
81	-20	Losses on loans, guarantees and unused credit	7.8	-18	83
1 220	**1 403**	**Profit before taxes**	**5**	**1 549**	**1 403**
200	214	Tax expenses	20	323	307
1 021	**1 189**	**Profit for the period**		**1 226**	**1 096**
		Minority interests		3	2
1 021	**1 189**	**Majority interests**		**1 223**	**1 094**
69	46	Attributable to additional Tier 1 Capital holders		46	69
952	1 143	Attributable to ECC- holders and to the saving bank reserve		1 177	1 025
1 021	**1 189**	**Profit for the period**		**1 223**	**1 094**
10.5	11.5	Profit/diluted earnings per equity certificate (in whole NOK)	35	12.2	11.3

Other comprehensive income

PARENT BANK		NOK MILLION		GROUP	
2020	**2021**		**Notes**	**2021**	**2020**
1 021	**1 189**	**Profit for the period**		**1 226**	**1 096**
		Items that will not be reclassified subsequently to profit or loss			
		Recognized estimate deviation. pensions			
		Tax effect			
		Items that may be reclassified to profit or loss			
		Change in value. basis swaps		14	-7
		Tax effect		-3	2
		Total other comprehensive income		**11**	**-5**
1 021	**1 189**	**Comprehensive income for the period**		**1 237**	**1 091**
		Minority interests		3	1
1 021	**1 189**	**Majority interests**		**1 234**	**1 090**
10.5	11.5	Comprehensive income/diluted earnings per equity certificate		12.3	11.3

Notes 1 to 37 form an integral part of the consolidated financial statements.

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2020	**31.12.2021**		**Noter**	**31.12.2021**	**31.12.2020**
Assets					
1 148	437	Cash and receivables from central banks	21.22	437	1 148
10 936	5 644	Loans to credit institutions	21.22.23	1 789	2 460
62 724	67 028	Loans to customers	5.6.7.9.10.11.21.22.33.34	116 653	111 577
18 329	17 743	Bonds and certificates	21.22.24	22 062	21 543
166	193	Shares	21.22.25	193	166
907	367	Financial derivatives	21.22.32	1 104	3 415
2 111	2 116	Shareholding in group companies	26		
1 134	1 201	Shareholding in associated companies	27	1 201	1 134
41	54	Intangible assets	28	64	47
430	431	Property, plant and equipment	28	463	461
96	115	Other assets		218	174
98 022	**95 328**	**TOTAL ASSETS**	**5**	**144 182**	**142 126**
Liabilities and equity capital					
6 765	2 660	Liabilities to credit institutions	14. 21.22.23	2 627	6 435
59 883	63 185	Deposits from customers	5.14.21.22.29.34	63 146	59 833
14 149	10 013	Liabilities related to issue of securities	5.14.21.22.29.34	56 605	56 885
687	322	Financial derivatives	21.22.32	844	687
272	204	Payable taxes	20	310	373
406	338	Other liabilities	31	395	457
38	135	Provisions for commitments	18	135	38
29	41	Deferred tax	20	28	10
2 002	3 499	Subordinated senior loan capital	4.14.21.22.30	3 499	2 002
1 653	1 654	Subordinated loan capital	4.14.21.22.30	1 654	1 653
85 886	**82 050**	**Total liabilities**	**5.14**	**129 242**	**128 374**
1 694	1 877	Equity certificate capital	4.35	1 877	1 694
1 075	1 335	Hybrid capital	4	1 335	1 075
9 367	10 066	Other equity	4	11 729	10 983
12 136	**13 278**	**Total equity**	**4**	**14 941**	**13 752**
98 022	**95 328**	**TOTAL LIABILITIES AND EQUITY**	**5**	**144 182**	**142 126**

Notes 1 to 37 form an integral part of the consolidated financial statements.

Kristiansand, 31 December 2021 / 10 March 2022

Stein A. Hannevik
Chair

Inger Johansen
Deputy chair

Mette Ramfjord Harv

Knut Ruhaven Sæthre

Merete Steinvåg
Østby

Erik Edvard Tønnesen

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO

Statement of changes in equity

NOK MILLION	Equity certificates	Premium fund	Equalization fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP									
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 322**	**88**	**1 671**	**1**	**13 081**
Change in dividend 2019			125				-125		0
Profit 2020			-55	69	747	40	290	2	1094
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				-310					-310
Issuance of hybrid capital				10					10
Other comprehensive income							-5		-5
Trading of own equity certificates					-1				-1
Allocated gift fund						-49			-49
Other changes								1	1
Balance 31.12.2020	**783**	**451**	**459**	**1 075**	**9 069**	**80**	**1 831**	**4**	**13 752**
Dividend distributed for 2019 and 2020							- 219		-219
Profit 2021			61	46	858	100	156	3	1223
Interest paid, hybrid capital			0	- 46					-46
Issuance of hybrid capital				450					450
Buyback of hybrid capital I				-190					-190
Other comprehensive income	- 2				- 1				-3
Trading of own equity certificates							10		10
Allocated gift fund						- 39			-39
Other changes							2		2
Balance 31.12.2021	**782**	**451**	**520**	**1 335**	**9 925**	**141**	**1 781**	**7**	**14 941**
PARENT BANK									
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 323**	**88**	**125**	**0**	**11 535**
Dividend distributed for 2019 and 2020			125				-125		0
Profit 2020			-55	69	747	40	219		1021
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				10					10
Issuance of hybrid capital				-310					-310
Other comprehensive income					-1				-1
Trading of own equity certificates					-1				-1
Allocated gift fund						-49			-49
Other changes							0		0
Balance 31.12.2020	**783**	**451**	**459**	**1 075**	**9 068**	**80**	**219**	**0**	**12 136**
Dividend distributed for 2019 and 2020							-219		-219
Profit 2021			61	46	858	100	125		1189
Interest paid, hybrid capital				-46					-46
Buyback of hybrid capital				450					450
Issuance of hybrid capital				-190					-190
Trading of own equity certificates	- 2		0		-1				-3
Other comprehensive income					0				0
Allocated gift fund						-39			-39
Balance 31.12.2021	782	451	519	1 335	9 925	141	125		13 279

Notes 1 to 37 form an integral part of the consolidated financial statements.

See Note 35 concerning equity certificates, equity capital and proposed dividend.

Cash flow statement

PARENT BANK		NOK MILLION	GROUP	
31.12.2020	**31.12.2021**		**31.12.2021**	**31.12.2020**
2 250	1 911	Interest received	2 841	3 278
-792	-543	Interest paid	-894	-1 345
622	683	Other payments received	439	383
-782	-782	Operating expenditure	-946	-893
12	12	Loan recoveries	12	12
-279	-245	Tax paid for the period	-346	-350
-28	-30	Gift expenditure	-30	-28
1 929	3 315	Change in customer deposits	3 325	1 893
3 435	-4 421	Change in loans to customers	-5 190	-5 285
2 002	-2 104	Change in deposits from credit institutions	-1 798	1 830
8 369	**-2 204**	**Net cash flow from operating activities**	**-2 586**	**-505**
44 944	37 851	Payments received, securities	33 658	37 651
-46 482	-37 295	Payments made, securities	-34 207	-39 295
11	31	Payments received, sale of property, plant and equipment	31	14
-62	-75	Payments made, purchase of property, plant and equipment	-76	-70
	201	Payments received, investments in subsidiaries and associates	201	
-286	-88	Payments made, investments in subsidiaries and associates	-88	-29
-664	205	Change in other assets	-324	-2 257
-2 539	**830**	**Net cash flow from investing activities**	**-805**	**-3 987**
-6 873	5 292	Change in loans to credit institutions	671	-2 278
2 500	-2 003	Change in deposits from credit institutions	-2 003	2 374
0		Payments received, bond debt	15 755	5 000
-2 959	-3 701	Payments made, bond debt	-13 460	-3 724
-69	-265	Payments made, dividends and interest on hybrid capital	-265	-69
2 000	1 500	Issue of senior non-preferred	1 500	2 000
350		Issue of subordinated loan capital		350
-666		Buyback of subordinated loan capital		-666
874	-420	Change in other assets	222	2 490
0	450	Issue of hybrid capital	450	0
-300	-190	Deduction of hybrid capital	-190	-300
-5 144	**664**	**Net cash flow from financing activities**	**2 680**	**5 177**
686	**- 711**	**Net change in liquid assets**	**-711**	**686**
462	1 148	Cash and cash equivalents as at 1 Jan	1 148	462
1 148	**437**	**Cash and cash equivalents at end of period**	**437**	**1 148**

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. The statement has been prepared in accordance with the direct method. Cash flows are classified as operating activities, investing activities and financing activities. Cash is defined as cash and receivables with central banks.

Notes 1 to 37 form an integral part of the consolidated financial statements.

Notes 2021 – Sparebanken Sør

Notes

NOTE 1 – ACCOUNTING POLICIES

1. GENERAL INFORMATION

The Sparebanken Sør Group consists of the Parent Bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, AS Eiendomsvekst, Prosjektutvikling AS, Transitt Eiendom AS and Sørlandets Forsikringssenter AS. The Group conducts banking operations at 35 locations and provides real estate services at 18 locations in the counties of Agder, Rogaland and the county of Vestfold and Telemark.

Within the framework of its articles of association in addition to the legislation applicable at any given time, the Bank may perform all business and services that banks in general are licensed to undertake. The Bank is licensed as a securities investment company. Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of the Sparebanken Sør Group. Sparebanken Sør Boligkreditt AS was established to offer mortgages within 75 percent of the property value.

Sparebanken Sør is an equity certificate bank. The registered office of the Bank and the real estate agency business is in Kristiansand.

The consolidated financial statements for 2021 were presented by the Board of Directors on 10 March 2022 and are due to be adopted by the Board of Trustees on 31 March 2022. The Board of Trustees is the Bank's highest governing body.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Application of IFRS

The consolidated financial statements and the parent company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act. Sparebanken Sør prepares its financial statements in Norwegian kroner (NOK), which is the functional currency for all entities in the Group. Unless stated otherwise, all amounts in the financial statements have been rounded to the nearest million.

The consolidated financial statements are based on the principles of historical cost accounting, with the exception of the following accounting items:

- Buildings, which are measured at adjusted amount.
- Financial instruments at fair value through profit or loss and financial instruments through other comprehensive income.

The consolidated financial statements have been prepared according to uniform accounting policies for identical transactions and events under otherwise identical conditions.

Consolidation and Group companies

The consolidated financial statements cover the Parent Bank and subsidiaries over which the Bank alone, or together with subsidiaries, has a controlling influence, usually as a result of a shareholding in excess of 50 percent. Internal transactions and balances are eliminated.

When subsidiaries are acquired, the cost price of shares in the parent company is eliminated against the equity in the subsidiary at the time of acquisition. The difference between the cost price and net book value of assets in the subsidiary at the time of the acquisition is added to the assets to which the excess value relates within the market value of these assets. The part of the cost price that cannot be attributed to specific assets, represents goodwill. If the value of the acquired assets exceeds the cost price, the difference is recognised in income.

In the Parent Bank's financial statements, shareholdings in consolidated companies are recognised at cost price on initial recognition. The shareholdings are tested annually for impairment, and if necessary are written down to their recoverable amount.

Associates and joint ventures

The Group has investments in associates and joint ventures. Associates are companies over which the Bank exerts significant influence, but not control or joint control, of financial and operational management. Significant influence normally exists when the Bank has a shareholding of between 20 and 50 percent.

A joint venture is a joint arrangement where the parties who have joint control over the arrangement have the right to the arrangement's net assets. Joint control is the contractual agreement on sharing control of an arrangement that only exists when decisions on relevant activities require unanimity between the parties sharing control.

Associates and joint ventures are recognised in accordance with the equity method both in the consolidated financial statements and in the financial statements of the Parent Bank. This means that the shareholdings are initially recognised at cost and subsequently adjusted for the Bank's share of the profit or loss of the associates and joint ventures.

The Group's share of profit/loss from investments in associates and joint ventures is presented on a separate line in the income statement. An impairment test is carried out on the carrying amount of the investment on any indication of impairment. Any impairment is recognised in the financial statements under the share of profit/loss of associates or joint ventures. When the share of the loss exceeds the investment in an associate, the Group's carrying amount is reset to zero and no further losses are recognised unless the Group is obliged to cover these losses.

The Sparebanken Sør Group's shares in joint ventures are of significant size.

Business combinations

Business combinations are recognised in accordance with the acquisition method.

The consideration for the purchase of the business is measured at fair value at the acquisition date. Transaction costs are recognised in income as they arise. A contingent consideration is measured at fair value at the time of acquisition. It is classified as a liability or equity in accordance with IAS 32. Contingent consideration classified as a liability is recognised at fair value in subsequent periods, with changes in value through profit or loss. Contingent consideration classified as equity is not measured after the initial recognition.

When acquiring a business, all acquired assets and liabilities are classified and allocated in accordance with the contractual terms, financial circumstances and relevant conditions at the acquisition date. Acquired assets and liabilities are recognised at fair value in the opening consolidated balance sheet.

Goodwill is calculated as the sum of the consideration and the carrying amount of non-controlling shareholdings and the fair value of previously owned assets, less the net value of identifiable assets and liabilities calculated at the acquisition date. Goodwill is not amortised, but is tested at least once a year for impairment.

If the fair value of net assets in the business combination exceeds the consideration, the difference is immediately recognised in income at the time of acquisition.

3. REVENUE RECOGNITION

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 borrowings and loans are included in the calculation of the effective interest rate and amortised over the expected term. Interest income and expenses related to instruments measured at fair value through profit or loss are presented as part of net interest income. Changes in value, including changes in value related to the interest element, are recognised as net income from other financial instruments.

Commission income and expenses which are a direct payment for services provided are recognised when the services have been delivered. Fees for establishing loan agreements are amortised over the loan's anticipated term. Fees associated with loans measured at fair value are recognised directly in income.

Dividends are recognised in income when the right to receive the dividend has been approved, which normally takes place when the entity (issuer) holds its annual general meeting.

4. FINANCIAL INSTRUMENTS

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

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

Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Bank 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 Bank 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 repaid, 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.

The Group classifies its financial assets in four categories:

- Fair value with changes in value recognised through profit or loss.
- Fair value with changes in value recognised through other comprehensive income (OCI).
- Amortised cost.
- Derivatives designated as hedging instruments recognised at fair value.

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

Financial instruments that are held to receive contractual cash flows shall as a principle be measured at amortised cost.

Financial assets that are held to receive contractual cash flows and for resale shall as a principle be measured at fair value through other comprehensive income (OCI).

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

On initial recognition, financial liabilities are classified as loans and liabilities, or derivatives designated as hedge instruments in an effective hedge. Derivatives are initially recognised at fair value. Loans and liabilities are recognised at fair value adjusted for directly attributable transaction costs. Changes in value deriving from inherent credit risk, where the liability is measured using the fair value option, are recognised through other comprehensive income (OCI).

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

The Parent Bank's mortgage portfolio is measured at fair value through OCI. The Group's mortgage portfolio is measured at amortised cost.

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.

Sparebanken Sør has also chosen to recognise holdings of interest-bearing bonds, certificates and shares at fair value with changes in value through profit or loss. These are assets and liabilities that are managed, measured and reported to management at fair value.

Fixed-interest loans can be redeemed before maturity against payment for premiums or discounts arising as a result of movements in market rates. Sparebanken Sør hedges the interest rate risk for this balance sheet item through derivatives. Derivatives are always measured at fair value. As changes in the value of the derivatives are recognised in income, recognition of fixed-interest loans at amortised cost will lead to significant fluctuations in profit. Recognition at fair value through profit or loss will therefore lead to a more harmonised comparison of the profit or loss on the derivative and changes in value of fixed-interest loans.

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

Fair value through other comprehensive income (OCI)

Loans to retail customers collateralised by real estate are classified at fair value through other comprehensive income in the Parent Bank. This is a consequence of the fact that the loans can be sold at a later date to the Bank's wholly owned mortgage company. The purpose is therefore not solely to receive contractual cash flows but also resale.

This category further covers interest rate and currency swaps used as hedging instruments entered into after 1 January 2018. For these derivatives, changes in value due to changes in exchange rates are recognised through other comprehensive income (OCI). Hedge accounting is discussed further in a separate section below.

Amortised cost

The Group 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 whose sole purpose is to be held in order to collect contractual cash flows, are recognised at amortised cost. In the Group, all borrowings and loans at variable interest rates are classified at amortised cost.

There is an exception in the Parent Bank's financial statements relating to loans to retail customers collateralised by real estate. These loans are classified at fair value through other comprehensive income.

Derivatives designated as hedging instruments recognised at fair value

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

Subsequent measurement

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

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

Measurement of financial instruments traded on an active market

Financial instruments traded on an active market are valued at the 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 recently signed transactions between independent parties, by referencing instruments with virtually the same content or by discounting cash flows. As far as possible, valuations are based on externally observed parameter values.

Fair value of interest-bearing securities is determined by 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.

For shares that are not listed or traded actively, the change in value is based primarily on the valuation methods described above.

Fixed-interest loans are not traded in an active market. The Bank must therefore establish a market spread to estimate the loans' fair value as at 31 December. For fixed-interest loans in the retail market, the average of the ten best mortgages published at www.finansportalen.no is used to represent the market interest rate.

Measurement at fair value with changes in value recognised through other comprehensive income

Loans to retail customers collateralised by real estate are measured continuously at fair value, and any changes in value are recognised through other comprehensive income. This applies only in the Parent Bank.

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.

The Group's financial assets at amortised cost, include receivables from customers and loans to customers excluding fixed-rate loans.

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

The effective interest method is a method that calculates amortised cost and accrues interest income/expenses to 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 (gross) 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 in profit or loss with the exception of basis swaps entered into as of 1.1.2018. Here, changes in value due to changes in spreads will be recognised in comprehensive income as a hedging effect.

Offsetting

Financial assets and financial liabilities are offset and presented net 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 through 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

The Group has recognised a provision for expected credit losses (ECL) for all debt instruments that are not classified at fair value through profit or loss. A provision is recognised for expected losses based on relevant information available at the reporting date, including historical, current and future information.

Loss allowances 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 of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date.

The expected credit loss for exposures that have been qualitatively assessed is calculated based on the present value of all cash flows over the expected residual lifetime. In effect, this is the difference between the contractual cash flows in accordance with the agreement and the cash flow that the Group 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 Bank's loan and guarantee portfolio in accordance with IFRS 9.

For further details, please refer to Note 7.

Loans with low credit risk

The bank uses the exception for low credit risk for lending to credit institutions and central banks. This means that the Group 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 of 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. A loss allowance is reversed when the loss is reduced and the reduction is objectively attributable to an event occurring after the date on which loss allowance was recognised. All loans regarded as significant will be assessed to see whether there is objective evidence of weakened creditworthiness, and the objective indication is highly likely to result in reduced future cash flows for the servicing of the exposure.

A customer's commitment is defined as default if the contractual payments have been overdue for more than 90 days and the amount exceeds 1 percent of the customer's obligations and NOK 1,000 for the mass market and NOK 2,000 for corporate customers (payment default).

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

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

A customer's commitment is defined as default if qualitative assessments are made that indicate that the borrower is not fulfilling its obligations. Qualitative assessments are made when observable data relating to the exposure is available, for example information regarding significant financial difficulties for the issuer or borrower. This applies 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, guarantees 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, a loss allowance 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.

Changes in value of fixed-interest loans, which are measured at fair value, are included in the income statement under net income from financial instruments. Interest is included in the income statement under interest income from assets valued at fair value.

Changes in the value of loans to retail customers collateralised by real estate (Parent Bank) are presented through other comprehensive income.

Bonds and certificates

This balance sheet item includes the Group'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.

Shares

The balance sheet includes the Group's shares recognised 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 and deposits from customers

This balance sheet item includes liabilities to credit institutions and customers. Interest is recognised in the income statement under interest expenses.

Liabilities from issuance 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.

Subordinated loan capital and senior non-prefered

This balance sheet item includes issued subordinated loans. Interest is recognised in the income statement under interest expenses.

5. HEDGE ACCOUNTING

Sparebanken Sør uses hedge accounting in relation to the Bank's funding at fixed-interest terms and foreign currency. Hedging covers the bond-related interest rate risk and currency risk.

The Bank's criteria for classifying 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 hedging is effective and is expected to remain effective throughout the period.

Sparebanken Sør 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 the income statement 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 rate and currency swaps established on or after 1 January 2018, changes in value due to changes in spreads will be recognised through other comprehensive income as a hedging effect. Basis swaps created before 1 January 2018 are recognised at fair value through profit or loss until these falls due.

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

6. ACCOUNTING OF EXCHANGE-RATE EFFECTS

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

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

7. TANGIBLE ASSETS

Tangible assets are recognised at cost less accumulated depreciation and impairments. When assets are sold or disposed of, the book value is deducted, and any loss/gain is recognised in the income statement. Depreciation is computed on a straight-line basis over the expected useful economic life of the asset. The remaining useful economic life and residual values for each asset are reassessed annually.

At each reporting date, an assessment is made to whether there are any indications of impairment. If there are indications of impairment of an asset, the Bank will obtain valuations or calculate the assets utility value. The asset is written down to either fair value or utility value, depending on which method returns the highest value. The basis for previous write-downs is considered at the same time.

Real estate is decomposed by calculating the value of land, technical installations and buildings. Land is not depreciated. Buildings and technical facilities are depreciated over their estimated useful economic life and are not considered to have any residual value. Improvements and periodic maintenance are amortised over the asset's estimated useful economic life.

Leases

Identification of a leasing agreement

When entering into a contract, the group determines whether the contract is or contains a leasing agreement. A contract is or contains a leasing agreement if the contract transfers the right to control the use of an identified asset for a period in exchange for a remuneration.

The Group as lessor

The Group presents assets that have been leased out as non-current assets in the balance sheet. Leasing revenue is recognised through profit or loss on a straight-line basis over the term of the lease. Direct expenses incurred when establishing an operating lease are added to the carrying amount of the leased asset and are recognised as an expense in the leasing period on the same basis as leasing revenue.

Recognition of leases and recognition exemptions

At the inception of a lease, the Group recognises a lease liability and a corresponding right-of-use asset for all leases, with the exception of the following applied exemptions:

- Short-term leases (lease term of 12 months or less)
- Low-value assets

The Group recognises the lease payments for these leases as other operating costs in the income statement as they arise.

The Group measures lease liabilities on inception as the present value of the lease payments that have not been paid at that time. The lease term represents the non-cancellable period of the lease, in addition to periods that are covered by an option to either extend or cancel the lease if the Group will (will not) exercise this option with reasonable certainty. The lease is subsequently measured by increasing the carrying amount to reflect the interest rate on the lease liability, reducing the carrying amount to reflect the lease payments made and re-measuring the carrying amount to reflect any revaluations or amendments to the lease, or to reflect adjustments to lease payments as a result of adjustments to indices or installments. The Group present its lease liabilities under other liabilities in the balance sheet.

The Group measures right-of-use assets at cost, less accumulated amortisation and loss allowance, adjusted for any re-measurements of the lease liability. The Group recognises right-of-use assets under fixed assets in the balance sheet.

Subsequent measurements of right-of-use assets will determine whether the value of the asset is significantly impaired, and any identified losses will be recognised. Right-of-use assets and liabilities are in the parent bank and consolidated accounts of insignificant sizes.

Distinction between service contracts and leases

IFRS 16 distinguishes between service contracts and leases. A distinction is therefore made between contracts that give the customer a right to use an asset (lease) and those that represent a purchase of services. IFRS 16 defines a lease as follows: "a contract, or part of a contract, that conveys a right to use the asset (the underlying asset) for a period of time in exchange for consideration. To be classified as a lease, a contract must convey the right to control the use of an identified asset." Service agreements represent mutually unfulfilled contracts, where delivery is considered to take place as and when the service is delivered by the supplier and adopted by the customer. Service contracts do not fall under the new IFRS 16 standard.

As well as ordinary tenancy agreements, Sparebanken Sør has a significant contract for the delivery of IT systems. The agreement describes "Business-as-a-Service" (BaaS) and indicates that this refers to services that are received. The agreement is deemed to be a purchase of services since no right to control the use of an identified asset has been conveyed. The agreement is not deemed to be covered by IFRS 16.

8. INTANGIBLE ASSETS

Intangible assets acquired separately will be posted in the balance sheet at cost. Posted intangible assets are recognised at cost reduced for depreciation and amortisation.

Expenses related to the purchase of new software and adaptation to other systems, which the company controls and receives future benefits from, are posted in the balance sheet as intangible assets. Software and adaptation are normally amortised on a straight-line basis over three years. Costs incurred because of maintaining or sustaining the future utility of software are expensed, unless changes in the software increase future financial benefits of the software.

9. PENSION EXPENSES AND LIABILITIES

Defined-benefit pension scheme

Defined-benefit pension schemes are valued at the present value of the future pension benefits that for accounting purposes are regarded as earned at the balance sheet date. Pension assets are valued at fair value.

In accordance with IAS 19, both liabilities related to group plans in life insurance companies and unsecured liabilities have been recognised in the financial statements in accordance with the calculations performed by an external actuary. The net pension expense for the year consists of the present value of accrued pension entitlements for the year and interest expenses on the pension liability, less the expected return on pension plan assets.

The net pension expense is included under personnel expenses. Changes in estimate deviations are recognised through other comprehensive income (OCI) and plan changes will be added to the income statement as personnel cost consecutively. Defined-benefit group schemes in a life insurance company have been closed. The schemes were terminated in 2016 in connection with the transition to a defined-contribution scheme.

Defined-contribution scheme

Under the defined-contribution scheme, the Bank does not guarantee a future pension. The Bank pays an annual contribution to the employees' pension plan. Payments into the scheme are directly recognised as an expense.

10. INCOME TAX

Income tax is accrued as a cost, irrespective of when payment is made. The tax expense therefore reflects the year's tax and future taxes payable as a result of the year's activities. The tax is expected to offset net income included in the year's tax expense 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 time interval 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.

Wealth tax is calculated and recognised under other operational expenses in the income statement, and tax payable in the balance sheet.

11. EQUITY

Sparebanken Sør has issued equity certificates on the Oslo Stock Exchange. The equity is divided into equity certificates, a share premium fund, an equalisation fund, a primary capital fund, a gift fund and other equity.

To calculate the share of equity, equity certificates, the share premium fund and equalisation fund are divided by total equity, less other equity and hybrid capital.

The gift fund is a part of equity. When gifts are awarded by the Bank's gifts committee, the Bank's gift fund is charged, and this is entered as a liability in the balance sheet.

The proposed distribution of dividend is presented as other equity until a final decision on distribution has been made. Distribution is then presented as allocated dividend until payment has been made.

12. HYBRID CAPITAL

Hybrid capital is a bond with an agreed interest rate. Hybrid capital has no maturity date, and the Bank has a unilateral right to refrain from paying interest to investors under specified conditions. Hybrid capital does not satisfy the definition of a financial liability in accordance with IAS 32 and is classified as equity. Interest is not presented as an interest expense in the income statement, but as a reduction in other equity. The tax effect of hybrid capital is included in tax expense in the income statement.

