# Annual Report 2022

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





SPAREBANKEN SØR

# Contents

# The year 2022

## GOOD DEVELOPMENT AND STRONG PROFITS IN A TURBULENT YEAR

*With a very solid end to the year with a profit of NOK 566 million in the fourth quarter, profit before tax for 2022 ended at a satisfactory NOK 1 615 million. After a year characterised by market turmoil and challenging times for many, it is particularly gratifying to be able to share the profits when the bank is doing well. The Board is allocating NOK 226 million of the bank's profit to customer dividends, NOK 149 million to charitable gifts and NOK 250 million to dividends to the bank's equity certificate holders.*

*This year's earnings are the best in the bank's history and a clear result of solid growth in operating income and good profit contributions from associated companies, low costs and relatively moderate losses. Our focus on green and sustainable banking, digitalisation and new technology has continued unabated.*

## SOLID GROWTH AND A HIGHER KEY INTEREST RATE RESULTED IN INCREASED NET INTEREST INCOME OVER THE YEAR

Norges Bank's many key policy rate increases in 2022 have resulted in stronger earnings for banks. In total for 2022, net interest income for Sparebanken Sør amounted to NOK 2 368 million, an increase from NOK 1 939 million in the previous year. The interest rate level naturally affects banks' interest rate margin, and when interest rates rise, net interest income also rises. This produced good results in 2022 and contributes positively to our first year of distributing customer dividends and a record-breaking allocation to the bank's gift fund.

The bank has maintained its strong position in its home market throughout the year. In the corporate market, growth was a strong 9.8 percent, about 2 percent above national credit growth and stronger than the target for corporate market growth. Growth in lending in the retail market was 4.1 percent, approximately on par with national credit growth. Deposit growth was a satisfactory 3.9 percent.

At the turn of the year, net lending to customers amounted to NOK 127 billion and deposits totalled NOK 63 billion. The loan-to-deposit ratio is thus a comfortable 53 percent for the Group and as much as 97 percent for the parent bank. The bank has a good growth capacity for lending and has a long-term growth ambition of about 1 percentage point above credit growth in our market area.

## SOLID MARKET POSITION IN A HIGH-GROWTH REGION

Through 2022, the region's business sector showed good adaptability in a period of considerable uncertainty related to geopolitical turmoil, the war in Ukraine and high inflation. The growth in production, investment and employment that the region experienced in the latter part of 2021 and the start of 2022 has levelled off. However, the significant concern about setbacks and slowed growth in the region's business sector has not materialised. At the same time, the emergence of new business opportunities in the green shift allows the region's business sector to exploit its significant comparative advantages in the longer term. Sparebanken Sør has further developed and strengthened its leading market position in the region, and we are still experiencing good demand for credit in all segments, especially from the region's business sector.

## ONE OF THE MOST SOLID

A leverage ratio of 9.1 percent places the bank among the most solid and best capitalised of the major banks in Norway and the Nordic region. The bank's Common Equity Tier 1 capital ratio was 17.1 percent at year-end, well above regulatory requirements and exceeding the bank's long-term target of 16.7 percent. Based on the bank's high leverage ratio, combined with negative financial income for the year, the return on equity of 8.7 percent in 2022 is considered satisfactory.

## COST-EFFECTIVENESS AMONG THE BEST

The bank is very cost-effective in both a Norwegian and international context. Costs in relation to revenue were 40.4 percent at year-end. Measured as a percentage of assets under management, the cost ratio was a solid 0.76 percent. Our strong financial position has been developed through ongoing transformation and efficiency measures.

## MARKET TURMOIL AND NEGATIVE ECONOMIC OUTLOOK LEAD TO INCREASED MODELBASED LOSS ALLOWANCES

In 2022, the bank had net losses on lending of NOK 74 million, compared with net entry on losses on loans of NOK 18 million in 2021. 2022 saw major changes in macroeconomic conditions, which have resulted in negative changes in framework conditions both for the business sector and for private households. This has resulted in increased model-based loss allowances. However, assessments of potential negative effects among large corporate customers have not revealed major problems. On the contrary, defaults among customers have been further reduced from an already low level. This is positive in light of the demanding period the Norwegian economy has experienced – and is still experiencing – while also a consequence of a low-risk profile in the bank's lending portfolio.

## TOP RATING PROVIDES SECURE FUNDING IN VOLATILE FINANCIAL MARKETS

The net profit for the year showed a negative net financial income of NOK 82 million, while the fourth quarter alone showed a positive net financial income of NOK 46 million. For the year, it was not surprising that extremely volatile financial markets led to a decline in the financial income.

The bank has built up a strong position and presence in national and international financial markets over an extended period, which provides a solid basis for dealing with financial turbulence. Well-diversified funding in both NOK and Euro ensures stable long-term funding, for example through covered bonds, subordinated senior loan capital, additional tier 1 capital and subordinated loans.

## HIGH RATE OF CHANGE REQUIRES A STRATEGIC SHIFT IN COMPETENCE

The bank's strategic shift in competence continued throughout 2022. We have brought new expertise in technology, digitalisation, analysis, anti-money laundering and compliance. At the same time, changing customer behaviour and new digital customer solutions have freed up resources for competence-intensive customer advisory services and increased sales activity.

## EVERYTHING THAT CAN BE DIGITALISED WILL BE DIGITALISED

During and after the pandemic, technology and digitalisation have become important drivers for better internal interaction and good customer management. The bank is establishing new services in ICT security and cyber risk and making considerable investments in competence building in these areas. Our extensive investment in new digital solutions will provide reliable and increasingly better customer experiences and efficient processes, in addition to creating value for both the bank and its customers. Significant investments in new technology, advanced data analysis and digitalisation strengthen our ability to deliver good and relevant banking services on a state-of-the-art digital platform.

## AN INCREASINGLY STRONG FINANCIAL GROUP

In recent years, Sparebanken Sør has strengthened its position in insurance, leasing, securities products and real estate through ownership investments and increased distribution power, and has a product range that makes us a full-fledged and leading financial group in the region. This boosts our value proposition to customers and diversifies top-line revenue. Thanks to our strong regional competence environments and short decision-making paths, we have a serious competitive edge.

Consequently, our partly-owned companies Frende, Brage, Norne and Balder are experiencing top-line growth, increased profitability and an enhanced competitive position. Our real estate agency Sørmegleren has maintained its leading market position in a falling market and will be well-positioned when the market turns.

## NEGLIGIBLE SUSTAINABILITY RISK

The bank's mission is to create sustainable growth and development in our region, and sustainability is anchored and integrated with the bank's overall strategy. The work to operationalise sustainability in all our business areas has seen strong engagement. At the end of 2022, the bank received a new ESG rating from the recognised rating agency Sustainalytics. The bank's sustainability risk dropped from "low risk" in 2021 to "negligible risk" in 2022. There is good reason to be proud of the work being done in sustainability throughout the bank, and such a good rating is not only a powerful acknowledgement of our efforts but also good for customers, society and the bank. We aim to be a strong advocate for sustainable development in the region and to be part of the green shift. The challenge moving forward will be to integrate ESG effectively into our business areas, develop and sell sustainable products and services, and issue sustainable bonds in line with market and customer expectations. We have set targets to reduce greenhouse gas emissions from our lending and investment portfolio by 40 percent by the end of 2030 and achieve full carbon neutrality by 2050.

## THE RELATIONSHIP BANK OF THE FUTURE

Moving forward, strong competition and rapid changes in customer behaviour will call for a competent and adaptable organisation. In recent years, we have demonstrated that we quickly adapt to new competition and changed customer behaviour through innovative digital solutions and competence-intensive personal advisory services. In the future, we will continue to fulfil our role as the region's relationship bank – with a high level of customer satisfaction, long-term relationships, strong customer relations and local decision-making power.

We will continue unabated to create sustainable growth and development in our region. We are better equipped for the task than ever before in our almost two-hundred-year history – especially thanks to the efforts and commitment of the bank's talented staff. A big thank you to all of you for your great efforts throughout 2022!

Geir Bergskaug

Geir Bergskaug
Adm. direktør

# Key figures group

| NOK MILLION | 31.12.2022 | 31.12.2021 | 31.12.2020 | 31.12.2019 | 31.12.2018 |
|---|---|---|---|---|---|
| **Profit** | | | | | |
| Net interest income | 2 368 | 1 939 | 1 914 | 1 926 | 1 729 |
| Net commission income | 417 | 419 | 347 | 344 | 318 |
| Net income from financial instruments | -82 | 0 | 40 | 24 | 2 |
| Other operating income | 131 | 191 | 143 | 74 | 23 |
| **Total net income** | **2 834** | **2 549** | **2 444** | **2 368** | **2 072** |
| Total operating expenses before losses | 1 145 | 1 018 | 958 | 918 | 884 |
| **Operating profit before losses** | **1 690** | **1 531** | **1 486** | **1 450** | **1 188** |
| Losses on loans and guarantees | 74 | -18 | 83 | -17 | -36 |
| **Profit before taxes** | **1 615** | **1 549** | **1 403** | **1 467** | **1 224** |
| Tax expenses | 332 | 323 | 307 | 342 | 285 |
| **Profit for the period** | **1 283** | **1 226** | **1 096** | **1 125** | **939** |
| **Profit as a percentage of average assets** | | | | | |
| Net interest income | 1.58 % | 1.35 % | 1.36 % | 1.53 % | 1.46 % |
| Net commission income | 0.28 % | 0.29 % | 0.25 % | 0.27 % | 0.27 % |
| Net income from financial instruments | -0.05 % | 0.00 % | 0.03 % | 0.02 % | 0.00 % |
| Other operating income | 0.09 % | 0.13 % | 0.10 % | 0.06 % | 0.02 % |
| **Total net income** | **1.89 %** | **1.78 %** | **1.74 %** | **1.88 %** | **1.75 %** |
| Total operating expenses before losses | 0.76 % | 0.71 % | 0.68 % | 0.73 % | 0.75 % |
| **Operating profit before losses** | **1.13 %** | **1.07 %** | **1.06 %** | **1.15 %** | **1.00 %** |
| Losses on loans and guarantees | 0.05 % | -0.01 % | 0.06 % | -0.01 % | -0.03 % |
| **Profit before taxes** | **1.08 %** | **1.08 %** | **1.00 %** | **1.17 %** | **1.03 %** |
| Tax expenses | 0.22 % | 0.23 % | 0.22 % | 0.27 % | 0.24 % |
| **Profit for the period** | **0.86 %** | **0.86 %** | **0.78 %** | **0.89 %** | **0.79 %** |
| **Key figures. income statement** | | | | | |
| Return on equity after tax (adjusted for AT-1 capital) | 8.7 % | 9.0 % | 8.4 % | 9.5 % | 8.5 % |
| Costs as % of income | 40.4 % | 39.9 % | 39.2 % | 38.8 % | 42.7 % |
| Costs as % of income. excl. net income from financial instruments | 39.3 % | 40.0 % | 39.9 % | 39.2 % | 42.7 % |
| **Key figures. balance sheet** | | | | | |
| Total assets | 157 435 | 144 182 | 142 126 | 129 499 | 121 125 |
| Average total assets | 150 000 | 143 100 | 140 400 | 125 900 | 118 600 |
| Net loans to customers | 123 852 | 116 653 | 111 577 | 106 334 | 102 942 |
| Grows in loans as %. last 12 mths. | 6.2 % | 4.5 % | 4.9 % | 3.3 % | 5.6 % |
| Customer deposits | 65 596 | 63 146 | 59 833 | 57 949 | 56 537 |
| Growth in deposits as %. last 12 mths. | 3.9 % | 5.5 % | 3.3 % | 2.5 % | 1.7 % |
| Deposits as % of net loans | 53.0 % | 54.1 % | 53.6 % | 54.5 % | 54.9 % |
| Equity (incl. AT-1 capital) | 15 779 | 14 941 | 13 752 | 13 081 | 11 845 |
| Losses on loans as % of net loans. annualised | 0.05 % | -0.02 % | 0.07 % | -0.01 % | -0.17 % |
| Non-performing loans (stage 3) as % of gross lending | 0.54 % | 0.67 % | 0.90 % | 0.79 % | 0.66 % |
| **Other key figures** | | | | | |
| Liquidity reserves (LCR). Group | 177 % | 140 % | 173 % | 148 % | 159 % |
| Liquidity reserves (LCR). Group- EUR | 387 % | 604 % | 107 % | 1168 % | 4727 % |
| Liquidity reserves (LCR). Parent Bank | 169 % | 127 % | 154 % | 140 % | 180 % |
| Common equity tier 1 capital ratio | 17.1 % | 16.4 % | 15.7 % | 15.7 % | 14.8 % |
| Tier 1 capital ratio | 18.5 % | 18.1 % | 17.1 % | 17.6 % | 16.6 % |
| Total capital ratio | 20.7 % | 20.3 % | 19.1 % | 20.3 % | 18.7 % |
| Common equity tier 1 capital | 13 653 | 13 004 | 12 204 | 11 356 | 10 517 |
| Tier 1 capital | 14 784 | 14 376 | 13 315 | 12 767 | 11 591 |
| Net total primary capital | 16 518 | 16 074 | 14 864 | 14 686 | 13 096 |
| Leverage ratio | 9.1 % | 9.4 % | 8.9 % | 9.3 % | 9.1 % |
| Number of branches | 35 | 35 | 35 | 34 | 34 |
| Number of FTEs in banking operations | 485 | 464 | 442 | 429 | 434 |
| **Key figures. equity certificates** | | | | | |
| Equity certificate ratio before profit distribution | 40.0 % | 15.7 % | 17.3 % | 17.2 % | 17.9 % |
| Number of equity certificates issued | 41 703 057 | 15 663 944 | 15 663 944 | 15 663 944 | 15 663 944 |
| Profit per equity certificate (Parent Bank) | 12.6 | 11.8 | 10.5 | 9.3 | 7.7 |
| Profit per equity certificate (Group) | 11.9 | 12.2 | 11.3 | 11.7 | 10.1 |
| Dividend last year per equity certificate (Parent Bank) | 6.0 | 8.0 | 14.0 | 0.0 | 6.0 |
| Book equity per equity certificate | 141.0 | 136.4 | 140.0 | 128.5 | 123.2 |
| Price/book value per equity certificate | 0.9 | 1.1 | 0.8 | 0.9 | 0.8 |
| Listed price on Oslo Stock Exchange at end of period | 129.5 | 146.0 | 114.5 | 110.0 | 96.9 |

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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 a 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 2022, and the board wishes to highlight the following:

- Excellent growth in net interest and commission income
- Negative financial income as a result of market turmoil
- Cost percentage of 40.4
- Low losses and non-performing loans in an uncertain macro situation
- Growth in lending of 6.2 percent
- Growth in deposits of 3.9 percent
- Return on equity after tax of 8.7 percent
- Common Equity Tier 1 capital ratio of 17.1 percent, well above the 13.7 percent minimum requirement
- Leverage ratio of a very solid 9.1 percent
- Ownership ratio up from 15 to 40 percent through the conversion of primary capital
- Dividend to equity certificate holders of NOK 250 million (NOK 6.00 per equity certificate), NOK 226 million in customer dividends and NOK 149 million for gifts to the local community.

## FRAMEWORK 2022

**The Norwegian economy**

The year began with the worldview changing dramatically as a result of Russia's offensive war against Ukraine. The war led to significantly increased uncertainty in the financial market and has affected the market for various commodities, including very high energy costs for households and businesses. Activity in the Norwegian economy picked up sharply after restrictions related to the coronavirus pandemic were eased. Record-low unemployment and a strong increase in demand have resulted in a sharp rise in prices for goods and services.

While activity in the Norwegian economy has picked up, developments in household expectations concerning their financial situation and the Norwegian economy have fallen to record-low levels. Finance Norway's Expectations Barometer in the fourth quarter of 2022 showed the lowest level in this sentiment indicator since the first survey was conducted in 1992. A combination of rising interest expenses and generally high inflation has led to a steep decline in real disposable income for households.

Norges Bank pursued a very expansive monetary and fiscal policy in 2020 and 2021. From September 2021, Norges Bank began increasing the policy rate in stages from 0 percent. The policy rate at the end of 2022 was 2.75 percent, and according to Norges Bank's assessment, it will be necessary to increase interest rates somewhat to bring inflation down towards the target of 2 percent. The central bank's forecasts indicate a peak of 3 percent in the course of Q1 2023, followed by a slightly lower policy rate from the middle of the year.

Housing prices rose significantly in the period from 2020 to 2021, particularly driven by a very low interest rate level and good government support schemes for the business sector during the pandemic. From autumn 2022, there was a turnaround in the housing market with falling house prices. For the year, prices increased by 1.5 percent for the country. In its latest economic analyses, Statistics Norway estimates that the negative growth in housing prices seen in the second half of 2022 will continue into 2023. At the same time, Statistics Norway points out that reduced investment in housing will, in isolation, push up house prices in the longer term. In the bank's primary market, Agder and Telemark, the nurses' index (a housing affordability index that measures the proportion of sold homes that a single nurse would receive financing to purchase) indicates a more moderate price level, even after a period of high inflation, and the bank considers the housing market in the bank's main markets to be relatively stable and balanced.

Credit growth (C2) increased in 2022 and amounted to 5.5 percent at year-end. Growth in credit to households and businesses was 4.2 and 8.0 percent, respectively, while credit growth in the municipal sector amounted to 5.7 percent.

As the global situation evolved through 2022, we notice an increase in underlying cyber risk. Additional investments have been – and will be – required to reduce this increased risk.

The bank also sees an increase in the number of fraud cases that have caused the bank losses, partly as a result of the judgment in "the Olga case" in September 2022. We are significantly increasing our efforts to prevent fraud, primarily for our customers but also to reduce future losses for the bank.

**Developments in the financial markets**

As a result of geopolitical turbulence and uncertainty associated with further interest rate developments, access to long-term market funding from the Norwegian and European bond markets became more demanding in 2022, and resulted in higher market rates and an increase in market spreads. 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 NOK 7 000 million and EUR 500 million worth of covered bonds aimed at Norwegian and international investors, combined with issuance of NOK 1.0 billion of senior non-preferred debt and NOK 4.3 billion of senior preferred debt. The bank's solid capital adequacy was further improved through the establishment of new Tier 2.

# BUSINESS SEGMENTS

**Retail market**

Throughout 2022, the Retail Market Division has continued to develop its services for retail customers. The office network has further enhanced the quality of advice available to customers regarding to loans, insurance, pensions and savings. The bank's digital solutions are being increasingly perceived as both functional and user-friendly after the mobile bank and online bank were further developed.

While it has been important to improve the quality of advisory and digital services throughout 2022, there has also been continuous work to further streamline operations. The office network mainly comprises highly competent authorised financial advisors. Thanks to new technology, the centralisation of tasks and the standardisation of products and working methods, the department are becoming increasingly effective.

As well as actively working to deliver a positive customer experience, while also constantly striving to streamline its operations, 2022 was also characterised by efforts to satisfy more extensive legal requirements related to anti-money laundering (AML) and personal data.

2022 turned out to be a demanding year for our customers. In this connection, the year was also marked by an increase in advisory services related to personal finances and liquidity. At the same time, the demand for advisory services related to personal and non-life insurance and pensions has increased. Despite a more demanding year for our customers, the sale of car- and boat loans was satisfactory.

Gross lending to retail customers increased by NOK 3.2 billion to NOK 80.7 billion, equivalent to a growth of 4.1 percent. Deposits from retail customers increased by NOK 1.0 billion to NOK 32.2 billion, an increase of 3.1 percent.

**Corporate market**

Throughout 2022, the bank upheld its position as the business bank for Southern Norway and strengthened its position in Vestfold and Telemark. The bank is now a natural first choice for businesses in large parts of its market area.

Lending to corporate customers increased by NOK 3.8 billion to NOK 43.2 billion in 2022, equivalent to a growth of 9.8 percent. Total deposits from corporate customers increased by NOK 1.4 billion to NOK 33.4 billion, corresponding to a growth of 4.5 percent.

The bank's corporate customers represent a solid and balanced portfolio, broadly reflecting the business community in the region. In addition to be the main 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, as well as leasing through Brage Finans AS. Cooperation with Frende and Brage has been strengthened in recent years by the increased focus and improved interaction between staff in the bank and the product companies. There has been increased focus on the sale of broad-based products, for example, through several Brage employees and through insurance sales now being organised as a separate area of responsibility in the bank. 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 Customer Centre CM has a key role in serving the bank's corporate customers. Today, the customer centre is an important centre of expertise in the areas of customer establishment, payment services, anti-money laundering and other day-to-day banking services. New digital solutions are constantly being developed; not least, the establishment of the corporate mobile bank and the Sør Online Dashboard have been particularly important. Our products and services offer customers a better and user-friendly overview of their companies' cash flows.

Throughout 2022, we strengthened our cooperation with various business associations in the region. As part of the collaboration, several joint business seminars were held with a focus on current topics. This year we also became the main partner of the Kristiansand Chamber of Commerce (the bank's largest CM region).

# 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 1 615 million, compared with NOK 1 549 million in 2021. This is an improvement of NOK 66 million. The Group has seen positive profit developments through 2022, both through banking activities and through profit contributions from subsidiaries and other associated companies.

Profits after tax in 2022 amounted to NOK 1 283 million compared with NOK 1 223 million in 2021. This corresponded to a return on equity, adjusted for interest on AT-1 capital, of 8.7 percent in 2022, compared with 9.0 percent in 2021.

Other comprehensive income, which includes changes recognised directly through equity during the financial year, amounted to NOK 1 360 million in 2022, compared to NOK 1 234 million in 2021.

### Net interest income

Net interest income amounted to NOK 2 368 million in 2022, compared with NOK 1 939 million in 2021, an increase of NOK 429 million. Net interest income in 2022 corresponded to 1.58 percent of average total assets, compared with 1.35 percent of total assets in 2021.

Norges Bank raised its policy rate six times in 2022, from 0.50 percent at the beginning of the year to 2.75 percent at year-end. The bank has responded 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 2022.

As a result of the interest rate changes implemented throughout 2022, and a backlog related to notification periods in the event of interest rate changes, the bank has a good start into 2023.

In 2022 the Bank paid out NOK 56.0 million in interest on AT-1 capital, compared with 46.1 million in 2021. Interest on AT-1 capital was charged to equity as a profit allocation.

### Commission income

Net commission income totalled NOK 417 million, compared with NOK 419 million in 2021. The Group experienced positive development in most areas throughout 2022, with the exception of real estate, where market activity was significantly lower in 2022.

The major improvement was in payment services, an area that experienced a large reduction in revenue in 2020 and 2021. This was due to the loss of foreign exchange earnings and the bank's customers travelling less during the coronavirus pandemic. Activity picked up in 2022 and revenue from payment services was at a higher level than before the pandemic.

Income from insurance also increased significantly due to a more extensive insurance portfolio, partly as a result of the acquisition of Sørlandets Forsikringssenter in 2021 and positive development in profitability commission from Frende in 2022.

Net commission income corresponded to 0.28 percent of average total assets 2022, compared with 0.29 percent of average total assets in 2021.

### Financial instruments

Net income from financial instruments totalled negative of NOK 82 million in 2022, compared with NOK 0 million in 2021.

2022 was characterised by market turmoil, which resulted in higher credit spreads. Consequently, the Group recorded losses and negative changes in value related to the liquidity portfolio and fixed-rate loans, which are valued at fair value in the balance sheet. At the end of 2022, the liquidity portfolio was valued at NOK 22.9 billion, and includes highly liquid covered bonds and certificates issued by the state and municipalities. Fixed-rate loans amounted to NOK 4.5 billion at year-end.

The bank experienced a positive development in income from payment services (foreign exchange gains), income from the equity portfolio and other financial instruments.

### Associated companies

In the recent years, Sparebanken Sør has 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 2.41 percent of the company through its ownership of Balder Betaling AS.

Income from associated companies amounted to NOK 125 million in 2022, down from NOK 174 million in 2021. The decline is largely related to the market turmoil, which resulted in a negative financial return for Frende Holding AS.

The share of profits in 2022 was distributed by NOK 59 million from Frende Holding AS, NOK 60 million from Brage Finans AS and NOK 3 million from Balder Betaling AS. In March 2022, the bank sold a small share in Frende Holding AS and received an income of NOK 25 million.

Related to the purchase of shares in Frende Holding AS in 2018 and 2020, surplus value was identified. This will be amortised over the asset's expected life. The Group amortised excess values of NOK 22 million in 2022 and 2021.

### Expenses

Group expenses totalled NOK 1 145 million in 2022, compared with NOK 1 018 million in 2021, an increase of NOK 127 million. The cost growth is largely related to investments related to IRB, through increased analysis capacity and a new data platform, investment in a strengthened insurance sales force, as well as investments related to compliance and increased security in the IT area.

As a percentage of average total assets, expenses were equivalent to 0.76 percent, compared with 0.71 percent in 2021. The cost-to-income ratio, excluding income from financial instruments, was 40.4 percent, compared with 39.9 percent in 2021.

Personnel expenses totalled NOK 659 million in 2022, compared with NOK 606 million in the previous year, an increase of NOK 53 million. The increase in costs is mainly related to employment in strategic investment areas. The increase is also attributable to a higher provision for bonuses, as a result of improved results from banking operations.

Depreciation, amortisation and impairment for property, plant and equipment amounted to NOK 43 million in 2022, NOK 1 million less than in 2021.

Other operating expenses totalled NOK 443 million in 2022, compared with NOK 368 million in the previous year, an increase of NOK 75 million. Significant investments have been made in IT, including the use of external consultants. This is closely linked to the bank's ambition to seek IRB approval in 2023, as well as increased compliance requirements, including in the areas of anti-money laundering and security.

### Losses and non-performing loans

Net losses on loans totalled NOK 74 million in 2022, compared with net reversals of NOK 18 million in 2021.

2022 has seen marked changes in macroeconomic conditions that entail negative changes in framework conditions for both corporate and household customers, including an increase in electricity and energy prices, as well as high inflation combined with higher lending rates. The war between Russia and Ukraine has had ripple effects such as supply chain disruptions and increased costs for input factors. In the second quarter of 2022, the bank conducted an assessment of potential negative effects on major corporate customers, and no major problems related to cost overruns or delivery issues have been identified in major projects financed by the bank at this time.

Write-downs on loans amounted to NOK 434 million at the turn of the year, corresponding to 0.35 percent of gross lending. The year before, write-downs amounted to NOK 424 million, corresponding to 0.36 percent of gross lending.

Non-performing loans amounted to NOK 666 million, which was equivalent to 0.54 percent of gross lending. This is lower than the end of year 2021, where non-performing loans amounted to NOK 783 million. (0.67 percent of gross lending).

Although there have been negative impacts from several macroeconomic factors, employment has remained at a high level and there is still a relatively tight labour market. As a result of both interest rate increases and cost increases, there is a greater level of uncertainty regarding price developments in residential housing and commercial property.

## BALANCE SHEET

### Total assets

Total assets amounted to NOK 157.4 billion at the end of 2022, compared with NOK 144.2 billion in the previous year.

### Lending

Net lending to customers totalled NOK 123.9 billion in 2022, compared with NOK 116.7 billion in 2021. This represented a growth of NOK 7.2 billion, corresponding to 6.2 percent.

Gross lending to retail customers amounted to NOK 80.7 billion, compared with NOK 77.5 billion in 2021. This represents a growth of NOK 3.2 billion, corresponding to 4.1 percent. On a national basis, household lending growth (C2) has been 4.2 percent. At the end of 2022, loans totalling NOK 56.6 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 65 percent of total lending, down from 66 percent in the previous year.

Gross lending to corporate customers totalled NOK 43.2 billion in 2022, compared with NOK 39.3 billion the year before. This represents a growth of NOK 3.8 billion, or 9.8 percent, on a national basis lending to corporate customers (C2) grew by 8.0 percent.

### Deposits

At the end of the year, total deposits were NOK 65.6 billion, compared with NOK 63.1 billion in 2021. This represented a growth of NOK 2.5 billion, or 3.9 percent.

In the retail market, deposits amounted to NOK 32.2 billion, compared with NOK 31.2 billion in 2021. This represented growth of NOK 1.0 billion, or 3.1 percent. Deposits in the corporate market amounted to NOK 33.4 billion, compared with NOK 32.0 billion in 2021. This represented growth of NOK 1.4 billion, or 4.5 percent.

Deposit to loan ratio was 53.0 percent at the end of 2022, and 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 67.2 billion at the end of 2022, compared with NOK 60.1 billion at the end of 2021. Long-term bond funding has been established as covered bonds, senior debt and senior non-preferred debt. At the end of 2022, covered bonds accounted for 79 percent of this funding. Long-term funding (over 1 year maturity) had an average maturity of 4.1 years and the Group's long-term, funding indicator (NSFR) was 121.7 percent at the end of 2022.

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.  In 2022, Sparebanken Sør Boligkreditt AS received approval from the Norwegian FSA for an OMF premium programme.

At the end of 2022, 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 2022, Sparebanken Sør had issued NOK 4.5 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 22.9 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 177 percent as of 31 December 2022 (169 percent for the Parent Bank). Investments in shares and equity certificates totalled NOK 230 million.

### Capital management, subordinated capital and capital adequacy

Net subordinated capital totalled NOK 16.5 billion, total tier 1 capital was NOK 14.8 billion and total common equity tier 1 capital was NOK 13.7 billion at the end of 2022. The (total) capital ratio was 20.7 percent, the tier 1 capital ratio was 18.5 percent and the common equity tier 1 (CET1) capital ratio was 17.1 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 22.8 percent, a tier 1 capital ratio of 20.3 percent and a CET1 capital ratio of 18.6 percent at the end of 2022.

The Group met the capital requirements of 17.2 percent for total capital, 15.2 percent for tier 1 capital, and 13.7 percent for CET1 capital, by good margin. The Group's internal target for 2023 is 16.7 percent in CET1 capital ratio.

The Group's Leverage Ratio amounted to 9.1 percent at the end of 2022, compared with 9.4 percent at the end of 2021. 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.

Based on the Group's ICAAP for 2021, in April 2022, Sparebanken Sør received the Financial Supervisory Authority of Norway's (FSA) Pillar 2 decision in connection with the completed SREP (Supervisory Review and Evaluation Process and Pillar 2). The FSA set the capital requirement under Pillar 2 at 1.7 percent of the calculation basis. This is a reduction of 0.3 percentage points from the previous Pillar 2 capital add-on from 2018. In addition, the FSA considers that the bank should have a capital requirement margin in the form of a Common Equity Tier 1 capital ratio of 1 percent in excess of the total requirement for total Common Equity Tier 1 capital, Tier 1 capital ratio and the capital ratio. The Pillar 2 requirement and the capital requirement margin set by the FSA came into force on 30 April 2022. We expect that the bank will undergo a new SREP during 2023.

In connection with the FSA's proposal for amendments to the legal framework for determining Pillar 2 requirements being circulated for consultation, the Norwegian Ministry of Finance has also asked for views on a transitional rule that would ensure that capital composition requirements for Pillar 2 requirements will apply no later than 31 December 2023. The introduction of a transitional rule implies that the pillar 2 requirement no longer has to be covered 100 percent by Common Equity Tier 1 capital by 31 December 2023.

The countercyclical capital buffer requirement was 2.0 percent at the end of 2022. In March 2022, it was decided to increase the countercyclical capital buffer to 2.5 percent with effect from 31 March 2023. The purpose of the countercyclical capital buffer is to strengthen the banks' financial situation and to prevent a more restrictive lending practice by the banks from exacerbating the economic downturn.

The Norwegian Ministry of Finance adopted regulatory amendments that put the EU Capital Requirements Regulations CRR/CRD IV into effect as at 31 December 2019. The system risk buffer requirement increased from 3 to 4.5 percent. On 16 December 2022, the Norwegian Ministry of Finance decided to postpone the requirement by one year for banks reporting according to the standardised approach, meaning the requirement for Sparebanken Sør will come into effect from 31 December 2023.

Changes in the EU banking regulations (the Banking Package) were implemented in Norway effective 1 June 2022. This will affect, for example, Part 2 of the SME discount and the introduction of an infrastructure discount. The implementation increased the Common Equity Tier 1 ratio in 2022 by a total of 1.0 percentage points.

An important part of the Group's objective is that Common Equity Tier 1 capital adequacy should be on a par with comparable banks. Of the large regional banks, only Sparebanken Sør uses the standard method in the capital adequacy calculation, and the bank currently has a markedly higher unweighted capital adequacy than the other regional banks. Sparebanken Sør also aims to have a quality of risk management on a par with comparable banks. The bank has been working to develop the bank's risk management framework and models in such a way that it will be possible to apply to the FSA for approval of internal models in the capital calculation (IRB). This work is a high priority for the bank, and its ambition to submit an application for IRB-F approval by the end of 2023 is proceeding as planned.

The bank considers that an IRB process with subsequent IRB approval contains key elements that are important for the future development of the bank. Based on current information related to capital effects from the transition to IRB-F, it is estimated that this may have a positive effect on the Common Equity Tier 1 ratio of approximately 3.5 percentage points.

The introduction of the revised Basel III framework ("Basel IV") was initially due to 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 legal acts can be incorporated into the EEA agreement, but this will not take place before 1 January 2025. A key element of the new Basel IV Regulations will be the introduction of a new and more risk-sensitive standardised approach for credit risk that will be beneficial for the Group. Basel IV also outlines some changes to the IRB Regulations.

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 on the Group. Based on current information on the regulations and customer portfolios, it is estimated that this can have a positive effect on the Common Equity Tier 1 ratio of approximately 3.5 percentage points. This corresponds to the estimated effect when implementing IRB-F.

### 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 amount of subordinated capital and convertible debt (MREL). This entails new requirements for convertible and non-preferred debt, and also includes Sparebanken Sør.

A key element of the directive is the requirement for internal recapitalisation as a crisis measure, in a situation where capital instruments and debt are impaired or converted to equity (bail-in). The minimum requirement for the amount of subordinated capital and convertible debt (MREL) is made up of a loss absorption amount and a recapitalisation amount. The requirements are set by the FSA on the basis of capital requirements and on the current adjusted calculation basis. Based on capital requirements and the adjusted calculated basis of 31 December 2022, the effective MREL requirement was set at 32.4 percent and amounted to NOK 20.5 billion.

The authorities have introduced a ceiling provision for the proportion of non-preferred debt, and the requirement must be met by 1 January 2024. There is also a requirement for the introduction to be linear from 1 January 2022. Based on capital requirements and the adjusted calculated basis of 31 December 2022, the MREL ceiling was set at 23.5 percent and amounted to NOK 14.8 billion. By the end of 2022, the bank had issued a total of NOK 4.5 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 1 353 million is proposed to be allocated as follows:

| | |
|---|---|
| Dividend (ECC): | NOK 250 million |
| Transferred to donation fund: | NOK 149 million |
| Customer dividend: | NOK 226 million |
| Transferred to equalisation fund: | NOK 274 million |
| Transferred to primary capital: | NOK 411 million |
| Interest on AT-1 capital: | NOK 42 million |
| **Total allocated:** | **NOK 1 353 million** |

## EQUITY CERTIFICATES AND DIVIDEND

In March 2022, the bank's Board of Trustees decided to raise the ownership ratio from 15 to 40 percent by converting primary capital. The FSA approved the conversion in June 2022 and the new equity certificates were registered in the Norwegian Register of Business Enterprises on 14 June 2022. A total of 26 039 113 new equity certificates were issued, which will be entitled to dividends for the entire financial year 2022. One important element going forward will be equal allocation of dividends, and to facilitate this, the ownership ratio will be maintained at 40 percent. The ownership ratio was 40.0 percent at the end of 2022. Hybrid capital (additional tier 1 capital) classified as equity has been excluded from calculations of ownership ratio.

As at 31 December 2022, the Bank had issued 41 703 057 equity certificates with a nominal value of NOK 50. A list of the 20 largest equity certificate holders at 31 December 2022 is presented in Note 35. Earnings per equity certificate amounted to NOK 12.6 for the parent bank and NOK 11.9 for the Group.

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

Profit will be distributed equally between equity certificate capital (equity certificate owners) and primary capital based on their share of the equity.

The goal is to distribute around 50 percent of the Group's profit after tax as dividends. Dividends are disbursed through cash dividends to the equity certificate holders, customer dividends to the bank's customers and gifts to the regions in which the primary capital has been accumulated. When determining dividends, the bank takes into account the potential for profitable growth, expected performance in a normalised market situation, external framework conditions, future needs for Tier 1 capital and the bank's strategic plans.

The bank's solvency is considered highly satisfactory, with an unweighted leverage ratio of 9.1 percent and a Common Equity Tier 1 capital ratio of 17.1 at the end of 2022.

The Board of Directors will propose to the Board of Trustees to distribute a dividend for 2022 of NOK 6.00 per equity share certificate, which amounts to approximately 50 percent of the Group's profit per equity certificate. The share price on 31 December 2022 was NOK 129.5 and, measured against this, the proposed dividend corresponds to a direct return of 4.6 percent. A proposal has been made for a provision of NOK 149 million for gifts and NOK 226 million in customer dividends.

## SUBSIDIARIES AND ASSOCIATED COMPANIES

### Sparebanken Sør Boligkreditt AS

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company is licensed to operate as a credit institution with the right to issue covered bonds. The company's main objective is to ensure the Group's stability and long-term funding on competitive terms. In 2022, the company received approval from the FSA for a premium covered bond programme, which has special requirements for over-collateralisation, composition and valuation of the cover pool.

At year-end, loans totalling NOK 56.6 billion net had been transferred to the mortgage company. At the same time, covered bonds worth NOK 53.3 billion were issued, of which 54 percent were issued in euros. The countervalue of NOK 10 billion was issued as Green Covered Bonds, under the Group's Green & Sustainability Bond Framework. The cover pool, including interest-bearing securities, totalled NOK 54.3 billion. Nominal over-collateralisation, calculated as gross outstanding bond debt, was 14.5 percent.

The company had a profit of NOK 289.5 million before tax. At year-end, the Common Equity Tier 1 capital ratio was 19.5 percent, well above the 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 major bond transactions in 2022, in addition to expanding established covered bond loans in the amount of NOK 2 billion. In May, the company issued a covered bond of NOK 5.5 billion in the Norwegian bond market. In addition, in November 2022, the company issued EUR 500 million in green format under the company's EMTCN programme, and in accordance with exposures under the Green & Sustainability Bond Framework. The bond was listed on Euronext Dublin.

At the end of 2022, the company had six outstanding bond loans denominated in euros, amounting to NOK 28.9 billion. Interest and foreign currency exposures were hedged against risk, in that funding 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 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 expectations for future advances in market share and future interaction effects between the Bank and the Real Estate Agency. The company had 18 offices and 110 employees at the end of 2022.

The company delivered a profit before tax in 2022 of NOK 9.1 million, down from NOK 34.5 million in 2021. There was a decline in the real estate market in 2022, compared with a very strong real estate market in 2021. This is also reflected in the company's results through a fall in revenue. Sørmegleren maintained its market share throughout 2022 and is very well positioned as the region's leading real estate agent.

### 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 2022.

The Group aims to double its insurance income by 2025 and the strategic acquisition will ensure that the ambition is achieved.

### Other subsidiaries and joint ventures

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

# ASSOCIATES

### Frende Holding AS

Frende Holding AS (ownership 19.9 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 433 million in 2022, compared with NOK 667 million for the same period the previous year. Overall in 2022, Frende Skade's insurance results were very good, while the insurance results in the life insurance company were significantly weaker than before. In 2022, results were significantly impacted by a negative financial result of NOK 133 million, down from NOK 315 million (positive) in 2021.

Frende Skade reported a profit before tax in 2022 of NOK 513 million, compared with NOK 580 million in 2021. The company held a total insurance portfolio of NOK 2 384 million in 2022, compared with NOK 2 302 million in 2021, distributed among 166 600 customers. The market share at year-end was 3.3 percent. The loss ratio for 2022 was 55.2 percent, down from 65.9 percent in 2021 and the company's combined ratio was 77.3 percent, down from 83.5 percent in 2021.

Frende Liv reported a negative result before tax of NOK 52 million, compared with NOK 105 (positive) in the previous year. Risk results were characterised by the setting aside of additional reserves and a strengthening of premium reserves. The risk result before setting aside additional reserves is better than last year, which was a challenging year, but still characterised by relatively weak results in disability products. At the end of 2022, the company had written premiums of NOK 616 million, up from NOK 560 million for the same period in 2021.

### Brage Finans AS

Brage Finans AS (ownership 24.9 percent) is a financing company owned by 23 independent banks. 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 2022 amounted to NOK 356 million, compared with NOK 286 million in 2021. The result corresponded to a return on equity of a solid 12.0 percent, compared with 11.4 percent in 2021.

Total assets amounted to NOK 20.5 billion at the end of 2022, compared with NOK 17.0 billion in the previous year. Thus, growth in lending in 2022 was at 20 percent. At 31.12.2022, recognised impairment losses totalled NOK 131 million, which corresponds to 0.64 percent of the gross lending portfolio.

### Norne Securities AS

Norne Securities AS (ownership 14.8 percent) is an investment firm that offers online trading, traditional brokerage services and corporate finance services.

Revenue in 2022 was NOK 155 million, compared with NOK 111 million in 2021. Furthermore, Norne delivered its best net profit since the company was established in 2008, with NOK 31 million, up from NOK 13 million in 2021. Both main business areas, Online and Investment Banking, achieved a high level of profitability. Online includes both share and fund trading. In Investment Banking, it was primarily the focus on the banking, finance and real estate sectors that contributed to the positive results in 2022.

At the beginning of 2023, the macro situation is still marked by considerable uncertainty with high inflation, the war in Ukraine and turbulence in the capital markets. The long-term consequences are unclear, but the company is very well positioned for further growth and has a high level of ambition. In any case, as a whole, it has been a very good year.

### Balder Betaling AS

Balder Betaling AS (ownership 26.7 percent) is owned by Sparebanken Sør together with 11 other savings banks. The company has an ownership share of 9.12 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 2.41 percent.

# RISK MANAGEMENT

Banking involves exposure to various forms of risk. Risk must not be eliminated, but it is a prerequisite that this is calculated so that it is priced correctly. Risk is a cost, and in the banking context will normally be expressed through losses, increased operating costs and capital requirements, but it can also be perceived as a loss of income. Calculated risk implies that there is a calculated probability of the risk occurring. If the risk occurs, it must be priced in a way that eliminates the risk cost

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 proper practice combined with solid theory, and the Bank need a culture to assess and deal with risk in all contexts. The Bank have to 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 controls 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 establishes 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 (which includes credit risk, market risk (related to the bank's exposure in the interest rate, foreign currency exchange and stock markets) as well as liquidity risk, operational risk (including compliance risk, money laundering risk, ICT risk, cyber risk and model risk), as well as strategic and business risk. There is also ESG (Environmental, Social and Governance) risk, which is linked to climate and environment, social conditions and corporate governance. This is not an independent risk, but a risk that has to be evaluated in connection with other risks, for example credit risk and operational risk.