13. SEGMENTS/SEGMENT REPORTING

Segments are reported in the same way as the different areas of activity are reported and monitored internally by management and the Board.

Sparebanken Sør has two operating segments:

- RM – Retail market, including loans transferred to Sparebanken Sør Boligkreditt AS.
- CM – Corporate market, including loans transferred to Sparebanken Sør Boligkreditt AS.

The Bank's staff departments, including capital market, and real estate agency are not a separate reportable segment and are reported as undistributed.

14. 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 cash and receivables with central banks.

15. CHANGES IN ACCOUNTING POLICIES AND NOTE DISCLOSURES

Applied accounting policies are consistent with the standards used for the previous accounting period, with the exception of IFRS amendments, which were implemented by the group in the current accounting period. Below is a list of IFRS amendments that have been relevant for the group and effective for the 2021 accounts, as well as the impact these have had on the group's annual accounts.

The bank has implemented the following standards and amendments to standards, effective from 1 January 2021.

Amendments to IFRS 9, IFRS 7 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

In August 2020, the International Accounting Standards Board (IASB) determined the second phase of its project on interest rate benchmark reform, which involves amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases. In Phase 2, IASB will complete its response to the ongoing reform of interbank-offered rates (IBORs) and other benchmark interest rates.

These changes complement Phase 1 of the project, which was adopted in 2019, and focus on the accounting effects that may arise when a company implements new benchmark interest rates due to the reform.

Phase 2 changes primarily consist of the following:

- Practical solution for special changes to contract regulated cash flows
- Relief from specific requirements related to hedge accounting
- Information requirements

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

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

The Interest Rate Benchmark Reform is not expected to have a significant effect on hedging efficiency, market value of the hedging instruments or fair value of hedged interest rate risk in the hedged items. Most of the hedging relationships are expected to be continued.

The IBOR reform is an ongoing process in which reference interest rates used in receivables, loans and derivatives are replaced by new interest rates. In this process, the bank works to adapt the IT systems to be able to handle new reference rates, change the fallback wording in existing and new contracts for loans/derivatives, and prepare new loan agreements and communication with customers. The bank follows developments in the market closely and participates in several projects to monitor and facilitate changes.

For further information, see note 33.

Amendments to IAS 38 Intangible Assets - cloud-based software solutions

In April 2021, IFRS IC (Interpretations Committee) issued an agenda resolution related to IAS 38 Intangible Assets and Accounting for Cloud-Based Software Systems. The agenda decision provides guidance for accounting for expenses related to accounting and configuration.

The agenda decision must be seen in connection with the statement from March 2019 where IFRIC concluded that cloud-based software solutions are service agreements and not leases or purchases of intangible assets. The entity considers especially the controllability criterion in IAS 38 "Intangible assets" to classify an intangible asset.

The change was valid from the time of the publication and with retroactive effect. The change had no effect on the annual accounts for 2021.

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. A customer is considered to be in default if overdrafts and arrears have been extended for more than 90 day and the amount is at least 1 % of the customer's obligation, and the defaulted amount is at least NOK 1,000 for the mass market and NOK 2,000 for corporate customers (payment default).

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.

All defaults are followed by a quarantine period that begins when all the customer's default triggers have ceased. During the quarantine period, the customer is considered in default, and the period lasts for 3 months or 12 months, depending on the reason for the default.

The impact of the amendments to the definition of default have a significant impact on company and consolidated accounts 2021. The relative thresholds according to the new definition resulted in reduced defaults of already low defaults and loss-prone engagements. At the same time, a new definition means that commitments in the future will be longer in default because of a changed quarantine period.

For further information, see note 11.

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

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

NOTE 2 – DISCRETIONARY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing financial statements, management makes estimates and discretionary judgments. Areas largely comprised of discretionary estimates, with a high degree of complexity, and where assumptions and estimates are significant to the accounts of the Parent Bank and the Group, are presented below.

General

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

Provisions for loan losses

The accounting area provisions for loan losses is subject to a large degree of discretionary assessments. This item was in 2020 and has continued to be particularly challenging to quantify, due to the ongoing pandemic.During the year there have been large market fluctuations and turmoil. The consequences of the pandemic has been uncertain.

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

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

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

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

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

The group conducts an annual review of the entire corporate market portfolio. Large commitments, default commitments and high risk exposures are assessed quarterly.

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

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

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

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

Fair value of financial instruments

Fair value of financial instruments is based partly on underlying factors that are not observable in the market. This applies in particular to the establishment of relevant premiums for credit risk, in fair value determination for fixed-interest securities in the form of borrowings, lendings and securities issued by others. Management has based its assessments in such cases on the information available in the market, combined with a best estimate. Such information will include credit scoring by leading market players.

NOTE 3 – RISK MANAGEMENT

Sparebanken Sør shall maximise its long-term value creation, and with this objective, it is essential that the risk is subject to active and satisfactory management. Part of the Group's business strategy, is to keep a low to moderate risk profile for the whole enterprise. Taking risk is a fundamental feature of banking, and in all parts of banking there are different types of risks with different levels of actual exposure. The risk management is a key area for the day-to-day operations and the general work of the Board. Risk manangement is not about elimminating risk, but taking calculated risk and pricing the risk correctly. We also refer to the Bank's Pillar 3 disclosure document, which is available on the Bank's website.

ORGANISATION

Board of directors

The Board has overall responsibility for the Bank's total risk management and aims to ensure the Bank has appropriate systems in place for risk management and internal control. The Board of Directors determines risk strategies, framework for risk appetite, risk profile and risk tolerance. The Board of Directors also determines the strategy and guidelines for the capital plan and composition of the capital, and approves the process to ensure the Bank at all times has an adequate level of capital (Internal Capital Adequacy Assessment Process, ICAAP).

Audit committee and risk committee

The Board has appointed an audit committee and a risk committee as sub-committees of the Board. The objective is to make a more thorough assessment of relevant matters, including strengthening work on monitoring of risk and financial reporting and internal control.

The Bank's management

The CEO and other members of the management team are responsible for implementing risk management and internal control. Matters pertaining to changes or the implementation of new policies and strategies within the Group should always be presented to the management team for discussion and decision. Management considers the risk situation continuously, and evaluates the overall risk situation and the associated capital requirement at least once a year (ICAAP). These assessments are then presented to the Board.

The CEO has delegated duties in accordance with the formal responsibility for internal control and risk management. Responsibility for the implementation of the annual assessment of risk and capital adequacy has been delegated to the Risk Management division. This analysis is to be coordinated and integrated with other planning and strategy work in the Bank. Control and verification tasks are further delegated to the various line managers within the framework of agreed principles, instructions and authorisations.

Risk management covers the entire Group and does not perform activities which the control function is intended to monitor. The unit is to identify, measure and evaluate the Bank's overall risk.

Internal auditor

The Bank has appointed internal auditors. This is a monitoring function independent of the administration in general, and designed to perform risk assessments, controls and investigations of the Bank's internal control and governance processes to assess whether they are appropriate and proper.

Risk management process

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

RISK CATEGORIES

All risks are managed through a framework for risk appetite. Targets have been established for the different risk parameters. Sparebanken Sør operates with the following risk categories:

Credit risk

Credit risk is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the Bank, and the value of underlying security not being sufficient to cover the Bank's receivables if the security has to be realised. Credit risk is the Group's greatest risk, and the risk that requires the most capital. The Bank's future loss development will also be affected by the general economic development, and one of the most important areas for the Bank's risk management is thus linked to lending and processes related to this.

The Bank's total credit risk must be on a par with comparable banks. The Board of Directors approves the bank's credit strategy and policy. Credit risk is also managed through operational credit guidelines, credit assessment processes and credit allocation authorisations. The Board has established objectives and guidance, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the Bank's credit policy is monitored by the Risk Management Division, which is an independent unit.

The Bank's risk classification system is used both in the credit rating process and in the ongoing follow-up of risk at portfolio level. Classification of customers is based on probability of default over a 12-month period, where probability of default is calculated from various internal and external financial data. Scorecards are used to divide the customers into 10 different risk classes, plus a risk class for non-performing commitments. Risk development in the portfolio is analysed and followed up continuously.

The Board, management and supervisory bodies receive regular credit risk reports. Central to this is the trend in loans divided into different risk classes and movement between classes.

Settlement risk

Settlement risk is a form of credit risk, where a contracting party fails to fulfill its obligations regarding settlement in the form of cash or securities, after the Bank has given notice of payment or transfer of a security or collateral. The settlement risk that the Group is exposed to is considered low.

Counterparty risk

Counterparty risk is the risk of the Bank's business partners in the financial field not being able to fulfill their contractual obligations towards the Bank.

Derivative contracts are entered into to hedge risk which arises in the Bank's ordinary operations, in connection with funding at fixed interest rates and in a currency other than NOK, loans to customers at fixed interest rates and in foreign currencies, and derivatives trading with customers. 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 Bank follows the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) regarding settlement, confirmations, documentation and reporting to authorities.

The Bank'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.

By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. The Bank has established clearing against the London Clearing House through a clearing agent.

Concentration risk

Concentration risk is a credit risk constituting the risk of loss due to a large combined exposure to a single counterparty, groups of related counterparties (large exposures), counterparties operating in the same sector (industry concentration) or geographical area (geographical concentration).

The Bank must maintain a moderate combined concentration risk. Although additional risk due to debtor concentration does exist, it does not, in the Bank's opinion, represent a significant risk for the Group. This is a result of low exposure when taking into account the quality of the collateral. Similar reasoning can be applied in relation to lessee concentration.

The greatest concentration risk facing Sparebanken Sør relates to "Real estate". This part of the portfolio will thus be exposed to risk factors that affect property companies specifically. These risk factors are primarily vacancy, rental prices and interest rates. The latter is a general macro-variable, but property companies are more heavily exposed to interest rate levels than many other sectors because they are highly leveraged and because property is an asset with a longevity.

Individual commitments will vary considerably in terms of sensitivity to these factors, and how it therefore contributes to the portfolio's concentration risk. This depends, among other things, on tenancy, property location and type of building. In addition, the debtor's financial situation has a major impact.

The Bank has set aside additional capital under ICAAP to cover concentration risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or fund its assets, and also of it not being able to obtain funding without incurring significant additional costs, in the form of a reduction in the value of assets that must be realised, or in the form of funding at an above-normal cost level. Liquidity risk also includes the risk that the financial markets which the Bank wishes to use are not functioning.

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

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. Sparebanken Sør Boligkreditt AS represents an important funding instrument for the Group, because it ensures access to long-term funding by issuing covered bonds

Levels of risk tolerance adopted by the Board of Directors for the Bank's liquidity risk follow guidelines issued by the Financial Supervisory Authority of Norway. At year-end, the levels of liquidity risk were within the limits adopted by the Board of Directors.

The Bank has a liquidity reserve in the form of liquid interest-bearing securities that satisfy requirements imposed by the authorities and adopted by the Board for LCR holdings and liquidity stress testing. The Bank also has mortgages cleared for transfer to the mortgage company. The Bank's interest-bearing liquidity portfolio consists of government securities, other interest-bearing securities with zero capital weight, covered bonds and securities issued by Norwegian municipalities and county councils.

The Bank's short-term liquidity risk is managed partly by adaptation to the Liquidity Coverage Requirement (LCR).

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

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

The Group`s liquidity risk is reported periodically to the Board of Directors.

Market risk

Market risk includes risk associated with variations in the value of un-hedged interest rate, credit spread, currency and equity positions, , as a result of changes in market interest rates and credit spreads, as well as by variation in foreign exchange rates and share prices. In addition, there will be temporary effects on profits or loss related to the valuation of derivative contracts, which are used to hedge interest rate and currency risk in connection with financing in foreign markets.

Sparebanken Sør shall have a low market risk and various financial instruments are used to hedge market risk that arises in connection with the Bank's ordinary customer activities and financial operations. The Board has established risk-tolerance guide levels for investment in shares, bonds and positions in the interest rate and currency markets. Compliance with these performance targets is followed up regularly and reported to the Board.

Interest rate risk

Interest rate risk is defined as the risk of financial losses arising from changes in interest rates if the fixed-interest period for the Bank's liabilities and assets on and off the balance sheet do not coincide.

The interest rate risk limit is determined as an upper limit on how large the loss on un-hedged interest rate positions may be in case of shifts or distortions in the interest rate curve. Interest rate risk arising from the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies are hedged on an ongoing basis. At the turn of the year 2021-2022, measured long-term interest rate risk after hedging transactions amounted to 33 percent of the risk tolerance level approved by the Board.

If the date on which the rate of interest for the Bank's market funding at floating 3-month NIBOR is set differs from the date on which the rate of interest for the Bank's lending volume is set, the Bank is exposed to a fixing risk.

Exchange rate risk

Exchange rate risk is the risk of financial loss arising from a disadvantageous 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. The group is affected by fluctuations in the foreign exchange market through its activity in foreign exchange towards customers. Derivatives (currency futures, swaps and options) are used to hedge open currency exposure. Exposure is measured by a 25% change in the exchange rate of the currency position. Limits have been set for exposure in the individual currencies. The Bank's currency exposure related to customer activities is very low.

For funding in foreign currencies, interest rate and foreign exchange risk arises as a result of the funding being undertaken on fixed rate terms and in a currency other than NOK. The same applies to the purchase of debt securities in a foreign currency. The Bank hedges interest rate and currency exposure by entering into derivative contracts with reputable financial counterparties. The contracts are cleared against the London Clearing House or the counterparty risk is safeguarded through an established agreement for the settlement of securities (Credit Support Annex). For financing in foreign currencies and the hedging of currency risk, hedge accounting is applied in reporting changes in value.

Share price risk (share risk)

Share price risk (share risk) consists of market risk associated with positions in equity instruments, including derivatives with underlying equity instruments. Exposure is measured as the size of the potential loss, where the market value of the shares falls by 30% and the exchange rate risk is regulated by limits for the maximum aggregated position in a share portfolio.

Credit spread risk

Credit spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in credit margins. A general increase in credit margins would lead to a reduction in the value of a portfolio of interest-bearing securities. Changes in the credit margin are a consequence of changes in investors' requirement for a risk premium for a shift in anticipated credit risk and/or changes in other market conditions. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The Bank's credit spread exposure is mainly related to the liquidity portfolio. At the end of 2021, the measured credit spread risk was 56.0 percent of the framework approved by the Board.

Business risk

Business risk is defined as the risk of unexpected income fluctuations from factors other than credit risk, liquidity risk, market risk and operational risk. This can arise, among other things, as a result of the authorities introducing changes in regulations, or through the implementation of financial or monetary policy measures, including changes in tax, duty and currency legislation, which could have a negative effect on the business.

Reputation risk which is a risk of failure in earnings or access to capital due to failing trust and reputation in the market. Reputation risk is included as part of business risk. It is a prerequisite for Sparebanken Sør that risk must be subject to active and satisfactory management, based on the Board's objectives and limits for risk exposure and risk tolerance.

The Bank must maintain a low business risk that ensures stable and diversified earnings, and the Group shall not be involved in individual incidents or activities that may threaten reputation and strategic goals.

Strategic risk

Strategic risk is defined as internal factors where the strategic risk relates to the strategies, plans and changes that the Bank either has or has proposed.

Operational risk

Operational risk for the Group is the risk of financial loss due to inadequate or failing internal processes or systems, human error or external events. These may be disruptions or interruptions of an operational nature, breach of procedures, faults in ICT systems or hardware, breach of rules, fraud, fire and terrorist attacks.

Operational risk is monitored by regular qualitative assessments. The Bank has procedures that cover all significant areas. Risk management and internal control means processes to identify, analyse, manage and follow up the risks so that the combined risk exposure is in accordance with strategic objectives, and to ensure that applicable laws and regulations, as well as internal procedures and guidelines, are complied with. Internal control is an important tool for reducing operational risk, with respect to both its identification and follow-up.

The Bank aims to have good systems for following-up and controlling, and a low operational risk.

HEDGING INSTRUMENTS

The group uses the following hedging instruments:

- Interest-rate swaps – agreements to swap interest rates for a particular nominal amount over a specified number of periods.
- Currency futures – agreements to buy or sell foreign currencies with settlement at a specified future date.
- Cross-exchange rate interest rate swaps – agreements to swap both interest and exchange rates.

The purpose of using interest rate and currency instruments is to cover the Bank's interest and exchange rate exposure.

NOTE 4 – CAPITAL ADEQUACY

Sparebanken Sør aims to maximise its long-term value creation. The Group also aims to maintain a moderate to low risk profile. This means that effective risk and capital management is a key strategic element.

Sparebanken Sør has established a strategy and process for risk measurement, management and control that provides an overview of the risks the Bank is exposed to. This therefore provides the basis for the assessment and calculation of the Bank's total capital requirement, and how this can be maintained to meet the specific risks in an adequate manner. The process is described as ICAAP (Internal Capital Adequacy Assessment Process). The assessment of capital required includes size, composition and distribution of equity and subordinated loan capital in relation to the risks the Bank is or may be subjected to. This is based on the results of stress tests that show the negative effects of changes in macro-variables on bank losses.

The Board of Directors establishes a capital plan to ensure that the Bank at all times has a total capital ratio which meets regulatory requirements and expectations. In order to have better flexibility in terms of strategic choices and business opportunities, the Bank maintain a higher level of capital than the requirement calculated on the basis of ICAAP.

The Group met the applicable minimum capital requirements for financial institutions as at 31 December 2021 with a common equity tier 1 capital ratio of 13.0 percent, Tier 1 capital ratio of 14.5 percent and a total capital ratio of 16.5 percent, respectively. The Group's internal target is a common equity tier 1 capital ratio of 16.3 percent.

The Ministry of Finance has adopted regulatory amendments that put into force the EU Capital Requirements Regulations CRR/ CRD IV as of 31 December 2019. The systemic risk buffer requirement increased from 3.0 to 4.5 percent. The Group, which uses the standard method in the capital adequacy calculation, will meet increased systemic risk buffer requirements with effect from 31 December 2022.

Sparebanken Sør received on 22 December 2021 an assessment by the Financial Supervisory Authority of Norway (FSA) of the risk and capital requirements in connection with a completed SREP (Supervisory Review and Evaluation Process and Pillar 2). FSA provisional assessment of capital requirements under Pillar 2 is 1.8 percent of the calculation basis. The Bank has responded to FSA assessments, which will then process and determine the final Pillar 2 requirements. This is expected to take effect on 31 March 2022.

In Q2 2021, on advice from the FSA, the Norwegian Ministry of Finance decided to increase the requirement for the countercyclical buffer to 1.5 percentage points effective 30 June 2022. In December, Norges Bank (which took over the decision-making authority for setting the countercyclical capital buffer in September) decided to increase the buffer requirement from 1.5 percent to 2.0 percent with effect from 31 December 2022.

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

MINIMUM CAPITAL REQUIREMENTS

PARENT BANK		NOK million	GROUP	
31.12.2020	31.12.2021		31.12.2021	31.12.2020
4.50 %	4.50 %	Minimum Tier 1 capital requirements	4.50 %	4.50 %
2.50 %	2.50 %	Conservation buffer	2.50 %	2.50 %
3.00 %	3.00 %	Systemic risk buffer	3.00 %	3.00 %
1.00 %	1.00 %	Counter-cyclical buffer	1.00 %	1.00 %
2.00 %	2.00 %	Pilar 2 requirements	2.00 %	2.00 %
13.00 %	13.00 %	CET1 requirements. incl. Pilar 2	13.00 %	13.00 %
14.50 %	14.50 %	Tier1 Capital requirements. incl. Pilar 2	14.50 %	14.50 %
16.50 %	16.50 %	Total capital requirements. incl. Pilar 2	16.50 %	16.50 %
8 401	8 438	CET1 requirements. incl. Pilar 2	10 308	10 137
9 370	9 412	Tier1 Capital requirements. incl. Pilar 2	11 498	11 307
10 662	10 710	Total capital requirements. incl. Pilar 2	13 084	12 867
2 245	2 978	Above CET1 requirements. incl. Pilar 2	2 696	2 067
2 351	3 340	Above Tier1 Capital requirements. incl. Pilar 2	2 878	2 008
2 559	3 692	Above total capital requirements. incl. Pilar 2	2 991	1 998

PARENT BANK		NOK MILLION	GROUP	
31.12.2020	31.12.2021		31.12.2021	31.12.2020
12 136	**13 278**	**Total equity**	**14 941**	**13 752**
		Tier 1 capital		
-1 075	-1 335	Hybrid capital classified as equity	-1 371	-1 111
- 219	- 271	Share of profit not eligible as common equity tier 1 capital	- 271	- 219
- 41	- 54	Deductions for intangible assets	- 61	- 48
- 42	- 43	Deductions for additional value adjustments	- 29	- 31
- 113	- 159	Other deductions	- 204	- 138
10 646	**11 416**	**Total common equity tier 1 capital**	**13 004**	**12 204**
		Other tier 1 capital		
1 075	1 335	Hybrid capital	1 371	1 111
11 721	**12 752**	**Total tier 1 capital**	**14 375**	**13 315**
		Additional capital supplementary to tier 1 capital		
1 600	1 650	Subordinated loan capital	1 699	1 649
- 100		Deductions from additional capital		- 100
1 500	**1 650**	**Total additional capital**	**1 699**	**1 549**
13 221	**14 402**	**Net subordinated capital**	**16 074**	**14 864**
		Calculation basis according to standard method		
25	22	Engagements with local and regional authorities	22	25
1 913	981	Engagements with institutions	388	513
3 824	3 137	Engagements with enterprises	4 688	5 164
4 787	5 259	Engagements with mass market	8 045	7 151
34 598	37 798	Engagements secured in property	55 290	51 991
1 025	522	Engagements which have fallen due	632	1 125
4 075	1 823	Engagements which are high risk	1 823	4 075
5 612	5 934	Engagements in covered bonds	1 381	1 338
4 813	4 899	Engagements in collective investment funds	1 680	1 750
563	650	Engagements, other	700	638
61 233	**61 022**	**Capital requirements for credit and counterparty risk**	**74 649**	**73 768**
13	**0**	**Capital requirements for position, currency and product risk**	**0**	**13**
3 350	**3 878**	**Capital requirements for operational risk**	**4 638**	**4 175**
25	**8**	**CVA addition**	**8**	**25**
64 620	**64 908**	**Risk-weighted balance (calculation basis)**	**79 295**	**77 980**
16.5 %	17.6 %	Common equity tier 1 capital ratio, %	16.4 %	15.7 %
18.1 %	19.7 %	Tier 1 capital ratio, %	18.1 %	17.1 %
20.5 %	22.2 %	Total capital ratio, %	20.3 %	19.1 %
8.1 %	8.8 %	Leverage ratio	9.4 %	8.9 %

NOTE 5 – SEGMENT REPORTING

Sparebanken Sør has three operating segments: Retail Market (RM), Corporate Market (CM) and real estate (Sørmegleren). The Bank's own investment activities are not a separate reporting segment and are included under 'Undistributed'. For more information about the segments, refer to accounting policies. Retail Market (RM) and Corporate Market (CM) deviate in this context from retail customers and corporate customers in reporting on sectors and industries.

The different segments recognise actual revenue and expenses related to loans and deposits as revenue and expenses in the balance sheet. All employees are related to the different segments. When there is a liquidity shortfall in the segments, an interest expense is calculated based on an internal rate, which is determined each month.

The Group's branch offices are located in the Agder counties, Telemark and Vestfold and Rogaland. The Group also has customers in other geographical areas, who are served by the established offices. Loans are broken down geographically in Note 10.

None of the Group's customers individually account for more than 10 % of turnover. This applies to both 2021 and 2020.

Report per segment		**31.12.2021**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest income	1 138	829	-28	1 939	0	1 939
Net other operating income	203	89	136	428	182	610
Operating expenses	414	107	350	871	148	1 018
Profit before losses per segment	**928**	**811**	**-242**	**1 496**	**35**	**1 531**
Losses on loans and guarantees	14	-31	-1	-18		-18
Profit before tax per segment	**914**	**842**	**-241**	**1 514**	**35**	**1 549**
Net loans to customers	79 686	36 936	30	116 653		116 653
Other assets			27 411	27 411	119	27 530
Total assets per segment	**79 686**	**36 936**	**27 442**	**144 064**	**119**	**144 182**
Deposits from customers	32 910	26 680	3 556	63 146		63 146
Other liabilities	46 776	10 256	8 945	65 977	119	66 096
Total liabilities per segment	**79 686**	**36 936**	**12 501**	**129 123**	**119**	**129 242**
Equity			14 941	14 941		14 941
Total liabilities and equity per segment	**79 686**	**36 936**	**27 442**	**144 064**	**119**	**144 182**

Report per segment		**31.12.2020**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest income	1 166	826	-79	1 914	0	1 914
Net other operating income	177	74	131	382	149	531
Operating expenses	408	105	321	835	124	958
Profit before losses per segment	**935**	**795**	**-269**	**1 461**	**25**	**1 486**
Losses on loans and guarantees	1	85	-3	83		83
Profit before tax per segment	**934**	**709**	**-266**	**1 377**	**25**	**1 403**
Net loans to customers	74 994	36 420	163	111 577		111 577
Other assets			30 444	30 444	105	30 549
Total assets per segment	**74 994**	**36 420**	**30 607**	**142 021**	**105**	**142 126**
Deposits from customers	32 287	24 546	2 999	59 833		59 833
Other liabilities	42 706	11 874	13 855	68 436	105	68 541
Total liabilities per segment	**74 994**	**36 420**	**16 855**	**128 269**	**105**	**128 374**
Equity			13 752	13 752		13 752
Total liabilities and equity per segment	**74 994**	**36 420**	**30 607**	**142 021**	**105**	**142 126**

The Sparebanken Sør Group does not report segments in the Parent Bank separately. Since Sparebanken Sør Boligkreditt AS is an integral part of the Group's retail banking market, it would be misleading to report segments in the Parent Bank in isolation.

NOTE 6 – CREDIT AND CREDIT RISK

Credit risk represents the largest area of risk for the Group. The Board defines the Group's credit strategy which, together with the Bank's credit policies and guidelines for credit processes, are intended to ensure that the customer portfolio has an acceptable risk profile and helps the Group maximise long-term value creation.

Sparebanken Sør has Agder, Rogaland Vestfold and Telemark as its principal market. In addition, the Bank has a national market segment, encompassing organisations that form part of KNIF (Kristen-Norges Innkjøpsfellesskap) and their employees.

The Bank's risk classes are as follows:

Risk classes	Lower limit of default, %	Upper limit of default, %
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	

Loans distributed in risk classes

The models used to calculate the probability of default (PD) in the next 12 months and expected losses (EL) at the customer and portfolio level are based on internal and external data. Retail customers and corporate customers are scored each month, and are divided into 11 classes (A – K) based on their probability of default. Class K comprises non-performing loans. For definition of non-performing loans refer note 1.

The table below shows the intervals for the different risk classes based on the probability of default.

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 %

TOTAL COMMITMENTS DISTRIBUTED BY RISK CLASSES

Total commitments includes the balance of approved loans and credit to customers, any unused portion of approved loans, guarantee limits and granted guarantees.