Strategic risk relates to the strategies, plans and changes the bank makes or intends to make, while business risk is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic upturns/downturns, competition, customer behaviour, lack of business development and regulation by public authorities. 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 Board views that the Bank's risk management functions well.

### Credit risk

Credit risk is the risk of loss if a counterparty fails to fulfil its obligations under an agreement. Credit risk arises when the borrower does not fulfil the loan agreement, and when the established collateral does not cover the exposure. Credit risk is the Group's greatest risk, and the risk that requires the most capital.

Concentration risk is credit risk in terms of risk of loss due to large and 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 currently has a well-diversified portfolio in terms of geography, customer segment and sector.

The Group uses the standardised approach to calculate risk and capital. The bank also regularly assesses whether there are any other aspects of its credit risk that indicate that capital ought to be set aside for risks that cannot be covered by the standardised approach.

The board has overarching responsibility for the bank's granting of credit and establishes the bank's credit strategy and credit policy. The Board has established objectives and guidance, as well as quantitative limits that specify constraints and limits for risk tolerance. The Risk Management Division has an independent risk control function that identifies, measures, assesses and reports material risks associated with credit.

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 on an ongoing basis.

The bank's credit risk must have a "Moderate" to "Low" risk profile when assessed in light of the FSA's module for credit risk ("Evaluation of exposure"). The bank must maintain a moderate combined concentration risk. 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 determined as an upper limit on how large the loss on unhedged interest rate positions may be in the event of shifts and 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 end of 2022–23, measured long-term interest rate risk after hedging transactions was within the risk tolerance level approved by the Board.

The bank is exposed to profit effects at the time of setting the rate of interest for the bank's market funding, which is linked to a three-month NIBOR, not coinciding with the time of any change in interest rate on bank's lending to customers.

Beyond the interest rate risk limit, an upper risk tolerance level has been set for credit spread risk, stated as the effect on profit or loss of an assumed change in credit spread, which will lead to changes in the value of the Group's interest-bearing securities portfolio. The FSA's stress test model for credit spread risk is used to calculate risk exposure. The bank's credit spread exposure relates to the liquidity portfolio. At the end of 2022, the measured credit spread risk was 74.0 percent of the limit set by the Board.

The Group is subject to fluctuations in the foreign exchange market through its currency activities with customers. Derivatives (currency futures, swaps and options) are used in covering open currency exposure. 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.

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. Hedge accounting is the basis for reporting on changes of value.

### 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 2022, the Group's deposit-to-loan ratio was 53.0 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 70 percent of all loans to the retail market were transferred from the Parent Bank to the mortgage company in 2022.

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 122 percent at the end of 2022. 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 short term liquidity risk is managed by conforming to the Liquidity Coverage Ratio (LCR). At the end of 2022, 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 177 percent and 169 percent as of 31 December 2022. The group's liquidity risk is periodically reported to the board.

### Counterparty risk

Counterparty 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 caused by flawed or failed internal processes or systems, human error or external events. Examples of operational risk factors can include unwanted incidents such as operational disruptions, failures of IT systems, money laundering, corruption, embezzlement, insider trading, robbery, threats to employees, breaches of authority, breaches of adopted procedures etc. Operational risk also includes elements that are often treated as separate risks, such as security risk, process risk, compliance risk, ICT risk, cyber risk, ESG risk and behavioural risk.

Risk management and internal control refer to processes that identify, analyse, manage and follow up the risks so that the combined risk exposure is in accordance with strategic objectives, which will also ensure compliance with the applicable laws and regulations, internal procedures and guidelines. Internal control (self-evaluation) is an important tool for reducing operational risk, with respect to both its identification and follow-up.

The bank aims to have reliable systems in place for monitoring and control, and to have a low level of operational risk.

#### Business Risk

Business risk is the risk of unexpected income and cost fluctuations as a result of changes in external conditions such as economic fluctuations, the competitive situation, customer behaviour, lack of business development, as well as regulations from public authorities, i.e. conditions other than credit risk, market risk and operational risk.

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.

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 wants an ownership risk based on strategic aims and where profitability is in proportion to risk. The Group must not be involved in companies or activities that may threaten its reputation or strategic goals.

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 'Positive Outlook'. The rating outlook for the bank has been changed from "Stable" to "Positive" in September 2022.

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. It is the Board`s 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 2022, the bank had 485 full-time equivalent employees (FTEs) and the Group had 564 FTEs. Sickness absence in 2022 was 4.59 percent, up from 3.72 percent in 2021. Both short-term and long-term sickness absence have increased. Short-term sickness absence has increased from 0.49 percent to 0.92 percent and long-term sickness absence from 2.53 percent to 2.92 percent. Short-term sickness absence was clearly highest in the first and fourth quarters, and we assume that this is to do with the coronavirus pandemic and an increase in cases of influenza. The increase in long-term sickness absence is because during the year, some of our employees received diagnoses that resulted in long-term sickness absence. The bank works systematically and continuously to monitor sickness absence and aims to keep sickness absence below 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 the right expertise. In addition to ongoing training on products, systems and procedures, there has been a special focus on anti-money laundering, information security and data protection. Through access to digital learning platforms, all employees have the E-guide, Nano-Learning and Workplace opportunities to acquire specially adapted competence. The bank's various training measures are described in more detail in the Sustainability Report for 2022, which is published under Corporate Social Responsibility on the bank's website.

2022 started with restrictions related to the coronavirus pandemic but our workday has gradually become more normal. However, hybrid working is here to stay and more employees are opting to work from home. This is regulated in a separate policy, which states that employees may work from home for up to two days per week. Good experience of using Teams for meetings during the pandemic has led to a large number of meetings still taking place via Teams, which reduces employee travels – which is one of the targets embedded in the bank's sustainability efforts. In 2022, an employee satisfaction survey was conducted under the auspices of Kantar. The survey is conducted every two years and this year's survey indicated progress for the bank as a whole on most measurement parameters. The bank's social activity has returned to a normal level and we consider the working environment to be good, which is also reflected in the low employee turnover rate at the bank.

### Equality

At the year-end the Bank had 502 employees, 261 men and 241 women. Women accounted for 37.3 percent of the Bank's managers, slightly down from 38.9 percent the year before. The bank has a target that the proportion of female managers should be between 40 and 60 percent, and work is targeted with various measures for achiving this. In the Bank's governing bodies, the proportion of women was 46 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 2022 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 November 2021, the bank was recertified in gender equality and diversity for the period 2021–2024. In connection with the recertification process, a separate action plan has been prepared that also meets the requirements of the new duty to engage actively in equality work and the duty to issue statements (ARP). The action plan is appended to the Sustainability Report for 2022, which is published under Corporate Social Responsibility 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 2022 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 2022 and in the TCFD Report for 2022, 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 The Financial Industry Employers' Association (Finansnæringens Arbeidsgiverforening) 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 Bank has developed its own guidelines for workers' rights and human rights, which are published in Sustainability section of the Bank's website.

### The Norwegian Transparency Act

As a result of the implementation of the new Norwegian Transparency Act, the bank has carried out due diligence on internal compliance with international conventions relating to labour and human rights. The results of the analysis show that Sparebanken Sør has a low risk of labour and human rights violations. No labour and human rights violations were registered in Sparebanken Sør in 2022.

Although the bank's risk of labour and human rights violations is low, it is still working on development and improvement in several areas. In connection with the duty to engage actively in equality work and the duty to issue statements (ARP), the bank has an ongoing action plan in a number of areas related to labour and human rights. The bank's action plan for further development and improvement in labour and human rights can be found under the Sustainability Report for 2022, and is published under Corporate Social Responsibility on the bank's website.

The bank has also carried out due diligence on labour and human rights, corporate governance and climate and nature at its suppliers and partners.

The results confirm that our suppliers and partners are mostly large and professional companies with reliable systems and procedures in place for following up labour and human rights, corporate governance and climate and nature. A high proportion of suppliers are also subject to the Norwegian Transparency Act.

Three suppliers declare that their subcontractors have experienced labour and human rights violations. All these suppliers have followed up on the violations, confirming that measures have been taken and that the violations have been resolved.

Based on an overall assessment, our suppliers and partners have a low or moderate risk of labour and human rights violations, low risk associated with corporate governance and low to moderate risk associated with climate and nature.

The bank's reporting in accordance with the Norwegian Transparency Act is published in the Sustainability Report for 2022, which is published under Corporate Social Responsibility on 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

In 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 2022 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 2022.

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. The bank works actively to prevent corruption and bribery related to employees, customers and other partners. The bank has adopted its own guidelines for anti-corruption and bribery which are published under Social responsibility 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 549 applications in 2022. Of these, 196 were granted funding in a total amount of NOK 100 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 149 million of the Bank's profit for 2022 be allocated for distribution in 2022.

## CUSTOMER DIVIDENDS

In March 2022, Sparebanken Sør decided to introduce customer dividends by giving part of the primary capital's dividend to its customers. Customer dividends may be distributed to the bank's private and corporate customers. Customers will be able to receive dividends of up to NOK 2 million from loans and up to NOK 2 million from deposits. The bank will not pay out customer dividends below NOK 100.

Of the bank's profit for 2022, the Board proposes to allocate NOK 226 million to the distribution of customer dividends for 2022, which corresponds to 0.20 percent of customers' average deposits/loans.

## OUTLOOK

The Norwegian economy was very active throughout 2022, and unemployment was very low. High inflation and increased interest rates have weakened household purchasing power. The latest interest rate changes did not have an effect until the end of 2022, and many businesses expect reduced activity moving forward. Norges Bank expects a key interest rate of around 3 percent in 2023, and this should be sufficient to bring inflation down towards the target of 2 percent. The ongoing war in Ukraine has considerably increased uncertainty in the financial markets, resulting in significantly higher credit risk premiums for the bank's financing.

There is more uncertainty than normal as to what the consequences will be for the bank's customers, and how both private individuals and companies will react to a higher cost level. Despite this, the board believes that the bank is well positioned to generate further growth. The bank has solid earnings, good margins to the relevant capital requirements and is well equipped to withstand any further challenging developments in the Norwegian economy.

Sparebanken Sør's Board of Directors has adopted guidelines that ensure that any refinancing in the bond market is normally undertaken well in advance of the final date of 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. Bank operations are highly cost effective, with good underlying operations.

Residential property prices in the bank's main markets have shown a positive, though moderate, development over several years. The statistics for 2022 showed a positive development in housing prices in the bank's market area and a stronger development compared with other parts of the country. Despite a recent increase in prices, the nurses' index shows that the relative price level is lower in the largest cities in the bank's market area compared with other parts of the country. The Group's mortgage portfolio is well secured, and the Group is well prepared to respond to any fall in residential property prices. This is supported by the completed stress tests.

The Group has a requirement for a Common Equity Tier 1 capital of 13.7 percent, including additional Pillar 2 capital of 1.7 percent. The Norwegian Ministry of Finance has adopted regulatory changes that put into force the EU's capital requirements regulations CRR/CRD IV as of 31 December 2019. Among other things, the systemic risk buffer requirement has been increased from 3 to 4.5 percent. The Norwegian Ministry of Finance has decided to postpone the increase in the systemic risk buffer from 3.0 to 4.5 percent for banks reporting according to the standardised approach by one year, which means that this will apply to Sparebanken Sør from 31 December 2023.

The Group has an internal objective of a common equity tier 1 capital ratio of 16.7 percent by the end of 2023, which takes the forthcoming increase in the system buffer requirement into account. At the end of the fourth quarter of 2022, the common equity tier 1 capital ratio was 17.1 percent, well above the regulatory requirement and the requirement that enters into force on 31 December 2023.

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 in 2023 and more than 11 percent within 2025.

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.

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.

## CLOSING REMARKS

The Board of Directors wishes to express its gratitude to the Bank's employees for their important contributions throughout 2022. 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 2022 / 7 March 2023**

Knut Ruhaven Sæthre

**Chair**

Mette Ramfjord Harv

**Deputy chair**

Merete Østby

Erik Tønnesen

Trond Randøy

Eli Giske

Jan Erling Tobiassen

**Employee representative**

Gunnhild Tveiten Golid

**Employee representative**

Geir Bergskaug

**CEO**

# Income statement

| PARENT BANK | | NOK MILLION | | GROUP | |
|---|---|---|---|---|---|
| **2021** | **2022** | | **Notes** | **2022** | **2021** |
| 1 593 | 2 591 | Interest income effective interest method | 15.33.34 | 3 999 | 2 494 |
| 295 | 476 | Other interest income | 15.33 | 581 | 326 |
| 511 | 1 146 | Interest expenses | 15.33.34 | 2 212 | 881 |
| **1 378** | **1 921** | **Net interest income** | **5.15** | **2 368** | **1 939** |
| 400 | 448 | Commission income | 16.34 | 501 | 484 |
| 70 | 99 | Commission expenses | 34 | 84 | 66 |
| **329** | **349** | **Net commission income** | | **417** | **419** |
| 325 | 351 | Dividend | 34 | 13 | 7 |
| 25 | - 61 | Net income from other financial instruments | 12.13 | - 95 | -7 |
| **350** | **290** | **Net income from financial instruments** | **17** | **- 82** | **0** |
| 174 | 125 | Income from associated companies | 34 | 125 | 174 |
| 19 | 8 | Other operating income | | 5 | 17 |
| **193** | **133** | **Total other income** | | **131** | **191** |
| **2 249** | **2 692** | **Total net income** | | **2 834** | **2 549** |
| 475 | 523 | Wages and other personnel expenses | 18 | 659 | 606 |
| 44 | 41 | Depreciation, amortization and impairment of non-current assets | 28 | 43 | 44 |
| 348 | 419 | Other operating expenses | 5.19.34 | 443 | 368 |
| **866** | **983** | **Total operation expenses before losses** | **5** | **1 145** | **1 018** |
| **1 383** | **1 709** | **Operating profit before losses** | | **1 690** | **1 531** |
| -20 | 57 | Losses on loans, guarantees and unused credit | 7.8 | 74 | -18 |
| **1 403** | **1 652** | **Profit before taxes** | **5** | **1 615** | **1 549** |
| 214 | 299 | Tax expenses | 20 | 332 | 323 |
| **1 189** | **1 353** | **Profit for the period** | | **1 283** | **1 226** |
| | | Minority interests | | 1 | 3 |
| **1 189** | **1 353** | **Majority interests** | | **1 283** | **1 223** |
| | | | | | |
| 46 | 42 | Attributable to additional Tier 1 Capital holders | | 42 | 46 |
| 1 143 | 1 311 | Attributable to ECC- holders and to the saving bank reserve | | 1 241 | 1 177 |
| **1 189** | **1 353** | **Profit for the period** | | **1 283** | **1 223** |
| | | | | | |
| 11.8 | 12.6 | Profit/diluted earnings per equity certificate (in whole NOK) | 35 | 11.9 | 12.2 |

# Statement of comprehensive income

| PARENT BANK | | NOK MILLION | | GROUP | |
|---|---|---|---|---|---|
| **2021** | **2022** | | **Notes** | **2022** | **2021** |
| **1 189** | **1 353** | **Profit for the period** | | **1 283** | **1 226** |
| | | Items that will not be reclassified subsequently to profit or loss | | | |
| | 1 | Change in value loans to customers, mortgage on housing | | | |
| | | Change in value. basis swaps | | 99 | 14 |
| | 0 | Tax effect | | -22 | -3 |
| | **1** | **Total other comprehensive income** | | **77** | **11** |
| **1 189** | **1 354** | **Total comprehensive income for the period** | | **1 360** | **1 237** |
| | | Minority interests | | 1 | 3 |
| **1 189** | **1 354** | **Majority interests** | | **1 360** | **1 234** |
| 11.8 | 12.6 | Comprehensive income/diluted earnings per equity certificate | | 12.6 | 12.3 |

Notes 1 to 38 form an integral part of the consolidated financial statements.

# Balance sheet

| PARENT BANK | | | NOK MILLION | | GROUP | |
|---|---|---|---|---|---|---|
| 31.12.2020* | 31.12.2021* | 31.12.2022 | | Noter | 31.12.2022 | 31.12.2021 |
| **Assets** | | | | | | |
| 1 148 | 437 | 590 | Cash and receivables from central banks | 21.22 | 590 | 437 |
| 10 936 | 5 644 | 10 211 | Loans to credit institutions | 15,21.22.23 | 6 198 | 1 789 |
| 62 724 | 67 028 | 67 332 | Loans to customers | 5.6.7.9.10.11.21.22.33.34 | 123 852 | 116 653 |
| 18 329 | 17 743 | 16 393 | Bonds and certificates | 15,21.22.24 | 22 851 | 22 062 |
| 166 | 193 | 230 | Shares | 21.22.25 | 230 | 193 |
| 907 | 367 | 947 | Financial derivatives | 21.22.32 | 1 440 | 1 104 |
| 2 111 | 2 116 | 2 813 | Shareholding in group companies | 26 | - 0 | |
| 1 134 | 1 201 | 1 437 | Shareholding in associated companies | 27 | 1 437 | 1 201 |
| 41 | 54 | 70 | Intangible assets | 28 | 80 | 64 |
| 430 | 431 | 433 | Property, plant and equipment | 28 | 458 | 463 |
| 96 | 115 | 150 | Other assets | | 298 | 218 |
| **98 022** | **95 328** | **100 607** | **TOTAL ASSETS** | **5** | **157 435** | **144 182** |
| **Liabilities and equity capital** | | | | | | |
| 6 765 | 2 660 | 3 584 | Liabilities to credit institutions | 14.15,21.22.23 | 3 507 | 2 627 |
| 59 883 | 63 185 | 65 587 | Deposits from customers | 5.14.15,21.22.29.34 | 65 596 | 63 146 |
| 14 149 | 10 013 | 9 477 | Liabilities related to issue of securities | 5.14.15,21.22.24,34 | 62 758 | 56 605 |
| 687 | 322 | 778 | Financial derivatives | 21.22.32 | 2 599 | 844 |
| 272 | 204 | 315 | Payable taxes | 20 | 358 | 310 |
| 705 | 604 | 1 103 | Other liabilities | 31.38 | 490 | 395 |
| 38 | 135 | 129 | Provisions for commitments | 18 | 129 | 135 |
| 29 | 41 | 32 | Deferred tax | 20 | 64 | 28 |
| 2 002 | 3 499 | 4 491 | Subordinated senior loan capital | 4.14.21.22.30 | 4 491 | 3 499 |
| 1 653 | 1 654 | 1 662 | Subordinated loan capital | 4.14.21.22.30 | 1 662 | 1 654 |
| **86 185** | **82 315** | **87 159** | **Total liabilities** | **5.14** | **141 655** | **129 242** |
| 1 694 | 1 692 | 4 945 | Equity certificate capital | 4.35 | 5 196 | 1 877 |
| 1 075 | 1 335 | 1 085 | Hybrid capital | 4 | 1 085 | 1 335 |
| 9 068 | 9 986 | 7 417 | Other equity | 4 | 9 499 | 11 729 |
| **11 837** | **13 013** | **13 448** | **Total equity** | **4,38** | **15 779** | **14 941** |
| **98 022** | **95 328** | **100 607** | **TOTAL LIABILITIES AND EQUITY** | **5.38** | **157 435** | **144 182** |

* Reclassification in 2022 according to a changed accounting principle. See note 1 and note 38.

Notes 1 to 38 form an integral part of the consolidated financial statements.

**Kristiansand, 31 December 2022 / 7 March 2023**

Knut Ruhaven Sæthre
Chair

Mette Ramfjord Harv
Deputy chair

Merete Steinvåg
Østby

Erik Edvard Tønnesen

Trond Randøy

Eli Giske

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 31.12.2020** | **783** | **451** | **459** | **1 075** | **9 069** | **80** | **1 831** | **4** | **13 752** |
| Dividend distributed for 2019 and 2020 | | | | | | | - 219 | | - 219 |
| Profit 2021 | | | 186 | 46 | 858 | 100 | 31 | 3 | 1 223 |
| Interest paid, hybrid capital | | | | - 46 | | | | | - 46 |
| Issuance of hybrid capital | | | | 450 | | | | | 450 |
| Buyback of hybrid capital | | | | - 190 | | | | | - 190 |
| Other comprehensive income | - 2 | | 0 | | - 1 | | | | - 3 |
| Trading of own equity certificates | | | | | | | 10 | | 10 |
| Allocated gift fund | | | | | | - 39 | | | - 39 |
| Other changes | | | | | | | 2 | | 2 |
| **Balance 31.12.2021** | **782** | **451** | **644** | **1 335** | **9 925** | **141** | **1 656** | **7** | **14 941** |
| Dividend distributed for 2021 | | | - 125 | | | | | | -125 |
| Profit YtD | | | 524 | 56 | 411 | 375 | - 84 | 1 | 1283 |
| Interest paid, hybrid capital | | | | - 56 | | | | | -56 |
| Calculated tax on interest hybrid capital ** | | | | 200 | | | | | 200 |
| Issuance of hybrid capital | | | | - 450 | | | | | -450 |
| Buyback of hybrid capital | | | | | | | 13 | | 13 |
| Conversion of primary capital basic fund to equity certificates | 1 302 | 1 617 | | | -2 919 | | | | 0 |
| Trading of own equity certificates | 0 | | 0 | | 0 | | | | 0 |
| Other comprehensive income *** | | | | | | | 77 | | 77 |
| Allocated gift fund | | | | | | - 101 | | | -101 |
| Other changes | | | 0 | | | | 0 | - 3 | -3 |
| **Balance 31.12.2022** | **2 084** | **2 068** | **1 043** | **1 085** | **7 417** | **415** | **1 663** | **4** | **15 779** |
| **PARENT BANK** | | | | | | | | | |
| **Balance 31.12.2020*** | **783** | **451** | **459** | **1 075** | **9 068** | | **0** | **0** | **11 837** |
| Profit YtD | | | 61 | 46 | 858 | | | | 965 |
| Interest paid, hybrid capital | | | | -46 | | | | | - 46 |
| Issuance of hybrid capital | | | | 450 | | | | | 450 |
| Buyback of hybrid capital | | | | - 190 | | | | | - 190 |
| Trading of own equity certificates | -2 | | - 1 | | -1 | | | | - 4 |
| Other comprehensive income | | | | | 0 | | | | 0 |
| Other changes | | | | | 1 | | | | 1 |
| **Balance 31.12.2021*** | **781** | **451** | **519** | **1 335** | **9 926** | **0** | **0** | **0** | **13 013** |
| Profit Ytd | | | 525 | 56 | 773 | | 0 | | 1 353 |
| Allocated dividend and gifts | | | - 250 | | - 375 | | | | - 625 |
| Interest paid, hybrid capital | | | | - 56 | | | | | - 56 |
| Issuance of hybrid capital | | | | 200 | | | | | 200 |
| Buyback of hybrid capital | | | | - 450 | | | | | - 450 |
| Calculated tax on interest hybridcaptital ** | | | | | 13 | | | | 13 |
| Conversion of primary capital basic fund to equity certificates | 1 302 | 1 617 | | | -2 919 | | | | 0 |
| Trading of own equity certificates | 0 | | 0 | | 0 | | | | 0 |
| Other comprehensive income | | | | | 1 | | | | 1 |
| Other changes | | | | | - 1 | | | | - 1 |
| **Balance 31.12.2022*** | **2 084** | **2 068** | **793** | **1 085** | **7 417** | **0** | **0** | **0** | **13 448** |

*Reclassification in 2022 according to a changed accounting principle. See note 1 and note 38.
** Calculated tax on interest on hybrid capital is from 2022 entered against EK. Comparative figures have not been restated.
*** Basic adjustments to interest and currency swaps were NOK -13.0 million as of 1.1.2022 and NOK 63.7 million as of 31.12.2022. The adjustment is included as part of other equity.
Notes 1 to 38 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 | |
|---|---|---|---|---|
| **31.12.2021** | **31.12.2022** | | **31.12.2022** | **31.12.2021** |
| 1 911 | 2 965 | Interest received | 4 450 | 2 841 |
| -543 | -1 167 | Interest paid | -2 082 | -894 |
| 683 | 709 | Other payments received | 409 | 439 |
| -782 | - 916 | Operating expenditure | -1 058 | -946 |
| 12 | 9 | Loan recoveries | 9 | 12 |
| -245 | - 217 | Tax paid for the period | - 324 | -346 |
| -30 | - 61 | Gift expenditure | - 61 | -30 |
| | - 5 | Fraud cases paid | - 5 | |
| - 33 | - 23 | Change in other assets | - 68 | - 45 |
| 3 315 | 2 379 | Change in customer deposits | 2 426 | 3 325 |
| -4 421 | - 476 | Change in loans to customers | -7 341 | -5 190 |
| -2 104 | 422 | Change in deposits from credit institutions | 378 | -1 798 |
| **-2 237** | **3 618** | **Net cash flow from operating activities** | **-3 267** | **-2 630** |
| | | | | |
| 37 851 | 23 737 | Payments received, securities | 23 128 | 33 658 |
| -37 295 | -22 401 | Payments made, securities | -23 909 | -34 207 |
| 31 | 3 | Payments received, sale of property, plant and equipment | 12 | 31 |
| - 75 | - 64 | Payments made, purchase of property, plant and equipment | - 63 | - 76 |
| 201 | 136 | Payments received, investments in subsidiaries and associates | 127 | 201 |
| - 88 | - 938 | Payments made, investments in subsidiaries and associates | - 238 | - 88 |
| 238 | - 33 | Change in other assets | - 33 | - 279 |
| 5 292 | -4 568 | Change in loans to credit institutions | -4 409 | 671 |
| **6 155** | **-4 128** | **Net cash flow from investing activities** | **-5 385** | **- 89** |
| | | | | |
| -2 003 | 500 | Change in deposits from credit institutions | 500 | -2 003 |
| | 4 250 | Payments received, bond debt | 17 127 | 15 755 |
| -3 701 | -4 351 | Payments made, bond debt | -9 046 | -13 460 |
| -265 | - 181 | Payments made, dividends and interest on hybrid capital | - 181 | -265 |
| 1 500 | 1 000 | Issue of senior non-preferred | 1 000 | 1 500 |
| | 200 | Issue of subordinated loan capital | 200 | |
| | - 200 | Buyback of subordinated loan capital | - 200 | |
| -420 | - 245 | Change in other assets | - 271 | 222 |
| 450 | 200 | Issue of hybrid capital | 200 | 450 |
| | - 585 | Change in financial derivative assets * | -1 928 | |
| | 532 | Change in financial derivative debt* | 1 861 | |
| -190 | - 450 | Deduction of hybrid capital | - 450 | -190 |
| | - 7 | Payments of rental obligations * | - 7 | |
| **-4 628** | **662** | **Net cash flow from financing activities** | **8 805** | **2 009** |
| | | | | |
| **- 711** | **152** | **Net change in liquid assets** | **152** | **-711** |
| 1 148 | 437 | Cash and cash equivalents as at 1 Jan | 437 | 1 148 |
| **437** | **590** | **Cash and cash equivalents at end of period** | **590** | **437** |

* Items reclassified in 2022. Included in the items change in other assets and change in other liabilites for the financial year 2021. Comparative figures have not been restated.

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 38 form an integral part of the consolidated financial statements.

# Notes 2022 – Sparebanken Sør

# Notes

## NOTE 1 – ACCOUNTING POLICIES

**1. GENERAL INFORMATION**

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**3. REVENUE RECOGNITION**

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### 1. GENERAL INFORMATION

The Sparebanken Sør Group consists of the Parent Bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, 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 80 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 2022 were presented by the Board of Directors on 7 March 2023 and are due to be adopted by the Board of Trustees on 31 March 2023. 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 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. The financial statements in Sparebanken Sør Parent bank have been prepared in accordance with the regulations on annual accounts for banks, mortgage companies and financial institutions § 1-4, 2nd paragraph b). This means that the same principles are used as for IFRS, with the exception of proposed dividends and gifts for distribution that are accounted for in the year that is the basis for the distribution.

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

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 or fair value over OCI are recognised in profit/loss on an ongoing basis using the effective interest rate method. Interest income on loans measured at amortized cost and loans measured at fair value through profit/loss  are included in the income statement under interest income using the effective interest method. The effective interest rate is the rate that equates the present value of future cash flows within the loan's expected term to the carrying amount of the loan at initial recognition. Cash flows include establishment fees. Interest income is calculated based on gross loans to customers in stages 1 and 2 and based on net loans to customers in stage 3.

Interest income and expenses related to instruments measured at fair value through profit or loss, the nominal interest is recognized under other interest income, while changes in value are included in 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 deducted 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, that can be transferred to the mortage company, 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, 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.

Ineffectivness in hedging is defined as the difference between the value adjustment of hedging instruments compared to the value adjustment of the hedged risks in the objects, is recognized in the income statement on an ongoing basis. The exception is the part of the value adjustment that is due to a change in spreads linked to the hedging instruments. 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 reassessments 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.

## 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 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 (Additional tier 1 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.

Transaction costs and accrued interest are presented as a reduction in "Other equity", while the benefit of tax deductions for the interest results in an increase in "Other equity".

## 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 2022 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 2022.

### Change in Parent Bank- In accordance with the regulations on annual accounts for banks, mortgage companies and financial institutions § 1-4, 2nd paragraph b)

Sparebanken Sør Parent bank has previously been prepared in accordance with IFRS and regulations on annual accounts for banks, mortgage companies and financial institutions § 1-4, 2nd paragraph a). From January 1 st 2022, the Parent bank accounts (company accounts) have been prepared in accordance with the regulations on annual accounts for banks, mortgage companies and financial institutions § 1-4, 2nd paragraph b). This means that the same principles are used as for IFRS, with the exception of proposed dividends and gifts for distribution that are accounted for in the year that is the basis for the distribution.

Efffects in the Parent bank's accounts in connection with the transition to a new principle for accounting for proposed dividends and gifts for distribution are stated in note 38. Comparative figures have been restated.

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

**Provisions for loan losses**

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

Models used 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 has been no significant increase in credit risk, expected loss for the next 12 months will be calculated and allocated. If there has been a significant increase in credit risk, the expected loss for the entire lifetime will be calculated and allocated.

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

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 into account 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 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 today has a well diversified portfolio both in terms of geography, customer segments and industries.

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 if it is not 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 2022-2023, measured long-term interest rate risk after hedging transactions was within 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 45 percent 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 2022, the measured credit spread risk was 74.0 percent of the framework approved by the Board.

### Business risk

Business risk is the risk of unexpected income and cost fluctuations as a result of changes in external conditions such as economic fluctuations, competitive situation, customer behaviour, lack of business development, as well as regulations from public authorities i.e. other conditions than credit risk, market risk and operational risk. 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.

Sparebanken Sør 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 fraud or external events. Examples of operational risk situations can be unwanted incidents as a result disturbance and interruptions of an operational nature, failure of IT systems, money laundering, corruption, embezzlement, insider trading, robbery, threats to employees, breaches of authorization and breaches of agreed routines, etc. Operational risk also includes elements that are often treated as separate risks, such as security risk, process risk, compliance risk, ICT risk, cyber risk, ESG risk and behavioural risk.

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 2022 with a common equity tier 1 capital ratio of 13.7 percent, Tier 1 capital ratio of 15.2 percent and a total capital ratio of 17.2 percent, respectively.

In March 2022, the requirement for countercyclical capital buffer was decided to be increased to 2.5 percent with effect from 31 March 2023. In the last interest rate meeting at Norges Bank on 18 January 2023, it was decided to maintain this requirement. The purpose of the countercyclical capital buffer is to make the banks more solid and to prevent the banks' credit practices from reinforcing a setback in the economy.

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 systemic risk buffer requirement will be increased from 3.0 to 4.5 percent. The Ministry of Finance decided on 16 December 2022 to postpone the requirement by one year for banks that report according to the standard method, for Sparebanken Sør the requirement applies with effect from 31.12.2023.

Based on the new pillar 2 decision from Finanstilsynet (FSA), the Group's internal target for 2023 is a CET1 capital ratio of 16.7 percent.

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 | |
|---|---|---|---|---|
| 31.12.2021* | 31.12.2022 | | 31.12.2022 | 31.12.2021 |
| | | **Minimum capital requirements** | | |
| 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 % | 2.00 % | Counter-cyclical buffer | 2.00 % | 1.00 % |
| 2.00 % | 1.70 % | Pilar 2 requirements | 1.70 % | 2.00 % |
| 13.00 % | 13.70 % | CET1 requirements, incl. Pilar 2 | 13.70 % | 13.00 % |
| 14.50 % | 15.20 % | Tier1 Capital requirements, incl. Pilar 2 | 15.20 % | 14.50 % |
| 16.50 % | 17.20 % | Total capital requirements, incl. Pilar 2 | 17.20 % | 16.50 % |
| | | | | |
| 8 438 | 8 838 | CET1 requirements. incl. Pilar 2 | 10 941 | 10 308 |
| 9 412 | 9 805 | Tier1 Capital requirements, incl. Pilar 2 | 12 139 | 11 498 |
| 10 710 | 11 095 | Total capital requirements, incl. Pilar 2 | 13 736 | 13 084 |
| | | | | |
| 2 978 | 3 160 | Above CET1 requirements, incl. Pilar 2 | 2 712 | 2 696 |
| 3 340 | 3 277 | Above Tier1 Capital requirements, incl. Pilar 2 | 2 645 | 2 878 |
| 3 692 | 3 637 | Above total capital requirements, incl. Pilar 2 | 2 781 | 2 991 |

| PARENT BANK | | NOK MILLION | GROUP | |
|---|---|---|---|---|
| 31.12.2021* | 31.12.2022 | | 31.12.2022 | 31.12.2021 |
| **13 013** | **13 448** | **Total equity** | **15 779** | **14 941** |
| | | | | |
| | | **Tier 1 capital** | | |
| -1 335 | -1 085 | Hybrid capital classified as equity (AT-1) | -1 131 | -1 371 |
| - 271 | 0 | Share of profit not eligible as common equity tier 1 capital | - 665 | - 271 |
| - 54 | - 70 | Deductions for intangible assets | - 81 | - 61 |
| - 43 | - 38 | Deductions for additional value adjustments | - 27 | - 29 |
| 106 | - 256 | Other deductions | - 223 | - 204 |
| **11 416** | **11 998** | **Total common equity tier 1 capital** | **13 653** | **13 004** |
| | | | | |
| | | **Additional tier 1 capital** | | |
| 1 335 | 1 085 | Hybrid capital (AT-1) | 1 131 | 1 371 |
| **12 752** | **13 083** | **Total tier 1 capital** | **14 784** | **14 375** |
| | | | | |
| | | **Additional capital supplementary to tier 1 capital** | | |
| 1 650 | 1 650 | Subordinated loan capital (T-2) | 1 734 | 1 699 |
| **1 650** | **1 650** | **Total additional capital** | **1 734** | **1 699** |
| **14 402** | **14 733** | **Net subordinated capital** | **16 518** | **16 074** |
| | | | | |
| | | **Calculation basis according to standard method** | | |
| 22 | 17 | Engagements with local and regional authorities | 18 | 22 |
| 981 | 1 014 | Engagements with institutions | 337 | 388 |
| 3 137 | 4 505 | Engagements with enterprises | 6 456 | 4 688 |
| 5 259 | 6 110 | Engagements with mass market | 9 149 | 8 045 |
| 37 798 | 33 544 | Engagements secured in property | 53 502 | 55 290 |
| 522 | 408 | Engagements which have fallen due | 610 | 632 |
| 1 823 | 1 360 | Engagements which are high risk | 1 360 | 1 823 |
| 5 934 | 6 650 | Engagements in covered bonds | 1 365 | 1 381 |
| 4 899 | 6 022 | Engagements in collective investment funds | 1 582 | 1 680 |
| 650 | 507 | Engagements, other | 539 | 700 |
| **61 022** | **60 138** | **Capital requirements for credit and counterparty risk** | **74 919** | **74 649** |
| **0** | **0** | **Capital requirements for position, currency and product risk** | **0** | **0** |
| **3 878** | **4 364** | **Capital requirements for operational risk** | **4 937** | **4 638** |
| **8** | **5** | **CVA addition** | **5** | **8** |
| **64 908** | **64 507** | **Risk-weighted balance (calculation basis)** | **79 862** | **79 295** |
| | | | | |
| 17.6 % | 18.6 % | Common equity tier 1 capital ratio, % | 17.1 % | 16.4 % |
| 19.7 % | 20.3 % | Tier 1 capital ratio, % | 18.5 % | 18.1 % |
| 22.2 % | 22.8 % | Total capital ratio, % | 20.7 % | 20.3 % |
| | | | | |
| 8.8 % | 8.4 % | Leverage ratio | 9.1 % | 9.4 % |

* Reclassification according to a changed accounting principle in 2022. See note 1 and note 38.

# 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 Agder, Rogaland and Telemark and Vestfold. 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 2022 and 2021.

| **Report per segment** | | **31.12.2022** | | | | |
|---|---|---|---|---|---|---|
| NOK MILLION | RM | CM | Undistrib. and elimin. | Total banking business | Sørmegleren | Total |
| Net interest income | 1 088 | 1 018 | 262 | 2 368 | 0 | 2 368 |
| Net other operating income | 203 | 84 | 19 | 306 | 160 | 466 |
| Operating expenses | 432 | 116 | 446 | 994 | 151 | 1 145 |
| **Profit before losses per segment** | **859** | **987** | **-165** | **1 681** | **9** | **1 690** |
| Losses on loans and guarantees | 25 | 50 | 0 | 74 | | 74 |
| **Profit before tax per segment** | **834** | **936** | **-165** | **1 606** | **9** | **1 615** |
| | | | | | | |
| Gross loans to customers | 83 344 | 41 085 | -193 | 124 236 | | 124 236 |
| Impairment losses | -74 | -310 | 1 | -384 | | -384 |
| Net loans to customers | 83 269 | 40 775 | -193 | 123 852 | | 123 852 |
| Other assets | | | 33 495 | 33 495 | 88 | 33 583 |
| **Total assets per segment** | **83 269** | **40 775** | **33 302** | **157 347** | **88** | **157 435** |
| | | | | | | |
| Deposits from customers | 33 890 | 27 298 | 4 407 | 65 596 | | 65 596 |
| Other liabilities | 49 380 | 13 477 | 13 116 | 75 972 | 88 | 76 060 |
| **Total liabilities per segment** | **83 269** | **40 775** | **17 523** | **141 567** | **88** | **141 655** |
| Equity | | | 15 779 | 15 779 | | 15 779 |
| **Total liabilities and equity per segment** | **83 269** | **40 775** | **33 302** | **157 347** | **88** | **157 435** |

| **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** |
| | | | | | | |
| Gross loans to customers | 79 740 | 37 278 | 30 | 117 049 | | 117 049 |
| Impairment losses | -54 | -342 | -1 | -397 | | -397 |
| 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** |

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 % |

## GROSS LOAN DISTRIBUTED BY RISK CLASSES

| PARENT BANK | | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2021 | | 31.12.2022 | | NOK MILLION | 31.12.2022 | | 31.12.2021 | |
| | | | | **Retail banking customers:** | | | | |
| 24 696 | 84.1 % | 20 972 | 81.1 % | Low risk | 66 888 | 82.9 % | 64 887 | 83.7 % |
| 4 178 | 14.2 % | 4 386 | 17.0 % | Medium risk | 12 295 | 15.2 % | 11 632 | 15.0 % |
| 378 | 1.3 % | 359 | 1.4 % | High risk | 1 214 | 1.5 % | 830 | 1.1 % |
| **29 252** | | **25 718** | | **Total non-matured or written down** | **80 397** | | **77 350** | |
| 105 | 0.4 % | 134 | 0.5 % | Non-performing | 311 | 0.4 % | 199 | 0.3 % |
| **29 357** | **100 %** | **25 851** | **100 %** | **Total retail banking customers** | **80 709** | **100 %** | **77 549** | **100 %** |
| | | | | **Corporate customers:** | | | | |
| 20 425 | 53.7 % | 24 331 | 58.2 % | Low risk | 25 781 | 59.2 % | 21 436 | 54.3 % |
| 12 991 | 34.1 % | 15 102 | 36.1 % | Medium risk | 15 300 | 35.1 % | 14 154 | 35.8 % |
| 4 069 | 10.7 % | 2 054 | 4.9 % | High risk | 2 096 | 4.8 % | 3 340 | 8.5 % |
| **37 485** | | **41 487** | | **Total non-matured or written down** | **43 177** | | **38 930** | |
| 570 | 1.5 % | 350 | 0.8 % | Non-performing | 350 | 0.8 % | 570 | 1.4 % |
| **38 055** | **100 %** | **41 837** | **100 %** | **Total corporate customers** | **43 527** | **100 %** | **39 500** | **100 %** |
| **67 412** | | **67 689** | | **Total gross loans** | **124 236** | | **117 049** | |

## 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 | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2021 | | 31.12.2022 | | NOK MILLION | 31.12.2022 | | 31.12.2021 | |
| | | | | **Retail banking customers:** | | | | |
| 27 416 | 83,1 % | 25 012 | 83,1 % | Low risk | 75 715 | 84,2 % | 72 734 | 84,8 % |
| 5 089 | 15,4 % | 4 586 | 15,2 % | Medium risk | 12 635 | 14,1 % | 11 998 | 14,0 % |
| 379 | 1,1 % | 367 | 1,2 % | High risk | 1 224 | 1,4 % | 855 | 1,0 % |
| **32 884** | | **29 965** | **0 %** | **Total non-matured or written down** | **89 574** | **0 %** | **85 588** | |
| 112 | 0,3 % | 139 | 0,5 % | Non-performing | 312 | 0,3 % | 203 | 0,2 % |
| **32 995** | **100 %** | **30 104** | **100 %** | **Total retail banking customers** | **89 885** | **100 %** | **85 791** | **100 %** |
| | | | | **Corporate customers:** | | | | |
| 24 753 | 54,4 % | 29 505 | 60,3 % | Low risk | 31 090 | 61,2 % | 26 030 | 55,4 % |
| 16 224 | 35,7 % | 16 536 | 33,8 % | Medium risk | 16 736 | 33,0 % | 16 399 | 34,9 % |
| 3 932 | 8,6 % | 2 565 | 5,2 % | High risk | 2 607 | 5,1 % | 3 962 | 8,4 % |
| **44 909** | | **48 606** | **0 %** | **Total non-matured or written down** | **50 433** | **0 %** | **46 391** | |
| 580 | 1,3 % | 354 | 0,7 % | None-performing | 354 | 0,7 % | 580 | 1,2 % |
| **45 489** | **100 %** | **48 960** | **100 %** | **Total corporate customers** | **50 787** | **100 %** | **46 971** | **100 %** |
| **78 484** | | **79 064** | | **Total commitments** | **140 672** | | **132 762** | |

## 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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Assets** | | |
| 5 644 | 10 211 | Loans and advances to credit institutions | 6 198 | 1 789 |
| 67 028 | 67 332 | Net loans to costumers | 123 852 | 116 653 |
| 17 743 | 16 393 | Bonds and certificates | 22 851 | 22 062 |
| 367 | 947 | Financial derivatives | 1 440 | 1 104 |
| **90 782** | **94 883** | **Total credit risk exposure from balance sheet** | **154 341** | **141 608** |
| | | **Financial guarantee commitments, unutilised credits and loan approvals** | | |
| 1 386 | 1 442 | Guarantees | 1 442 | 1 386 |
| 1 144 | 987 | Unutilised credits to credit institutions | | |
| 10 008 | 8 666 | Unutilised credits | 13 726 | 14 695 |
| 634 | 1 268 | Loan approvals | 1 268 | 634 |
| **13 172** | **12 362** | **Total financial guarantee commitments, unutilised credits and loan approvals** | **16 436** | **16 715** |
| **103 953** | **107 245** | **Total credit risk exposure** | **170 777** | **158 322** |

### 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 is updated quarterly (Eiendomsverdi), 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 31.12.2022

| | PARENT BANK | | GROUP | |
|---|---|---|---|---|
| LTV 31.12.2021 | NOK MILLION | % | NOK MILLION | % |
| Below 40 % | 3 350 | 13.5 % | 15 806 | 20.1 % |
| 40 - 50 % | 3 095 | 12.5 % | 12 730 | 16.2 % |
| 50 - 60 % | 4 239 | 17.1 % | 17 863 | 22.7 % |
| 60 - 70 % | 4 368 | 17.6 % | 16 564 | 21.0 % |
| 70 - 75 % | 3 368 | 13.6 % | 7 414 | 9.4 % |
| 75 - 80 % | 2 417 | 9.8 % | 3 878 | 4.9 % |
| 80 - 85 % | 1 644 | 6.6 % | 1 965 | 2.5 % |
| 85 - 90 % | 1 024 | 4.1 % | 1 141 | 1.4 % |
| 90 - 95 % | 383 | 1.5 % | 449 | 0.6 % |
| 95 - 100 % | 242 | 1.0 % | 283 | 0.4 % |
| Over 100 % | 630 | 2.5 % | 672 | 0.9 % |
| **TOTAL** | **24 761** | **100 %** | **78 763** | **100 %** |

### 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 %** |

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 % |

Relative change (b) corresponds to PD having doubled from approval to the time of calculation in order to be defines as significatlig worsened.