PARENT BANK					GROUP			
31 12 2020		31 12 2021		NOK MILLON	31 12 2021		31 12 2020	
				Retail banking customers:				
24 134	82.5 %	27 416	83.1 %	Low risk	72 734	84.8 %	68 809	84.8 %
4 364	14.9 %	5 089	15.4 %	Medium risk	11 998	14.0 %	11 138	13.7 %
385	1.3 %	379	1.1 %	High risk	855	1.0 %	769	0.9 %
28 882		**32 884**		**Total non-matured or written down**	**85 588**		**80 716**	
355	1.2 %	112	0.3 %	Commitment in default	203	0.2 %	402	0.5 %
29 238	**100 %**	**32 995**	**100 %**	**Total retail banking customers**	**85 791**	**100 %**	**81 117**	**100 %**
				Corporate customers:				
23 793	53.0 %	24 753	54.4 %	Low risk	26 030	55.4 %	24 779	53.8 %
15 109	33.7 %	16 224	35.7 %	Medium risk	16 399	34.9 %	15 313	33.2 %
4 833	10.8 %	3 932	8.6 %	High risk	3 962	8.4 %	4 851	10.5 %
43 736		**44 909**		**Total non-matured or written down**	**46 391**		**44 942**	
1 147	2.6 %	580	1.3 %	Commitment in default	580	1.2 %	1 147	2.5 %
44 884	**100 %**	**45 489**	**100 %**	**Total corporate customers**	**46 971**	**100 %**	**46 089**	**100 %**
74 121		**78 484**		**Total commitments**	**132 762**		**127 206**	

MIGRATION BETWEEN RISK CLASSES DURING THE YEAR

For the Group, there has been a positive migration in the retail market portfolio. The overall risk to the retail market portfolio is assessed as highly satisfactory.

The business portfolio shows a clear migration from medium risk to low and high risk, with emphasis on migration to low-risk. The classification does not take into account collateral, only solvency.

MAXIMUM CREDIT RISK

Maximum exposure to credit risk, for the components of the balance sheet, including derivatives. Exposure is shown gross before any pledged security and permitted offsets.

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Assets		
10 936	5 644	Loans and advances to credit institutions	1 789	2 460
62 724	67 028	Net loans to costumers	116 653	111 577
18 329	17 743	Bonds and certificates	22 062	21 543
907	367	Financial derivatives	1 104	3 415
92 895	**90 782**	**Total credit risk exposure from balance sheet**	**141 608**	**138 996**
		Financial guarantee commitments, unutilised credits and loan approvals		
1 331	1 386	Guarantees	1 386	1 331
686	1 144	Unutilised credits to credit institutions		
9 648	10 008	Unutilised credits	14 695	13 868
517	634	Loan approvals	634	517
12 182	**13 172**	**Total financial guarantee commitments, unutilised credits and loan approvals**	**16 715**	**15 717**
105 077	**103 953**	**Total credit risk exposure**	**158 322**	**154 713**

Collateral

The Group uses a variety of collateral to reduce risk depending on the market and type of transaction. The main principle for assessing collateral is that the value is estimated to what it would be in a situation where the bank needs the collateral. Except for commitments where impairments have been recognised, the value of the collateral is calculated on a going concern basis. The valuation of collateral takes into account the estimated sales cost. The main types of collateral used are mortgages secured on dwellings (residential/ commercial), personal guarantees (consumer guarantees and surety), registrable movable property (inventory, plant and machinery) and receivables. The estimated value of residential as collateral for loans transferred to Sparebanken Sør Boligkreditt AS is updated quarterly, while collateral for other loans is updated when new credit applications are processed or commitments followed up, at the very least. The Group's loans generally have very good collateral.

Collateral in the retail market

Mortgages constitute the major part of the retail market portfolio, and the group's mortgage portfolio has the following LTV (Loan to Value) distribution.

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2021

	PARENT BANK		GROUP	
LTV 31.12.2021	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 331	6.3 %	10 751	15.2 %
40 - 50 %	1 427	6.7 %	9 994	14.1 %
50 - 60 %	3 005	14.1 %	17 673	24.9 %
60 - 70 %	5 215	24.5 %	18 714	26.4 %
70 - 75 %	3 567	16.8 %	6 097	8.6 %
75 - 80 %	2 260	10.6 %	2 744	3.9 %
80 - 85 %	1 677	7.9 %	1 892	2.7 %
85 - 90 %	1 041	4.9 %	1 141	1.6 %
90 - 95 %	709	3.3 %	757	1.1 %
95 - 100 %	575	2.7 %	659	0.9 %
Over 100 %	459	2.2 %	510	0.7 %
TOTAL	**21 265**	**100 %**	**70 933**	**100 %**

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2020

	PARENT BANK		GROUP	
LTV 31.12.2020	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 204	6.4 %	9 335	13.8 %
40 - 50 %	1 155	6.2 %	8 199	12.1 %
50 - 60 %	2 364	12.6 %	15 011	22.2 %
60 - 70 %	3 615	19.3 %	20 423	30.2 %
70 - 75 %	2 693	14.4 %	5 789	8.6 %
75 - 80 %	2 468	13.2 %	3 107	4.6 %
80 - 85 %	1 919	10.2 %	2 177	3.2 %
85 - 90 %	1 151	6.1 %	1 255	1.9 %
90 - 95 %	882	4.7 %	945	1.4 %
95 - 100 %	742	4.0 %	812	1.2 %
Over 100 %	558	3.0 %	596	0.9 %
TOTAL	**18 751**	**100 %**	**67 649**	**100 %**

It should be noted that the LTV ratio is based on a traditional ratio where the entire loan is placed in the interval where the "last part" of the loan belongs. This means that the real LTV ratio will be lower than shown in the table. For a loan that is embedded with a high loan-to-value ratio, only part of this loan volume will be in the interval with a high loan-to-value ratio, while most of the loan will be in the lower intervals.

Collateral in the commercial market

The measurement and assessment of collateral for corporate loans are more complex than for the retail market, and will be subject to greater uncertainty in estimates at the portfolio level. However, the bank frequently reviews the collaterals in its loan portfolio on an individual level.

NOTE 7 – DESCRIPTION OF THE LOSS MODEL UNDER IFRS 9

IMPAIRMENT MODEL

The model assessing the impairment of financial assets under IFRS 9, applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. The standard was implemented on 1 January 2018. See Note 1 for accounting policies related to descriptions. The same calculation model is used for the Group, mortgage company and Parent Bank, 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 allowance 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 significantly 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 significant 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 recognising loss allowance for expected credit losses as a result of expected default over the next 12 months.

Assessment of a significant increase in credit risk

The Bank use 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 significant and the level of risk itself to be not insignificant compared with that considered to be a low risk. In addition, any large absolute change must, under any circumstances, be regarded as a significant increase.

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

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

The absolute limit corresponds to risk class D.

If the economic cycle or national/regional development trends indicate that there is a higher risk in individual sectors/industries, this is included 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 2021, there is no lifetime PD model, but efforts are being made to get a model integrated.

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

The PD models are validated every year. Validations showes that the models overestimates. 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 account level and on not already recognised losses. Loss is calculated basen based on situation statement at the end of the month. The model also includes loan approvals, guarantees and unused credit limits. For loans where the credit risk has increased significantly after initial recognition, an impairment loss must be recognised for expected credit losses over the term of the loans. All model calculations are made at account level. Data that exists only at customer level, is linked to individual accounts. 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.

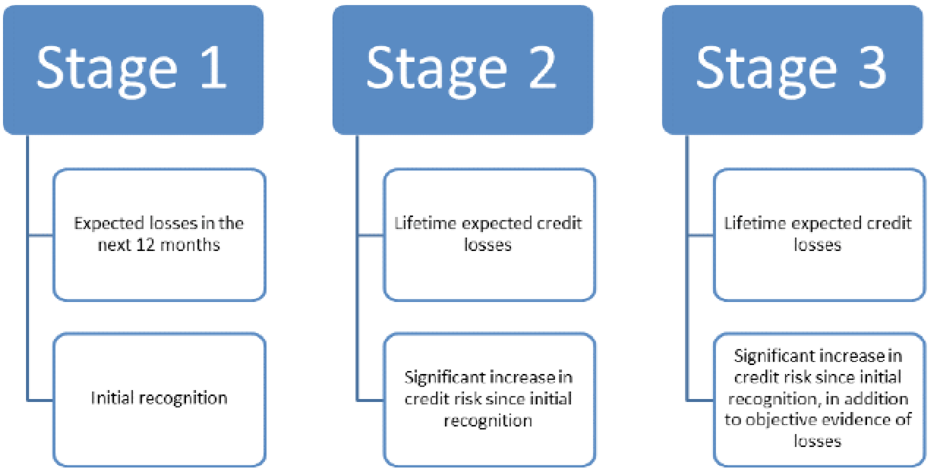
Loans approved but not discounted at the calculation date, must also be included in the basis of calculation.

Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The Group has no loss provisions with respect to these receivables for the financial year 2021. The low-risk exemption in IFRS 9 is used because the main emphasis on lending to credit institutions is linked to Norwegian banks. These have an assignment in risk class B and a PD of 0.175 percent. LGDs are considered to be low as they have good rating from external rating agencies. The Group considers that the condition of low credit risk is met on the balance sheet date and that the expected loss will be completely insignificant.

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 in 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 allowance have been recognised are excluded from the model-based calculation of loss allowance. Qualitatively assessed loss allowance are added to those in stage 3.

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

A customers commitment was 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. See also Note 11.



Stage 1

In most cases, this is 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 in stage 2 or 3 are covered by this stage. The estimated expected losses recognised in the balance sheet are equivalent to the expected losses over the next 12 months.

Stage 2

Financial assets that have had a significant increase in credit risk since initial recognition are placed in stage 2. Whether an account commitment has had a significant change or not, is defined as a function of the probability of default (PD) on the measurement date and the probability of default on the date of 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), a check will be made of whether there is a 30-day default/account overdrawn. If so, the commitment will be transferred to lifetime calculation (stage 2). This applies to overdrawn accounts from the first Norwegian krone, but older than 30 days.

- For commitments that qualify for a one-year loss calculation (stage 1), a check will be made of whether there is a larger overdraft. If so, the commitment will be transferred to lifetime calculation (stage 2). This applies to overdrawn amounts that are relatively larger than the credit limit, starting from the first day.
- Commitments with changed payment obligations (ex. instalment deferral) or refinancing resulting from payment issues (forbearance) are automatically moved to stage 2 (if initially under stage 1) .
- The commitments are also checked against an internal watch list that will detect commitment-specific forward-looking risk.

Stage 3

Stage 3 of the impairment model 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 individual loss allowance have been recognised, 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 for 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 dataset contains historical data about the observed probability of default (PD) and loss given default (LGD). This will form the basis for producing estimates of future PD and LGD values. The Bank's PD model gives PD at customer level, one year ahead. The Bank does not have a lifetime PD model. When calculating 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 step 2 may migrate back to step 1 if it no longer fulfils the criteria for migration mentioned above. There is no quarantine period before a commitment can migrate to a lower stage, except if the loan has been given a forbearance mark. For migration from step 3 to step 1 or step 2 the quarantine rules after default, will apply. All the customer accounts are in step 3 of the quarantine period. Commitments that have defaulted, will migrate to step 1 or 2 when they are no longer in default.

Forbearance and probation

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

Macroeconomic conditions and scenarios

In 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 obtain from Norges Bank, in addition to the latest updated figures for unemployment and house prices.

The following macro parameters are used in the model:

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

Macroeconomic variables as a basis of scenarios:

	2021	2022	2023	2024	2025
Housing price %	9.1	2.8	0.7	2.4	2.4
Housing price region %	9.1	2.8	0.7	2.4	2.4
Unemployment %	4.6	3.7	3.9	3.9	3.9
Oilprice, $	70.6	73.1	70.0	68.1	68.1
Key policy rate, $	0.1	0.8	1.5	1.7	1.7
Import-weighted exchange rate	108.8	107.8	105.0	104.3	104.3
USD	9.0	8.9	8.7	8.6	8.6
GDP %	3.5	2.7	1.5	2	2

Sparebanken Sør has largely secured loans in real estate, and setting parameters for house prices (including real estate) is considered to be a parameter that has a major impact 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 scenarios are applicable with effect from the date of calculation. This means that the first scenario period is in progress at the time of 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 an expectation of stable and moderate global economic growth, 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 Bank 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	CM
Weighted optimistic scenario	20.0%	20.0%
Weighted realistic scenario	60.0%	60.0%
Weighted pessimistic scenario	20.0%	20.0%

Sensitivities

To a large extent, Sparebanken Sør has loans secured by property. This is considered to be one of the parameters that affect LGD the most. Because the Group has a large proportion of mortgages in real estate, a sensitivity analysis has been performed relating to the changes in the portfolio's collateral. 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:

GROUP 31.12.2021				
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 % increase in unemployment
Loan loss provisions, CM	46	100	165	4
Loan loss provisions, RM	11	25	42	2
Total	**57**	**125**	**208**	**6**

PARENT BANK 31.12.2021				
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 % increase in unemployment
Loan loss provisions, CM	46	100	164	4
Loan loss provisions, RM	5	12	20	1
Total	**51**	**112**	**185**	**5**

GROUP 31.12.2020				
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	53	117	193	11
Loan loss provisions, RM	11	25	41	9
Total	**64**	**142**	**234**	**20**

PARENT BANK 31.12.2020				
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	53	116	193	11
Loan loss provisions, RM	5	12	20	5
Total	**58**	**128**	**213**	**16**

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 2021

No model changes in 2021 - only changed PD scenarios according to macro forecasts.

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

Losses on loans

Provisions for loss allowances and loss expense for the period are calculated according to the new accounting standard IFRS 9 and are based on expected credit loss (ECL) using the 3-stage model described in Note 7 to the financial statements.

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

The COVID-19 pandemic led to significant changes in the macro varaibles in 2020 and for large parts of 2021. In the last part of the year, multiple parameters has improved. The norwegian economy is again pointing upwords.

The Group's provisions for loss allowances as of 31 December 2021 is based on new assumptions. For an overview of macros used and sensitivity analyzes, see note 7.

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
58	-12	Period's change inn write-downs stage 1	-13	61
26	-16	+ Period's change inn write-downs stage 2	-15	23
-3	5	+ Period's change inn write-downs stage 3	6	-2
8	12	+ Period's confirmed loss	12	8
4	2	+ Recognised as interest income	2	4
12	12	- Period's recoveries relating to previous losses	12	12
-1	0	+ Change in write downs on guaranties	0	-1
81	**-20**	**= Loss expenses during the period**	**-18**	**83**

The balance of confirmed losses as at 31. December 2021 was NOK 111 million. The equivalent figure as at 31 December 2020 was NOK 116 million. This applies to loans which have been derecognised and which the Group is still working to collect.

PROVISIONS FOR LOAN LOSSES BY STAGE

PARENT BANK				31.12.2021				GROUP
Stage 1	Stage 2	Stage 3				Stage 3	Stage 2	Stage 1
Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total	NOK MILLION	Total	Lifetime expected credit losses	Lifetime expected credit losses	Expected losses in the next 12 months
94	**145**	**217**	**457**	**Provisions for loan losses as at 01.01**	**468**	**217**	**149**	**101**
				Transfers				
42	-29	-13	0	Transferred to stage 1	0	-13	-30	43
-7	9	-2	0	Transferred to stage 2	0	-2	9	-7
-1	-2	3	0	Transferred to stage 3	0	3	-2	-1
36	36	2	74	Losses on new loans	77	2	37	38
-17	-40	-7	-65	Losses on deducted loans *	-68	-7	-41	-19
-65	11	-2	-55	Losses on older loans and other changes	-53	1	13	-68
83	**129**	**199**	**411**	**Provisions for loan losses as at 31.12**	**424**	**202**	**135**	**88**
69	118	197	384	Provisions for loan losses	397	199	123	74
13	11	3	27	Provisions for guarantees and undrawn credits	27	3	11	13
83	**129**	**199**	**411**	**Total provision for losses as at 31.12**	**424**	**202**	**135**	**88**

PARENT BANK				31.12.2020				GROUP
Stage 1	Stage 2	Stage 3				Stage 3	Stage 2	Stage 1
Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total	NOK MILLION	Total	Lifetime expected credit losses	Lifetime expected credit losses	Expected losses in the next 12 months
37	**120**	**230**	**387**	**Provisions for loan losses as at 01.01**	**397**	**231**	**126**	**39**
				Transfers				
35	-30	-5	0	Transferred to stage 1	0	-5	-32	37
-4	15	-11	0	Transferred to stage 2	0	-11	15	-4
0	-2	2	0	Transferred to stage 3	0	2	-2	0
36	37	30	103	Losses on new loans	108	30	38	40
-9	-24	-41	-74	Losses on deducted loans *	-77	-41	-26	-9
0	30	11	40	Losses on older loans and other changes	40	11	31	-2
94	**145**	**217**	**457**	**Provisions for loan losses as at 31.12**	**468**	**217**	**149**	**101**
81	125	213	418	Provisions for loan losses	429	213	129	87
13	21	5	39	Provisions for guarantees and undrawn credits	39	5	21	13
94	**145**	**217**	**457**	**Total provision for losses as at 31.12**	**468**	**217**	**149**	**101**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

Expected annual average net loss

Loss allowance totaling NOK 424 million were recognised in connection with losses on loans, guarantees and unused credit facilities as at 31 December 2021 (NOK 468 million in individual impairments as at 31 December 2020). These relate to different risk classes.

All commitments to the corporate market are priced individually on the basis of, among other things, risk, profitability requirement and competitive situation. The pricing therefore reflects the risk relating to the commitment, and margins obtained are generally greater at higher risk.

Mortgage loans are priced using a price matrix which reflects both loan to value and risk classification.

The Group has made provisions for expected losses, which has led to somewhat greater fluctuations in the loss expense over the year. Fluctuations in loss expenses are also expected in the future. The loss provisions in 2021 are back at the same level as before the pandemic. Based on the composition of the Bank's loan portfolio, the state of the economy and local market conditions, it is expected that losses in Sparebanken Sør overall will remain at a low level in 2022. The Bank's goal of keeping its total loss level below 0.20 percent of gross loans is maintained for the period 2019–2021.

2020				**GROUP/PARENT BANK Corporate Customers excl. Self-employed**				**2021**
Stage 1	**Stage 2**	**Stage 3**				**Stage 3**	**Stage 2**	**Stage 1**
Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total	NOK MILLION	Total	Lifetime expected credit losses	Lifetime expected credit losses	Expected losses in the next 12 months
33	**107**	**192**	**331**	**Provisions for loan losses as at 01.01**	**400**	**175**	**137**	**88**
				Transfers				
31	-27	-5	0	Transferred to stage 1	0	-12	-27	39
-4	14	-10	0	Transferred to stage 2	0	-1	8	-7
0	-1	2	0	Transferred to stage 3	0	3	-2	-1
35	34	25	94	Losses on new loans	66	2	31	33
-8	-24	-34	-66	Losses on deducted loans *	-60	-6	-38	-16
2	32	6	41	Losses on older loans and other changes	-51	0	10	-60
88	**137**	**176**	**401**	**Provisions for loan losses as at 31.12**	**355**	**160**	**118**	**77**
77	116	171	364	Provisions for loan losses	330	158	108	64
12	20	5	37	Provisions for losses on guarantees and undrawn credits	26	2	11	12
88	**137**	**176**	**401**	**Total provision for losses as at 31.12**	**355**	**160**	**118**	**77**

PARENT BANK				Retail Customers incl. Self-employed				GROUP
Stage 1	Stage 2	Stage 3				Stage 3	Stage 2	Stage 1
Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total	31.12.2021 NOK MILLION	Total	Lifetime expected credit losses	Lifetime expected credit losses	Expected losses in the next 12 months
6	**9**	**41**	**56**	**Provisions for loan losses as at 01.01**	**68**	**42**	**13**	**13**
				Transfers	0	0	0	0
3	-2	-1	0	Transferred to stage 1	0	-1	-3	4
0	0	0	0	Transferred to stage 2	0	0	1	-1
0	0	0	0	Transferred to stage 3	0	0	0	0
2	5	0	7	Losses on new loans	11	0	6	4
-1	-2	-1	-5	Losses on deducted loans *	-8	-1	-3	-3
-4	1	-1	-4	Losses on older loans and other changes	-2	1	3	-7
6	**11**	**39**	**56**	**Provisions for loan losses as at 31.12**	**69**	**42**	**16**	**11**
5	10	39	54	Provisions for loan losses	67	41	16	10
1	0	0	1	Provisions for losses on guarantees and undrawn credits	2	0	0	1
6	**11**	**39**	**56**	**Total provision for losses as at 31.12**	**69**	**42**	**16**	**11**

PARENT BANK				Retail Customers incl. Self-employed				GROUP
Stage 1	Stage 2	Stage 3				Stage 3	Stage 2	Stage 1
Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total	31.12.2020 NOK MILLION	Total	Lifetime expected credit losses	Lifetime expected credit losses	Expected losses in the next 12 months
4	**13**	**38**	**56**	**Provisions for loan losses as at 01.01**	**65**	**40**	**19**	**6**
				Transfers				
3	-3	0	0	Transferred to stage 1	0	0	-6	6
0	1	0	0	Transferred to stage 2	0	0	1	0
0	-1	1	0	Transferred to stage 3	0	1	-1	0
2	2	5	9	Losses on new loans	14	5	3	5
-1	-1	-7	-9	Losses on deducted loans *	-11	-7	-3	-1
-3	-3	5	-1	Losses on older loans and other changes	-1	5	-1	-5
6	**9**	**42**	**56**	**Provisions for loan losses as at 31.12**	**68**	**42**	**13**	**13**
5	8	42	55	Provisions for loan losses	66	42	12	11
1	0	0	2	Provisions for losses on guarantees and undrawn credits	2	0	0	1
6	**9**	**42**	**56**	**Total provision for losses as at 31.12**	**68**	**42**	**13**	**13**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

IMPAIRMENT BY SECTOR, INDUSTRY AND STAGE

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Loss allowances as of 31.12.21	NOK MILLION	Loss allowances as of 31.12.21	Stage 3	Stage 2	Stage 1
5	9	26	41	Retail customers	56	29	18	9
0	0	0	0	Public administration	0	0	0	0
2	2	3	7	Primary Industry	7	3	2	2
1	6	5	12	Manufactoring industry	12	5	6	1
12	20	48	80	Real estate development	80	48	20	12
5	3	16	24	Building and construction industry	24	16	3	5
42	60	74	176	Property management	175	74	58	43
1	0	1	2	Transport	2	1	1	1
4	16	10	30	Retail trade	29	10	15	4
2	4	2	7	Hotel and restaurants	7	2	4	2
1	1	0	2	Housing cooperatives	2	0	1	1
2	4	13	19	Financial/commercial services	19	13	4	2
6	3	1	9	Social services	9	1	3	6
83	**129**	**199**	**411**	**Total impairment losses on loans, guarantees and undrawn credit**	**424**	**202**	**135**	**88**
69	118	197	384	*Impairment losses on lending*	397	199	123	74
13	11	3	27	*Impairment losses on unused credits and guarantees*	27	3	11	13
83	**129**	**199**	**411**	**Total impairment losses**	**424**	**202**	**135**	**88**

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Loss allowances as of 31.12.20	NOK MILLION	Loss allowances as of 31.12.20	Stage 3	Stage 2	Stage 1
5	7	28	40	Retail customers	53	29	13	11
0	0	0	0	Public administration	0	0	0	0
1	1	3	5	Primary Industry	5	3	1	1
3	8	4	15	Manufactoring industry	15	4	8	3
17	27	52	95	Real estate development	95	52	26	17
3	7	12	23	Building and construction industry	23	12	7	3
49	75	89	213	Property management	212	89	73	49
1	0	1	2	Transport	2	1	0	1
4	8	13	26	Retail trade	26	13	8	4
1	2	2	5	Hotel and restaurants	5	2	2	1
2	2	0	4	Housing cooperatives	4	0	2	2
2	3	12	17	Financial/commercial services	17	12	3	2
7	4	2	13	Social services	13	2	4	7
94	**145**	**217**	**457**	**Total impairment losses on loans, guarantees and undrawn credit**	**468**	**218**	**149**	**101**
81	125	213	418	*Impairment losses on lending*	429	213	129	87
13	21	5	39	*Impairment losses on unused credits and guarantees*	39	5	21	13
94	**145**	**217**	**457**	**Total impairment losses**	**468**	**218**	**149**	**101**

The presentation of industries is based on official industrial codes and is grouped as the Group reports these internally.

NOTE 9 – LOANS BROKEN DOWN BY STAGE

CHANGE IN GROSS LOANS BY STAGE

PARENT BANK				31.12.2021				GROUP
				NOK MILLION				
Stage 1*	Stage 2	Stage 3	Total	GROSS LOANS	Total	Stage 3	Stage 2	Stage 1*
54 336	**7 877**	**929**	**63 143**	**Gross loans as at 01.01**	**112 007**	**983**	**9 697**	**101 326**
1 698	-1 645	-54	-0	Transferd to stage 1	-0	-67	-2 311	2 378
-2 282	2 294	-13	-0	Transferd to stage 2	**-0**	-15	3 574	-3 559
-116	-106	221	0	Transferd to stage 3	0	286	-127	-160
-6 698	-34	-103	-6 836	Net change on present loans	-9 070	-109	-136	-8 825
26 225	2 893	-119	28 998	New loans	43 988	-112	3 302	40 797
-15 138	-2 420	-194	-17 752	Derecognised loans	-29 735	-206	-2 953	-26 576
-141			-141	Change in value during the period	-141			-141
57 884	**8 860**	**668**	**67 412**	**Gross loan as at 31.12.**	**117 049**	**762**	**11 047**	**105 240**
			43 129	Of which loan at amortised cost	112 046			
			19 280	Of which loan at fair value through OCI				
			5 003	Of which loan at fair value	5 003			

PARENT BANK				31.12.2020				GROUP
				NOK MILLION				
Stage 1*	Stage 2	Stage 3	Total	GROSS LOANS	Total	Stage 3	Stage 2	Stage 1*
56 796	**8 746**	**1 004**	**66 546**	**Gross loans as at 01.01**	**106 705**	**1 038**	**10 710**	**94 956**
1 873	-1 841	-32	-0	Transferd to stage 1	-0	-36	-2 694	2 730
-1 958	1 980	-22	0	Transferd to stage 2	**-0**	-23	2 897	-2 873
-117	-91	208	0	Transferd to stage 3	0	230	-102	-128
3 501	-216	-74	3 211	Net change on present loans	1 593	-76	-276	1 945
13 051	2 050	30	15 131	New loans	34 586	43	2 449	32 095
-18 825	-2 752	-185	-21 762	Derecognised loans	-30 893	-193	-3 286	-27 415
16			16	Change in value during the period	16			16
54 336	**7 877**	**929**	**63 143**	**Gross loan as at 31.12.**	**112 007**	**983**	**9 697**	**101 326**
			40 832	Of which loan at amortised cost	106 431			
			16 735	Of which loan at fair value through OCI				
			5 576	Of which loan at fair value	5 576			

* Loans at fair value have previously been reported on a separate row in note 8 in the annual accounts for 2020. These loans are included in the annual report as part of step 1.
This is because these loans are valued on an ongoing basis at fair value and are not included in the model calculations in accordance with IFRS 9.

PARENT BANK

31.12.2020 Stage 1	Stage 2	Stage 3	Total	NOK MILLION GROSS LOAN ASSESSED AT AMORTISED COST	31.12.2021 Total	Stage 3	Stage 2	Stage 1
31 866	**6 378**	**863**	**39 106**	**Gross loans assessed at amortised cost 01.01**	**40 832**	**817**	**6 013**	**34 001**
1 405	-1 376	-29	0	Transferd to stage 1	0	-40	-1 337	1 377
-1 508	1 524	-16	0	Transferd to stage 2	0	-8	1 883	-1 875
-94	-80	174	0	Transferd to stage 3	0	215	-101	-113
3 934	-186	-61	3 687	Net change on present loans	-6 677	-96	-29	-6 553
4 587	1 164	18	5 768	New loans	16 225	-122	1 364	14 982
-6 189	-1 409	-131	-7 730	Derecognised loans	-7 250	-140	-1 355	-5 755
34 001	**6 013**	**817**	**40 832**	**Gross loan assessed at amortised cost 31.12**	**43 129**	**627**	**6 438**	**36 064**

PARENT BANK

31.12.2020 Stage 1	Stage 2	Stage 3	Total	NOK MILLION GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME	31.12.2021 Total	Stage 3	Stage 2	Stage 1
19 241	**2 369**	**141**	**21 751**	**Gross loan through other comprehensive income 01.01**	**16 735**	**112**	**1 864**	**14 758**
468	-464	-3	-	Transferd to stage 1	-0	-14	-308	321
-451	456	-6	-	Transferd to stage 2	-0	-5	412	-407
-23	-11	34	-	Transferd to stage 3	0	7	-4	-2
-434	-29	-13	-476	Net change on present loans	-158	-8	-5	-145
7 213	886	12	8 112	New loans	11 956	3	1 528	10 425
-11 256	-1 343	-53	-12 652	Derecognised loans	-9 253	-54	-1 065	-8 135
14 758	**1 864**	**112**	**16 735**	**Gross loan through other comprehensive income 31.12**	**19 280**	**41**	**2 422**	**16 817**

CHANGE IN UNDRAWN CREDITS AND GUARANTEES (OFF BALANCE) BY STAGE

PARENT BANK — 31.12.2021 — GROUP

Stage 1	Stage 2	Stage 3	Total	NOK MILLION UNDRAWN CREDITS AND GUARANTEES (off balance)	Total	Stage 3	Stage 2	Stage 1
9 448	**1 344**	**76**	**10 869**	**Undrawn credits and guarantees as at 01.01.**	**15 035**	**76**	**1 373**	**13 587**
333	-328	-5	0	Transferred to stage 1	-0	-6	-343	348
-292	298	-6	0	Transferred to stage 2	**-0**	-6	325	-319
-11	-2	13	0	Transferred to stage 3	0	13	-2	-11
-1 264	-269	1	-1 532	Net change on present loans	-1 361	2	-251	-1 112
2 933	349	5	3 287	New loans	3 718	5	357	3 357
-1 090	-436	-24	-1 550	Derecognised loans	-1 681	-24	-440	-1 217
10 056	**956**	**60**	**11 072**	**Undrawn credits and guarantees as at 31.12**	**15 712**	**60**	**1 018**	**14 634**

PARENT BANK — 31.12.2020 — GROUP

Stage 1	Stage 2	Stage 3	Total	NOK MILLION UNDRAWN CREDITS AND GUARANTEES (off balance)	Total	Stage 3	Stage 2	Stage 1
9 923	**1 096**	**34**	**11 054**	**Undrawn credits and guarantees as at 01.01.**	**14 517**	**35**	**1 120**	**13 362**
434	-431	-3	0	Transferred to stage 1	-0	-3	-440	443
-372	374	-2	0	Transferred to stage 2	**0**	-2	392	-390
-50	-3	53	0	Transferred to stage 3	-0	53	-3	-50
169	-54	-14	101	Net change on present loans	245	-16	-61	321
1 015	621	13	1 648	New loans	2 206	13	627	1 566
-1 670	-260	-5	-1 935	Derecognised loans	-1 933	-5	-262	-1 666
9 448	**1 344**	**76**	**10 869**	**Undrawn credits and guarantees as at 31.12**	**15 035**	**76**	**1 373**	**13 587**

CHANGE IN GROSS LOANS BETWEEN RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED AND CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED

31.12.2021				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED				
PARENT BANK				NOK MILLION				GROUP
Stage 1	Stage 2	Stage 3	Total	GROSS LOANS	Total	Stage 3	Stage 2	Stage 1
24 738	**3 120**	**220**	**28 077**	**Gross loans as at 01.01**	**76 941**	**268**	**4 940**	**71 733**
751	-729	-22	0	Transferd to stage 1	0	-35	-1 396	1 431
-841	856	-15	0	Transferd to stage 2	**0**	-17	2 136	-2 119
-15	-11	26	0	Transferd to stage 3	0	91	-32	-60
-456	-34	-11	-501	Net change on present loans	-2 735	-16	-136	-2 583
13 456	1 899	6	15 360	New loans	30 351	13	2 308	28 029
-10 130	-1 339	-63	-11 533	Derecognised loans	-23 516	-69	-1 872	-21 575
27 502	**3 761**	**141**	**31 404**	**Gross loans as at 31.12**	**81 040**	**235**	**5 948**	**74 857**

31.12.2020				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED				
PARENT BANK				NOK MILLION				GROUP
Stage 1	Stage 2	Stage 3	Total	GROSS LOANS	Total	Stage 3	Stage 2	Stage 1
29 369	**3 611**	**222**	**33 202**	**Gross loans as at 01.01**	**73 360**	**252**	**5 574**	**67 533**
887	-881	-6	0	Transferd to stage 1	0	-10	-1 734	1 744
-931	937	-6	0	Transferd to stage 2	**0**	-7	1 853	-1 846
-35	-40	75	0	Transferd to stage 3	0	97	-51	-46
-977	-50	-10	-1 037	Net change on present loans	-2 654	-12	-110	-2 532
9 977	1 220	23	11 220	New loans	30 675	34	1 618	29 022
-13 552	-1 677	-79	-15 308	Derecognised loans	-24 440	-87	-2 211	-22 142
24 738	**3 120**	**220**	**28 077**	**Gross loans as at 31.12**	**76 941**	**268**	**4 940**	**71 733**

PARENT BANK/GROUP				CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED				
31.12.2020				NOK MILLION				31.12.2021
Stage 1	Stage 2	Stage 3	Total	GROSS LOANS	Total	Stage 3	Stage 2	Stage 1
26 793	**5 760**	**791**	**33 344**	**Gross loans as at 01.01**	**35 066**	**716**	**5 383**	**28 966**
1 184	-1 155	-28	0	Transferd to stage 1	0	-34	-1 120	1 154
-1 271	1 287	-16	0	Transferd to stage 2	**0**	-2	1 647	-1 645
-82	-56	138	0	Transferd to stage 3	0	195	-95	-100
4 204	-216	-64	3 923	Net change on present loans	-6 655	-93	-30	-6 532
2 996	993	7	3 995	New loans	13 455	-125	1 110	12 469
-4 857	-1 229	-111	-6 198	Derecognised loans	-5 856	-130	-1 172	-4 554
28 966	**5 383**	**716**	**35 066**	**Gross loans as at 31.12**	**36 009**	**528**	**5 723**	**29 759**

The presentation between retail and corporate customers is divided according to official sector codes. In these tables, self-employed are allocated to retail customers. The tables are not comparable with other distributions in other notes.

Sparebanken Sør Boligkreditt AS only has customers classified as retail customers in this note. For corporate customers, the tables for parent bank and group will therefore be the same.

NOTE 10 - LOANS BROKEN DOWN BY TYPE, GEOGRAPHICAL AREA, SECTOR AND INDUSTRY

GROSS LOANS BY TYPE

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Loans valued at amortised cost		
6 119	7 415	Overdraft- and working capital facilitie	19 650	17 159
4 457	4 092	Building loans	4 092	4 457
30 144	31 494	Repayment loans	88 133	84 665
40 720	**43 001**	**Total loans valued at amortised cost**	**111 875**	**106 280**
		Loan designated at fair value through income statement		
16 735	19 280	Mortgages		
5 575	5 003	Fixed rate loans	5 007	5 580
22 310	**24 283**	**Total loans designated at fair value through income statement**	**5 007**	**5 580**
112	128	Accrued interest	167	147
63 142	**67 412**	**TOTAL GROSS LOANS**	**117 049**	**112 007**
-418	-384	Impairment losses on lending	-396	-429
62 724	**67 028**	**TOTAL NET LOANS**	**116 653**	**111 577**

For impairments, see Note 8 Losses and impairments on loans, guarantees and undrawn credit facilities.

GROSS LOANS BY GEOGRAPHICAL AREA

PARENT BANK					GROUP			
31.12.2020		31.12.2021		NOK MILLION	31.12.2021		31.12.2020	
40 227	63.7 %	43 529	64.6 %	Agder	76 494	65.4 %	74 976	66.9 %
7 553	12.0 %	9 319	13.8 %	Vestfold og Telemark	15 286	13.1 %	13 761	12.3 %
4 647	7.4 %	6 014	8.9 %	Oslo	10 425	8.9 %	9 499	8.5 %
1 839	2.9 %	1 770	2.6 %	Akershus	4 987	4.3 %	3 782	3.4 %
1 760	2.8 %	2 439	3.6 %	Rogaland	4 213	3.6 %	2 421	2.2 %
7 004	11.1 %	4 213	6.2 %	Others	5 479	4.7 %	7 421	6.6 %
112	0.2 %	128	0.2 %	Accrued interests	167	0.1 %	147	0.1 %
63 142	**100.0 %**	**67 412**	**100.0 %**	**Total gross loans**	**117 049**	**100.0 %**	**112 007**	**100.0 %**

The geographical breakdown is based on the customer’s home/business address.

GROSS LOANS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
25 956	29 357	Retail customers	77 549	73 662
567	430	Public administration	431	567
1 181	1 381	Primary industry	1 497	1 272
806	764	Manufacturing industry	840	861
4 146	3 666	Real estate development	3 632	4 104
1 365	1 433	Building and construction industry	1 726	1 623
19 270	19 579	Property management	19 648	19 303
507	500	Transport	594	590
1 288	1 401	Retail trade	1 519	1 395
369	400	Hotel and restaurant	430	399
1 281	1 494	Housing cooperatives	1 496	1 281
864	929	Financial/commercial services	1 198	1 094
5 428	5 950	Social services	6 322	5 707
112	128	Accrued interests	167	147
63 142	**67 412**	**TOTAL GROSS LOANS**	**117 049**	**112 007**
418	384	Impairment losses	397	429
62 724	**67 028**	**TOTAL NET LOANS**	**116 653**	**111 577**

GUARANTEES BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
11	11	Retail customers	11	11
3	3	Public administration	3	3
2	36	Primary industry	36	2
234	262	Manufacturing industry	262	234
357	336	Real estate development	336	357
246	239	Building and construction industry	239	246
129	161	Property management	161	129
82	90	Transport	90	82
168	165	Retail trade	165	168
8	10	Hotel and restaurant	10	8
0	0	Housing cooperatives	0	0
31	40	Financial/commercial services	40	31
60	35	Social services	35	60
1 331	**1 386**	**TOTAL GUARANTEES**	**1 386**	**1 331**

UNDRAWN CREDIT BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
3 226	3 487	Retail customers	8 012	7 351
359	312	Public administration	312	359
153	309	Primary industry	323	158
488	436	Manufacturing industry	441	491
940	966	Real estate development	966	982
672	733	Building and construction industry	756	684
1 598	1 589	Property management	1 593	1 588
71	52	Transport	59	76
911	794	Retail trade	801	917
76	65	Hotel and restaurant	65	76
44	12	Housing cooperatives	12	43
237	235	Financial/commercial services	265	261
873	698	Social services	721	883
9 648	**9 687**	**TOTAL UNDRAWN CREDITS**	**14 327**	**13 868**

COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
29 194	32 855	Retail customers	85 572	81 024
929	744	Public administration	745	929
1 337	1 725	Primary industry	1 856	1 433
1 528	1 462	Manufacturing industry	1 542	1 585
5 443	4 968	Real estate development	4 934	5 443
2 283	2 405	Building and construction industry	2 720	2 553
20 997	21 328	Property management	21 401	21 020
660	642	Transport	743	747
2 367	2 360	Retail trade	2 485	2 480
454	475	Hotel and restaurant	504	483
1 325	1 506	Housing cooperatives	1 509	1 325
1 132	1 204	Financial/commercial services	1 504	1 386
6 361	6 683	Social services	7 078	6 650
112	128	Accrued interests	167	147
74 121	**78 484**	**TOTAL COMMITMENTS**	**132 762**	**127 206**

NOTE 11 – NON-PERFORMING LOANS

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

A customer's commitment is defined as default if the contractual payments have been overdue for more than 90 days and the amount exceeds 1 percent of the customer's obligations and NOK 1 000 for the mass market and NOK 2 000 for corporate customers (payment default).

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

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

A customer's commitment is defined as default if qualitative assessments are made that indicate that the borrower is not fulfilling its obligations. Qualitative assessments are made when observable data relating to the exposure is available, for example information regarding significant financial difficulties for the issuer or borrower. This applies 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.

All defaults are followed by a quarantine period that begins when all the customer's default triggers have ceased. During the quarantine period, the customer is considered in default, and the period lasts for 3 months or 12 months, depending on the reason for the default.

NON-PERFORMING COMMITMENTS

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
961	**691**	**Total non-performing loans (step 3)**	**783**	**1 009**
217	199	Impairment losses in stage 3	202	218
744	**492**	**Net non-performing loans**	**581**	**791**
22.6 %	28.8 %	Provisioning non-performing loans	25.8 %	21.6 %
1.52 %	**1.03 %**	**Total non-performing loans in % of gross loans**	**0.67 %**	**0.90 %**

GROSS NON-PERFORMING COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
192	112	Retail banking customers	203	241
769	580	Corporate customers	580	769
961	**691**	**Total defaulted commitments**	**783**	**1 009**
0	0	Public administration	0	0
8	5	Primary industry	5	8
15	12	Manufacturing industry	12	15
309	192	Real estate development	192	309
32	29	Building and construction industry	29	32
316	241	Property management	241	316
3	3	Transport	3	3
42	24	Retail trade	24	42
6	8	Hotel and restaurant	8	6
0	0	Housing cooperatives	0	0
35	62	Financial/commercial services	62	35
3	2	Social services	2	3
769	**580**	**Total corporate customers**	**580**	**769**

The weighted average collateral coverage was 81 percent for non-performing commitments as at 31 December 2021 and 74 percent as at 31 December 2020. Collateral coverage is the extent of the pledged security linked to each loan, and cannot exceed 100 percent.

FORBEARANCE

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
201	221	Step 2	339	229
50	49	Step 3	55	50
251	**269**	**Total exposures with forbearance measures**	**394**	**279**

Commitments provided with forbearance, are debt contracts where payment facilities have been granted to a debtor who has, or is about to have, problems in fulfilling his financial obligations. Commitments provided with forbearance, may be performing or initially non-performing. If a customer receives payment reliefs, the whole customer commitment will be in forebearence. Factors causing forbearance will be changes in repayments, e.g. installments postponements and refinancing as result of payment issues. When a commitment is listed forbearance, a transfer to stage 2 automatically will take place, if initially in stage 1. 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.

The bank followed the guidelines that EBA published regarding forbearance (payment moratoria) in April 2020. Payment moratoria as a result of the coronavirus pandemic has not been marked as forbearance and is not included in the table above. This issue mainly concerned loans til retail customers secured by mortage in residential property. Estimated losses were insignificant.

NOTE 12 – EXCHANGE RATE RISK

The table states the net currency position for Sparebanken Sør, including financial derivatives. Under the Bank's internal rules, the maximum effect on profit in the event of a 25 percent movement in exchange rates must not be more than NOK 10 million.

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
2	2	Net foreign currency position	2	2
0	0	Income effect at 25% change	0	0

NOTE 13 – INTEREST RATE RISK

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

Interest rate sensitivity

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

1) parallel shock up

2) parallel shock down

3) steepener shock – short rates down, long rates up

4) flattener shock – short rates up, long rates down

5) short rates shock up

6) short rates shock down

PARENT BANK			31.12.2021			
< 3 mnd.	> 3 mnd.	Total	NOK MILLION	Total	> 3 mnd.	< 3 mnd.
15	0	15	Parallel shock up 2 %	37	-10	46
-15	0	-15	Parallel shock down 2 %	-37	10	-46
-22	-11	-33	Steepener shock	-78	-9	-69
22	11	33	Flattener shock	78	9	69
22	15	37	Short rates shock up 3 %	82	13	69
-22	-15	-37	Short rates shock down 3 %	-82	-13	-69

PARENT BANK			31.12.2020			
< 3 mnd.	> 3 mnd.	Total	NOK MILLION	Total	> 3 mnd.	< 3 mnd.
-11	-7	-19	Parallel shock up 2 %	-7	-23	17
11	7	19	Parallel shock down 2 %	7	23	-17
17	-13	4	Steepener shock	-33	-8	-25
-17	13	-4	Flattener shock	33	8	25
-17	14	-3	Short rates shock up 3 %	32	8	25
17	-14	3	Short rates shock down 3 %	-32	-8	-25

At group level, the board has adopted a risk target for interest rate risk of less than 3 months and a risk framework for interest rate risk of more than 3 months. Under the Bank's internal rules, this effect must not exceed NOK 40 million beyond 3 months for the group.

NOTE 14 – LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to meet its obligations, or being unable to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, general guidelines and procedures, and through established loan approval authorisations. Key operational management parameters are the requirement for deposit-to-loan ratio, indicator value of long-term funding, stress indicator for liquidity coverage within 30 days (LCR) and, in addition, guidelines for ability to survive in situations where there is no access to market funding. The liquidity risk is also managed by securing funding from the capital market with various maturities, funding sources and instruments. Periodic stress testing of liquidity risk is carried out, and there are established contingency and recovery plans for the Group.

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2021, the Group's deposit-to-loan ratio was 54.1 percent, up from 53.6 percent at 31 December 2020.

In addition, Sparebanken Sør Boligkreditt AS is an important funding instrument, ensuring access to long-term funding through the issuance of covered bonds. In order to issue covered bonds, mortgage loans equivalent to 64 percent of the total mortgage volume were transferred from the Bank to the mortgage loan company as at 31 December 2021 (70 percent as at 31 December 2020).

Target requirements adopted by the Board of Directors for the Bank's liquidity risk comply with guidelines issued by the Financial Supervisory Authority of Norway. At year-end, Sparebanken Sør fulfilled the Board-adopted requirements.

The Group has an extensive liquidity reserve in the form of liquid interest-bearing securities. The Bank also has mortgages cleared for transfer to the mortgage company. At year-end, the Bank's interest-bearing liquidity portfolio, composed of government securities, other zero-weighted securities, covered bonds and municipal bonds, totaled NOK 22.1 billion.

The Bank's short-term liquidity risk is managed partly through the Liquidity Coverage Requirement (LCR) imposed by the authorities. At the end of 2021, the LCR indicator for Sparebanken Sør was 140 percent (173 percent at 31 December 2020). This is sufficient to meet all projected liquidity maturities within the next 30 days under a stress scenario. The requirement was 100 percent at 31 December 2021. The requirement is applicable at all times.

The Group's liquidity risk is followed up through periodic reporting to Group Management and the Board of Directors.

LIQUIDITY RISK

The tables show cash flows including contractual interest payments. Consequently, the size of the figures cannot be reconciled with the balance sheet.

						GROUP 31.12.2021
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	2 253	396	6	25	1 826	0
Deposits from customers	63 165	56 828	4 301	2 036		
Debt incurred due to issue of securities	58 645	20	1 190	8 992	32 281	16 162
Other liabilities	660	134	122	359	15	30
Senior non-preferred	3 554	0	2 554	0	0	1 000
Subordinated loan capital	1 662	0	0	0	1 662	0
Loan commitments and unused credit facilities	14 502	14 502				
Total liabilities	**144 442**	**71 881**	**8 173**	**11 412**	**35 785**	**17 191**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-37 638	-4 295	-7 122	-132	-16 063	-10 026
Payment received	37 318	4 314	6 535	248	15 916	10 305
Total derivative obligations	**-320**	**19**	**-587**	**115**	**-147**	**280**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2021
Liabilities /non-derivative obligations						
Debts to credit institutions	2 234	377	6	25	1 826	0
Deposits from customers	63 204	56 867	4 301	2 036		
Debt incurred due to issue of securities	10 374	0	1 077	3 776	5 522	0
Other liabilities	551	128	117	261	15	30
Senior non-preferred	3 554	0	2 554	0	0	1 000
Subordinated loan capital	1 662	0	0	0	1 662	0
Loan commitments and unused credit facilities	10 282	10 282				
Total liabilities	**91 862**	**67 654**	**8 055**	**6 098**	**9 026**	**1 030**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-7 562	-4 295	-2 134	-132	-1 000	0
Payment received	7 387	4 314	1 841	248	984	0
Total derivative obligations	**-175**	**19**	**-293**	**115**	**-16**	**0**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						GROUP 31.12.2020
Liabilities /non-derivative obligations						
Debts to credit institutions	6 441	2 177	2 514	0	1 750	0
Deposits from customers	59 910	52 537	5 213	2 160		
Debt incurred due to issue of securities	57 626	20	5 378	9 232	31 913	11 083
Other liabilities	748	133	130	419	14	52
Senior non-preferred	2 163	0	7	20	2 136	0
Subordinated loan capital	1 770	1	6	22	1 741	
Loan commitments and unused credit facilities	14 385	14 385				
Total liabilities	**143 043**	**69 254**	**13 248**	**11 853**	**37 553**	**11 135**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-35 714	-2 630	-7 483	-3 574	-11 031	-10 996
Payment received	32 984	2 599	6 425	3 391	10 107	10 463
Total derivative obligations	**-2 731**	**-31**	**-1 058**	**-184**	**-925**	**-534**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2020
Liabilities /non-derivative obligations						
Debts to credit institutions	6 739	2 475	2 514	0	1 750	0
Deposits from customers	59 860	52 487	5 213	2 160		
Debt incurred due to issue of securities	14 499	0	25	4 130	10 344	0
Other liabilities	642	127	125	324	14	52
Senior non-preferred	2 163	0	7	20	2 136	0
Subordinated loan capital	1 770	1	6	22	1 741	
Loan commitments and unused credit facilities	10 165	10 165				
Total liabilities	**95 838**	**65 255**	**7 890**	**6 656**	**15 985**	**52**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-8 624	-2 630	-2 235	-3 574	-185	
Payment received	7 847	2 599	1 665	3 391	193	
Total derivative obligations	**-777**	**-31**	**-570**	**-184**	**7**	**0**

MATURITY STRUCTURE OF ISSUED BONDS AS AT 31.12.2021

NOK MILLION									
ISIN Number	Ticker	Currency	Nominal	Owned by the bank	Recog-nised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010735327	SOR33 PRO	NOK	500		509	502	Fixed rate	No installments	06.05.2022
NO0010735418	SOR34 PRO	NOK	500		512	509	Fixed rate	No installments	12.05.2025
NO0010754849	SOR41 PRO	NOK	300		300	312	Fixed rate	No installments	23.12.2025
NO0010781214	SOR44 PRO	NOK	550		560	552	Fixed rate	No installments	22.03.2022
NO0010782253	SOR45 PRO	NOK	500		501	500	NIBOR 3 mths	No installments	17.02.2022
NO0010807910	SOR48 PRO	NOK	1 499		1 502	1 507	NIBOR 3 mths	No installments	11.11.2022
NO0010805385	SOR50 PRO	NOK	1 498		1 506	1 509	Fixed rate	No installments	13.09.2023
NO0010830631	SOR52 PRO	NOK	1 000		1 013	1 013	Fixed rate	No installments	28.08.2024
NO0010869548	SOR57 PRO	NOK	600		605	605	Fixed rate	No installments	28.11.2022
NO0010869530	SOR58 PRO	EURO	1 000		1 001	1 003	NIBOR 3 mths	No installments	28.11.2022
NO001100872344	SOR59 PRO	NOK	999		1 000	1 006	NIBOR 3 mths	No installments	22.12.2023
NO0010872351	SOR60 PRO	NOK	999		1 004	1 011	Fixed rate	No installments	23.12.2024
Issued by Parent bank				**-**	**10 013**	**10 029**			
NO0010671597	SORB09	NOK	350		377	372	Fixed rate	No installments	13.02.2023
NO0010670409	SORB08	NOK	500		548	571	Fixed rate	No installments	24.01.2028
XS1622285283		EURO	500		5 016	5 006	Fixed rate	No installments	30.05.2022
XS1775786145		EURO	500		5 059	5 052	NIBOR 3 mnd	No installments	20.02.2023
NO0010832637	SORB28	NOK	5 750	750	5 761	5 805	Fixed rate	No installments	24.09.2025
XS1947550403		EURO	500		5 296	5 118	Fixed rate	No installments	06.02.2026
XS2069304033		EURO	500		4 712	4 992	NIBOR 3 mnd	No installments	26.10.2026
NO0010882632	SORB30	NOK	5 000		5 012	5 045	Fixed rate	No installments	19.11.2024
NO0011002529	SORB31	NOK	5 500		5 663	5 653	Fixed rate	No installments	20.09.2027
XS2291901994		EURO	500		4 945	4 946	NIBOR 3 mnd	No installments	28.01.2028
XS2389362687		EURO	500		4 952	4 965	NIBOR 3 mnd	No installments	25.09.2028
Issued by Subsidiary					**47 340**	**47 522**			
Eliminations					**-748**	**-841**			
Total bonds Group					**56 605**	**57 710**			

Sparebanken Sør Boligkreditt AS is entitled to extend the term of all issued bonds by 1 year.

Accrued interest is added to fair value in order to be comparable with carrying amount.

At year-end 2021, the average remaining term to maturity of the portfolio of senior bond debt and covered bonds was 3.6 years, compared with 2.9 years at year-end 2020.