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 2022, 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 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.

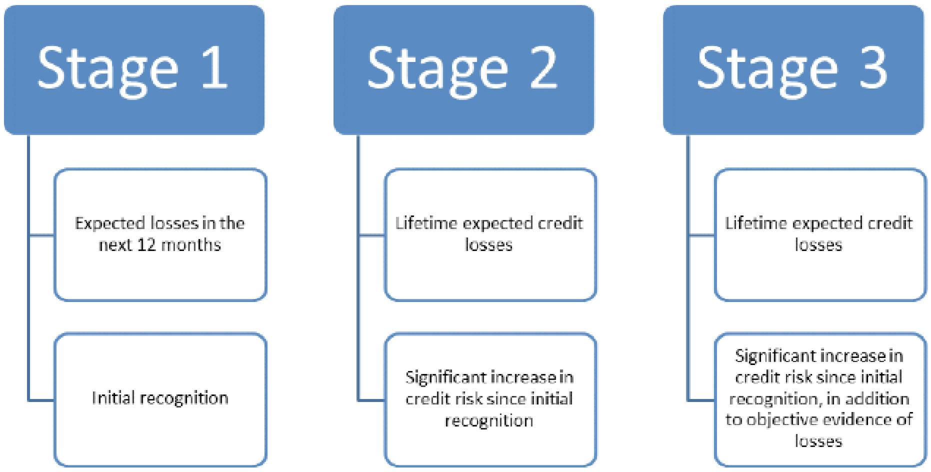
Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The Group has no loss provisions with respect to these receivables for the financial year 2022. The low-risk exemption in IFRS 9 is used because the main emphasis on lending to credit institutions 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 initial recognition (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.

From 01.01.2021 non performing have been assessed according to a new definition. Under the new definition, payment default is based on a minimum amount of NOK 1 000 for retail customers and NOK 2 000 for corporate customers. However, a new relative limit of 1 percent of the customer's commitment has also been introduced. Both conditions must be met before a default can be said to exist. A customer's commitment is defined as non performing if it is likely that the borrower will not fulfill its obligations due to objective requirements. See note 1 for a description of when qualitative assessments are made.

When a customer has one or several defaulted loans, it is the customer's total commitment 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 the commitment is regarded as performing and transferring back to stage 1.

### Macroeconomic conditions and scenarios

The group has 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 key 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:

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Housing price % | 4.9 | -4.3 | 2.1 | 3.7 | 3.7 |
| Housing price region % | 4.9 | -4.3 | 2.1 | 3.7 | 3.7 |
| Unemployment % | 3.3 | 3.7 | 3.7 | 4.1 | 4.1 |
| Oilprice, $ | 101.6 | 76.5 | 74.6 | 72.7 | 72.7 |
| Key policy rate, $ | 1.3 | 3 | 2.9 | 2.5 | 2.5 |
| Import-weighted exchange rate | 110 | 110.5 | 108.3 | 107.4 | 107.4 |
| USD | 10.0 | 10.0 | 9.8 | 9.7 | 9.7 |
| GDP % | 5.8 | 4.8 | 2.8 | 2.6 | 2.6 |

Sparebanken Sør 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 31.12.2022 |
|---|---|---|---|---|
| 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 | 58 | 127 | 207 | 79 |
| Loan loss provisions, RM | 21 | 47 | 78 | 14 |
| **Total** | **80** | **174** | **285** | **93** |

| | | | | PARENT BANK 31.12.2022 |
|---|---|---|---|---|
| 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 | 58 | 125 | 204 | 79 |
| Loan loss provisions, RM | 9 | 19 | 32 | 7 |
| **Total** | **66** | **145** | **236** | **86** |

| | | | | GROUP 31.12.2021 |
|---|---|---|---|---|
| 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 | 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 | A doubling of PD |
| Loan loss provisions, CM | 46 | 100 | 164 | 4 |
| Loan loss provisions, RM | 5 | 12 | 20 | 1 |
| **Total** | **51** | **112** | **185** | **5** |

### 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 2022

In 2022, the factor for "prepayment" has been changed as a result of tougher times in the market with a lower rate of early repayment. No other significant changes as of 2022. Furthermore, only PD scenarios have been changed according to the forecast for macro sizes.

## 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. In the last part of 2021, multiple parameters improved. In 2022, the macro figure has again become more uncertain with the war in Ukraine, high inflation and increasing interest rates. The Group's provisions for loss allowances as of 31 December 2022 is based on new assumptions. For an overview of macros used and sensitivity analyzes, see note 7.

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| -12 | 15 | Period's change in write-downs stage 1 | 22 | -13 |
| -16 | 57 | + Period's change in write-downs stage 2 | 64 | -15 |
| 5 | -19 | + Period's change in write-downs stage 3 | -15 | 6 |
| 12 | 5 | + Period's confirmed loss | 6 | 12 |
| 2 | 0 | + Recognised as interest income | 0 | 2 |
| 12 | 9 | - Period's recoveries relating to previous losses | 9 | 12 |
| 0 | 1 | + Change in write downs on guaranties | 1 | 0 |
| | 7 | + Losses from fraud cases | 7 | |
| **-20** | **57** | **= Loss expenses during the period** | **74** | **-18** |

The balance of confirmed losses as at 31. December 2022 was NOK 104 million. The equivalent figure as at 31 December 2021 was NOK 111 million. This applies to loans which have been derecognised and that the Group is still working to collect.

## PROVISIONS FOR LOAN LOSSES BY STAGE

| PARENT BANK | | | | 31.12.2022 | | | | 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 |
| **83** | **129** | **199** | **411** | **Provisions for loan losses as at 01.01** | **424** | **202** | **135** | **88** |
| | | | | | | | | |
| | | | | Transfers | | | | |
| 62 | -34 | -27 | 0 | Transferred to stage 1 | 0 | -27 | -36 | 64 |
| -7 | 12 | -5 | 0 | Transferred to stage 2 | 0 | -5 | 13 | -8 |
| 0 | -1 | 1 | 0 | Transferred to stage 3 | 0 | 1 | -1 | 0 |
| | | | | | | | | |
| 43 | 88 | 16 | 147 | Losses on new loans | 158 | 17 | 92 | 49 |
| -22 | -41 | -63 | -126 | Losses on deducted loans * | -130 | -64 | -43 | -23 |
| -61 | 34 | 0 | -27 | Losses on older loans and other changes | -18 | 3 | 39 | -60 |
| **98** | **186** | **122** | **406** | **Provisions for loan losses as at 31.12** | **434** | **126** | **199** | **110** |
| | | | | | | | | |
| 83 | 163 | 112 | 357 | Provisions for loan losses | 385 | 116 | 175 | 94 |
| 15 | 24 | 10 | 49 | Provisions for guarantees and undrawn credits | 49 | 10 | 24 | 15 |
| **98** | **186** | **122** | **406** | **Total provision for losses as at 31.12** | **434** | **126** | **199** | **110** |

| 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** |

* 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 434 million were recognised in connection with losses on loans, guarantees and unused credit facilities as at 31 December 2022 (NOK 424 million in individual impairments as at 31 December 2021). 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 2022 are at the same level as the year before. The situation in 2023 is closely monitored in terms of rising interest rates, high inflation and commodity prices. In the event of major bankruptcies, some increase in the bank's losses is expected in 2023. Preliminary analyzes based on the bank's composition of the loanportfolio and local market conditions, give indications that the losses in Sparebanken Sør will be at an overall low level in 2023 as well.

| 2021 | | | | GROUP/PARENT BANK Corporate Customers excl. Self-employed | | | | 2022 |
|---|---|---|---|---|---|---|---|---|
| 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 |
| **88** | **137** | **175** | **400** | **Provisions for loan losses as at 01.01** | **355** | **160** | **118** | **77** |
| | | | | | | | | |
| | | | | Transfers | | | | |
| 39 | -27 | -12 | 0 | Transferred to stage 1 | 0 | -27 | -33 | 60 |
| -7 | 8 | -1 | 0 | Transferred to stage 2 | 0 | -5 | 12 | -7 |
| -1 | -2 | 3 | 0 | Transferred to stage 3 | 0 | 1 | -1 | 0 |
| | | | | | | | | |
| 33 | 31 | 2 | 66 | Losses on new loans | 138 | 15 | 83 | 40 |
| -16 | -38 | -6 | -60 | Losses on deducted loans * | -120 | -61 | -38 | -20 |
| -60 | 10 | 0 | -51 | Losses on older loans and other changes | -33 | -1 | 29 | -61 |
| **77** | **118** | **160** | **355** | **Provisions for loan losses as at 31.12** | **340** | **82** | **170** | **88** |
| | | | | | | | | |
| 64 | 108 | 158 | 330 | Provisions for loan losses | 294 | 72 | 147 | 75 |
| 12 | 11 | 2 | 26 | Provisions for losses on guarantees and undrawn credits | 46 | 10 | 23 | 13 |
| **77** | **118** | **160** | **355** | **Total provision for losses as at 31.12** | **340** | **82** | **170** | **89** |

* 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.

| 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 | 31.12.2022 NOK MILLION | Total | Lifetime expected credit losses | Lifetime expected credit losses | Expected losses in the next 12 months |
| **6** | **11** | **39** | **56** | **Provisions for loan losses as at 01.01** | **69** | **42** | **16** | **11** |
| | | | | | | | | |
| | | | | Transfers | | | | |
| 2 | -2 | 0 | 0 | Transferred to stage 1 | 0 | -1 | -3 | 4 |
| 0 | 0 | 0 | 0 | Transferred to stage 2 | 0 | 0 | 1 | -1 |
| 0 | 0 | 1 | 0 | Transferred to stage 3 | 0 | 0 | 0 | 0 |
| | | | | | | | | |
| 3 | 5 | 1 | 9 | Losses on new loans | 20 | 2 | 10 | 9 |
| -1 | -3 | -2 | -7 | Losses on deducted loans * | -10 | -2 | -5 | -3 |
| 0 | 5 | 2 | 7 | Losses on older loans and other changes | 15 | 4 | 10 | 1 |
| **9** | **16** | **40** | **66** | **Provisions for loan losses as at 31.12** | **94** | **44** | **29** | **21** |
| | | | | | | | | |
| 8 | 15 | 40 | 63 | Provisions for loan losses | 91 | 44 | 28 | 19 |
| 2 | 1 | 0 | 3 | Provisions for losses on guarantees and undrawn credits | 3 | 0 | 1 | 2 |
| **9** | **16** | **40** | **66** | **Total provision for losses as at 31.12** | **94** | **44** | **29** | **21** |

| 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** | **42** | **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** |

## IMPAIRMENT BY SECTOR, INDUSTRY AND STAGE

| PARENT BANK | | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| Stage 1 | Stage 2 | Stage 3 | Loss allowances as of 31.12.22 | NOK MILLION | Loss allowances as of 31.12.22 | Stage 3 | Stage 2 | Stage 1 |
| 8 | 14 | 27 | 50 | Retail customers | 81 | 31 | 32 | 17 |
| 0 | 0 | 0 | 0 | Public administration | 0 | 0 | 0 | 0 |
| 3 | 3 | 3 | 8 | Primary Industry | 8 | 3 | 3 | 3 |
| 2 | 3 | 5 | 9 | Manufactoring industry | 10 | 5 | 3 | 2 |
| 23 | 48 | 16 | 88 | Real estate development | 87 | 16 | 47 | 24 |
| 4 | 7 | 18 | 29 | Building and construction industry | 29 | 18 | 7 | 4 |
| 45 | 80 | 26 | 151 | Property management | 149 | 26 | 77 | 46 |
| 0 | 1 | 1 | 2 | Transport | 2 | 1 | 1 | 0 |
| 3 | 10 | 8 | 22 | Retail trade | 22 | 8 | 10 | 3 |
| 1 | 1 | 2 | 3 | Hotel and restaurants | 3 | 2 | 1 | 1 |
| 2 | 2 | 0 | 4 | Housing cooperatives | 4 | 0 | 2 | 2 |
| 2 | 6 | 8 | 15 | Financial/commercial services | 15 | 8 | 6 | 2 |
| 5 | 11 | 8 | 25 | Social services | 25 | 9 | 11 | 6 |
| **98** | **186** | **122** | **406** | **Total impairment losses on loans, guarantees and undrawn credit** | **434** | **126** | **199** | **110** |
| 83 | 163 | 112 | 357 | *Impairment losses on lending* | 385 | 116 | 175 | 94 |
| 15 | 24 | 10 | 49 | *Impairment losses on unused credits and guarantees* | 49 | 10 | 24 | 15 |
| **98** | **186** | **122** | **406** | **Total impairment losses** | **434** | **126** | **199** | **110** |

| 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** |

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 | | | | 31.12.2022 | | | | GROUP |
|---|---|---|---|---|---|---|---|---|
| | | | | NOK MILLION | | | | |
| Stage 1* | Stage 2 | Stage 3 | Total | GROSS LOANS | Total | Stage 3 | Stage 2 | Stage 1* |
| **57 884** | **8 860** | **668** | **67 412** | **Gross loans as at 01.01** | **117 049** | **762** | **11 047** | **105 240** |
| 2 467 | -2 292 | -175 | -0 | Transferd to stage 1 | - | -195 | -2 961 | 3 156 |
| -2 867 | 2 888 | -21 | 0 | Transferd to stage 2 | -0 | -38 | 4 386 | -4 348 |
| -80 | -58 | 138 | - | Transferd to stage 3 | - | 267 | -110 | -158 |
| 548 | -156 | -22 | 370 | Net change on present loans | -1 646 | -30 | -260 | -1 356 |
| 19 098 | 4 265 | 129 | 23 492 | New loans | 45 011 | 168 | 4 965 | 39 878 |
| -19 383 | -3 705 | -276 | -23 363 | Derecognised loans | -35 955 | -298 | -4 341 | -31 316 |
| -223 | | | -223 | Change in value during the period | -223 | | | -223 |
| **57 445** | **9 802** | **442** | **67 689** | **Gross loan as at 31.12.** | **124 237** | **637** | **12 726** | **110 874** |
| | | | 47 602 | Of which loan at amortised cost | 119 701 | | | |
| | | | 15 551 | Of which loan at fair value through OCI | | | | |
| | | | 4 535 | Of which loan at fair value | 4 535 | | | |
| 83 | 163 | 112 | 357 | Impairment losses on lending | 385 | 116 | 175 | 94 |
| 0.14 % | 1.66 % | 25.33 % | 0.53 % | Impairments in % of gross loans | 0.31 % | 18.24 % | 1.37 % | 0.08 % |
| 67 873 | 10 697 | 493 | 79 064 | Commitments | 140 672 | 666 | 13 672 | 126 334 |
| 15 | 24 | 10 | 418 | Impairment losses on commitments | 434 | 126 | 199 | 110 |
| 0.02 % | 0.22 % | 2.02 % | 0.53 % | Impairments in % of commitments | 0.31 % | 18.93 % | 1.45 % | 0.09 % |

| PARENT BANK | | | | 31.12.2021 | | | | GROUP |
|---|---|---|---|---|---|---|---|---|
| | | | | NOK MILLION | | | | |
| Stage 1* | Stage 2 | Stage 3 | Total | GROSS LOANS | Total | Stage 3 | Stage 2 | Stage 1* |
| **53 704** | **8 503** | **936** | **63 143** | **Gross loans as at 01.01** | **112 006** | **977** | **9 697** | **101 332** |
| 1 905 | -1 850 | -55 | -0 | Transferd to stage 1 | -0 | -67 | -2 311 | 2 378 |
| -2 486 | 2 503 | -17 | 0 | Transferd to stage 2 | **-0** | -15 | 3 574 | -3 559 |
| -116 | -106 | 221 | - | Transferd to stage 3 | - | 286 | -127 | -160 |
| -6 988 | -64 | -103 | -7 156 | Net change on present loans | -9 250 | -109 | -136 | -9 005 |
| 26 065 | 3 009 | -119 | 28 956 | New loans | 43 806 | -112 | 3 302 | 40 615 |
| -14 684 | -2 511 | -194 | -17 389 | Derecognised loans | -29 373 | -199 | -2 953 | -26 220 |
| -141 | | | -141 | Change in value during the period | -141 | | | -141 |
| **57 259** | **9 484** | **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 | | | |
| 69 | 118 | 197 | 384 | Impairment losses on lending | 397 | 199 | 123 | 74 |
| 0.12 % | 1.24 % | 29.45 % | 0.57 % | Impairments in % of gross loans | 0.34 % | 26.14 % | 1.12 % | 0.07 % |
| 67 364 | 10 429 | 691 | 78 484 | Commitments | 132 762 | 783 | 12 055 | 119 924 |
| 83 | 129 | 199 | 411 | Impairment losses on commitments | 421 | 202 | 135 | 88 |
| 0.12 % | 1.24 % | 28.85 % | 0.52 % | Impairments in % of commitments | 0.32 % | 25.76 % | 1.12 % | 0.07 % |

* Loans at fair value have previously been reported on a separate row in note. 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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2021 | | | | NOK MILLION | | | | 31.12.2022 |
| Stage 1 | Stage 2 | Stage 3 | Total | GROSS LOAN ASSESSED AT AMORTISED COST | Total | Stage 3 | Stage 2 | Stage 1 |
| **34 001** | **6 013** | **817** | **40 832** | **Gross loans assessed at amortised cost 01.01** | **43 129** | **627** | **6 438** | **36 064** |
| 1 377 | -1 337 | -40 | - | Transferd to stage 1 | - | -171 | -2 012 | 2 183 |
| -1 875 | 1 883 | -8 | - | Transferd to stage 2 | - | -18 | 2 426 | -2 408 |
| -113 | -101 | 215 | - | Transferd to stage 3 | - | 116 | -44 | -72 |
| -6 553 | -29 | -96 | -6 677 | Net change on present loans | 850 | -23 | -125 | 998 |
| 14 982 | 1 364 | -122 | 16 225 | New loans | 13 577 | 112 | 2 939 | 10 526 |
| -5 755 | -1 355 | -140 | -7 250 | Derecognised loans | -9 954 | -267 | -2 034 | -7 653 |
| **36 064** | **6 438** | **627** | **43 129** | **Gross loan assessed at amortised cost 31.12** | **47 602** | **376** | **7 588** | **39 638** |

| PARENT BANK | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2021 | | | | NOK MILLION | | | | 31.12.2022 |
| Stage 1 | Stage 2 | Stage 3 | Total | GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME | Total | Stage 3 | Stage 2 | Stage 1 |
| **14 758** | **1 864** | **112** | **16 735** | **Gross loan through other comprehensive income 01.01** | **19 280** | **41** | **2 422** | **16 817** |
| 321 | -308 | -14 | - | Transferd to stage 1 | - | -4 | -280 | 284 |
| -407 | 412 | -5 | - | Transferd to stage 2 | - | -3 | 462 | -459 |
| -2 | -4 | 7 | - | Transferd to stage 3 | - | 22 | -14 | -8 |
| -145 | -5 | -8 | -158 | Net change on present loans | -247 | -0 | -31 | -216 |
| 10 425 | 1 528 | 3 | 11 956 | New loans | 9 209 | 16 | 1 326 | 7 867 |
| -8 135 | -1 065 | -54 | -9 253 | Derecognised loans | -12 691 | -9 | -1 671 | -11 011 |
| **16 817** | **2 422** | **41** | **19 280** | **Gross loan through other comprehensive income 31.12** | **15 551** | **65** | **2 213** | **13 273** |

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

| PARENT BANK | | | | 31.12.2022 | | | | GROUP |
|---|---|---|---|---|---|---|---|---|
| | | | | NOK MILLION | | | | |
| Stage 1 | Stage 2 | Stage 3 | Total | UNDRAWN CREDITS AND GUARANTEES (off balance) | Total | Stage 3 | Stage 2 | Stage 1 |
| **10 056** | **956** | **60** | **11 072** | **Undrawn credits and guarantees as at 01.01.** | **15 712** | **60** | **1 018** | **14 634** |
| 344 | -320 | -24 | - | Transferred to stage 1 | - | -24 | -346 | 369 |
| -392 | 400 | -9 | 0 | Transferred to stage 2 | **-** | -9 | 432 | -424 |
| -26 | -4 | 31 | - | Transferred to stage 3 | - | 35 | -4 | -31 |
| -838 | -236 | 2 | -1 072 | Net change on present loans | -958 | -1 | -249 | -707 |
| 3 137 | 483 | 14 | 3 635 | New loans | 4 027 | 14 | 489 | 3 524 |
| -1 868 | -372 | -18 | -2 259 | Derecognised loans | -2 345 | -18 | -383 | -1 944 |
| **10 413** | **906** | **57** | **11 376** | **Undrawn credits and guarantees as at 31.12** | **16 436** | **58** | **957** | **15 422** |

| PARENT BANK | | | | 31.12.2021 | | | | GROUP |
|---|---|---|---|---|---|---|---|---|
| | | | | NOK MILLION | | | | |
| Stage 1 | Stage 2 | Stage 3 | Total | 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 | - | Transferred to stage 1 | - | -6 | -343 | 348 |
| -292 | 298 | -6 | - | Transferred to stage 2 | - | -6 | 325 | -319 |
| -11 | -2 | 13 | - | Transferred to stage 3 | - | 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** |

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

31.12.2022 — 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 |
| **27 502** | **3 761** | **141** | **31 404** | **Gross loans as at 01.01** | **81 040** | **235** | **5 948** | **74 857** |
| 695 | -684 | -11 | - | Transferd to stage 1 | - | -31 | -1 353 | 1 384 |
| -966 | 970 | -4 | - | Transferd to stage 2 | - | -20 | 2 468 | -2 447 |
| -24 | -28 | 52 | - | Transferd to stage 3 | - | 181 | -79 | -102 |
| -452 | -28 | -9 | -489 | Net change on present loans | -2 738 | -16 | -133 | -2 589 |
| 10 518 | 1 693 | 17 | 12 228 | New loans | 33 752 | 37 | 2 393 | 31 322 |
| -13 028 | -1 984 | -19 | -15 031 | Derecognised loans | -27 352 | -41 | -2 620 | -24 692 |
| **24 246** | **3 699** | **167** | **28 112** | **Gross loans as at 31.12** | **84 702** | **346** | **6 623** | **77 733** |

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 | - | Transferd to stage 1 | - | -35 | -1 396 | 1 431 |
| -841 | 856 | -15 | - | Transferd to stage 2 | - | -17 | 2 136 | -2 119 |
| -15 | -11 | 26 | - | Transferd to stage 3 | - | 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** |

PARENT BANK/GROUP — CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED

| 31.12.2021 | | | | NOK MILLION | | | | 31.12.2022 |
|---|---|---|---|---|---|---|---|---|
| Stage 1 | Stage 2 | Stage 3 | Total | GROSS LOANS | Total | Stage 3 | Stage 2 | Stage 1 |
| **28 966** | **5 383** | **716** | **35 066** | **Gross loans as at 01.01** | **36 009** | **528** | **5 723** | **29 759** |
| 1 154 | -1 120 | -34 | - | Transferd to stage 1 | - | -164 | -1 608 | 1 772 |
| -1 645 | 1 647 | -2 | - | Transferd to stage 2 | - | -17 | 1 918 | -1 901 |
| -100 | -95 | 195 | - | Transferd to stage 3 | - | 86 | -30 | -56 |
| -6 532 | -30 | -93 | -6 655 | Net change on present loans | 1 092 | -14 | -128 | 1 233 |
| 12 469 | 1 110 | -125 | 13 455 | New loans | 11 036 | 131 | 1 948 | 8 957 |
| -4 554 | -1 172 | -130 | -5 856 | Derecognised loans | -8 603 | -258 | -1 721 | -6 624 |
| **29 759** | **5 723** | **528** | **36 009** | **Gross loans as at 31.12** | **39 535** | **292** | **6 102** | **33 140** |

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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Loans valued at amortised cost** | | |
| 7 415 | 8 224 | Overdraft- and working capital facilitie | 23 724 | 19 650 |
| 4 092 | 4 786 | Building loans | 4 786 | 4 092 |
| 31 494 | 34 347 | Repayment loans | 90 860 | 88 133 |
| **43 001** | **47 357** | **Total loans valued at amortised cost** | **119 370** | **111 875** |
| | | **Loan designated at fair value** | | |
| 19 280 | 15 551 | Mortgages (fair value - OCI) | | |
| 5 003 | 4 535 | Fixed rate loans (fair value - through profit and loss) | 4 535 | 5 007 |
| **24 283** | **20 086** | **Total loans designated at fair value** | **4 535** | **5 007** |
| 128 | 245 | Accrued interest | 332 | 167 |
| **67 413** | **67 689** | **TOTAL GROSS LOANS** | **124 236** | **117 049** |
| -384 | -357 | Impairment losses on lending | -385 | -396 |
| **67 028** | **67 332** | **TOTAL NET LOANS** | **123 852** | **116 653** |

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

## GROSS LOANS BY GEOGRAPHICAL AREA

| PARENT BANK | | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| 31.12.2021 | | 31.12.2022 | | NOK MILLION | 31.12.2022 | | 31.12.2021 | |
| 43 529 | 64.6 % | 42 317 | 62.5 % | Agder | 78 915 | 63.5 % | 76 494 | 65.4 % |
| 9 319 | 13.8 % | 10 193 | 15.1 % | Vestfold og Telemark | 17 265 | 13.9 % | 15 286 | 13.1 % |
| 6 014 | 8.9 % | 6 174 | 9.1 % | Oslo | 11 483 | 9.2 % | 10 425 | 8.9 % |
| 1 770 | 2.6 % | 1 931 | 2.9 % | Akershus | 5 733 | 4.6 % | 4 987 | 4.3 % |
| 2 439 | 3.6 % | 2 204 | 3.3 % | Rogaland | 4 354 | 3.5 % | 4 213 | 3.6 % |
| 4 213 | 6.2 % | 4 625 | 6.8 % | Others | 6 154 | 5.0 % | 5 479 | 4.7 % |
| 128 | 0.2 % | 245 | 0.4 % | Accrued interests | 331 | 0.3 % | 167 | 0.1 % |
| **67 412** | **100.0 %** | **67 689** | **100.0 %** | **Total gross loans** | **124 236** | **100.0 %** | **117 049** | **100.0 %** |

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

## GROSS LOANS BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 29 357 | 25 851 | Retail customers | 80 709 | 77 549 |
| 430 | 256 | Public administration | 257 | 431 |
| 1 381 | 1 509 | Primary industry | 1 640 | 1 497 |
| 764 | 867 | Manufacturing industry | 940 | 840 |
| 3 666 | 4 655 | Real estate development | 4 624 | 3 632 |
| 1 433 | 1 716 | Building and construction industry | 2 043 | 1 726 |
| 19 579 | 21 823 | Property management | 21 890 | 19 648 |
| 500 | 404 | Transport | 494 | 594 |
| 1 401 | 1 673 | Retail trade | 1 817 | 1 519 |
| 400 | 379 | Hotel and restaurant | 411 | 430 |
| 1 494 | 1 628 | Housing cooperatives | 1 632 | 1 496 |
| 929 | 949 | Financial/commercial services | 1 285 | 1 198 |
| 5 950 | 5 733 | Social services | 6 163 | 6 322 |
| 128 | 245 | Accrued interests | 332 | 167 |
| **67 412** | **67 689** | **TOTAL GROSS LOANS** | **124 236** | **117 049** |
| -384 | -357 | Impairment losses | -385 | -397 |
| **67 028** | **67 332** | **TOTAL NET LOANS** | **123 852** | **116 653** |

## GUARANTEES BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 11 | 8 | Retail customers | 8 | 11 |
| 3 | 3 | Public administration | 3 | 3 |
| 36 | 3 | Primary industry | 3 | 36 |
| 262 | 378 | Manufacturing industry | 378 | 262 |
| 336 | 323 | Real estate development | 323 | 336 |
| 239 | 244 | Building and construction industry | 244 | 239 |
| 161 | 138 | Property management | 138 | 161 |
| 90 | 51 | Transport | 51 | 90 |
| 165 | 191 | Retail trade | 191 | 165 |
| 10 | 9 | Hotel and restaurant | 9 | 10 |
| 0 | 0 | Housing cooperatives | 0 | 0 |
| 40 | 44 | Financial/commercial services | 44 | 40 |
| 35 | 49 | Social services | 49 | 35 |
| **1 386** | **1 442** | **TOTAL GUARANTEES** | **1 442** | **1 386** |

## UNDRAWN CREDIT BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 3 487 | 4 245 | Retail customers | 9 168 | 8 012 |
| 312 | 322 | Public administration | 322 | 312 |
| 309 | 356 | Primary industry | 367 | 323 |
| 436 | 293 | Manufacturing industry | 300 | 441 |
| 966 | 1 141 | Real estate development | 1 141 | 966 |
| 733 | 572 | Building and construction industry | 602 | 756 |
| 1 589 | 1 326 | Property management | 1 329 | 1 593 |
| 52 | 49 | Transport | 56 | 59 |
| 794 | 766 | Retail trade | 773 | 801 |
| 65 | 66 | Hotel and restaurant | 67 | 65 |
| 12 | 43 | Housing cooperatives | 43 | 12 |
| 235 | 207 | Financial/commercial services | 250 | 265 |
| 698 | 545 | Social services | 577 | 721 |
| **9 687** | **9 933** | **TOTAL UNDRAWN CREDITS** | **14 994** | **14 327** |

### COMMITMENTS BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 32 855 | 30 104 | Retail customers | 89 885 | 85 572 |
| 744 | 581 | Public administration | 582 | 745 |
| 1 725 | 1 869 | Primary industry | 2 009 | 1 856 |
| 1 462 | 1 538 | Manufacturing industry | 1 618 | 1 542 |
| 4 968 | 6 119 | Real estate development | 6 089 | 4 934 |
| 2 405 | 2 533 | Building and construction industry | 2 889 | 2 720 |
| 21 328 | 23 287 | Property management | 23 358 | 21 401 |
| 642 | 505 | Transport | 601 | 743 |
| 2 360 | 2 629 | Retail trade | 2 780 | 2 485 |
| 475 | 454 | Hotel and restaurant | 486 | 504 |
| 1 506 | 1 671 | Housing cooperatives | 1 675 | 1 509 |
| 1 204 | 1 201 | Financial/commercial services | 1 579 | 1 504 |
| 6 683 | 6 327 | Social services | 6 789 | 7 078 |
| 128 | 245 | Accrued interests | 332 | 167 |
| **78 484** | **79 064** | **TOTAL COMMITMENTS** | **140 672** | **132 762** |

## NOTE 11 – NON-PERFORMING COMMITMENTS

Non - performinn is the failure of a borrower to fulfill its obligations towards the bank. Borrower's obligations include financial claims (payment default) and other obligations which it is likely that the borrower will not fulfill.

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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| **691** | **493** | **Total non-performing commitments (step 3)** | **666** | **783** |
| 199 | 122 | Impairment commitments in stage 3 | 126 | 202 |
| **492** | **371** | **Net non-performing commitments** | **540** | **581** |
| 28.8 % | 24.7 % | Provisioning non-performing commitments | 18.9 % | 25.8 % |
| **1.03 %** | **0.73 %** | **Total non-performing commitments in % of gross loans** | **0.54 %** | **0.67 %** |

## GROSS NON-PERFORMING COMMITMENTS BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 112 | 139 | Retail banking customers | 312 | 203 |
| 580 | 354 | Corporate customers | 354 | 580 |
| **691** | **493** | **Total defaulted commitments** | **666** | **783** |
| 0 | 0 | Public administration | 0 | 0 |
| 5 | 7 | Primary industry | 7 | 5 |
| 12 | 26 | Manufacturing industry | 26 | 12 |
| 192 | 62 | Real estate development | 62 | 192 |
| 29 | 44 | Building and construction industry | 44 | 29 |
| 241 | 129 | Property management | 129 | 241 |
| 3 | 2 | Transport | 2 | 3 |
| 24 | 22 | Retail trade | 22 | 24 |
| 8 | 6 | Hotel and restaurant | 6 | 8 |
| 0 | 0 | Housing cooperatives | 0 | 0 |
| 62 | 16 | Financial/commercial services | 16 | 62 |
| 2 | 41 | Social services | 41 | 2 |
| **580** | **354** | **Total corporate customers** | **354** | **580** |

The weighted average collateral coverage was 80 percent for non-performing commitments as at 31 December 2022 and 81 percent as at 31 December 2021. Collateral coverage is the extent of the pledged security linked to each loan, and cannot exceed 100 percent.

## FORBEARANCE

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 221 | 483 | Step 2 | 662 | 339 |
| 49 | 130 | Step 3 | 172 | 55 |
| **269** | **613** | **Total exposures with forbearance measures** | **833** | **394** |

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 already, 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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 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 is the risk of loss that arises from changes in interest rates if the interest rate commitment periods for the bank's obligations and claims are not coincident. Interest rate risk that arises from the company's ordinary business in the form of fixed-rate customer loans, interest rate derivatives with customers, fixed-rate investments, and financing with fixed interest rates and in currency, is continuously hedged. The bank's interest rate risk exposure is measured by taking into account uncovered balance and derivative positions.

The company is exposed to fixing risk within a term of 3 months. If large parts of the liability side receive a new interest rate at one point, and large parts of the asset side receive a new interest rate at another point within this three-month period, re-pricing risk arises, which in given scenarios can result in a less favorable result for the company than otherwise could have been the case.

Interest rate risk is assessed using the Economic Value of Equity (EVE) method based on a stress test scenario where the entire interest rate curve experiences a parallel shift of 2 percentage points, and an assessment of how 6 stress test scenarios with different twists in the interest rate curve affect the company's positions. The case that gives the largest potential for loss is used to determine the interest rate risk.

At the company level, the board has approved a risk tolerance level for interest rate risk using the EVE method. The framework also includes interest rate risk in currency. At the end of 2022, Sparebanken Sør's interest rate risk was measured to be NOK 49 million using the EVE method.

**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 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 | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 15 | -24 | Parallel shock up 2 % | -49 | 37 |
| -15 | 24 | Parallel shock down 2 % | 49 | -37 |
| -33 | -32 | Steepener shock | -4 | -78 |
| 33 | 32 | Flattener shock | 4 | 78 |
| 37 | 24 | Short rates shock up 3 % | -4 | 82 |
| -37 | -24 | Short rates shock down 3 % | 4 | -82 |

Calculations of interest rate risk using the Net Interest Income (NII) method are also prepared. This method is assessed as the effect on net interest income for all assets and liabilities with an interest rate shock of 2 percentage points within a time horizon of 1 year. At the end of 2022, Sparebanken Sør's interest rate risk measured by the NII method was NOK 122 million.

# 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 2022, the Group's deposit-to-loan ratio was 53.0 percent, down from 54.1 percent at 31 December 2021.

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 68 percent of all loans to the retail market were transferred from the Bank to the mortgage loan company as at 31 December 2022 (64 percent as at 31 December 2021).

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 22.9 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 2022, the LCR indicator for Sparebanken Sør was 177 percent (140 percent at 31 December 2021). 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 2022. 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 31.12.2022 |
|---|---|---|---|---|---|---|
| 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 | 3 845 | 754 | 778 | 63 | 1 230 | 1 020 |
| Deposits from customers | 65 712 | 55 761 | 5 037 | 4 914 | | |
| Debt incurred due to issue of securities | 71 048 | 21 | 5 968 | 3 606 | 49 705 | 11 748 |
| Other liabilities | 852 | 162 | 192 | 440 | 23 | 34 |
| Senior non-preferred | 5 034 | 0 | 4 892 | 142 | 0 | 0 |
| Subordinated loan capital | 1 805 | 0 | 0 | 655 | 1 150 | 0 |
| Loan commitments and unused credit facilities | 14 994 | 14 994 | | | | |
| **Total liabilities** | **163 289** | **71 691** | **16 867** | **9 821** | **52 108** | **12 803** |
| **Derivative obligations** | | | | | | |
| Financial derivatives gross settlement | | | | | | |
| Payment | -37 506 | -2 144 | -7 615 | -1 347 | -15 644 | -10 755 |
| Payment received | 38 845 | 2 259 | 8 169 | 1 015 | 16 357 | 11 046 |
| **Total derivative obligations** | **1 340** | **115** | **553** | **-332** | **713** | **291** |

| 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 31.12.2022 |
| **Liabilities /non-derivative obligations** | | | | | | |
| Debts to credit institutions | 3 858 | 767 | 778 | 63 | 1 230 | 1 020 |
| Deposits from customers | 65 704 | 55 753 | 5 037 | 4 914 | | |
| Debt incurred due to issue of securities | 10 552 | 0 | 62 | 2 752 | 7 217 | 521 |
| Other liabilities | 1 462 | 481 | 499 | 425 | 23 | 34 |
| Senior non-preferred | 5 034 | 0 | 4 892 | 142 | 0 | 0 |
| Subordinated loan capital | 1 805 | 0 | 0 | 655 | 1 150 | 0 |
| Loan commitments and unused credit facilities | 9 933 | 9 933 | | | | |
| **Total liabilities** | **98 349** | **66 934** | **11 267** | **8 951** | **9 620** | **1 576** |
| **Derivative obligations** | | | | | | |
| Financial derivatives gross settlement | | | | | | |
| Payment | -6 439 | -2 144 | -2 395 | -1 347 | -552 | 0 |
| Payment received | 6 358 | 2 259 | 2 546 | 1 015 | 538 | 0 |
| **Total derivative obligations** | **-81** | **115** | **150** | **-332** | **-14** | **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 31.12.2021 |
| **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** |

## MATURITY STRUCTURE OF ISSUED BONDS AS AT 31.12.2022

NOK MILLION

| ISIN Number | Ticker | Currency | Nominal | Owned by the bank | Recognised value | Fair value | Reference rate | Repayment - structure | Final maturity |
|---|---|---|---|---|---|---|---|---|---|
| NO0010735418 | SOR34 PRO | NOK | 500 | | 493 | 492 | Fixed rate | No installments | 12.05.2025 |
| NO0010754849 | SOR41 PRO | NOK | 300 | | 287 | 293 | Fixed rate | No installments | 23.12.2025 |
| NO0010805385 | SOR50 PRO | NOK | 1 499 | | 1 488 | 1 490 | Fixed rate | No installments | 13.09.2023 |
| NO0010830631 | SOR52 PRO | NOK | 1 000 | | 983 | 983 | Fixed rate | No installments | 28.08.2024 |
| NO0010872344 | SOR59 PRO | NOK | 1 000 | | 1 001 | 1 001 | NIBOR 3 mths | No installments | 22.12.2023 |
| NO0010872351 | SOR60 PRO | NOK | 1 000 | | 972 | 969 | Fixed rate | No installments | 23.12.2024 |
| NO0012703455 | SOR72 PRO | NOK | 850 | | 858 | 863 | Fixed rate | No installments | 21.12.2026 |
| NO0012703448 | SOR73 PRO | NOK | 400 | | 400 | 403 | NIBOR 3 mths | No installments | 21.12.2026 |
| NO0012446493 | SOR68 PRO ESG | NOK | 899 | | 889 | 880 | Fixed rate | No installments | 22.02.2027 |
| NO0012446485 | SOR67 PRO ESG | NOK | 1 099 | | 1 104 | 1 092 | NIBOR 3 mths | No installments | 22.02.2027 |
| NO0012780909 | SOR76 PRO | NOK | 500 | | 501 | 504 | NIBOR 3 mths | No installments | 13.12.2027 |
| NO0012780917 | SOR75 PRO | NOK | 499 | | 501 | 504 | NIBOR 3 mths | No installments | 13.12.2028 |
| **Issued by Parent bank** | | | | | **9 477** | **9 473** | | | |
| NO0010671597 | SORB09 | NOK | 350 | | 362 | 362 | Fixed rate | No installments | 24.01.2028 |
| XS1775786145 | | EURO | 500 | | 5 277 | 5 280 | Fixed rate | No installments | 13.02.2023 |
| NO0010882632 | SORB30 | NOK | 5 000 | | 5 024 | 5 039 | NIBOR 3 mnd | No installments | 20.02.2023 |
| NO0010832637 | SORB28 | NOK | 5 750 | | 5 760 | 5 770 | NIBOR 3 mnd | No installments | 24.09.2025 |
| XS2555209381 | | EURO | 500 | | 5 265 | 5 264 | Fixed rate | No installments | 06.02.2026 |
| XS1947550403 | | EURO | 500 | | 5 085 | 4 866 | Fixed rate | No installments | 26.10.2026 |
| XS2069304033 | | EURO | 500 | | 4 409 | 4 661 | Fixed rate | No installments | 19.11.2024 |
| NO0012535824 | SORB32 | NOK | 5 500 | | 5 513 | 5 539 | NIBOR 3 mnd | No installments | 28.01.2028 |
| NO0011002529 | SORB31 | NOK | 7 000 | | 7 163 | 7 088 | NIBOR 3 mnd | No installments | 20.09.2027 |
| NO0010670409 | SORB08 | NOK | 500 | | 524 | 525 | Fixed rate | No installments | 25.09.2028 |
| XS2291901994 | | EURO | 500 | | 4 495 | 4 474 | Fixed rate | No installments | 31.05.2027 |
| XS2389362687 | | EURO | 500 | | 4 399 | 4 375 | Fixed rate | No installments | 14.11.2025 |
| **Issued by Subsidiary** | | | | | **53 277** | **53 242** | | | |
| Eliminations | | | | | 4 | 4 | | | |
| **Total bonds Group** | | | | | **62 758** | **62 719** | | | |

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 2022, the average remaining term to maturity of the portfolio of senior bond debt and covered bonds was 3.4 years, compared with 3.6 years at year-end 2021.