MATURITY STRUCTURE OF ISSUED SUBORDINATED LOANS AS AT 31.12.2021

NOK MILLION							
ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010809460	SOR49 PRO	200	201	201	NIBOR 3 mths	Subordinated loan capital	02.11.2027
NO0010825094	SOR51 PRO	250	250	253	NIBOR 3 mths	Subordinated loan capital	14.06.2028
NO0010832157	SOR53 PRO	250	250	253	NIBOR 3 mths	Subordinated loan capital	14.09.2028
NO0010837313	SOR54 PRO	100	100	102	NIBOR 3 mths	Subordinated loan capital	23.11.2028
NO0010871247	SOR56 PRO	500	501	506	NIBOR 3 mths	Subordinated loan capital	12.12.2029
NO0010887177	SOR62 PRO	350	352	355	NIBOR 3 mths	Subordinated loan capital	09.07.2030
Subordinated capital		**1 650**	**1 654**	**1 669**			

MATURITY STRUCTURE ON SENIOR NON PREFERRED DEBT AS AT 31.12.2021

MILLIONER KRONER							
ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010886781	SOR61 PRO	2 000	2 002	2 021	NIBOR 3 mths	No installments	30.06.2026
NO0011099764	SOR65 PRO	500	495	491	Fixed rate	No installments	17.09.2025
NO0010920788	SOR63 PRO	1 000	1 001	1 000	NIBOR 3 mths	No installments	10.02.2027
Senior non-preferred		**3 500**	**3 499**	**3 512**			

LIQUIDITY INDICATORS

The enterprise must at all times have a liquidity reserve (LCR). As of 31 December 2017 the requirement has been 100 percent.

This means the holding of liquid assets must at least be equivalent to net cash outflow in a given stress period of 30 calendar days. The Liquidity Coverage Ratio is calculated according to the following formula and is expressed as a percentage:

$$\text{Liquidity Coverage Ratio (LCR} = \frac{\text{Liquid assets}}{\text{Net cash outflow 30 days ahead given a stress situation}}$$

At year-end 2021, LCR was 140 percent for the Group and 127 percent for the Parent Bank. Corresponding figures for 2020 were 173 percent for the Group and 154 percent for the Parent Bank.

NOTE 15 – INTEREST INCOME AND INTEREST EXPENSES

INTEREST INCOME

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Interest income from financial instruments at amortised cost		
68	62	Interest on receivables from credit institutions	6	13
1 363	1 144	Interest on loans given to customers	2 488	2 820
1 431	**1 206**	**Total interest from financial instruments at amortised cost**	**2 494**	**2 833**
		Interest income from financial instruments at fair value		
175	156	Interest on loans given to customers (fixed rate loans)	156	175
231	139	Interest on certificates and bonds	169	259
406	**295**	**Total interest from financial instruments at fair value via profit or loss**	**326**	**434**
		Interest income from financial instruments at fair value via OCI		
390	**387**	Interest on loans given to customers (mortgages)		
390	**387**	**Total interest from financial instruments at fair value via OCI**		
2 227	**1 888**	**Total interest income**	**2 820**	**3 267**

INTEREST EXPENSES

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Interest expenses from financial instruments at amortised cost		
37	20	Interest on liabilities to credit institutions	19	36
447	246	Interest on customer deposits	247	447
233	119	Interest on issued securities	483	758
54	31	Interest on subordinated loans	31	54
	42	Interest on subordinated senior loans	42	
53	52	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	60	59
824	**511**	**Interest expenses from financial instruments at amortised cost**	**881**	**1 354**
824	**511**	**Total interest expenses**	**881**	**1 354**

AVERAGE INTEREST RATES

PARENT BANK					GROUP			
Average volume in NOK million		Average interes rates			Average interest rates		Averegae volume in NOK million	
31.12.2020	31.12.2021	31.12.2020	31.12.2021		31.12.2021	31.12.2020	31.12.2021	31.12.2020
				Assets				
8 095	8 323	0.84 %	0.75 %	Loans to credit institutions	0.16 %	0.52 %	3 535	2 485
64 496	**66 477**	**2.98 %**	**2.54 %**	**Loans to customers**	**2.30 %**	**2.73 %**	**114 748**	**109 293**
19 254	17 329	1.20 %	0.80 %	Bonds and certificates	0.84 %	1.24 %	20 248	20 792
				Liabilities				
72 101	3 447	0.52 %	0.59 %	Liabilities to credit institutions	0.58 %	0.53 %	3 319	6 907
57 700	61 345	0.74 %	0.38 %	Deposits from customers	0.38 %	0.74 %	61 314	57 682
15 220	11 397	1.53 %	1.05 %	Liabilities related to issue of securities	0.87 %	1.35 %	55 368	56 033

The average interes rates is calculated as total interest in NOK for the specific products in relation to the appurtenant average capital.

NOTE 16 – COMMISSION INCOME

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
26	28	Guarantee commission	23	21
23	32	Security trading and management	32	23
164	175	Payment transmission	175	164
31	45	Insurance services	45	31
		Real estate turnover and management		149
105	120	Fees from other activities	210	21
350	**400**	**Total commission income**	**484**	**409**

NOTE 17 – INCOME FROM FINANCIAL INSTRUMENTS

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
127	-141	Changes in value - fixed rate loans - designated at fair value through profit	-141	128
-103	164	Changes in value - derivatives fixed rate loans - liable to fair value through profit	164	-103
25	**23**	**Net fixed rate loans**	**23**	**25**
8	-47	Gains(losses) and change in value - certificates and bonds	-70	-45
265	325	Share dividend	7	25
-18	11	Gains(losses) and change in value - shares	11	-17
255	**289**	**Certificates, bonds and shares - designated at fair value through profit**	**-53**	**-37**
-230	179	Change in value - bonds at fixed interest rate - hedge accounting	2 462	-2 000
237	-179	Change in value - derivatives fixed rate bonds - liable to fair value through profit	-2 455	2 043
7	**0**	**Net issued securities at fixed rate - hedge accounting**	**7**	**43**
IA	**IA**	*Effect of earnings on basisswap*	**16**	**26**
-188	251	Change in value liabilities Euro - amortised cost	251	-188
184	-249	Change in value financial derivatives - fair value	-249	184
-3	**2**	**Net profit effect, debt in Euro**	**2**	**-3**
-11	0	Gains (losses) from buy-back of own bonds - amortised cost	-15	-12
20	28	Currency gains (losses)	28	20
0	3	Change in value of other financial instruments at fair value	3	0
5	5	Other financial derivatives - liable to fair value through profit	5	5
14	**36**	**Net other financial instruments and derivatives**	**21**	**13**
297	**350**	**Net income from financial instruments**	**0**	**40**

Changes in the value of fixed-interest loans include those associated with changes in interest rates and margins. See Note 21 for further details.

NOTE 18 – PAYROLL EXPENSES AND PENSIONS

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
317	331	Wages to employees and fee to elected representatives (1)	441	405
48	52	Payroll tax	67	60
16	19	Financial tax	19	16
46	51	Pension costs	55	48
18	22	Other Personal costs	26	23
445	**475**	**Total personnel costs**	**606**	**552**
442	464	Number og FTE at 31.12	564	520
436	453	Average numer of FTE per year	542	511

1)The Bank primarily pays its employees a fixed salary, in addition to a bonus scheme. The scheme covers all employees. Depending on the achievement of performance goals, the bonus scheme can result in a maximum payment of 1.5 monthly salary per employee. Board members are not included in the bonus scheme.

All employees can borrow up to five times their gross annual salary at a rate of interest 1.5 percent lower than the Bank's prevailing mortgage interest rate, provided that the loan does not exceed 85 percent of the collateral asset's market value.

PENSIONS

Sparebanken Sør has a defined-contribution pension scheme for all employees, with the exception of around 17 pensioners and disabled people who are covered by a closed, group pension plan.

The parent bank contribution rates are:

• Salary equivalent to 0 to 7.1 times the National Insurance basic amount, G: 7 percent

• Salary equivalent to 7.1 to 12 times G: 15 percent

In connection with the transformation of previous defined benefit pension plans, the bank established a compensatory scheme for employees who previously had a defined benefit pension scheme. At the end of 2021, the scheme covered 286 employees. The scheme is contribution-based. The annual agreed contribution is transferred to securities funds. The contributions to the securities funds consist of an asset furnished as security for the company, and a corresponding gross pension obligation for the employees. Employer's National Insurance contributions and financial tax are calculated and a provision made from the sum of contributions and the development in value of the securities funds. The funds are disbursed to the members upon retirement, when they leave their employ, in the event of disability or death.

For the CEO, the pension applies from 62 to 67 years. The early retirement pension is equal to 67 percent of fixed salary. For Deputy CEO the pension applies from early retirement from 62 to 67 years. The early retirement pension is equal to 66 percent of fixed salary. For the director of risk management, the pension from 65 to 67 years applies. The early retirement pension is equal to 66 percent of fixed salary. Individual defined contribution agreements have been made for earning early retirement and old-age pensions for salaries above 12 G for this group.

For other directors of the group management, the pension for salaries above 12 G is defined contribution - with the same rates as for salaries between 7 G and 12 G.

In addition to the above schemes, the company pays premiums to the Joint Scheme for AFP. This is a defined benefit multi-company pension scheme and is financed through premiums that are determined as a percentage of salary. For accounting purposes, the scheme is treated as a defined contribution pension scheme where premium payments are expensed on an ongoing basis.

The obligation related to the remaining defined benefit pension scheme is to be regarded as insignificant and simplifications have therefore been made in the notes.

For employees in subsidiaries, defined contribution pension schemes have been established, all of which cover the requirement of the Act.

PENSION EXPENSE AND PENSION OBLIGATION

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
25	25	Ordinary pension expense, defined-contribution scheme	29	27
16	20	Pension expense relating to the compensatory scheme	20	16
5	5	Pension expense relating to early retirement (AFP)	5	5
0	1	Other pension costs	1	0
46	**51**	**Total pension expenses**	**55**	**48**
69	121	Capitalised pension relating to compensatory scheme	121	69
38	14	Net pension obligation, defined benefit pension	14	38
108	**135**	**Total pension obligation shown in the balance sheet**	**135**	**108**

ACTIVE MEMBERS IN THE DIFFERENT SCHEMES

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
514	554	Members defined-contribution scheme	671	614
293	286	Members compensatory scheme	286	293
22	17	Members defined benefit scheme	17	22

SENSITIVITY ANALYSIS PENSION CALCULATION

The Bank switched its group occupational pension arrangements from a defined-benefit to a defined-contribution scheme on 1 November 2016. As a result, pension liabilities were significantly reduced. A sensitivity analysis is therefore not considered to be significant and has consequently not been performed for 2021 and 2020.

NOTE 19 – OTHER OPERATING EXPENSES

PARENT BANK			GROUP	
2020	2021	MILLONER KRONER	2021	2020
28	33	Marketing	39	34
159	170	IT costs	178	164
22	26	Operating costs - real estate	31	28
40	34	External fees	37	42
24	7	Wealth tax	7	24
74	78	Other operating expenses	76	70
348	**348**	**Total other operating expenses**	**368**	**363**

In connection with the year-end for 2021, the wealth tax was corrected, which resulted in a reversal of NOK 13 million in Q4 2021. Remuneration paid to auditors is included in other operating expenses and is specified as follows:

PARENT BANK			GROUP	
2020	2021	NOK THOUSAND	2021	2020
1 147	955	Ordinary audit fees	1 446	1 699
70	391	Tax advice	529	95
560	3	Other attestation services	3	846
1 070	547	Fees from other services	547	1 070
2 847	**1 894**	**Total remuneration of elected auditor (incl. VAT)**	**2 523**	**3 710**

NOTE 20 – TAX

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Tax cost for the year		
221	200	Tax payable on net income	305	322
-20	12	Recognised deferred tax	15	-14
-1	2	Excess provision previous years	2	-1
200	**214**	**Tax cost for the year**	**323**	**307**
		Explanation of why the effective tax rate does not amount to 25% of profit before tax *		
305	**351**	**25 % of profit before tax**	**381**	**351**
6	1	Expensed wealth tax	1	6
-34	-44	Share of profit from associated company	-44	-34
-66	-81	Dividends received (tax exemption)	-2	-6
-	-5	Non-taxable income	-5	-
7	1	Non-deductible expenses	1	9
-17	-12	Tax on hybrid interest rates entered directly against equity	-12	-17
-1	2	Correction of previous years' tax assessment	2	-1
		Different tax rate in subsidiaries ((22%/25%)	-0	-
200	**214**	**Tax cost for the year**	**323**	**307**
16.4 %	15.2 %	Effective tax rate %	21.2 %	21.9 %
		Change in deferred tax		
0	0	Deferred tax recognised in the total result comprehensive income	4	-2
-20	-12	Deferred tax recognised in the profit for the year	15	-13
-20	**-12**	**Total change in deferred tax**	**18**	**-14**
		Deferred tax		
54	54	Fixed assets	53	54
4	-22	Securities	-22	4
43	7	Loans	7	43
-11	**-7**	**Pension commitments**	**-7**	**-11**
-109	-3	Bonds loans	-188	-740
52	11	Derivatives	183	664
-3	1	Other accounting provisions	1	-3
29	**41**	**Total deferred tax**	**28**	**10**

* Estimated tax amounts to 25% of total values.

Wealth tax is included in tax payable in the balance sheet, but is recognised under other operating expenses in the income statement.

NOTE 21 – FINANCIAL INSTRUMENTS BY CATEGORY

Amortised cost

Debt instruments whose sole purpose is to hold the instrument in order to collect contractual cash flows are recognised at amortised cost.

Fair value through profit or loss

All derivatives must be measured at fair value with the changes in value recognised through profit or loss.

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

Fixed-interest loans can be redeemed before maturity against payment for premiums or discounts arising as a result of movements in the interbank interest rate. Sparebanken Sør hedges the interest risk for this balance sheet item by entering derivatives recognised at fair value. As changes in the value of the derivatives are recognised in the income statement, recognition of fixed-interest loans at amortised cost will lead to significant fluctuations in profit. Recognition at fair value through profit or loss will therefore lead to a more harmonised comparison of the profit or loss on the derivative and changes in value of fixed-interest loans.

Fair value through other comprehensive income (OCI)

Loans to retail customers secured by residential will be classified in the Parent Bank at fair value through other comprehensive income under IFRS 9. This is a consequence of the fact that the loans can be sold at a later date to the Bank's wholly owned mortgage companies. The purpose is therefore not solely to receive contractual cash flows but also resale.

Hedge accounting

Sparebanken Sør uses hedge accounting with regard to the Bank's fixed-interest bond debt in Norwegian kroner and foreign currencies. The hedging covers the interest rate risk and foreign exchange risk associated with the bonds.

CLASSIFICATION 31.12.2021

GROUP 31.12.2021					
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				437	437
Loans to and receivables from credit institutions				1 789	1 789
Net loans to customers	5 003			111 650	116 653
Bonds and certificates	22 062				22 062
Shares	193				193
Financial derivatives	628		476		1 104
Ownership in group companies					0
Ownership in associated companies				1 201	1 201
Total financial assets	**27 886**	**0**	**476**	**115 077**	**143 439**
Debts to credit institution				2 627	2 627
Deposits from customers				63 146	63 146
Debt incurred due to issue of securities			36 911	19 974	56 885
Financial derivatives	311		533		844
Senior non-preferred			495	3 004	3 499
Subordinated loan capital				1 654	1 654
Total financial liabilities	**311**	**0**	**37 939**	**90 405**	**128 655**

PARENT BANK 31.12.2021					
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				437	437
Loans to and receivables from credit institutions				5 644	5 644
Net loans to customers	5 003	19 275		42 750	67 028
Bonds and certificates	17 743				17 743
Shares	193				193
Financial derivatives	354		13		367
Ownership in group companies				2 116	2 116
Ownership in associated companies				1 201	1 201
Total financial assets	**23 293**	**19 275**	**13**	**52 148**	**94 729**
Debts to credit institution				2 660	2 660
Deposits from customers				63 185	63 185
Debt incurred due to issue of securities			5 963	4 050	10 013
Financial derivatives	313		9		322
Senior non-preferred			495	3 004	3 499
Subordinated loan capital				1 654	1 654
Total financial liabilities	**313**	**0**	**6 467**	**74 553**	**81 333**

CLASSIFICATION 31.12.2020

					GROUP 31.12.2020
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				1 148	1 148
Loans to and receivables from credit institutions				2 460	2 460
Net loans to customers	5 575			106 002	111 577
Bonds and certificates	21 543				21 543
Shares	166				166
Financial derivatives	2 706		709		3 415
Ownership in group companies					0
Ownership in associated companies				1 134	1 134
Total financial assets	**29 990**	**0**	**709**	**110 744**	**141 443**
Debts to credit institution				6 435	6 435
Deposits from customers				59 833	59 833
Debt incurred due to issue of securities			38 167	18 718	56 885
Financial derivatives	687		0		687
Senior non-preferred				2 002	2 002
Subordinated loan capital				**1 653**	**1 653**
Total financial liabilities	**687**	**0**	**38 167**	**88 641**	**127 495**

					PARENT BANK 31.12.2020
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				1 148	1 148
Loans to and receivables from credit institutions				10 936	10 936
Net loans to customers	5 575	16 729		40 419	62 724
Bonds and certificates	18 329				18 329
Shares	166				166
Financial derivatives	725		182		907
Ownership in group companies				2 111	2 111
Ownership in associated companies				1 134	1 134
Total financial assets	**24 795**	**16 729**	**182**	**55 748**	**97 455**
Debts to credit institution				6 765	6 765
Deposits from customers				59 883	59 883
Debt incurred due to issue of securities			6 934	7 215	14 149
Financial derivatives	687		0		687
Senior non-preferred				2 002	2 002
Subordinated loan capital				**1 653**	**1 653**
Total financial liabilities	**687**	**0**	**6 934**	**77 518**	**85 139**

NOTE 22 – FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

GENERAL

For financial instruments, whose carrying amount is a reasonable approximation of fair value, valuation methods are not used to calculate fair value. This applies principally to assets and liabilities with short maturities (3 months) or where interest is due for payment or adjustment within a short period of time (3 months).

LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

Mainly consists of short-term receivables. his means that the fair value is virtually the same as the amortised cost on the balance sheet date.

INTEREST RATE SWAPS AND CURRENCY SWAPS

The fair value of interest rate swaps is determined using valuation techniques in which the expected future cash flows are discounted to present value. The calculation of expected cash flows and the discounting of these is based on observed market rates for different currencies and observed exchange rates. Estimated present values are checked against the corresponding estimates from the counterparties in the contracts.

CERTIFICATES AND BONDS

The valuation of certificates and bonds is based on future cash flows and credit risk, assessed on the balance sheet date. The valuation is based on observable market rates. The Bank's assessment of credit risk is based on market information from a reputable provider.

LENDING

Lendings recognised at fair value are valued using valuation methods in which the anticipated future cash flows are discounted to present value. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk and margins is added on the basis of the original supplement for credit risk and margin, and is adjusted in line with changes in the market's pricing of risk, the borrower's creditworthiness and margin changes in the market.

Fair value is considered to be equal to the carrying value for loans with a variable interest rate.

BORROWINGS

Borrowings recognised at fair value are valued at quoted prices, where available, and the securities will be traded in a liquid market. Other securities are valued using valuation techniques and the discounting of expected future cashflows. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk is added on the basis of other market players' assessments of the Bank's creditworthiness.

DEPOSITS

For deposits at fair value are valued using valuation techniques in which the expected future cash flows are discounted to present value. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk is added on the basis of other market players' assessments of the bank's creditworthiness. Margin premiums are added on the basis of the initial margin, but with subsequent adjustment of the margin in line with margin changes in the markets.

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

SHARES

Shares are valued at quoted prices where available. Other shares are valued using valuation techniques.

In some cases, shares in local companies will mostly represent support for positive action in the local community. For such shares, fair value is set to the share's cost price or nominal value. Fair value may also be written down to NOK 1 where it is evident that the shares have no commercial value.

DEBT TO CREDIT INSTITUTIONS

Debt to credit institutions is measured in the same manner as due from credit institutions. For these instruments with short term to maturity fair value is assessed to equal amortised cost.

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

Comprises financial assets and liabilities valued using unadjusted, observable market values. This comprises listed shares, derivatives traded on active markets and other securities with quoted market values.

Level 2:

Instruments valued using valuation techniques in which all assumptions (all input) are based on directly or indirectly observable market data. Values can be obtained from external market players or reconciled with the external market players offering these types of services.

Level 3:

Instruments valued using valuation techniques in which at least one material assumption cannot be supported by means of observable market rates. This category includes investments in unlisted companies and fixed-interest loans where the necessary market information does not exist.

PARENT BANK				31.12.2021	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
437		437		Cash and receivables from central banks	437		437	
5 644		5 644		Loans to and receivables from credit institutions	1 789		1 789	
42 750			42 750	Net loans to customers (floating interest rate)	111 650			111 650
				Assets recognised at fair value				
5 003			5 003	Net loans to customers (fixed interest rate)	5 003			5 003
19 275			19 275	Net loans to customers (mortgages)				
17 743		17 743		Bonds and certificates	22 062		22 062	
193	9		184	Shares	193	9		184
367		367		Financial derivatives	1 104		1 104	
91 412	**9**	**24 191**	**67 212**	**Total financial assets**	**142 238**	**9**	**25 392**	**116 836**
				Liabilities recognised at amortised cost				
2 660		2 660		Debt to credit institutions	2 627		2 627	
63 185			63 185	Deposit from customers	63 146			63 146
10 013		10 029		Debt incurred due to issue of securities	56 605		56 710	
3 499		3 512		Senior non-preferred	3 499		3 512	
1 654		1 669		Subordinated loan capital	1 654		1 669	
				Liabilities recognised at fair value				
322		322		Financial derivatives	844		844	
81 331	**0**	**18 191**	**63 185**	**Total financial liabilities**	**128 373**	**0**	**65 361**	**63 146**

PARENT BANK				31.12.2020	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
1 148		1 148		Cash and receivables from central banks	1 148		1 148	
10 936		10 936		Loans to and receivables from credit institutions	2 460		2 460	
40 419			40 419	Net loans to customers (floating interest rate)	106 002			106 002
				Assets recognised at fair value				
5 575			5 575	Net loans to customers (fixed interest rate)	5 575			5 575
16 729			16 729	Net loans to customers (mortgages)				
18 329		18 329		Bonds and certificates	21 543		21 543	
166	7		160	Shares	166	7		160
907		907		Financial derivatives	3 415		3 415	
94 209	**7**	**31 319**	**62 883**	**Total financial assets**	**140 311**	**7**	**28 567**	**111 737**
				Liabilities recognised at amortised cost				
6 765		6 765		Debt to credit institutions	6 435		6 435	
59 883			59 883	Deposit from customers	59 833			59 833
14 149		14 151		Debt incurred due to issue of securities	56 885		56 961	
2 002		2 024		Senior non-preferred	2 002		2 024	
1 653		1 672		Subordinated loan capital	1 653		1 672	
				Liabilities recognised at fair value				
687		687		Financial derivatives	687		687	
85 140	**0**	**25 300**	**59 883**	**Total financial liabilities**	**127 496**	**0**	**67 780**	**59 833**

There were no movements between levels 1 and 2 in 2020 or 2021.

MOVEMENTS IN VALUES RECOGNISED AT FAIR VALUE CLASSIFIED AT LEVEL 3

			GROUP
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 31.12.2019	**5 689**	**13**	**183**
Acquisitions 2020	1 251		51
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	128	12	1 809
Disposals 2020	-1 492		-1 883
Reclassified as associated company			-
Recognized value as at 31.12.2020	**5 575**	**25**	**160**
Acquisitions 2021	817		19
Of which, transferred from level 1 or 2			
Change in value recognized during the period	- 141	24	6
Disposals 2021	-1 248		- 1
Reclassified as assosiated company			
Recognized value as at 31.12.2021	**5 003**	**50**	**184**

			PARENT BANK
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 31.12.2019	**27 422**	**13**	**183**
Acquisitions 2020	1 251		51
Of which, transferred from level 1 or 2	-		-
Change in value recognized during the period	128	12	1 809
Disposals 2020	-6 496		-1 883
Reclassified as associated company	-		-
Recognized value as at 31.12.2020	**22 304**	**25**	**160**
Acquisitions 2021	3 797		19
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	- 141	24	6
Disposals 2021	-1 681		- 1
Reclassified as assosiated company			
Recognized value as at 31.12.2021	**24 278**	**50**	**184**

Disposals includes the net transfer of loans to the subsidiary Sparebanken Sør Boligkreditt AS.
Changes in value recognised in the year apply mainly to financial instruments recognised in the balance sheet as at 31 December.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

Loans to and receivables from customers at fair value, classified at level 3, consist of fixed-interest loans and mortgages in the Parent Bank. In the Group exclusively fixed-interest loans.

When valuing fixed-interest loans, the Bank uses three categories: retail market (RM), large commercial commitments and other business commitments. Regarding the retail market, credit spreads have been recognised according to current market prices for fixed-interest loans. For large commercial commitments (50 largest), the customers and spreads are individually assessed on the basis of what each customer would have received in terms of spread/margin at 31 December. For other commercial loans, the value is calculated with a spread that represents an average of what the smaller fixed-interest loans to corporate customers would be at 31 December. For variable-rate mortgages, fair value is recognised as equal to carrying value.

SHARES

Concerns shares and investments in companies where there is little or no turnover and discretion has to be exercised in the valuation. Multiples are used to a large extent and earnings-based methods to a lesser extent in connection with valuation. Valuation is affected by discretionary assessments.

SENSITIVITY ANALYSIS LEVEL 3

The sensitivity of fixed-interest loans is estimated by changing the margin requirement by 10 basis points. The valuation of fixed-interest loans to private customers is based on available market rates. For the corporate market, there is a greater degree of discretion in determining the market spread/margin as at 31 December.

NOK MILLION	GROUP / PARENT BANK 31.12.2021	31.12.2020
Loan to customers	**20**	**20**
- of which, loans to the corporate market (CM)	1	2
- of which, loans to the retail market (RM)	19	18

HEDGE ACCOUNTING

The Bank uses hedge accounting for debt issued at fixed interest rates and in foreign currencies. Financial derivatives used as hedging instruments are recognised at fair value. Bond loans included as hedged objects are recognised at cost price and are continuously adjusted for changes in fair value for the risks that are hedged. The hedging covers the interest rate risk in issued fixed-rate bonds, as well as the foreign exchange risk for bonds issued in foreign currencies. Hedge accounting requires the Bank to maintain a system for measuring and documenting hedge effectiveness.

All bond loans issued at a fixed interest rate or in a foreign currency are included in hedge accounting. Sparebanken Sør uses fair value hedging. The dollar-offset method is used to measure the effectiveness of hedging.

Hedge accounting is according to IFRS 9. There must be an economic relationship between the hedging instrument and the hedged element, and the effect of credit risk must not dominate changes in value in the hedging relationship. Under IFRS 9 a prospective (future-oriented) effectiveness test is sufficient. Ineffectiveness in hedging, defined as the difference between changes in the value of hedging instruments and in the value of the hedged object, is recognised in the income statement as it arises. The exception is that portion of the change in value that is due to a change in basis spread linked to the hedging instruments.

For interest and currency swaps created from and including 1 January 2018, changes in value due to changes in the currency basis will be recognised through other comprehensive income. Interest-rate and currency swaps created up to 1 January 2018 are recognised at fair value, with changes in value recognised through profit or loss until these fall due.