## MATURITY STRUCTURE OF ISSUED SUBORDINATED LOANS AS AT 31.12.2022

NOK MILLION

| ISIN Number | Ticker | Nominal | Recognised value | Fair value | Reference rate | Repayment - structure | Final maturity |
|---|---|---|---|---|---|---|---|
| NO0010825094 | SOR51 PRO | 250 | 251 | 250 | NIBOR 3 mths | Subordinated loan capital | 14.06.2028 |
| NO0010832157 | SOR53 PRO | 250 | 251 | 250 | NIBOR 3 mths | Subordinated loan capital | 14.09.2028 |
| NO0010837313 | SOR54 PRO | 100 | 101 | 100 | NIBOR 3 mths | Subordinated loan capital | 23.11.2028 |
| NO0010871247 | SOR56 PRO | 500 | 501 | 494 | NIBOR 3 mths | Subordinated loan capital | 12.12.2029 |
| NO0010887177 | SOR62 PRO | 350 | 354 | 347 | NIBOR 3 mths | Subordinated loan capital | 09.07.2030 |
| NO0012721804 | SOR74 PRO | 200 | 206 | 208 | Fixed rate | Subordinated loan capital | 13.10.2032 |
| **Subordinated capital** | | **1 650** | **1 662** | **1 648** | | | |

## MATURITY STRUCTURE ON SENIOR NON PREFERRED DEBT AS AT 31.12.2022

MILLIONER KRONER

| ISIN Number | Ticker | Nominal | Recognised value | Fair value | Reference rate | Repayment - structure | Final maturity |
|---|---|---|---|---|---|---|---|
| NO0010886781 | SOR61 PRO | 2 000 | 2 002 | 1 972 | NIBOR 3 mths | No installments | 30.06.2026 |
| NO0011099764 | SOR65 PRO | 500 | 478 | 469 | Fixed rate | No installments | 17.09.2025 |
| NO0010920788 | SOR63 PRO | 1 000 | 1 005 | 981 | NIBOR 3 mths | No installments | 10.02.2027 |
| NO0012548926 | SOR70 PRO | 500 | 505 | 502 | Fixed rate | No installments | 14.06.2027 |
| NO0012548918 | SOR69 PRO | 500 | 501 | 498 | NIBOR 3 mths | No installments | 14.06.2027 |
| **Senior non-preferred** | | **4 500** | **4 491** | **4 423** | | | |

## LIQUIDITY INDICATORS

The enterprise must at all times have a liquidity reserve (LCR). From 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 2022, LCR was 177 percent for the Group and 169 percent for the Parent Bank. Corresponding figures for 2021 were 140 percent for the Group and 127 percent for the Parent Bank.

# NOTE 15 – INTEREST INCOME AND INTEREST EXPENSES

## INTEREST INCOME

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | *Interest income from financial instruments at amortised cost* | | |
| 62 | 139 | Interest on receivables from credit institutions | 53 | 6 |
| 1 144 | 1 951 | Interest on loans given to customers | 3 945 | 2 488 |
| **1 206** | **2 090** | **Total interest from financial instruments at amortised cost** | **3 999** | **2 494** |
| | | *Interest income from financial instruments at fair value via OCI* | | |
| **387** | **501** | Interest on loans given to customers (mortgages) | **0** | **0** |
| **387** | **501** | **Total interest from financial instruments at fair value via OCI** | **0** | **0** |
| **1 593** | **2 591** | **Total interest income effective interest method** | **3 999** | **2 494** |
| | | | | |
| | | *Interest income from financial instruments at fair value* | | |
| 156 | 132 | Interest on loans given to customers (fixed rate loans) | 132 | 156 |
| 139 | 343 | Interest on certificates and bonds | 449 | 169 |
| **295** | **476** | **Total interest from financial instruments at fair value via profit or loss** | **581** | **326** |
| **295** | **476** | **Total other interest income** | **581** | **326** |
| | | | | |
| **1 888** | **3 067** | **Total interest income** | **4 580** | **2 820** |

## INTEREST EXPENSES

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | *Interest expenses from financial instruments at amortised cost* | | |
| 20 | 70 | Interest on liabilities to credit institutions | 68 | 19 |
| 246 | 643 | Interest on customer deposits | 642 | 247 |
| 119 | 229 | Interest on issued securities | 1 288 | 483 |
| 31 | 53 | Interest on subordinated loans | 53 | 31 |
| 42 | 104 | Interest on subordinated senior loans | 104 | 42 |
| 52 | 48 | Fees to the Norwegian Banks Guarantee Fund and other interest expenses | 57 | 60 |
| **511** | **1 146** | **Interest expenses from financial instruments at amortised cost** | **2 212** | **881** |
| **511** | **1 146** | **Total interest expenses** | **2 212** | **881** |

### AVERAGE INTEREST RATES

| PARENT BANK | | | | | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| Average volume in NOK million | | Average interes rates | | | Average interest rates | | Averegae volume in NOK million | |
| 31.12.2021 | 31.12.2022 | 31.12.2021 | 31.12.2022 | | 31.12.2022 | 31.12.2021 | 31.12.2022 | 31.12.2021 |
| | | | | **Assets** | | | | |
| 8 323 | 7 183 | 0.75 % | 1.94 % | Loans to credit institutions | 1.42 % | 0.16 % | 3 765 | 3 535 |
| **66 477** | **68 712** | **2.54 %** | **3.65 %** | **Loans to customers** | **3.30 %** | **2.30 %** | **119 906** | **114 748** |
| 17 329 | 17 408 | 0.80 % | 1.97 % | Bonds and certificates | 2.06 % | 0.84 % | 21 845 | 20 248 |
| | | | | **Liabilities** | | | | |
| 3 447 | 3 268 | 0.59 % | 2.14 % | Liabilities to credit institutions | 2.20 % | 0.58 % | 3 107 | 3 319 |
| 61 345 | 62 103 | 0.38 % | 0.97 % | Deposits from customers | 0.96 % | 0.38 % | 62 049 | 61 314 |
| 11 397 | 9 441 | 1.05 % | 2.40 % | Liabilities related to issue of securities | 2.25 % | 0.87 % | 57 336 | 55 368 |

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 | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| 28 | 26 | Guarantee commission | 21 | 23 |
| 32 | 33 | Security trading and management | 33 | 32 |
| 175 | 209 | Payment transmission | 209 | 175 |
| 45 | 64 | Insurance services | 64 | 45 |
| 120 | 116 | Fees from other activities | 174 | 210 |
| **400** | **448** | **Total commission income** | **501** | **484** |

## NOTE 17 – INCOME FROM FINANCIAL INSTRUMENTS

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| -141 | -223 | Changes in value - fixed rate loans - designated at fair value through profit | -223 | -141 |
| 164 | 174 | Changes in value - derivatives fixed rate loans - liable to fair value through profit | 174 | 164 |
| **23** | **-48** | **Net fixed rate loans** | **-48** | **23** |
| | | | | |
| -47 | -71 | Gains(losses) and change in value - certificates and bonds | -93 | -70 |
| 325 | 351 | Share dividend | 13 | 7 |
| 11 | 11 | Gains(losses) and change in value - shares | 8 | 11 |
| **289** | **291** | **Certificates, bonds and shares - designated at fair value through profit** | **-72** | **-53** |
| | | | | |
| 179 | 161 | Change in value - bonds at fixed interest rate - hedge accounting | 1 704 | 2 462 |
| -179 | -161 | Change in value - derivatives fixed rate bonds - liable to fair value through profit | -1 712 | -2 455 |
| **0** | **1** | **Net issued securities at fixed rate - hedge accounting** | **-8** | **7** |
| | | *Effect of earnings on basisswap* | **5** | **16** |
| | | | | |
| 251 | 0 | Change in value liabilities Euro - amortised cost | 0 | 251 |
| -249 | 0 | Change in value financial derivatives - fair value | 0 | -249 |
| **2** | **0** | **Net profit effect, debt in Euro** | **0** | **2** |
| | | | | |
| 0 | -4 | Gains (losses) from buy-back of own bonds - amortised cost | -4 | -15 |
| 28 | 32 | Currency gains (losses) | 32 | 28 |
| 3 | 0 | Change in value of other financial instruments at fair value | 0 | 3 |
| 5 | 19 | Other financial derivatives - liable to fair value through profit | 19 | 5 |
| **36** | **47** | **Net other financial instruments and derivatives** | **47** | **21** |
| | | | | |
| **350** | **290** | **Net income from financial instruments** | **-82** | **0** |

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 | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| 331 | 378 | Wages to employees and fee to elected representatives (1) | 487 | 441 |
| 52 | 60 | Payroll tax | 76 | 67 |
| 19 | 21 | Financial tax | 22 | 19 |
| 51 | 39 | Pension costs | 44 | 55 |
| 22 | 24 | Other Personal costs | 30 | 26 |
| **475** | **523** | **Total personnel costs** | **659** | **606** |
| | | | | |
| 464 | 485 | Number og FTE at 31.12 | 594 | 564 |
| 453 | 475 | Average numer of FTE per year | 579 | 542 |

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 18 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 2022, the scheme covered 265 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 | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| 25 | 28 | Ordinary pension expense, defined-contribution scheme | 32 | 29 |
| 20 | 5 | Pension expense relating to the compensatory scheme | 5 | 20 |
| 5 | 6 | Pension expense relating to early retirement (AFP) | 6 | 5 |
| 1 | 1 | Other pension costs | 1 | 1 |
| **51** | **39** | **Total pension expenses** | **44** | **55** |
| | | | | |
| 121 | 119 | Capitalised pension relating to compensatory scheme | 119 | 121 |
| 14 | 11 | Net pension obligation, defined benefit pension | 11 | 14 |
| **135** | **129** | **Total pension obligation shown in the balance sheet** | **129** | **135** |

## ACTIVE MEMBERS IN THE DIFFERENT SCHEMES

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| 554 | 603 | Members defined-contribution scheme | 726 | 671 |
| 286 | 265 | Members compensatory scheme | 265 | 286 |
| 17 | 18 | Members defined benefit scheme | 18 | 17 |

## 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 2022, 2021 or 2020.

# NOTE 19 – OTHER OPERATING EXPENSES

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 2021 | 2022 | MILLONER KRONER | 2022 | 2021 |
| 33 | 38 | Marketing | 38 | 39 |
| 170 | 202 | IT costs | 212 | 178 |
| 26 | 31 | Operating costs - real estate | 38 | 31 |
| 34 | 50 | External fees | 51 | 37 |
| 7 | 13 | Wealth tax | 13 | 7 |
| 78 | 85 | Other operating expenses | 91 | 76 |
| **348** | **419** | **Total other operating expenses** | **443** | **368** |

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

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 2021 | 2022 | NOK THOUSAND | 2022 | 2021 |
| 955 | 1 847 | Ordinary audit fees | 2 626 | 1 446 |
| 391 | 50 | Tax advice | 50 | 529 |
| 3 | 1 278 | Other attestation services | 1 549 | 3 |
| 547 | 443 | Fees from other services | 443 | 547 |
| **1 894** | **3 618** | **Total remuneration of elected auditor (incl. VAT)** | **4 668** | **2 523** |

| PARENT BANK | | GROUP |
|---|---|---|
| 2022 | NOK THOUSAND | 2022 |
| | **Spesification of fees from other services** | |
| 282 | (SA-CCR) - training , discussion and testing | 282 |
| 154 | Assessment of controls SWIFT CSP framework | 154 |
| 7 | Other | 7 |
| **443** | **Total fees from other services** | **443** |

# NOTE 20 – TAX

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Tax cost for the year** | | |
| 200 | 308 | Tax payable on net income | 351 | 305 |
| 12 | -9 | Recognised deferred tax | 15 | 15 |
| 2 | 1 | Excess provision previous years | -34 | 2 |
| **214** | **300** | **Tax cost for the year** | **332** | **323** |
| | | | | |
| | | **Explanation of why the effective tax rate does not amount to 25% of profit before tax *** | | |
| **351** | **413** | **25 % of profit before tax** | **404** | **381** |
| 1 | 3 | Expensed wealth tax | 3 | 1 |
| -44 | -31 | Share of profit from associated company | -31 | -44 |
| -81 | -87 | Dividends received (tax exemption) | -2 | -2 |
| -5 | -0 | Non-taxable income | -0 | -5 |
| 1 | 1 | Non-deductible expenses | 1 | 1 |
| -12 | | Tax on hybrid interest rates entered directly against equity** | | -12 |
| 2 | 1 | Correction of previous years' tax assessment | -34 | 2 |
| | | Different tax rate in subsidiaries ( (22%/25%) | -8 | -0 |
| **214** | **300** | **Tax cost for the year** | **332** | **323** |
| | | | | |
| 15.2 % | 18.2 % | Effective tax rate % | 20.6 % | 21.2 % |
| | | | | |
| | | Change in deferred tax | | |
| 0 | 0 | Deferred tax recognised in the total result comprehensive income | 22 | 4 |
| -12 | 9 | Deferred tax recognised in the profit for the year | 15 | 15 |
| **-12** | **9** | **Total change in deferred tax** | **36** | **18** |
| | | | | |
| | | **Deferred tax** | | |
| 54 | 51 | Fixed assets | 51 | 53 |
| -22 | -38 | Securities | -38 | -22 |
| 7 | -48 | Loans | -48 | 7 |
| -7 | 1 | Pension commitments | 1 | -7 |
| -3 | 32 | Bonds loans | -41 | -188 |
| 11 | 30 | Derivatives | 135 | 183 |
| | 1 | Subordinated loan capital | 1 | |
| 1 | 4 | Other accounting provisions | 4 | 1 |
| **41** | **32** | **Total deferred tax** | **64** | **28** |

* Estimated tax amounts to 25% of total values.

** From 2022 tax on hybrid interest rates in enterered directly between payable tax in the balance sheet and other equity.

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

A tax rate of 25 percent has been used when preparing the quarterly accounts for the parent bank. For other subsidiaries, a 22 percent tax rate is applied. In the 4th quarter of 2022, NOK 33.8 million was recognized as income as a result of a changed tax rate in Sparebanken Sør Boligkreditt AS, for the period 2019-2021.

# NOTE 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, senior non-preferred and subordinated loan capital in Norwegian kroner and foreign currencies. The hedging covers the interest rate risk and foreign exchange risk associated with the bonds. For further information about hedge accounting, see note 1.

## CLASSIFICATION 31.12.2022

| | | | | | GROUP 31.12.2022 |
|---|---|---|---|---|---|
| NOK MILLION | Fair value | Fair value through OCI | Hedge accounting | Amortised cost | Total |
| Cash and receivables from central banks | | | | 590 | 590 |
| Loans to and receivables from credit institutions | | | | 6 198 | 6 198 |
| Net loans to customers | 4 535 | | | 119 316 | 123 852 |
| Bonds and certificates | 22 851 | | | | 22 851 |
| Shares | 230 | | | | 230 |
| Financial derivatives | 962 | | 478 | | 1 440 |
| Ownership in group companies | | | | | 0 |
| Ownership in associated companies | | | | 1 437 | 1 437 |
| **Total financial assets** | **28 579** | **0** | **478** | **127 541** | **156 599** |
| | | | | | |
| Debts to credit institution | | | | 3 507 | 3 507 |
| Deposits from customers | | | | 65 596 | 65 596 |
| Debt incurred due to issue of securities | | | 35 792 | 26 966 | 62 758 |
| Financial derivatives | 692 | | 1 907 | | 2 599 |
| Senior non-preferred | | | 983 | 3 508 | 4 491 |
| Subordinated loan capital | | | 206 | 1 457 | 1 662 |
| **Total financial liabilities** | **692** | **0** | **38 887** | **101 034** | **140 613** |

| | | | | | PARENT BANK 31.12.2022 |
|---|---|---|---|---|---|
| NOK MILLION | Fair value | Fair value through OCI | Hedge accounting | Amortised cost | Total |
| Cash and receivables from central banks | | | | 590 | 590 |
| Loans to and receivables from credit institutions | | | | 10 211 | 10 211 |
| Net loans to customers | 4 535 | 15 545 | | 47 251 | 67 332 |
| Bonds and certificates | 16 393 | | | | 16 393 |
| Shares | 230 | | | | 230 |
| Financial derivatives | 945 | | 2 | | 947 |
| Ownership in group companies | | | | 2 813 | 2 813 |
| Ownership in associated companies | | | | 1 437 | 1 437 |
| **Total financial assets** | **22 103** | **15 545** | **2** | **62 303** | **99 954** |
| | | | | | |
| Debts to credit institution | | | | 3 584 | 3 584 |
| Deposits from customers | | | | 65 587 | 65 587 |
| Debt incurred due to issue of securities | | | 5 971 | 3 506 | 9 477 |
| Financial derivatives | 615 | | 163 | | 778 |
| Senior non-preferred | | | 983 | 3 508 | 4 491 |
| Subordinated loan capital | | | 206 | 1 457 | 1 662 |
| **Total financial liabilities** | **615** | **0** | **7 323** | **77 641** | **85 579** |

## 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** |

# 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. This 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 | | | | 31.12.2022 | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| Recognised value | Fair value Level 1 | Level 2 | Level 3 | NOK MILLION | Recognised value | Fair value Level 1 | Level 2 | Level 3 |
| | | | | **Assets recognised at amortised cost** | | | | |
| 590 | | 590 | | Cash and receivables from central banks | 590 | | 590 | |
| 10 211 | | 10 211 | | Loans to and receivables from credit institutions | 6 198 | | 6 198 | |
| 47 251 | | | 47 251 | Net loans to customers (floating interest rate) | 119 316 | | | 119 316 |
| | | | | **Assets recognised at fair value** | | | | |
| 4 535 | | | 4 535 | Net loans to customers (fixed interest rate) | 4 535 | | | 4 535 |
| 15 545 | | | 15 545 | Net loans to customers (mortgages) | | | | |
| 16 393 | | 16 393 | | Bonds and certificates | 22 851 | | 22 851 | |
| 230 | 33 | | 197 | Shares | 230 | 33 | | 197 |
| 947 | | 947 | | Financial derivatives | 1 440 | | 1 440 | |
| **95 703** | **33** | **28 141** | **67 529** | **Total financial assets** | **155 161** | **33** | **31 079** | **124 049** |
| | | | | **Liabilities recognised at amortised cost** | | | | |
| 3 584 | | 3 584 | | Debt to credit institutions | 3 507 | | 3 507 | |
| 65 587 | | | 65 587 | Deposit from customers | 65 596 | | | 65 596 |
| 9 477 | | 9 473 | | Debt incurred due to issue of securities | 62 758 | | 62 719 | |
| 4 491 | | 4 423 | | Senior non-preferred | 4 491 | | 4 423 | |
| 1 662 | | 1 648 | | Subordinated loan capital | 1 662 | | 1 648 | |
| | | | | **Liabilities recognised at fair value** | | | | |
| 778 | | 778 | | Financial derivatives | 2 599 | | 2 599 | |
| **85 579** | **0** | **19 906** | **65 587** | **Total financial liabilities** | **140 613** | **0** | **74 897** | **65 596** |

| PARENT BANK | | | | 31.12.2021 | GROUP | | | |
|---|---|---|---|---|---|---|---|---|
| Recognised value | Fair value Level 1 | Level 2 | Level 3 | NOK MILLION | Recognised value | Fair 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** |

There were no movements between levels 1 and 2 in 2021 or 2022.