HEDGE ACCOUNTING IN THE BALANCE SHEET

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Hedging instruments / financial derivatives		
182	13	Interest rate swaps NOK	65	281
		Interest rate swaps EUR	636	2 348
182	**13**	**Total financial assets**	**700**	**2 630**
		Hedged items		
6 750	6 450	Nominal debt NOK	7 300	7 600
		Nominal debt EUR (1)	29 782	24 287
184	5	Adjustment of hedged items NOK - interest risk	57	284
		Adjustment of hedged items EUR - interest- and currency risk	150	2 387
		Hedging instruments / financial derivatives		
0	9	Interest rate swaps NOK	9	0
		Interest rate swaps EUR	502	0
6 934	**6 465**	**Total financial liabilities**	**37 801**	**34 558**

(1) Converted to NOK at exchange rate in effect at the time of issuance.

The hedging instrument is recognised under financial derivatives. Nominal value and adjustment of hedging objects is recognised under debt incurred on issuance of securities.

RESULT OF HEDGE ACCOUNTING

PARENT BANK			GROUP	
2020	2021	NOK MILLION	2021	2020
		Result / ineffectiveness in hedge acconting		
7	0	Income effect hedge interest rate risk (NOK)	0	7
5	0	Income effect as a result of repurchases	0	5
		Income effect hedge interest- and currency risk (EUR)	7	36
IA	*IA*	*Effect of earnings from currency basis*	*16*	*26*
7	**0**	**Total**	**7**	**43**
		Other comprehensive income (OCI)		
IA	*IA*	*Change in results from change in value of currency basis*	*14*	*-7*

NOTE 23 – LOANS AND DEBT TO CREDIT INSTITUTIONS

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Loans to credit institutions		
8 712	4 055	Without agreed maturity	199	241
2 224	1 589	With agreed maturity	1 590	2 219
10 936	**5 644**	**Total loans to credit institutions**	**1 789**	**2 460**
		Debts to credit institutions		
2 236	393	Without agreed maturity	150	250
4 520	2 266	With agreed maturity	2 475	6 176
9	2	Accrued interest	2	9
6 765	**2 660**	**Total debts to credit institutions**	**2 627**	**6 435**

GROUP

NOK MILLION	31.12.2020	Issue debt	Change Collateral*	Change Repo	Net change credits	31.12.2021
Loan to credit institutions	2460	0	-181	-295	-194	1 789
Debt to credit institutions	6435	-2000	-1802	0	-6	2 627
Total net debt to credit institutions	**-3 975**	**2 000**	**1 621**	**-295**	**-188**	**-837**

GROUP

NOK MILLION	31.12.2019	Issue debt	Collateral*	Repo	Net change credits	31.12.2020
Loan to credit institutions	182	0	472	1628	179	2 460
Debt to credit institutions	1793	2500	2157	0	-15	6 435
Total net debt to credit institutions	**-1 611**	**-2 500**	**-1 686**	**1 628**	**194**	**-3 975**

PARENT BANK

NOK MILLION	31.12.2020	Issue debt	Collateral	Repo	Net change credits	31.12.2021
Loan to credit institutions	10936	0	-265	-295	-4732	5 644
Debt to credit institutions	6765	-2000	-232	0	-1873	2 660
Total net debt to credit institutions	**4 170**	**2 000**	**-33**	**-295**	**-2 859**	**2 984**

PARENT BANK

NOK MILLION	31.12.2019	Issue debt	Collateral	Repo	Net change credits	31.12.2020
Loan to credit institutions	4063	0	472	1628	4773	10 936
Debt to credit institutions	2192	2500	236	0	1838	6 765
Total net debt to credit institutions	**1 871**	**-2 500**	**236**	**1 628**	**2 936**	**4 170**

*The Group 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 24 – BONDS AND CERTIFICATES

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Short-term investments designed at fair value through profit and loss		
4 986	4 032	Certificates and bonds issued by public sector	7 587	6 863
11 325	12 954	Certificates and bonds issued by others	14 475	14 680
2 018	757	Certificated and bonds issued by subsidiaries	0	0
18 329	**17 743**	**Total short-term investment designed at fair value through profit and loss**	**22 062**	**21 543**
18 329	**17 743**	**Investment in securities**	**22 062**	**21 543**
13 656	16 777	Bonds pledged for drawing-rights in Norges Bank	16 777	13 656

CLASSIFICATION OF FINANCIAL INVESTMENTS

Certificates and bonds are rated by external parties. If the securities have an official rating, this rating will be applied. However, in cases where no official rating exists, a credit assessment by an external broker will be used as the basis for risk classification.

The Bank's risk category	Rating
Lowest risk	AAA, AA+, AA og AA-
Low risk	A+, A og A-
Medium risk	BBB+, BBB og BBB-
High risk	BB+, BB, BB-
Highest risk	B+ and lower

CERTIFICATES AND BONDS

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Certificates and bonds		
18 263	17 692	Lowest risk	21 995	21 472
0	0	Low risk	0	0
0	0	Medium risk	0	0
0	0	High risk	0	0
0	0	Highest risk	0	0
65	52	Accrued interest	66	71
18 329	**17 743**	**Total certificates and bonds**	**22 062**	**21 543**

NOTE 25 – SHARES

All shares and ownership interests are classified at fair value through profit or loss.

			GROUP 31.12.2021
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5 %	75 000	66 454
Norgesinvestor Proto AS	17.6 %	27 306	15 600
VN Norge AS	2.3 %	26 285	0
Eedenbull AS	7.4 %	15 000	15 000
Skagerak Maturo Seed AS	5.8 %	9 600	10 350
Norgesinvestor IV AS	2.1 %	10 270	8 058
Sparebanken Vest Grunnfondsbevis	0.1 %	8 512	3 306
NORNE SECURITIES AS	14.8 %	5 513	10 787
Other companies (36 pcs)		15 524	19 157
Total shares valued at fair value through profit and loss		**193 010**	**148 712**
TOTAL		**193 010**	**148 712**

			GROUP 31.12.2020
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5 %	75 000	66 454
VN Norge AS	2.3 %	25 344	0
Norne Eierselskap	17.4 %	6 038	12 691
Sparebanken Vest	0.1 %	6 508	3 306
Norgesinvestor Proto	17.6 %	23 792	15 600
Norgesinvestor IV	2.1 %	9 381	8 058
Other companies (36 pcs)		5 487	9 568
Total shares valued at fair value through profit and loss		**151 550**	**115 677**
Participations classified at fair value through profit and loss			
Skagerak Venture Capital 1 AS	12.5 %	3 419	3 419
Skagerak Seed Capital II AS	9.5 %	907	2 470
Skagerak Maturo V AS	4.7 %	2 250	2 250
Skagerak Maturo Seed AS	5.8 %	8 250	8 250
Total participations valued at fair value through profit and loss		**14 827**	**16 389**
TOTAL		**166 376**	**132 066**

Those of Sparebanken Sør's subsidiaries which are included in the consolidated financial statements have no significant investments in shares at 31 December. The overview above is therefore identical for the Parent Bank and the Group.

The Group has committed to additional payments linked to the investment in seed- and venture companies. At 31 December 2021, uncalled capital totalled NOK 42.3 million (NOK 19.5 million 21 December 2020).

See also Note 34; 'Disclosures on related parties' for additional disclosures regarding transactions with associates.

NOTE 26 – OWNERSHIP OF GROUP COMPANIES

					PARENT BANK 31.12.2021
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortage company	Kristiansand	100 %	1 375 000	2 095 695
Sørmegleren Holding AS	Real estate business	Kristiansand	90.1 %	10 739	11 499
Sørlandets Forsikringssenter AS	Ensurance	Kristiansand	78 %	45 000	5 300
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	0
Prosjektutvikling AS	Property managment	Arendal	100 %	100	0
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	780
Total					**2 116 209**

					PARENT BANK 31.12.2020
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1 125 000	2 095 695
Sørmegleren Holding AS	Real estate business	Kristiansand	90.1 %	10 739	11 499
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	0
Prosjektutvikling AS	Property managment	Arendal	100 %	100	0
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	780
Total					**2 110 909**

Arendal Brygge AS is a joint venture and is not consolidated into the Group.

Shareholdings correspond to the percentage of voting capital.

See also Note 34; 'Disclosures on related parties' for additional disclosures regarding transactions with subsidiaries.

NOTE 27 – ASSOCIATED COMPANIES

				PARENT BANK 31.12.2021
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	21.0 %	590 464
Brage Finans AS	Finance	Bergen	20.8 %	449 277
Balder Betaling AS	Finance	Bergen	24.8 %	159 266
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**1 200 582**

				PARENT BANK 31.12.2020
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	21 %	607 958
Brage Finans AS	Finance	Bergen	21 %	406 517
Balder Betaling AS	Finance	Bergen	22 %	111 668
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	6 535
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**1 134 253**

See Note 34; 'Disclosures on related parties' for additional disclosures regarding transactions with associated companies.

NOTE 28 – TANGIBLE ASSETS

GROUP	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2021	2020	2021	2020	2021	2020	2021	2020
Acquisition cost 01.01.	**134**	**189**	**548**	**512**	**56**	**48**	**738**	**749**
Additions during the year	17	18	28	8	3	8	47	35
Disposals during the year	-19	-31	-37	-19	-1	0	-56	-50
Other changes	-2	-42	2	47	0	0	0	5
Acquisition cost 31.12.	**130**	**134**	**541**	**548**	**58**	**56**	**730**	**738**
Accumulated depreciations and write-downs 31.12.	111	122	139	144	18	11	268	278
Other changes	-30	-30	29	30	0	0	-1	0
Book value as at 31.12	**50**	**42**	**373**	**374**	**40**	**45**	**463**	**461**
Ordinary depreciation	8	8	11	10	6	6	25	24
Impairments			2	3			2	3
Gains/losses on sale			13	4			13	

GROUP	Intangible assets	
NOK MILLION	2021	2020
Acquisition cost 01.01.	**226**	**190**
Additions during the year	34	36
Disposals during the year	-1	0
Acquisition cost 31.12.	**259**	**226**
Accumulated depreciations and write-downs 31.12.	195	179
Book value as at 31.12	**64**	**47**
Ordinary depreciation	16	16
Impairments	1	

Assumed useful economic life harmonises with the depreciation period for the individual groups of fixed assets. Fixed assets are depreciated on a straight-line basis. The Group's buildings are located in the Bank's own district and are mainly used by the Bank itself.

The rate of depreciation for buildings is in the range 2–5%, and the depreciation rate for machinery, equipment, vehicles and intangible assets is in the range 10–33%.

PARENT BANK	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2021	2020	2021	2020	2021	2020	2021	2020
Acquisition cost 01.01.	**121**	**176**	**522**	**484**	**56**	**48**	**699**	**708**
Additions during the year	16	18	28	6	3	8	46	32
Disposals during the year	-19	-31	-37	-15	-1	0	-56	-46
Other changes	0	-42	0	47	0	0	0	5
Acquisition cost 31.12.	**118**	**121**	**513**	**522**	**58**	**56**	**690**	**699**
Accumulated depreciations and write-downs 31.12.	100	111	141	147	18	11	259	269
Other changes	-30	-30	30	30	0	0	0	0
Book value as at 31.12	**49**	**40**	**342**	**346**	**40**	**45**	**431**	**430**
Ordinary depreciation	8	8	10	9	6	6	25	23
Impairments			2	3			2	3
Gains/losses on sale			13				13	4

PARENT BANK	Intangible assets	
NOK MILLION	2021	2020
Acquisition cost 01.01.	**122**	**92**
Additions during the year	29	30
Disposals during the year	-1	0
Acquisition cost 31.12.	**151**	**122**
Accumulated depreciations and write-downs 31.12.	97	81
Book value as at 31.12	**54**	**41**
Ordinary depreciation	16	16
Impairments	1	

In 2020, The Parent Bank integrated the register of tangible assets into the accounting system. In this manners, old assets have been discarded. This work has continued in 2021. This has led to increased disposal of accumulated depreciations.

Furthermore some assets were in 2020 moved between the groups real estate and machinery,inventory and transport equipments. Repossessed assets were in 2020 included in the register of tangible assets,as a part of real estate. Effects of these changes are recorded on separate lines as other changes.

NOTE 29 – DEPOSITS FROM CUSTOMERS

DEPOSITS FROM CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
29 834	31 173	Retail customers	31 177	29 836
9 078	9 158	Public administration	9 159	9 079
660	832	Primary industry	832	660
1 474	1 917	Manufacturing industry	1 917	1 474
709	850	Real estate development	802	655
1 402	1 586	Building and construction industry	1 587	1 402
3 031	3 240	Property management	3 240	3 031
595	718	Transport	718	595
1 541	1 397	Retail trade	1 398	1 542
214	262	Hotel and restaurant	262	214
189	168	Housing cooperatives	168	189
4 303	5 185	Financial/commercial services	5 186	4 303
6 832	6 691	Social services	6 692	6 832
20	8	Accrued interests	8	20
59 883	**63 185**	**Total deposits from customers**	**63 146**	**59 833**

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
51 073	55 916	Deposits from costumers with no fixed maturity	55 877	51 073
8 790	7 261	Deposits from costumers with fixed maturity	7 261	8 790
59 863	**63 177**	**Total deposits from costumers**	**63 138**	**59 863**
20	8	Accrued interest	8	20
59 883	**63 185**	**Total deposits from costumers incl. accrued interest**	**63 146**	**59 883**

NOTE 30 – BOND DEBT AND SUBORDINATED LOANS

DEBT SECURITIES - GROUP

NOK MILLION	31.12.2021	31.12.2020
Bonds, nominal value	56 227	55 989
Value adjustments	242	735
Accrued interest	136	161
Debt incurred due to issuance of securities	**56 605**	**56 885**

CHANGE IN DEBT SECURITIES - GROUP

NOK MILLION	31.12.2020	Issued	Matured/ Reedemed	Other changes during the period	31.12.2021
Bonds, nominal value	55 989	15 755	-13 460	-2 058	56 227
Value adjustments	735			-493	242
Accrued interest	161			-25	136
Debt incurred due to issuance of securities	**56 885**	**15 755**	**-13 460**	**-2 576**	**56 605**

NOK MILLION	31.12.2019	Issued	Matured/ Reedemed	Other changes during the period	31.12.2020
Bonds, nominal value	52 977	5 000	-3 724	1 736	55 989
Value adjustment	273			462	735
Accrued interest	180			-18	161
Total debt due to issue of securities	**53 430**	**5 000**	**-3 724**	**2 180**	**56 885**

CHANGE IN SUBORDINATED LOAN CAPITAL – PARENT BANK AND GROUP

NOK MILLION	31.12.2020	Issued	Matured/ Redeemed	Other changes during the period	31.12.2021
Subrdinated loans	1 650	0	0		1 650
Accured interest	3			1	4
Total subordinated loan capital	**1 653**	**0**	**0**	**1**	**1 654**

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Subordinated loans	1 966	350	-666		1 650
Accrued interest	5			-2	3
Total subordinated loan capital	**1 971**	**350**	**-666**	**-2**	**1 653**

DEBT SECURITIES - PARENT BANK

NOK MILLION	31.12.2021	31.12.2020
Bonds, nominal value	9 950	13 899
Value adjustments	11	184
Accrued interest	52	66
Debt incurred due to issuance of securities	**10 013**	**14 149**

CHANGE DEBT SECURITIES – PARENT BANK

NOK MILLION	31.12.2020	Issued	Matured/ Redeemed	Other changes during the period	31.12.2021
Bonds, nominal value	13 899	0	-3 700	-249	9 950
Value adjustments	184			-173	11
Accrued interest	66			-14	52
Debt incurred due to issuance of securities	**14 149**	**0**	**-3 700**	**-436**	**10 013**

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	16 672	0	-2 959	186	13 899
Value adjustment	-47			231	184
Accrued interest	82			-16	66
Debt incurred due to issue of securities	**16 707**	**0**	**-2 959**	**401**	**14 149**

CHANGE SENIOR NON-PREFERRED – GROUP AND PARENT BANK

NOK MILLION	31.12.2020	Issued	Matured/ Redeemed	Other changes during the period	31.12.2021
Bonds, nominal value	2 000	1 500	0	0	3 500
Value adjustments	2			-9	-7
Accrued interest	0			5	5
Debt incurred due to issuance of securities	**2 002**	**1 500**	**0**	**-4**	**3 499**

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	0	2 000	0	0	2 000
Value adjustments	0			2	2
Accrued interest	0			0	0
Debt incurred due to issuance of securities	**0**	**2 000**	**0**	**2**	**2 002**

NOTE 31 – OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
41	35	Trade creditors	45	53
14	15	Tax withholdings	24	21
31	39	Clearing accounts	39	31
180	171	Other liabilities	185	187
38	41	Accrued holiday pay	54	48
102	37	Other incurred costs *	49	116
406	**338**	**Total other liabilities**	**395**	**457**

* In 2021, a reclassification was made between other incured costs and provisions for commitments . The reclassification amunted to 69.2 NOK million in 2020

NOTE 32 – FINANCIAL DERIVATIVES

Sparebanken Sør and Sparebanken Sør Boligkreditt AS have agreements that regulate counterparty risk and netting of derivatives.

ISDA agreements have been concluded with financial counterparties where a supplementary agreement has been signed with regard to collateral (CSA). Through the agreements, the Group 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. Sparebanken Sør (parent bank) has also entered into an agreement on clearing derivatives where the counterparty risk is transferred to a central counterparty (clearing house) that calculates the need of collateral. The assets and liabilities are presented in the table below.

			31.12.2021		GROUP
NOK MILLION	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	1 104	548	556	- 228	328
Derivatives - liabilities	- 844	- 548	- 296	80	- 216
Net	260	0	260	- 148	112

			31.12.2020		GROUP
NOK MILLION	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	3 415	290	3 125	-2 157	968
Derivatives - liabilities	-687	-290	-397	472	74
Net	2 728	0	2 728	-1 686	1 042

			31.12.2021		PARENT BANK
NOK MILLION	Book value	Financial instruments	Financial derivatives- presented as net	Delivered/recieved collateral	Net
Derivatives - assets	367	195	171	- 5	167
Derivatives - liabilities	- 322	- 195	- 126	80	- 46
Net	45	0	45	76	121

			31.12.2020		PARENT BANK
NOK MILLION	Book value	Financial instruments	Financial derivatives- presented as net	Delivered/recieved collateral	Net
Derivatives - assets	907	290	617	-236	381
Derivatives - liabilities	-687	-290	-397	472	74
Net	219	0	219	236	455

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

NOTE 33 – IBOR 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:

PARENT BANK			GROUP	
31.12.2020	31.12.2021	NOK MILLION	31.12.2021	31.12.2020
		Nominal value		
6 750	6 450	Interest rate swaps NOK	7 300	7 600
		Interest rate swaps EUR	3 000	2 500

In 2020, the company completed a project 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 interest rate benchmark reform/IBOR reform have in recent years been a priority for the authorities worldwide.

However, there is uncertainty about the time and methodology for the changes. until further notice, NIBOR and Euribor will be continued, and the bank will adapt to the market practice 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 34 – DISCLOSURES ON RELATED PARTIES

Sparebanken Sør has entered into transactions with related parties as described in this note. Transactions with subsidiaries have been eliminated in the consolidated financial statements. In addition to loans granted on special terms to employees, all transactions with related parties are entered into on market terms. In addition to the transactions identified in this note and report on remuneration to senior executives, as well as eliminated transactions within the Sparebanken Sør group, there are no transactions or outstanding matters with related parties.

NOK THOUSAND	Group management	Board of Directors	Chairman of the Board of Trustees
Loans as at 31.12	25 129	8 812	2 851
Interest costs	33	12	0
Deposits as at 31.12	10 514	5 966	101
Interest income	192	138	50

Subsidiaries	Loans	Covered bonds	Interest income	Deposits	Interest cost	Manager fee	Dividend received	Expenses/ Income
Sørlandets Forsikringssenter AS			17	797	9			5 987
Prosjektutvikling AS	19 321		746	26				2 151
Eiendomsvekst AS				205	14			
Transitt Eiendom AS	1 604		167					
Sørmegleren Holding AS	22 000		900	47 800	650		17 602	-5 632
Sparebanken Sør - Boligkreditt AS	3 855 963	757 500	75 220	255 887	938	91 027	300 178	
Total	**3 898 888**	**757 500**	**77 051**	**304 715**	**1 610**	**91 027**	**317 780**	**2 507**

Joint Venture	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	46 144	1 304	49	0
Total	**46 144**	**1 304**	**49**	**0**

Associated companies	Commission income	Commission costs	Personnel insurance
Balder Betaling AS		1 514	
Brage Finans AS	14 587		
Frende Holding AS	44 778		6 249
Total	**59 365**	**1 514**	**6 249**

Sparebanken Sør has derecognised loans transferred to Sparebanken Sør Boligkreditt AS. The agreements have been formulated such that the loans qualify for derecognition. The total balance of these loans is stated below.

NOK MILLION	31.12.2021	31.12.2020
Sparebanken Sør Boligkreditt AS	49 668	48 899

Sparebanken Sør Boligkreditt AS purchases the majority of services from the Bank. All transactions between the companies are entered into on market terms. As at 31 December 2021, Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 5,000 million in Sparebanken Sør. In addition, Sparebanken Sør Boligkreditt AS has, at all times, a revolving credit facility with the Parent Bank, for which an annual commission is paid.

NOTE 35 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

THE 20 LARGEST EQUITY CERTIFICATE OWNERS AT 31 DEC. 2021

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00
2.	EIKA utbytte VPF c/o Eika	746 258	4.76
3.	Pareto Invest AS	417 309	2.66
4.	Drangsland Kapital AS	302 107	1.93
5.	Glastad Capital AS	266 348	1.70
6.	Wenaasgruppen AS	186 000	1.19
7.	Hamjern Invest AS	180 513	1.15
8.	Gumpen Bileiendom AS	174 209	1.11
9.	Allumgården AS	151 092	0.96
10.	KLP Gjensidige Forsikring	119 000	0.76
	Total - 10 largest certificate holders	**10 531 515**	**67.23**

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Ottersland AS	100 000	0.64
12.	DNB Luxembourg S.A.	100 000	0.64
13.	MP Pensjon PK	85 523	0.55
14.	Lombard Int Assurance S.A.	82 131	0.52
15.	Geir Bergskaug	75 691	0.48
16.	Catilina Invest AS	73 237	0.47
17.	Apriori Holding AS	72 575	0.46
18.	Alf Albert	72 292	0.46
19.	Gunnar Hillestad	71 000	0.45
20.	Varodd AS	70 520	0.45
	Total - 20 largest certificate holders	**11 334 484**	**72.36**

As of 31 December 2021 Sparebanken Sør owned 32 272 of its own equity certificates. Sparebanken Sør had no equity certificates at 31 December 2020. As of 31 December, the bank had a total of 15 663 944 outstanding equity certificates, with a nominal value of NOK 50.

PROPOSED, NOT APPROVED DIVIDEND

	PARENT BANK	
	2021	2020
Total proposed dividend	NOK 125.3 mill	NOK 219.0 mill
Proposed dividend per equity certificate	NOK 8.0 pr. EC	NOK 14.0 pr. EC*
Number of equity certificates	15 663 944	15 663 944

Dividend for the financial year 2021 is classified as other equity at 31 December 2021.
*NOK 14 per equity certificate as dividend for 2020, included a dividend of NOK 8 per equity certificate for 2019, which had previously been withheld and NOK 6 per equity certificate for 2020.

EQUITY CAPITAL AND EARNINGS PER EQUITY CERTIFICATE

NOK MILLION	31.12.2021	31.12.2020
Number of equity certificates	15 663 944	15 663 944
Nominal value	50	50
Equity certificate capital	782	783
Premium fund	451	451
Dividend equalisation fund	519	459
Total equity share capital (A)	**1 752**	**1 693**
	0	
Total equity share capital (Parent bank)	13 278	12 136
- hybrid capital	(1 335)	(1 075)
- other equity	(125)	(219)
Equity share capital excl. Hybrid capital and other equity share capital (B)	**11 818**	**10 842**
Ownership ratio after allocation (A/B)	**14.8 %**	**15.6 %**
Ownership ratio, weighted average (1)	**16.2 %**	**17.3 %**

NOK MILLION	2021	2020
Profit for the year, parent bank	1189	1021
- interest on hybrid capital	(46)	(69)
Dividend basis, parent bank	**1 143**	**952**
Profit for the year per EC, Parent Bank	11.8	10.5
Profit for the year, Group	1223	1094
- interest on hybrid capital	(46)	(69)
Dividend basis, the Group	**1 177**	**1 025**
Profit for the year per EC, Group	12.2	11.3

Earnings per equity certificate is calculated as the ratio between profit for the year attributable to the owners of equity certificates according to the equity capital certificate ratio in the parent company and the number of equity certificates issued at the end of the year.

Equity certificates owned by the CEO, senior management, members of the Board of Directors, members of the Board of Trustees and their personal related parties as in section § 7–26 of the Norwegian Accounting Act and section § 8-20 of its supplementary regulations are disclosed in the remuneration report in the annual financial statement.

NOTE 36 – BUSINESS COMBINATIONS

Business acquisition Sørlandets Forsikringssenter AS

On 1 July 2021, the Bank acquired a 78 percent shareholding in Sørlandet Forsikringssenter AS. The Bank has an option to acquire the residual shares in the company. The acquisition increases the Bank's insurance portfolio with NOK 110 million and will provide the Group with a stronger insurance sales organisation. Total purchase price amounted to NOK 5.3 million. The remaining shares are owned by senior employees in the company.

Sørlandets Forsikringssenter AS is the parent company of Forsikringssenter sør AS. After the acquisition, the company is considered a subsidiary. Shareholdings in consolidated companies are recognised at cost price. The company is consolidated into the bank's consolidated accounts and internal transactions and balances are eliminated.

The acquisition resulted in an added value of NOK 4.7 million, all related to goodwill. Management believes that the purchase will have a positive impact on future earnings exceeding the values of the individual assets in the company.

NOTE 37 – EVENTS AFTER THE BALANCE SHEET DATE AND CONTINGENCIES

No events of material significance to the financial statements have occurred since the balance sheet date.

Calculations

NOK MILLION	31.12.2021	31.12.2020
Return on equity adjusted for hybrid capital		
Profit after tax	1 223	1 096
Interest on hybrid capital	-46	-69
Profit after tax, incl. Interest on hybrid capital	**1 177**	**1 018**
Opening balance, equity	13 752	13 081
Opening balance, hybrid capital	-1 075	-1 375
Opening balance, equity excl. hybrid capital	**12 677**	**11 706**
Closing balance, equity	14 941	13 752
Closing balance, hybrid capital	-1 335	-1 075
Closing balance, equity excl. hybrid capital	**13 606**	**12 677**
Average equity	14 347	13 416
Average equity excl. Hybrid capital	**13 142**	**12 191**
Return on equity	8.5 %	8.2 %
Return on equity excl. Hybrid capital	**9.0 %**	**8.4 %**
Net interest income, incl. interest hybrid capital		
Net interest income, incl. interest hybrid capital	1 939	1 914
Interest on hybrid capital	-46	-69
Net interest income, incl. interest hybrid capital	**1 892**	**1 845**
Average total assets	143 100	140 400
As a percentage of total assets	**1.32 %**	**1.31 %**
Profit from ordinary operations (Adjusted earnings)		
Net interest income, incl. interest hybrid capital	1 939	1 845
Net commission income	419	347
Share of profit by associated companies (excl. valueadjustment Balder Betaling/Vipps)	174	136
Other operating income	7	7
Operating expenses, adjusted for conversion of the pension scheme	1 031	958
Profit from ordinary operations (adjusted earnings), before tax	**1 507**	**1 377**
Profit excl. Finance, and adjusted for non-recurring items		
Net interest income, incl. interest hybrid capital	1 892	1 845
Net commission income	419	347
Share of profit from associated companies (excl. value-adjustment Balder Betaling/Vipps)	174	136
Other operating income	7	7
Operating expenses, adjusted for conversion of the pension scheme	1 031	958
Losses on loans, guarantees and undrawn credit	- 18	31
Profit excl. Finance, and adjusted for non-recurring items	**1 479**	**1 346**
Tax (25 %)	326	336
Ordinary operations / adjusted earnings after losses and tax	**1 153**	**1 009**
Average equity excl. Hybrid capital	13 142	12 191
Return on equity, profit excl. Finance and adjusted for non-recurring items	**8.8 %**	**8.3 %**

The Board of Directors' report and some accounting presentations refer to adjusted results that are not defined in IFRS (Alternative Performance Measures (APM)).

Alternative performance measures

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

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

Sparebanken Sør's alternative performance measures and definitions:

MEASURE	Definition
Return on equity (ROE) (Ordinary profit in % of average equity capital)	These measures give relevant information on Sparebanken Sør`s profitability by measuring the ability to generate profits from the shareholders' investments. ROE is one of Sparebanken Sør`s most important APM. Return on equity (ROE) is calculated as: Shareholders' share of profits for the period divided by average equity excluding hybrid capital.
Book equity per ecuity certificate (including dividend)	This key figure provides information on the value of book per equity certificate. This enables the reader to assess the reasonableness of the market price of the equity certificate. Book equity per equity certificate is calculated as shareholders' equity excluding hybrid capital at the end of the period, divided by the total number of outstanding certificates.
Profit / dilluted earnings per equity certificate	This key figure provides information on the profit compared to the diluted earnings per equity certificate at the relevant time, which provides a basis for assessing the reasonableness of the profit on the earnings per equity certificates. Diluted earings per equity certificate is calculated as majority interest multiplied by equity certificate ratio, divided by number of equity certificates issued.
Growth in loans (gross) as %. last 12 months	Growth in lending over the last 12 months is a performance measure that provides relevant information on the level of activity of and growth in the bank's lending business. The bank uses Sparebanken Sør Boligkreditt (SSBK) as a source of funding, and this key figure includes loans sold to them since this better reflects the level of activity and growth in lending than if these loans were excluded. Lending growth is calculated as gross loans incl. loans sold to SSBK at period-end minus gross loans incl. loans sold to SSBK at period-start divided by gross loans incl. loans sold to SSBK at the start of the period.
Growth in deposits as %. last 12 months	Growth in deposits over the last 12 months is a performance measure that provides relevant information on the level of activity of and growth in the bank's liquidity position. Deposit growth is calculated as total deposits from customers at period-end minus total deposits from customers at period-start divided by total deposits from customers at the start of the period.
Deposit as % of net loans	These measures give relevant information on Sparebanken Sør's liquidity position. The APM is calculated as: Customer deposits divided by net loans to customers at the end of the period.
Cost/income ratio (Total operating costs in % of total incomes)	This ratio is included to provide information on the correlation between income and expenses and is considered to be one of Sparebanken Sør`s most important performance measures. It is calculated as: Total operating expenses divided by total income.
Price/book value pr equity certificate	This measure is used to compare the company's current market price to its book value. It is frequently used to compare banks. Calculated as: Sparebanken Sør's closing share price at the end of the period divided by book value per equity certificate.
Losses on loans ass % of net loans (annualised)	This key figure indicates recognised impairment cost as a function of net loans incl. loans transferred to Sparebanken Sør Boligkreditt. The figure is calculated as loss recognised in the period divided by net loans incl. loans sold to SpareBanken Sør Boligkreditt at period-end. Where information is disclosed on loan-loss ratios for periods shorter than one year, the ratios are annualised for recognition purposes.
Gross defaulted loans over 90 days as % of gross loans	This ratio is presented because it provides relevant information on the bank's credit exposure. It is calculated as total defaulted exposures (over 90 days) divided by total loans incl. loans sold to Sparebanken Sør Boligkreditt at period-end.
Lending margin (CM and RM)	Measures the group's average profit from loans, calculated as average lending rate (return) with deduction of 3 month NIBOR. Average lending rate is calculated as interest income as a percentage of average gross loans to customers.
Deposit margin (CM and RM)	Measures the group's average profit from deposits, calculated as 3 month NIBOR with deduction of average deposit rate, Average deposit rate is calculated as interest expense as a percentage of average deposits from customers.
Average lending rate	See Lending margin (CM and RM) above
Average deposit rate	See Deposit margin (CM and RM) above

Corporate governance

CORPORATE GOVERNANCE REPORT

Sparebanken Sør is an independent financial services group whose principal activities are in banking, securities and real estate in Agder, Vestfold and Telemark as well as Rogaland.

In addition to the parent company Sparebanken Sør, the Sparebanken Sør Group consists of the following companies:

					PARENT BANK 31.12.2021
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortage company	Kristiansand	100 %	1 375 000	2 095 695
Sørmegleren Holding AS	Real estate business	Kristiansand	90.1 %	10 739	11 499
Sørlandets Forsikringssenter AS	Ensurance	Kristiansand	78 %	45 000	5 300
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	0
Prosjektutvikling AS	Property managment	Arendal	100 %	100	0
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	780
Total					**2 116 209**

The headquarters and registered address of the bank are in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal. The Bank's organisation number is 937 894 538. This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" requirements of the Oslo Stock Exchange.

The company's intention with this document is:

- To clarify the allocation of roles between the Bank's governing bodies and day-to-day management
- Equal and secure access to reliable and timely information on the company's operations
- Equal treatment of equity certificate holders
- To optimise the company's value in a long-term perspective

The corporate governance principles have been specified in various policy documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, Board instructions, instructions for the CEO, framework for management and control, governance document for sustainability and procedures for own-account trading.

THE CONNECTION WITH THE BANK'S OTHER POLICY DOCUMENTS

The Bank's strategy documents specifies the overall plans for the Group, and to complement the totality of the Group's policy documents there should be a close correlation between the overall strategy document and the complementary and more detailed governance documents.

The structure of the various documents is shown below.

For some policy documents there are, in addition, supplementary documents adopted by the administration. To ensure that the various policy documents correspond to the Group's objectives, the policy documents have to be revised and maintained regularly. An audit is normally carried out within a period of 12 months with a decision by a relevant authority.

For operationalization of the Bank's strategic objectives, detailed annual action plans.

The document owner is responsible for ongoing maintenance, including presenting proposals for changes and ensuring that these are treated in accordance with the Bank's procedures. The document owner is responsible for implementing the governing documents in the organisation.

For a comprehensive overview of the various management documents, see the document «Organization of risk management in Sparebanken Sør».

OPERATIONS

Objectives

The Bank's objective is to generate growth and development in the region in a long-term, responsible and sustainable manner.

Main strategies

To generate growth and development in the region, Sparebanken Sør has a strategy for high value creation. The Bank's strategic objective will be achieved through proximity to the market, customer focus, building of relations, expertise, local decision-making power, competitive products, motivated employees and cost-effective processes. By doing this, the Bank's reputation is enhanced, customer loyalty is built up and the Bank's profitability is safeguarded.

Sparebanken Sør's main market area is Agder as well as Vestfold and Telemark and Rogaland. In addition, the Bank aims to strengthen its position in the KNIF segment, in both the retail and corporate markets. Expansion in the KNIF segment will provide growth potential and diversification of risk. Growth will be controlled and based on profitability and low risk.

The Board directs the Bank's operations, and the work of the Board follows an established annual plan and Board instructions. The Board adopts the Bank's strategy in a three to five-year perspective. The strategic plan is evaluated on a rolling basis over the strategic period. The Board establishes goals and a risk profile for the business annually.

As a traditional savings bank dating back to 1824, Sparebanken Sør is run in accordance with the statutory rules that apply at any particular time to savings banks. The Bank can perform all normal banking transactions and services and provide investment services in accordance with the applicable regulations at any time. See the articles of association on the Bank's website www.sor.no.

Social responsibility

Social responsibility is integral to Sparebanken Sør's business. Sparebanken Sør's corporate social responsibility is expressed in the bank's business concept of contributing to growth and development in the region, and the goal of its social responsibility activities is to help achieve this in a responsible and sustainable way. Work on social responsibility helps to strengthen the Bank's competitiveness, reduce risk, and attract good customers, investors and skilled employees.

Sparebanken Sør is committed to taking considerations of the climate, the environment, social conditions and good corporate governance in all its activities, including the development of products and services, advisory and sales activities, investment and credit decisions, and in its production and operations. Sparebanken Sør shall not contribute to the infringement of human and workers' rights, corruption, serious environmental damage and other acts, which may be regarded as unethical.

By being a community building company, Sparebanken Sør contributes toward sustainable industrial and social development through creating values for the region. The bank also supports projects in culture, sport and other areas that make a positive contribution to the region. In addition to traditional sponsorship of teams and clubs, the Bank carries on the strong tradition of making donations for the public good in its capacity as an independent savings bank.

Measures against money laundering and the financing of terrorism

Sparebanken Sør must comply with the authorities' anti-money laundering regulations whose purpose is to combat money laundering and the financing of terrorism. This includes both an automatic notification system for suspicious transactions and responsibility for each individual employee to report individual cases or, if appropriate, to carry out intensified customer checks. The Bank has specific procedures for this and provides continuous training for employees, particularly those, who are in direct contact with customers.

Environmental matters

Sparebanken Sør takes account of climate issues. Environmental protection is becoming increasingly more important to and the bank would like to do its part to contribute. Sparebanken Sør has defined work on internal environmental efficiency as a priority area in the Bank's response to climate change.

Deviations from the recommendation: None

EQUITY AND DIVIDENDS

Equity

Sparebanken Sør's equity is complex for several reasons. The most important of these are the size of the Group, a stable market for long-term funding and the Bank's objectives in a long-term, strategic perspective. Through annual evaluation of management and control, including the Internal Capital Adequacy Assessment Process (ICAPP), the Group has a strong focus on ensuring that its equity is tailored to its goals, strategies and risk profile. The capital situation is monitored closely through the year with internal calculations and reports.

Dividend

Risk-adjusted return is assumed to be high and competitive in the market. The equity certificate holders' mathematical share of profit is split between a cash dividend and an equalisation fund. The objective is for 50 to 70 percent of the equity certificate holders' share of profit for the year after tax to be distributed as a dividend.

Emphasis is placed on the bank's equity development, solvency, liquidity situation and market adjustment when determining the size of the cash dividend and the share of the profit.

Board authorisations

The Bank's articles of association do not contain any provisions on the purchase of own equity certificates. Decisions on this issue must be discussed and adopted by the Board of Trustees, which can authorise the Board of Directors. Such decisions/authorisations to increase equity are otherwise based on the Financial Institutions Act and the principles set out in the Public Limited Companies Act.

Deviations from the recommendation: None

EQUAL TREATMENT OF SHARE-HOLDERS AND TRANSACTIONS WITH RELATED PARTIES

The bank will place strong emphasis on transparency in relation to those, who provide the bank with equity and funding, and those who have relations with the bank in other ways.

Sparebanken Sør has one equity certificate class, and all equity certificate holders are treated equally. The Bank follows the provisions of the Financial Institutions Act on restrictions in ownership and voting rights insofar as the provisions apply to savings bank with listed equity certificates. Existing equity certificates have preference in the event of increases in capital, unless special circumstances dictate that this rule be waived. The waiver in such a case will be reasoned, and the reasons will be published in a stock exchange report.

In cases where the Bank has transactions in its own equity certificates, these are done on the stock exchange.

The Bank is obliged by the Stock Exchange's rules on reporting financial and other information to the market.

Deviations from the recommendation: None

EQUITY CERTIFICATES AND NEGOTIABILITY

Sparebanken Sør's equity certificates are listed on Oslo Stock Exchange and are freely negotiable.

The only restriction is statutory requirements which at present stipulate that acquisition of a qualified share of the equity capital, at 10 percent or more, requires consent from the Ministry of Finance.

Listing on the stock exchange ensures that the Bank abides by the terms and conditions which apply at any time in the equity market.

Deviations from the recommendation: None

THE BOARD OF TRUSTEES

A savings bank is, in essence, self-owned institution, and the management structure and composition of its governing bodies differs from those of limited liability companies with respect to the governing bodies a savings bank shall have. The Bank's governing structure and the composition of its governing bodies are deemed to comply with the wording of the recommendation" to the extent appropriate to savings banks with listed equity certificates".

The Bank's highest governing body is the Board of Trustees, which must ensure that the Bank acts in line with its purpose and in accordance with laws, articles of association and the Board of Trustees' own resolutions.

The Board of Trustees consists of 28 members, of whom 12 represent customers, 3 represent the general public, 6 represent equity certificate holders and 7 represent the Bank's employees. Mechanisms have been adopted that ensure geographical spread in the representation of the Bank's market areas.

Notice to the Board of Trustees' meetings will be sent with at least 21 days' notice. The Board of Trustees does not make decisions in other cases than those specified in the notice of the meeting.

The Board of Directors and auditor attend meetings of the Board of Trustees.

Deviations from the recommendation: None

NOMINATING COMMITTEES

Under the Bank's articles of association, 3 nominating committees are elected:

- The Trustees Election Committee shall prepare the elections of Trustees. One nominating committee with 8 members is elected from among the members of the Board of Trustees and shall have representatives from all groups represented in the Board of Trustees.
- The Depositor Nomination Committee shall prepare the election of depositors to the Board of Trustees. One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- Nomination Committee for the equity certificate holders shall prepare the election of representatives of the equity owners to the Board of Trustees. One nominating committee with 4 members is elected from among the equity certificate holders'-elected members of the Board of Trustees.

The work of the nomination committees

The Board of Trustees' nominating committee prepares election of the Chairman and Deputy Chairman of the Board of Trustees, the Chairman and Deputy Chairman of the Board of Directors, and other members and deputy members of the Board of Directors, excluding the employees' representatives. Likewise for elections of the Chairman, members and deputy members of the Nominating Committee.

The reasons for the recommendations of the Board of Trustees, the depositor-elected, equity certificate-elected and employees' nominating committees shall be given.

Deviations from the recommendation: None

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1 of the articles of association.

The Board of Directors shall consist of 7 to 8 members and 3 deputy members, of which at least 4 are from Agder and at least 1 member from Vestfold and Telemark. Among these, 2 members and 2 personal deputy members are elected from the employees. The other members of the Board of Directors elect a permanent attending deputy member with a right to speak.

Members of the Board of Directors are elected for two years.

The composition of the Board is based on expertise, capacity and diversity, and in compliance with the Bank's articles of association with regard to geographical distribution.

The Board of Directors independence

None of the bank's day-to-day management is a member of the Board of Directors.

The Board members' independence

All members of the Board of Directors are independent of executive personnel. The members of the Board of Directors are also independent of significant business connections.

Deviations from the recommendation: None

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the funds at the Bank's disposal being managed in a secure and appropriate manner. The Board of Directors must ensure the satisfactory organisation of the Bank's operations, keep itself informed of the Bank's financial position and ensure that its operations, accounting and asset management are subject to satisfactory control.

The Board of Directors shall supervise day-to-day management and the Bank's operations in general.

The Board of Directors shall ensure that the Bank has good management and control systems in order to meet the statutory provisions applicable to the business.

The Board of Directors conducts an annual self-assessment.

The Audit Committee

The Audit Committee have separate instructions adopted by the Board of Directors. The committee is a preparatory and advisory committee for the Board of Directors, whose purpose is to strengthen work on financial reporting and internal control. At least one of the committee's members must be independent of the business and have qualifications (formal or experience-based competence) in accounting and auditing.

The Audit Committee prepares the Board of Directors' follow-up of the financial reporting process, monitors internal control and risk management systems, has ongoing contact with the Bank's chosen auditor, and assesses and monitors the auditor's independence.

The Board of Directors elects 3 members to the committee from among its members.

In accordance with the NUES recommendation, the majority of the members in the Audit Committee, are independent of the business.

The Risk Committee

The Risk Committee has separate instructions adopted by the Board of Directors. The Risk Committee is a preparatory and advisory committee to the Board of Directors and shall ensure that risk and capital management in the Group supports the Group's strategic development and achievement of objectives while ensuring financial stability and prudent asset management.

The Risk Committee shall monitor the overall risk and assess whether the group's management and control systems have been adjusted to the risk level and the scope of the business.

The Board of Directors elects 3 members to the committee from among its members.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee will help to ensure that there is consistency between the bank's remuneration arrangements, the overall objectives, risk tolerance and long-term interests.

The committee prepares all matters relating to remuneration schemes for the Board of Directors. The committee must support the work of the Board of Directors to determine and ensure that the Bank at all times has and practices guidelines and frameworks for remuneration arrangements.

The Bank has established a Remuneration Committee consisting of 3 members of the Board of Directors, of whom 1 member is an employee representative.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

Technology Committee

Technology Committee has its own instructions adopted by the Board of Directors. The committee shall have a special responsibility for being informed about financial technology and prepares all matters concerning strategic choices within the technology area for the Board.

The Bank has established a Technology Committee consisting of 2 members of the Board of Directors.

Deviations from the recommendation: None

RISK MANAGEMENT AND INTERNAL CONTROL

The Bank has established a separate risk management and control division. There is a clear division of responsibility between the various governing bodies in the Bank in accordance with laws and regulations, as well as internally adopted management, control and reporting procedures. Key bodies are the Board of Trustees, the Board of Directors, external auditing, internal auditing and Group management.

Internal audit

The Bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor must ensure that adequate and efficient internal control and risk management procedures have been established and implemented. Separate instruction has been prepared for the internal auditor. Each year, the Board of Directors approves the annual internal auditing plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The Bank has established guidelines and procedures for the implementation of internal controls based on the COSO model. This model has an international standard for comprehensive risk management, and is widely used within the financial sector. Responsibility for practical implementation of the Group's internal control processes is allocated to the Risk Management Division, organised independently of the business units.

Compliance

The Bank focuses on having good processes to ensure compliance with applicable laws and regulations, and has established a separate compliance function, organised independently of the business units.

Risk management and capital adequacy

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives are given by the strategic business concept. The targeted return is decisive for the bank's activities and specification of targets. Focus is to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the Bank's capital assessment. A process related to the Bank's risk and capital adequacy assessment (ICAAP) is carried out annually. The Board of Directors ensures that the bank has sufficient capital relatively to the desired risk and the bank's operations and ensures that the bank is adequately capitalised in respect of regulatory requirements. The ICAAP - process is based on requirements set out by the authorities in addition to the banks own assessments.

Consideration of external factors in value creation

As a basis for its operations, the Bank must set strict requirements for honesty and good business ethics. The Bank therefore expects employees and elected representatives to have a high level of integrity, and attitudes in accordance with the Bank's code of conduct. These provide guidance on customer care, donations, confidentiality, participation in other commercial activity and transactions with related parties. The code's guidelines also requires employees to report any breaches of internal guidelines, laws and regulations. The procedure for how such disclosures are to be made is described in more detail in the Bank's whistleblowing routines.

Deviations from the recommendation: None

REMUNERATION OF THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviations from the recommendation: None

SALARY AND REMUNERATION OF EXECUTIVE PERSONS

The Board of Trustees adopts its guidelines for remuneration to executives employees. These guidelines are published on the bank's website and attached the annual statement. Remuneration to the CEO and internal auditor is determined by the board, following a proposal from the Remuneration Committee. Remuneration to members of the group management is determined by the CEO in consultation with the Remuneration Committee. None of the directors has performance-based remuneration, other than participating in the bank's ordinary bonus program, which includes all employees in the bank.

The Board of Directors' declaration on salary and remuneration to executive persons is submitted to the Board of Trustees annually. Remuneration report for 2021 attached.

Deviations from the recommendation: None

INFORMATION AND COMMUNICATION

The Bank must have an open and active dialogue with all stakeholders. It is the intention of the Bank that customers, equity certificate holders, lenders (financial market players) and public authorities should have simultaneous access to correct, clear, relevant and complete information on the Bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, a separate Investor Relations area on the Bank's website and financial reports.

Deviations from the recommendation: None

COMPANY ACQUISITION

Sparebanken Sør is a self-owned institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law, and no party may own more than 10 percent of the Bank's equity. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

The savings bank foundation, Sparebankstiftelsen Sparebanken Sør, owns a large share of the equity certificates in the bank. Statutory limits on ownership are assumed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviations from the recommendation: None

EXTERNAL AUDITOR

An external auditor is selected by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor attends the meeting of the Board of Directors at which the annual financial statements are discussed. The external auditor also attends meetings of the Audit Committee and has an annual meeting with the Board of Directors without members of administration being present. The external auditor's fees are considered by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also governed by a separate letter of engagement which, among other things, is concerned with the parties' responsibilities.

The Audit Committee monitors the auditor's in-dependency, including what other services are provided by the auditor.

Deviations from the recommendation: None

Guidelines for determining salaries and other remuneration for leading persons at Sparebanken Sør

These guidelines have been prepared by the Board of Sparebanken Sør and are presented for approval by the Board of Trustees in March 2022 in accordance with the Financial Undertakings Act § 15-6, cf. the Public Limited Liability Companies Act § 5-6 third paragraph and the Public Limited Liability Companies Act § 6-16a and b with associated regulations.

The guidelines shall be revised as necessary, at least every four years, and at the latest in connection with the Board of Trustees meeting in 2026. The guidelines are based on the existing remuneration scheme determined in accordance with the Financial Undertakings Act, Chapter 15, with associated regulations.

The guidelines will apply for salary and remuneration amounts set for leading persons after the ordinary Board of Trustees meeting in 2022, as well as changes in agreed remuneration after that date.

"Leading persons" in these guidelines are defined as CEO as well as the directors of the Group management team. The guidelines also include salary and other remuneration for staff who are members of the Board.

How the guidelines promote the Bank`s business strategy, long-term interest and financial sustainability

Sparebanken Sør aims to create sustainable growth and development in the region. Successful implementation of the Bank's business strategy requires that the Bank recruits and retains high-performance and skilled employees and managers. The Bank's further growth and profitability depends on employees' efforts to continuously develop the business and improve profitability.

The Bank will offer a market-based remuneration scheme that is perceived as competitive and motivating, and which acts a successful tool in the competition for labour.

The remuneration scheme will always be in accordance with the applicable legal requirements for remuneration schemes in financial enterprises.

The guidelines are intended to provide a framework for remuneration of leading persons so that the terms support the Bank's business strategy, long-term interests and sustainability goals. The guidelines should promote and provide incentives for good management of and control over the Bank's risks, discourage excessive risk-taking and help avoid conflicts of interest.

Components included in the remuneration of leading persons

Remuneration to leading persons consists of a fixed annual remuneration, as well as a variable remuneration linked to performance. The compensation can consist of the following elements:

- Fixed salary
- Variable pay
- Pension benefits
- Other rewards and benefits

Fixed salary

The fixed salary is the main element in the remuneration to leading persons and should reflect the job requirements with regard to qualifications, responsibilities, complexity and contribution to the Bank's overall business objectives.

The fixed salary figures for leading persons shall be reviewed regularly, normally in connection with the annual salary review for employees of Sparebanken Sør. The guidelines for determining the salary of the CEO are set by the Board.

Remuneration to the directors of the Group management is determined by the CEO in consultation with the Bank's Remuneration Committee.

Current legal requirements for remuneration schemes in financial companies are based on a sound balance between fixed salary and variable remuneration. The maximum variable remuneration is 12.5 percent of the fixed salary for leading persons in the Bank. This balance between the fixed salary and variable remuneration will affect the level of the competitive fixed salary for leading persons.

Variable remuneration

Bonus basis for leading persons

Employees who are members of the Board also participate in the Bank's general bonus scheme for all employees, which can trigger a bonus of up to 1.5 months' salary. The bonus is paid out as a cash benefit.

Bonus for employees who are members of the Board

Employees who are members of the Board also participate in the Bank's general bonus scheme for all employees, which can trigger a bonus of up to 1.5 months' salary. The bonus is paid out as a cash benefit.

Termination of employment

The employee must be at his post on 31 December of the year of service in order to receive the bonus

Pension benefits

The collective pension scheme for all employees – including leading persons – for salaries up to 12 G (12 times the social security base amount), is based on defined contributions. The contribution rates are within the current regulations in the Defined Contribution Pensions Act.

The CEO and the directors reporting to the CEO, have also agreed on compensation schemes for pension accrual above 12 G.

For the CEO, the early retirement scheme is applicable from the age of 62 and up to 67. This early retirement benefit is 67 percent of the fixed salary. For the Deputy CEO, the early retirement benefit is applicable from the age of 62 and up to 67. This early retirement benefit is equal to 66 percent of the fixed salary. For the Director of Risk Management, the early retirement benefit is applicable from the age of 65 and up to 67. This early retirement benefit is equal to 66 percent of the fixed salary. There are individual deposit-based agreements for early retirement and old-age pension for salaries over 12 G for this group.

For other directors of the Group management, the old-age pension for salaries above 12 G is deposit-based – with the same rates as for salaries between 7 G and 12 G.

Severance pay schemes

For the CEO, it is agreed that they will receive up to 12 months' severance pay in the event of imposed resignation before the end of the agreed period of service. There are no general severance pay schemes for other leading employees.

Other goods and benefits

Other benefits, which may include, for example, a company car or car allowance, travel allowance, life and disability insurance, discounted savings programmes in the Bank's equity certificates, personal and health insurance and medical examination, must be on market terms and constitute only a limited part of the total remuneration.

Remuneration under extraordinary circumstances

Additional remuneration may be paid under extraordinary circumstances, provided that such extraordinary arrangements are made only at the individual level and with a view to either recruiting or retaining a leading employee, or as compensation for extraordinary work beyond a person's normal duties. Such remuneration must always – together with other remuneration – be within the limits of the remuneration schemes that can be used in financial undertakings.

Decision-making process for the establishment, revision and implementation of the guidelines

The Board of Sparebanken Sør shall have a Remuneration Committee. This Committee shall develop the Board's proposed guidelines for compensation to leading persons. Guidelines decided upon shall be published without delay on the company's website after the Board of Trustees has adopted the guidelines.

The Board`s right to derogate from the guidelines

The Board of Directors may, after a proposal from the Remuneration Committee, decide to temporarily deviate from points 4 to 8 of the guidelines, in whole or in part, if in a specific case there is a special reason, and such derogation is necessary to safeguard the company's long-term interests and sustainability, and the Group's financial viability.

Report on remuneration to leading persons

It is the Board's responsibility to establish guidelines and frameworks for the remuneration scheme at Sparebanken Sør, and to ensure compliance with this. The guidelines set out in a separate management document, "Policy Remuneration Schemes", shall contribute to promoting good management of and control over risks. This document should counter excessive risk-taking and help avoid conflicts of interest. The remuneration scheme should provide incentives and help promote good management of and control over the Bank's risk in the short- and long term.

There are separate rules for leading persons, which were presented by the Board to the Bank's Board of Trustees for them to decide in March 2022.

In this context, leading persons consist of the CEO and the members of the Group's management. The guidelines also include salary and other remuneration for staff who are members of the Board.

Events from 2021 affecting the determination of remuneration

There are no registered events in the Bank's performance or risk picture that have led to the need for changes in the practice of established reimbursement schemes. No new reimbursement schemes have been adopted during the year.

Wage settlement

The Bank has a long tradition of tailoring its wage policy to the Norwegian "frontline model" as far as possible. This was also applied in the local wage settlement of 2021, where estimated annual wage growth was 2.73 percent, which was close to the "frontline" target of 2.7 percent.

Guidelines for remuneration schemes for leading persons

In 2021, the Board of Directors of Sparebanken Sør adopted its own guidelines for remuneration schemes for leading persons. These guidelines summarised existing agreed-upon schemes and represented no real changes to the schemes as they have been applied.

There have been no changes to the remuneration scheme in 2021, nor have there been any exceptions to established guidelines for leading persons in 2021.

Changes in the composition of leading persons

Eva Kvelland was hired as Director of Marketing and Communications, and joined the Group's management. She started working at the Bank on 15 August 2021. Otherwise, there were no changes among the leading persons..

Remuneration of leading persons

The fixed salary is the main element in the remuneration of leading persons and should reflect the job requirements with regard to qualifications, responsibilities, complexity and the extent to which the person in question contributes to achieving the Bank's overall business goals, long-term interests and sustainability goals.

Leading persons are covered by the Bank's general bonus scheme for all employees, which can trigger a bonus payment of up to 1.5 months' salary. The bonus is distributed to all employees at the same percentage of annual salary and is paid out as a cash benefit. The bonus scheme does not provide an incentive to take risks on behalf of the Bank.

The Bank has no form of variable remuneration that is paid over several years.

The Bank has no fixed or variable remuneration paid in the form of equity certificates.

Table 1: Remuneration to leading persons

Table 2: Remuneration and similar benefits to the Board

Table 3: Remuneration and similar benefits to the Board of Trustees

Application of the compensation schemes with respect to performance criteria

The total remuneration to leading persons has been paid in accordance with approved remuneration schemes.
The Board's view is that the guidelines' overall goals of maintaining the Group's business strategy, risk tolerance, long-term interests and sustainability goals have been met.

Fixed salaries

Fixed salaries, which is the main element of the remuneration for leading persons, were assessed and determined in connection with the annual salary review for employees of Sparebanken Sør.

A fixed salary must be tailored to the market, based on the individual's results (quantitative and qualitative), efforts, competence, and responsibility. This means that:

- A salary is a reward for results, work effort, adaptability, responsibility, and value creation that the individual contributes to the community.
- Salaries will differ according to the extent to which the above criteria are present and are met.

There are no specific individual financial and non-financial performance criteria for leading persons used in the remuneration review.

- In accordance with the regulations, the Board of Directors determined the remuneration of the CEO.
- The CEO similarly determined the salary changes for other members of the Group management after securing changes with the Remuneration Committee.
- The Board of Trustees set the fees for the employees' Board members.

Fees

The Board members elected by employees have received fees for their Board positions at an amount determined by the Board of Trustees. Beyond this, no leading persons have received fees from either the Bank or its subsidiaries..

Fridge benefits

Fridge benefits are paid in accordance with regulations. There have been no changes in scope or content.

Variable pay

At a board meeting on 10 February 2022, the Board decided to pay all employees, including leading persons, a bonus for 2021 of 28.2 percent of their monthly salary. The bonus was paid out as a cash amount in connection with ordinary payroll processing in February 2022. The bank has no variable remuneration that is paid over several years.

Extraordinary remuneration

No extraordinary remuneration has been paid to leading persons in 2021.

Pensions

Pension payments in 2021 to collective and individual pension schemes have been made in accordance with agreements entered.

Comparative information on changes in remuneration and company results

Table 4: Comparative information on changes in remuneration and company results

Tabel 1: Remuneration and similar to leading persons

			Fixed remuneration		Variable remuneration						
Leading persons	**Role**	**Year**	**Fixed salary**	**Fringe benefits**	**One-year variable**	**Several years variable**	**Pension**	**Total Remuneration**	**Number of equity certificates**	**Loans and collateral**	**Share of fixed remuneration**
Geir Bergskaug 3)	CEO	2021	2 984	194	42		2 672	5 893	75 691	2 993	93,3 %
		2020	2 938	204	106		1 960	5 208	66 239	2 986	94,7 %
Lasse Kvinlaug	Deputy CEO/ Director, Corporate market	2021	1 921	161	30		511	2 622	3 540		94,4 %
		2020	1 885	157	75		448	2 565	3 088		95,1 %
Gunnar Thomassen	Director, Retail market	2021	1 800	328	28		512	2 668	3 206	6 017	95,4 %
		2020	1 766	277	72		348	2 463	3 206	3 811	95,3 %
Rolf H. Søraker	Director, Group support	2021	1 481	199	25		399	2 105	2 096	1 792	95,6 %
		2020	1 460	164	63		318	2 005	1 644	2 013	95,0 %
Marianne Lofthus	Director, Capital market	2021	1 427	292	24		439	2 182	1 228	4 428	94,8 %
		2020	1 376	244	60		354	2 034	776	4 455	94,8 %
Bjørn A. Friestad	Director, Risk management	2021	1 533	192	25		401	2 152	4 571	1 432	95,2 %
		2020	1 506	211	64		360	2 141	4 119	1 152	95,1 %
Gry Moen	Director, Business development	2021	1 427	212	24		439	2 102	732	5 268	94,1 %
		2020	1 376	198	60		347	1 981	732	5 234	94,5 %
Steinar Breen 1)	Director, Strategy and compliance	2021	1 425	191	18		165	1 800	1 066	1 341	99,0 %
		2020	1 490	185			165	1 840	913	1 328	100,0 %
Eva Kvelland 2)	Director, market and communication	2021	1 261	121			154	1 536	260	1 858	100,0 %
Gunhild Tveiten Golid 4)	Employee representative boardmember	2021	140	6				146	1 228		100,0 %
		2020	140	22				162	779	263	100,0 %
Jan Erling Tobiassen 4)	Employee representative boardmember	2021	140	6				146	1 228		100,0 %
		2020	138	40				178	799		100,0 %

1) Employes from 01.04.2020. Converted fixed salary 2020 to annual salary.

2) Employed from 16.08.2021. Converted fixed salary 2021 to annual salary.

3) Comparative figures regarding pensions are not comparable with stated figures in 2020. This as a result of new assumptions in 2021 related to last year.

4) Fees paid to the Board of Directors

Tabel 2: Remuneration and similar to the Board of Directors

						2021
Board of Directors NOK THOUSAND	Role	Number of equity certificates	Remuneration 1)	Fringe benefits	Total remuneration	Loans and collateral
Stein A. Hannevik 1)	Chairman	38 467	408	4	412	0
Inger Johansen	Deputy chairman	0	198	1	198	0
Mette Harv	Member	0	217	1	218	0
Knut R. Sæthre	Member	0	193	0	193	0
Merete Østby	Member	0	164	5	169	0
Erik Tønnesen	Member	0	208	1	209	8 812
Trond Randøy	Deputy member	0	140	0	140	0
Jan Erling Tobiassen	Employee representative	0	140	6	146	0
Gunnhild Tveiten Golid	Employee representative	0	140	6	146	0
Total		**38 467**	**1 807**	**24**	**1 831**	**8 812**

1) Fees paid to the Board of Trustees and the committees

						2020
Board of Directors NOK THOUSAND	Role	Number of equity certificates	Remuneration 1)	Fringe benefits	Total remuneration	Loans and collateral
Stein A. Hannevik 1)	Chairman	38 467	488	4	492	0
Inger Johansen	Deputy chairman	0	201	1	202	0
Marit Kittelsen 2)	Member	0	127	7	134	1 126
Erling Holm 2)	Member	0	243	11	254	3 500
Mette Harv	Member	0	235	0	235	0
Tom Erik Jebsen 2)	Member	2 500	124	5	129	0
Knut R Sæthre	Deputy member	0	140	0	140	0
Merete Østby 3)	Member	0	23	0	23	0
Erik Tønnesen 3)	Member	0	23	0	23	7 293
Trond Randøy 3)	Deputy member	0	23	0	23	0
Jan Erling Tobiassen	Employee representative	776	138	40	178	263
Gunnhild Tveiten Golid	Employee representative	776	140	22	162	0
Total		**42 542**	**1 905**	**90**	**1 995**	**12 182**

1) Fees paid to the Board of Trustees and the committees
2) Member of the Board until 30 October 2020
3) Member of the Board from 1 November 2020

Tabel 3: Remuneration and similar benefits to the Board of Trustees

				2021
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remuneration	Loans
Jorunn Aarrestad 1)	Chairman, Deposit elected	0	90	2 851
Nina Berit Gumpen Hansen 4)	Deputy Chairman, Deposit elected	174 209	48	0
Terje Spilling	Deposit elected	0	6	2 446
Anders Gaudestad	Deposit elected	0	3	10 941
Anne Omholt Hovstad	Deposit elected	0	6	0
Berit Therese Knudsen	Deposit elected	0	6	0
Birgitte Midgaard	Deposit elected	0	78	340
Kristi Marie Tveit	Deposit elected	0	0	904
Oddmund Ljosland	Deposit elected	0	3	8 595
Mette Vestberg Sørensen	Deposit elected	0	51	0
Terje Røsnes	Deposit elected	600	3	252
Merete Fogh Lund	Deposit elected	0	6	2 411
Rita Eretveit 5)	Deposit elected	0	6	0
Ingvild Hovden 5)	Deposit elected	97	3	942
Ole Tom Haddeland 5)	Deposit elected	0	3	0
Tore Askildsen	Public elected	0	6	2 557
Dag Eide	Public elected	0	48	0
Bjørn Rudborg	Public elected	0	6	0
Nina Berit Gumpen Hansen 4)	EC owner	174 209	48	0
Alf Albert	EC owner	72 292	48	1 926
Ole Moe Dy	EC owner	27 208	10	0
Helge Sandåker 2)	EC owner	0	0	0
Rune Røisland	Permanent attendee EC owner	0	6	0
Kari Anne Norbø 2)	EC owner	175	6	0
Eldbjørg Dahl	EC owner	0	3	0
Svein Bringsjord 5)	EC owner	6 854	6	1 252
Karen Andersen	Elected by employees	658	48	1 576
Hildegunn Smidsrød	Elected by employees	1 346	3	815
Tommy Holter Moi	Elected by employees	1 154	6	3 958
Nina Merete Olsen	Elected by employees	1 136	45	1 870
Britt Ytterbø	Elected by employees	658	0	1 621
Hege Kirkhus	Elected by employees	1 346	6	3 028
Hans Arthur Frigstad	Elected by employees	162	6	2 508
Total		**462 104**	**619**	**50 793**

1) Fees paid to the Board of Trustees and the Nomination Committee.

2) Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates

3) Represents Sparebankstiftelsen Sparebanken Sør and 6 854 own equity certificates

4) Represents Gumpen Eiendom AS

5) Member of the Board of Trustees until 31.03.2021

				2020
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remuneration	Loans
Jorunn Aarrestad	Chairman, Deposit elected	0	71	2 322
Terje Spilling	Deputy Chairman, Deposit elected	0	11	0
Rita Eretveit	Deposit elected	0	3	0
Anne Omholt Hovstad	Deposit elected	0	3	0
Ingvild Hovden	Deposit elected	97	6	998
Birgitte Midgaard	Deposit elected	0	57	390
Kristi Marie Tveit	Deposit elected	0	3	1 347
Linda Gjertsen	Deposit elected	0	6	1 088
Mette Vestberg Sørensen	Deposit elected	0	38	0
Ole Tom Haddeland	Deposit elected	0	6	181
Merete Fogh Lund	Deposit elected	0	3	2 650
Berit T Knudsen	Deposit elected	0	16	0
Tore Askildsen	Public elected	0	3	2 739
Dag Eide	Public elected	0	13	0
Bjørn Rudborg	Public elected	0	3	0
Nina Berit Gumpen Hansen 4)	EC owner	174 209	13	0
Alf Albert	EC owner	58 732	13	1 036
Ole Moe Dy	EC owner	904	10	0
Helge Sandåker 2)	EC owner	0	16	1 256
Kari Anne Norbø 2)	EC owner	105	6	0
Svein Bringsjord 1)3)	EC owner	6 854	25	1 545
Karen Andersen	Elected by employees	398	25	1 591
Hildegunn Smidsrød	Elected by employees	894	3	940
Tommy Holter Moi	Elected by employees	894	3	3 806
Nina Merete Olsen	Elected by employees	684	25	3 511
Bente Sørensen	Elected by employees	596	3	971
Hege Kirkhus	Elected by employees	894	6	3 096
Hans Arthur Frigstad	Elected by employees	162	3	2 562
Total		**245 423**	**393**	**32 029**

1) Fees paid to the Board of Trustees and the Nomination Committee.

2) Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates

3) Represents Sparebankstiftelsen Sparebanken Sør and 6 854 own equity certificates

4) Represents Gumpen Eiendom AS

Tabel 4: Comparative information about changes in remuneration and the company`s results

Geir Bergskaug	CEO	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	5.1	4.1	-2.3	13.2	
Total remuneration		In NOK Thousand	247	210	-125	685	5 893
Fixed salary		in percent	2.8	2.9	1.6	1.6	
Fixed salary		In NOK Thousand	77	82	47	46	2 984
Lasse Kvinlaug	Deputy CEO/Director Corporate market	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	0.8	-8.6	6.8	2.2	
Total remuneration		In NOK Thousand	22	-225	175	57	2 622
Fixed salary		in percent	3.0	2.9	1.3	1.9	
Fixed salary		In NOK Thousand	53	52	24	36	1 921
Gunnar P. Thomassen	Director, Retail market	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	3.7	6.5	2.7	8.3	
Total remuneration		In NOK Thousand	81	146	64	205	2 668
Fixed salary		in percent	2.7	3.1	1.3	1.8	
Fixed salary		In NOK Thousand	45	53	22	34	1 800
Rolf H. Søraker	Director, Retail market	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	1.0	6.3	2.6	5.0	
Total remuneration		In NOK Thousand	18	116	50	100	2 108
Fixed salary		in percent	2.8	2.9	1.8	1.4	
Fixed salary		In NOK Thousand	38	40	26	21	1 481
Marianne Lofthus	Director, Capital market	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	2.9	4.4	5.4	7.3	
Total remuneration		In NOK Thousand	52	82	104	148	2 182
Fixed salary		in percent	5.2	3.8	1.5	3.7	
Fixed salary		In NOK Thousand	65	50	21	51	1 427
Bjørn A. Frietad	Director, Risk management	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	1.1	1.6	5.6	0.5	
Total remuneration		In NOK Thousand	21	32	113	11	2 152
Fixed salary		in percent	2.8	2.9	1.5	1.8	
Fixed salary		In NOK Thousand	39	42	22	27	1 533
Gry Moen	Director, Business development	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	-0.7	5.3	3.6	6.1	
Total remuneration		In NOK Thousand	-12	96	69	121	2 102
Fixed salary		in percent	3.1	3.1	1.9	3.7	
Fixed salary		In NOK Thousand	39	41	26	51	1 427
Steinar Breen	Director, Strategy and compliance	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	NA	NA	NA	-2.2	
Total remuneration		In NOK Thousand	NA	NA	1 840	-40	1 800
Fixed salary		in percent	NA	NA	NA	-4.4	
Fixed salary		In NOK Thousand	NA	NA	1 490	-65	1 425
Eva Kvelland	Director, market and communication	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	NA	NA	NA	NA	
Total remuneration		In NOK Thousand	NA	NA	NA	NA	1 536
Fixed salary		in percent	NA	NA	NA	NA	
Fixed salary		In NOK Thousand	NA	NA	NA	NA	1 261
Jan Erling Tobiassen	Employee representative boardmember	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	12.1	3.1	32.8	7.3	
Total remuneration		In NOK Thousand	14	4	44	13	191
Fixed salary		in percent	15.0	4.3	15.0	1.4	
Fixed salary		In NOK Thousand	15	5	18	2	140
Gunhild Tveiten Golid	Employee representative boardmember	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Total remuneration		in percent	12.9	7.6	14.9	51.2	
Total remuneration		In NOK Thousand	15	10	21	83	245
Fixed salary		in percent	15.0	4.3	16.7	0	
Fixed salary		In NOK Thousand	15	5	20	0	140

Tabel 4, continued

	Change	2017 - 2018	2018 -2019	2019 - 2020	2020 - 2021	2021
Change in the bank's operating profit	in NOK million	-45	186	-31	129	1223
	In percent	-4.6	19.8	-2.8	11.8	
Change in return on equity	In percent	-12.4	11.8	-11.6	7.1	9
Change in average fixed salary employees excluding leading persons	In NOK Thousand	17	25	13	31	672.5
	in percent	2.9	4.1	2.0	4.9	

Declaration from the Board of Directors and CEO

Declaration in accordance with section 5-5 of the Securities Trading Act

The Board of Directors and Sparebanken Sør`s Chief Executive Officer hereby confirm that the Bank and the Group`s 2021 financial statements have been prepared in accordance with currently valid accounting standards and that the information provided in the financial statements presents a true and fair view of the Bank's assets, liabilities, financial position and overall results.

In addition, we confirm that the Board og Directors report give a true and fair view of the development, results and financial position of the Bank and the Group, together with a description of the most central risk factors and uncertainties facing the Bank and the Group.

Kristiansand, 31 December 2021 / 10 March 2022

Stein A. Hannevik Chair	Inger Johansen Deputy chair	Mette Ramfjord Harv	Knut Ruhaven Sæthre	Merete Steinvåg Østby

Erik Edvard Tønnesen	Jan Erling Tobiassen Employee representative	Gunnhild Tveiten Golid Employee representative	Geir Bergskaug CEO

To the Board of Trustees of Sparebanken Sør

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør, which comprise:

- The financial statements of the parent company Sparebanken Sør (the Company), which comprise the balance sheet as at 31 December 2021, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Sparebanken Sør and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2021, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- the financial statements comply with applicable statutory requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, and
- the financial statements give a true and fair view of the financial position of the Group as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We have been the auditor of the Company for 8 years from the election by the Board of Trustees on 27 March 2014 for the accounting year 2014.

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 business activities of the Group and the Company are largely unchanged compared to the previous year. We have not identified regulatory changes, transactions or other events that classify as new Key Audit Matters and our focus areas have remained the same in 2021 as in the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of loans to customers We focused on this area because loans to customers represent a significant portion of totals assets in the balance sheet and because valuation of loans to customers involves considerable judgement and large quantities of data which makes calculation of impairment of loans to customers complex. Impairment of loans to customers is performed in accordance with IFRS 9. For loans to customers where objective indicators of impairment exist, impairment is determined individually for each loan. For other loans to customers, impairment is calculated collectively based on a model. Both methods involve judgement that may affect financial results for the period and compliance with solvency regulations due to the risk classification of loans. For loans to customers where objective indicators of impairment exist, we have focused specifically on management's process for identification of loans to customers where objective indicators of impairment exist, management's follow-up of such loans and the assumptions	As part of our audit of expected impairment provisions, we assessed design and tested operating effectiveness of controls over quality assurance of assumptions and calculation methods. We determined that we could rely on these controls for the purposes of our audit. In addition, we performed detailed testing related to both loans to customers where impairment is calculated collectively based on a model and where impairment is estimated individually based on objective indicators of impairment. For loans to customers where objective indicators of impairment existed and the impairment was estimated individually, we tested a sample of such loans. We assessed the recoverable amount and cash flows that management had prepared to support the amount of impairment loss. We challenged management's assessment by interviewing client account managers and management. We compared the recoverable amount to external evidence where available. The outcome of our testing showed that the assumptions used by management when calculating individual impairment losses were reasonable. The effects of the pandemic, including the effect on the provisions based on the impairment model, was discussed with management.

used by management to calculate the impairment loss.

For other loans to customers where impairment loss has been calculated collectively based on a model we have focused specifically on:

- Risk classification of loans to customers.
- Calculation of probability of default.
- Identification of significant change in credit risk.
- How loans to customers have been allocated to stages.
- Determination of significant input variables to the model.
- Calculation of expected credit loss.

We refer to notes 6 through 11 to the financial statements for a description of the group's impairment model, credit risk and impairment of loans to customers.

Where impairment is calculated collectively based on a model, we gained a detailed understanding of the process and performed testing to assess the following:

- Calculations and methods used.
- That the model used was in accordance with the applicable framework and operated as intended.
- Reliability and accuracy of central parameters and data used by the model.
- Accurate and complete transfer of information from the model to the accounting system.

Our testing gave no indications of material misstatement.

We have looked at the information disclosed in the notes related to valuation of loans to customers and found it to be sufficient and adequate.

The bank uses external service organisations to operate certain key IT systems. The auditor 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 auditor has issued a report on the audit of reports and application controls. The auditor tested that key calculations produced by the core IT systems were performed in line with expectations, including interest calculations and amortizations. The testing also covered integrity of data, changes and access to the IT systems. To assess if we could rely on the information included in the auditor's reports, we satisfied ourselves regarding the auditor's competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the bank's IT systems and segregation of duties where this was considered necessary to our audit.

Our assessments and tests showed that we could rely on the data managed by and the calculations produced by the bank's IT systems relevant to financial reporting to be reliable.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

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

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

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

Our opinion on the Board of Director’s report applies correspondingly to the statements on Corporate Governance and Corporate Social Responsibility.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company’s and the Group’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 Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group'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 and the Group'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 and the Group 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.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Audit Committee 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

Report on compliance with Regulation on European Single Electronic Format (ESEF)

Opinion

We have performed an assurance engagement to obtain reasonable assurance that the financial statements with file name 549300U497VKMF6R3Q14-2021-12-31-en have been prepared in accordance with Section 5-5 of the Norwegian Securities Trading Act (Verdipapirhandelloven) and the accompanying Regulation on European Single Electronic Format (ESEF).

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the requirements of ESEF.

Management’s Responsibilities
Management is responsible for preparing and publishing the financial statements in the single electronic reporting format required in ESEF. This responsibility comprises an adequate process and the internal control procedures which management determines is necessary for the preparation and publication of the financial statements.

Auditor’s Responsibilities
Our responsibility is to express an opinion on whether the financial statements have been prepared in accordance with ESEF. We conducted our work in accordance with the International Standard for Assurance Engagements (ISAE) 3000 – “Assurance engagements other than audits or reviews of historical financial information”. The standard requires us to plan and perform procedures to obtain reasonable assurance that the financial statements have been prepared in accordance with the European Single Electronic Format.

As part of our work, we performed procedures to obtain an understanding of the company’s processes for preparing its financial statements in the European Single Electronic Format. Our work comprised reconciliation of the financial statements under the European Single Electronic Format with the audited financial statements in human-readable format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Kristiansand, 10 March 2022
PricewaterhouseCoopers AS

Fredrik Botha
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Organisation

Board of Trustees

The Board of Directors

CEO
Geir Bergskaug

Deputy CEO / Director Corporate Market	**Director Retail Banking**	**Director Capital Market**	**Director Group Staff**	**Director Risk Management**	**Director Strategy and Compliance**	**Director Business Development**	**Director Marketing and Communication**
Lasse Kvinlaug	Gunnar P. Thomassen	Marianne Lofthus	Rolf H. Søraker	Bjørn Friestad	Steinar Breen	Gry Moen	Eva Kvelland

THE BANK'S BRANCHES

The Group management

Chief executive officer(CEO)

Geir Bergskaug (1960)

CEO from 1 January 2014. Former CEO of the “old” Sparebanken Sør from 1 November 2010. Worked in Gjensidige as Director and Executive Vice President (1999–2010), chairman of the board of Gjensidige Bank (2008–2010), General Manager / Director of DnB NOR (1988–1999). Master of Business and Economics from the Norwegian School of Economics and Business Administration. Additional education from Harvard Business School in Boston – GMP, INSEAD, Fontainebleau in France – MBA.

Deputy Chief Executive

Lasse Kvinlaug (1961)

Deputy Chief Executive from 1 January 2014 and Corporate Market Director. Master of Business and Economics. Formerly worked in Sparebanken Pluss as Deputy Chief Executive, Director and General Manager (1997–2013). Also experience from Sparebanken NOR / Sparebanken ABC (1987–1997), as Assistant General Manager with responsibility for the corporate market in Kristiansand. Financial Consultant in Statoil (1984–87)

Capital Market Director

Marianne Lofthus (1961)

Capital Market Director from 1 January 2014 and General Manager of Sparebanken Sør Boligkreditt. Was CFO in Sparebanken Pluss (2003–2013) and has many years of experience from the financial operations in Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from the Norwegian School of Economics and Business Administration.

Retail Banking Market Director

Gunnar P. Thomassen (1965)

Retail Banking Market Director from 1 January 2014. Previously worked in Sparebanken Sør as director, regional director and bank manager (1999–2013). Also has experience from Ernst & Young Management Consulting and the Industrial Fund/SND. Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology.

The Group management

Group Support Director

Rolf H. Søraker (1960)

Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Also has experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master of Management.

Risk Management Director

Bjørn A. Friestad (1959)

Risk Management Director from 1 January 2014. Was responsible for credit and business development in Sparebanken Plus (2001–2013). Has a wide range of experience from various business areas in Sparebanken Agder / Sparebanken Pluss since 1986. Master in Business and Economics and aut. financial analyst (AFA) from the Norwegian School of Economics and Business Administration.

Business Development Director

Gry Moen (1963)

Business Development Director from 1 January 2014. Has also worked in "old" Sparebanken Sør as Business Development Director from 2011. Was General Manager of ABCenter Holding (2009–2010) and Marketing Director in Sparebanken Sør (2006–2009). Has previous experience from Statoil, Telenor and LOS / Agder Energi. Education from Trondheim Business College / Ecôle Superiéure de Commerce Grenobles/Nantes. Master of Management BI.

Director of Strategy and Compliance

Steinar Breen (1976)

Director of strategy and compliance from 1 April 2020. Previously an associate partner in EY's consulting business for banking and finance. Also has experience from Accenture. Has a master's degree in economics, cand. Oecon. and authorized financial analyst from NHH - Norwegian School of Economics.

The Group management

Director of Marketing and Communication

Eva Kvelland (1980)

Director of Marketing and Communications from 16 August 2021. 20 years of experience from politics and society, and was i.a. head of marketing and communication at Stine Sofies Stiftelse, communications adviser at Ordkraft and political adviser to Minister Lars Sponheim. Education: master's degree in public policy and management, UiA and bachelor's degree in political science, UiA.

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