## 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 31.12.2020** | **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 associated company | | | |
| **Recognized value as at 31.12.2021** | **5 003** | **50** | **184** |
| Acquisitions 2022 | 744 | | 13 |
| Of which, transferred from level 1 or 2 | | | |
| Change in value recognized during the period | -223 | - 47 | - 1 |
| Disposals 2022 | -989 | | - 0 |
| Reclassified as assosiated company | | | |
| **Recognized value as at 31.12.2022** | **4 535** | **3** | **197** |

| | | | PARENT BANK |
|---|---|---|---|
| NOK MILLION | Net loans to customers | Of which credit risk | Shares |
| **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 associated company | | | |
| **Recognized value as at 31.12.2021** | **24 278** | **50** | **184** |
| Acquisitions 2022 | 744 | | 13 |
| Of which, transferred from level 1 or 2 | | | |
| Change in value recognized during the period | - 223 | - 47 | - 1 |
| Disposals 2022 | -4 719 | | - 0 |
| Reclassified as associated company | | | |
| **Recognized value as at 31.12.2022** | **20 081** | **3** | **197** |

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 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Loan to customers** | **19** | **20** |
| - of which, loans to the corporate market (CM) | 1 | 1 |
| - of which, loans to the retail market (RM) | 18 | 19 |

## 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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Hedging instruments / financial derivatives** | | |
| 13 | 2 | Interest rate swaps NOK | 6 | 65 |
| | | Interest rate swaps EUR | 472 | 636 |
| **13** | **2** | **Total financial assets** | **478** | **700** |
| | | **Hedged items** | | |
| 6 450 | 7 250 | Nominal debt NOK | 8 100 | 7 300 |
| | | Nominal debt EUR * | 30 217 | 29 782 |
| 5 | - 156 | Adjustment of hedged items NOK - interest risk | - 151 | 57 |
| | | Adjustment of hedged items EUR - interest- and currency risk | - 1 347 | 150 |
| | | **Hedging instruments / financial derivatives** | | |
| 9 | 163 | Interest rate swaps NOK | 163 | 9 |
| | | Interest rate swaps EUR | 1 744 | 502 |
| **6 465** | **7 257** | **Total financial liabilities** | **38 726** | **37 801** |

* 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 | |
|---|---|---|---|---|
| 2021 | 2022 | NOK MILLION | 2022 | 2021 |
| | | **Result / ineffectiveness in hedge acconting** | | |
| 0 | -4 | Income effect hedge interest rate risk (NOK) | -4 | 0 |
| 0 | 0 | Income effect as a result of repurchases | 0 | 0 |
| | | Income effect hedge interest- and currency risk (EUR) | -7 | 7 |
| *IA* | *IA* | *Effect of earnings from currency basis* | *-5* | *16* |
| **0** | **-4** | **Total** | **-11** | **7** |
| | | **Other comprehensive income (OCI)** | | |
| *IA* | *IA* | *Change in results from change in value of currency basis* | *-99* | *14* |

# NOTE 23 – LOANS AND DEBT TO CREDIT INSTITUTIONS

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Loans to credit institutions** | | |
| 4 055 | 4 141 | Without agreed maturity | 128 | 199 |
| 1 589 | 6 070 | With agreed maturity | 6 070 | 1 590 |
| **5 644** | **10 211** | **Total loans to credit institutions** | **6 198** | **1 789** |
| | | | | |
| | | **Debts to credit institutions** | | |
| 393 | 458 | Without agreed maturity | 742 | 150 |
| 2 266 | 3 122 | With agreed maturity | 2 761 | 2 475 |
| 2 | 4 | Accrued interest | 4 | 2 |
| **2 660** | **3 584** | **Total debts to credit institutions** | **3 507** | **2 627** |

| | | | | | | GROUP |
|---|---|---|---|---|---|---|
| NOK MILLION | 31.12.2021 | Net issued debt | Change Collateral* | Change Repo | Net change credits | 31.12.2022 |
| Loan to credit institutions | 1 789 | 0 | - 122 | 4 640 | - 110 | 6 198 |
| Debt to credit institutions | 2 627 | 500 | 367 | 0 | 13 | 3 507 |
| **Total net assets/debt to credit institutions** | **- 837** | **- 500** | **- 489** | **4 640** | **- 123** | **2 691** |

| | | | | | | GROUP |
|---|---|---|---|---|---|---|
| NOK MILLION | 31.12.2020 | Net issued 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 assets/debt to credit institutions** | **-3 975** | **2 000** | **1 621** | **-295** | **-188** | **-837** |

| | | | | | | PARENT BANK |
|---|---|---|---|---|---|---|
| NOK MILLION | 31.12.2021 | Net issued debt | Collateral | Repo | Net change credits | 31.12.2022 |
| Loan to credit institutions | 5 644 | 0 | - 122 | 4 640 | 50 | 10 211 |
| Debt to credit institutions | 2 660 | 500 | 367 | 0 | 57 | 3 584 |
| **Total net assets/debt to credit institutions** | **2 984** | **- 500** | **- 489** | **4 640** | **- 7** | **6 628** |

| | | | | | | PARENT BANK |
|---|---|---|---|---|---|---|
| NOK MILLION | 31.12.2020 | Net 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 assets/debt to credit institutions** | **4 170** | **2 000** | **-33** | **-295** | **-2 859** | **2 984** |

# NOTE 24 – BONDS AND CERTIFICATES

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Short-term investments designed at fair value through profit and loss** | | |
| 4 032 | 6 489 | Certificates and bonds issued by public sector | 8 532 | 7 587 |
| 12 954 | 9 903 | Certificates and bonds issued by others | 14 320 | 14 475 |
| 757 | 0 | Certificated and bonds issued by subsidiaries | 0 | 0 |
| **17 743** | **16 393** | **Total short-term investment designed at fair value through profit and loss** | **22 851** | **22 062** |
| **17 743** | **16 393** | **Investment in securities** | **22 851** | **22 062** |
| 16 777 | 15 566 | Bonds pledged for drawing-rights in Norges Bank | 15 566 | 16 777 |

## 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 | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Certificates and bonds** | | |
| 17 692 | 16 322 | Lowest risk | 22 752 | 21 995 |
| 0 | 0 | Low risk | 0 | 0 |
| 0 | 0 | Medium risk | 0 | 0 |
| 0 | 0 | High risk | 0 | 0 |
| 0 | 0 | Highest risk | 0 | 0 |
| 52 | 70 | Accrued interest | 99 | 66 |
| **17 743** | **16 393** | **Total certificates and bonds** | **22 851** | **22 062** |

# NOTE 25 – SHARES

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

| | | | | | GROUP 31.12.2022 |
|---|---|---|---|---|---|
| NOK THOUSAND | Org.nr. | Type of business | Equity stake | Book value | Acquisition cost |
| **Shares classified at fair value through profit and loss** | | | | | |
| Eksportfinans ASA | 816 521 432 | Finance | 1.5 % | 83 300 | 66 454 |
| Norgesinvestor Proto AS | 812 746 162 | Investment activity | 17.6 % | 29 526 | 15 600 |
| Bien Sparebank ASA | 991 853 995 | Banking | 4.8 % | 25 085 | 25 000 |
| VN Norge AS | 821 083 052 | Investment activity | 2.3 % | 15 094 | 0 |
| Norne Securities AS | 992 881 828 | Securities brokerage | 14.8 % | 13 500 | 10 608 |
| Skagerak Capital III AS | 918 019 669 | Investment activity | 6.8 % | 12 150 | 11 854 |
| Eedenbull AS | 921 158 866 | Services related to financing activities | 0.8 % | 9 999 | 19 999 |
| Norgesinvestor IV AS | 990 644 454 | Investment activity | 1.9 % | 10 152 | 8 058 |
| Sparebanken Vest Grunnfondsbevis | 832 554 332 | Banking | 0.5 % | 8 251 | 2 735 |
| Other companies (36 pcs) | | | | 22 970 | 25 478 |
| **Total shares valued at fair value through profit and loss** | | | | **230 027** | **185 786** |

| | | | | | GROUP 31.12.2021 |
|---|---|---|---|---|---|
| NOK THOUSAND | Org.nr. | Type of business | Equity stake | Book value | Acquisition cost |
| **Shares classified at fair value through profit and loss** | | | | | |
| Eksportfinans ASA | 816 521 432 | Finance | 1.5 % | 75 000 | 66 454 |
| Norgesinvestor Proto AS | 812 746 162 | Investment activity | 17.6 % | 27 306 | 15 600 |
| VN Norge AS | 821 083 052 | Investment activity | 2.3 % | 26 285 | 0 |
| Eedenbull AS | 921 158 866 | Services related to financing activities | 7.4 % | 15 000 | 15 000 |
| Skagerak Maturo Seed AS | 918 019 669 | Investment activity | 5.8 % | 9 600 | 10 350 |
| Norgesinvestor IV AS | 990 644 454 | Investment activity | 2.1 % | 10 270 | 8 058 |
| Sparebanken Vest Grunnfondsbevis | 832 554 332 | Banking | 0.1 % | 8 512 | 3 306 |
| Norne Securities AS | 992 881 828 | Securities brokerage | 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** |

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 2022, uncalled capital totalled NOK 36.1 million (NOK 42.3 million 31 December 2021).

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

# NOTE 26 – OWNERSHIP OF GROUP COMPANIES

| | | | | | PARENT BANK 31.12.2022 |
|---|---|---|---|---|---|
| NOK THOUSAND | Type of business | Registered office | Ownership | Share capital | Book value |
| Sparebanken Sør Boligkreditt AS | Mortage company | Kristiansand | 100.0 % | 2 075 000 | 2 795 695 |
| Sørmegleren Holding AS | Real estate business | Kristiansand | 90.1 % | 10 739 | 11 499 |
| Sørlandets Forsikringssenter AS | Ensurance | Kristiansand | 78.0 % | 45 | 5 300 |
| Arendal Brygge AS | Property managment | Arendal | 50.0 % | 601 | 0 |
| Prosjektutvikling AS | Property managment | Arendal | 100.0 % | 100 | 0 |
| Transitt Eiendom AS | Property managment | Kristiansand | 100.0 % | 100 | 780 |
| **Total** | | | | | **2 813 274** |

| | | | | | 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 | 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** |

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 31.12.2022 |
|---|---|---|---|---|
| NOK THOUSAND | Type of business | Registered office | Ownership | Book value |
| Frende Holding AS | Ensurance | Bergen | 19.9 % | 531 842 |
| Brage Finans AS | Finance | Bergen | 24.9 % | 703 831 |
| Balder Betaling AS | Finance | Bergen | 23.0 % | 200 143 |
| Åseral Næringshus AS | Property managment | Åseral | 30.0 % | 450 |
| Søndeled Bygg AS | Property managment | Arendal | 29.0 % | 1 125 |
| **Total** | | | | **1 437 391** |

| | | | | 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** |

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 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| **Acquisition cost 01.01.** | **130** | **134** | **541** | **548** | **58** | **56** | **730** | **738** |
| Additions during the year | 22 | 17 | 2 | 28 | 11 | 3 | 35 | 47 |
| Disposals during the year | -18 | -19 | -14 | -37 | -1 | -1 | -33 | -56 |
| Other changes | 4 | -2 | -6 | 2 | | | -2 | - |
| **Acquisition cost 31.12.** | **138** | **130** | **523** | **541** | **68** | **58** | **729** | **730** |
| Accumulated depreciations and write-downs 31.12. | 80 | 111 | 166 | 139 | 25 | 18 | 271 | 268 |
| Other changes | 0 | -30 | | 29 | 0 | - | 0 | -1 |
| **Book value as at 31.12** | **58** | **50** | **357** | **373** | **43** | **40** | **458** | **463** |
| Ordinary depreciation | 13 | 8 | 9 | 11 | 8 | 6 | 29 | 25 |
| Impairments | | | 0 | 2 | 0 | 0 | 0 | 2 |
| Gains/losses on sale | 0 | 0 | 0 | 13 | | | 0 | 13 |

| GROUP | Intangible assets | |
|---|---|---|
| NOK MILLION | 2022 | 2021 |
| **Acquisition cost 01.01.** | **259** | **226** |
| Additions during the year | 35 | 34 |
| Disposals during the year | -21 | -1 |
| **Acquisition cost 31.12.** | **273** | **259** |
| Accumulated depreciations and write-downs 31.12. | 193 | 195 |
| **Book value as at 31.12** | **80** | **64** |
| Ordinary depreciation | 13 | 16 |
| Impairments | 0 | 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 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| **Acquisition cost 01.01.** | **118** | **120,9** | **513** | **522** | **58** | **56** | **690** | **690** |
| Additions during the year | 21 | 16 | 2 | 28 | 11 | 3 | 34 | 46 |
| Disposals during the year | -17 | -19 | -8 | -37 | -1 | -1 | -26 | -56 |
| Other changes | 4 | | -6 | | | | -2 | 0 |
| **Acquisition cost 31.12.** | **126** | **118** | **501** | **513** | **68** | **58** | **695** | **680** |
| Accumulated depreciations and write-downs 31.12. | 69 | 100 | 168 | 141 | 25 | 18 | 262 | 248 |
| Other changes | 0 | -30 | | 30 | | | 0 | 0 |
| **Book value as at 31.12** | **57** | **49** | **333** | **342** | **43** | **40** | **433** | **432** |
| Ordinary depreciation | 12 | 8 | 8 | 10 | 8 | 6 | 28 | 25 |
| Impairments | | | 0 | 2 | 0 | 0 | 0 | 2 |
| Gains/losses on sale | 0 | 0 | 0 | 13 | | | 0 | 13 |

| PARENT BANK | Intangible assets | |
|---|---|---|
| NOK MILLION | 2.022 | 2021 |
| **Acquisition cost 01.01.** | **150** | **122** |
| Additions during the year | 30 | 29 |
| Disposals during the year | -21 | -1 |
| **Acquisition cost 31.12.** | **160** | **150** |
| Accumulated depreciations and write-downs 31.12. | 89 | 97 |
| **Book value as at 31.12** | **70** | **54** |
| Ordinary depreciation | 13 | 16 |
| Impairments | - | 1 |

In The Parent Bank in 2021 and 2022, old assets have been discarded. This has led to increased disposal of accumulated depreciations.

Furthermore some assets were in 2021 and 2022 moved between the groups real estate and machinery,inventory, transport equipments.

# NOTE 29 – DEPOSITS FROM CUSTOMERS

## DEPOSITS FROM CUSTOMERS BY SECTOR AND INDUSTRY

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 31 173 | 32 149 | Retail customers | 32 156 | 31 177 |
| 9 158 | 10 732 | Public administration | 10 734 | 9 159 |
| 832 | 933 | Primary industry | 933 | 832 |
| 1 917 | 1 870 | Manufacturing industry | 1 870 | 1 917 |
| 850 | 761 | Real estate development | 756 | 802 |
| 1 586 | 1 723 | Building and construction industry | 1 724 | 1 587 |
| 3 240 | 3 488 | Property management | 3 489 | 3 240 |
| 718 | 746 | Transport | 746 | 718 |
| 1 397 | 1 567 | Retail trade | 1 567 | 1 398 |
| 262 | 286 | Hotel and restaurant | 286 | 262 |
| 168 | 171 | Housing cooperatives | 171 | 168 |
| 5 185 | 4 358 | Financial/commercial services | 4 359 | 5 186 |
| 6 691 | 6 773 | Social services | 6 774 | 6 692 |
| 8 | 31 | Accrued interest | 31 | 8 |
| **63 185** | **65 587** | **Total deposits from customers** | **65 596** | **63 146** |

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 55 916 | 55 643 | Deposits from costumers with no fixed maturity | 55 651 | 55 877 |
| 7 261 | 9 913 | Deposits from costumers with fixed maturity | 9 913 | 7 261 |
| **63 177** | **65 556** | **Total deposits from costumers** | **65 564** | **63 138** |
| 8 | 31 | Accrued interest | 31 | 8 |
| **63 185** | **65 587** | **Total deposits from costumers incl. accrued interest** | **65 596** | **63 146** |

# NOTE 30 – BOND DEBT AND SUBORDINATED LOANS

## DEBT SECURITIES - GROUP

| NOK MILLION | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Bonds, nominal value | 65 287 | 56 227 |
| Value adjustments | -2 736 | 242 |
| Accrued interest | 207 | 136 |
| **Debt incurred due to issuance of securities** | **62 758** | **56 605** |

## CHANGE IN DEBT SECURITIES - GROUP

| NOK MILLION | 31.12.2021 | Issued | Matured/ Reedemed | Other changes during the period | 31.12.2022 |
|---|---|---|---|---|---|
| Bonds, nominal value | 56 227 | 17 127 | -9 046 | 980 | 65 287 |
| Value adjustments | 242 | | | -2 978 | -2 736 |
| Accrued interest | 136 | | | 70 | 207 |
| **Debt incurred due to issuance of securities** | **56 605** | **17 127** | **-9 046** | **-1 928** | **62 758** |

| 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 |
| **Total debt due to issue of securities** | **56 885** | **15 755** | **-13 460** | **-2 576** | **56 605** |

## CHANGE IN SUBORDINATED LOAN CAPITAL – PARENT BANK AND GROUP

| NOK MILLION | 31.12.2021 | Issued | Matured/ Redeemed | Other changes during the period | 31.12.2022 |
|---|---|---|---|---|---|
| Subrdinated loans | 1 650 | -200 | 200 | | 1 650 |
| Value adjustments | 0 | | | 3 | 3 |
| Accrued interest | **4** | | | **6** | **9** |
| **Total subordinated loan capital** | **1 654** | **-200** | **200** | **9** | **1 662** |

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

## DEBT SECURITIES - PARENT BANK

| NOK MILLION | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Bonds, nominal value | 9 550 | 9 950 |
| Value adjustments | -132 | 11 |
| Accrued interest | 59 | 52 |
| **Debt incurred due to issuance of securities** | **9 477** | **10 013** |

### CHANGE DEBT SECURITIES – PARENT BANK

| NOK MILLION | 31.12.2021 | Issued | Matured/ Redeemed | Other changes during the period | 31.12.2022 |
|---|---|---|---|---|---|
| Bonds, nominal value | 9 950 | 4 250 | -4 351 | -299 | 9 550 |
| Value adjustments | 11 | | | -143 | -132 |
| Accrued interest | 52 | | | 8 | 59 |
| **Debt incurred due to issuance of securities** | **10 013** | **4 250** | **-4 351** | **-434** | **9 477** |

| 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 adjustment | 184 | | | -173 | 11 |
| Accrued interest | 66 | | | -14 | 52 |
| **Debt incurred due to issue of securities** | **14 149** | **0** | **-3 700** | **-436** | **10 013** |

### CHANGE SENIOR NON-PREFERRED – GROUP AND PARENT BANK

| NOK MILLION | 31.12.2021 | Issued | Matured/ Redeemed | Other changes during the period | 31.12.2022 |
|---|---|---|---|---|---|
| Bonds, nominal value | 3 500 | 1 000 | 0 | 0 | 4 500 |
| Value adjustments | -7 | | | -24 | -31 |
| Accrued interest | 5 | | | 16 | 22 |
| **Debt incurred due to issuance of securities** | **3 499** | **1 000** | **0** | **-8** | **4 491** |

| 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** |

# NOTE 31 – OTHER LIABILITIES

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021* | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| 35 | 31 | Trade creditors | 46 | 45 |
| 15 | 17 | Tax withholdings | 25 | 24 |
| 39 | 39 | Clearing accounts | 39 | 39 |
| 41 | 46 | Accrued holiday pay | 59 | 54 |
| 266 | 625 | Allocated dividends, gifts and other distributions | | |
| 171 | 280 | Other liabilities | 248 | 185 |
| 37 | 66 | Other incurred costs | 74 | 49 |
| **604** | **1 103** | **Total other liabilities** | **490** | **395** |

* Reclassification in 2022 according to a changed accounting principle. See note 1 and note 38. Accured dividends and gifts are classified as liabilities in the parent bank and as equity in the group at 31 Desember.

# 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.

| 31.12.2022 | | | | | | GROUP |
|---|---|---|---|---|---|---|
| | | | | Related amounts not presented net | | |
| NOK MILLION | Gross carrying amount | Net presented * | Net financial assets in the balance sheet | Financial instruments - net settlements | Other collateral, received/pledgedl | Net amount |
| Derivatives - assets | 1 440 | 0 | 1 440 | 718 | 624 | 98 |
| Derivatives - liabilities | - 2 599 | 0 | - 2 599 | - 718 | 0 | - 1 882 |
| **Net** | **- 1 159** | **0** | **- 1 159** | **0** | **624** | **- 1 783** |

| 31.12.2021 | | | | | | GROUP |
|---|---|---|---|---|---|---|
| | | | | Related amounts not presented net | | |
| NOK MILLION | Gross carrying amount | Net presented * | Net financial assets in the balance sheet | Financial instruments - net settlements | Other collateral, received/pledgedl | Net amount |
| Derivatives - assets | 1 104 | 0 | 1 104 | 548 | - 228 | 784 |
| Derivatives - liabilities | - 844 | 0 | - 844 | - 548 | 80 | - 376 |
| **Net** | **260** | **0** | **260** | **0** | **- 148** | **408** |

| 31.12.2022 | | | | | | PARENT BANK |
|---|---|---|---|---|---|---|
| | | | | Related amounts not presented net | | |
| NOK MILLION | Gross carrying amount | Net presented * | Financial instruments | Financial derivatives-presented as net | Delivered/recieved collateral | Net |
| Derivatives - assets | 947 | 0 | 947 | 225 | 624 | 98 |
| Derivatives - liabilities | - 778 | 0 | - 778 | - 225 | 0 | - 553 |
| **Net** | **169** | **0** | **169** | **0** | **624** | **- 455** |

| 31.12.2021 | | | | | | PARENT BANK |
|---|---|---|---|---|---|---|
| | | | | Related amounts not presented net | | |
| NOK MILLION | Gross carrying amount | Net presented * | Financial instruments | Financial derivatives-presented as net | Delivered/recieved collateral | Net |
| Derivatives - assets | 367 | 0 | 367 | 195 | - 5 | 176 |
| Derivatives - liabilities | - 322 | 0 | - 322 | - 195 | 80 | - 207 |
| **Net** | **45** | **0** | **45** | **0** | **76** | **- 31** |

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

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

## NOTE 33 – IBOR REFORM

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

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

| PARENT BANK | | | GROUP | |
|---|---|---|---|---|
| 31.12.2021 | 31.12.2022 | NOK MILLION | 31.12.2022 | 31.12.2021 |
| | | **Nominal value** | | |
| 6 450 | 7 250 | Interest rate swaps NOK | 8 100 | 7 300 |
| | | Interest rate swaps EUR | 3 000 | 3 000 |

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

## NOTE 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 from 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 | 31.097 | 11.615 | 0 |
| Interest costs | 454 | 303 | 88 |
| Deposits as at 31.12 | 16.720 | 3.664 | 828 |
| Interest income | 121 | 34 | 9 |

| Subsidiaries | Loans | Covered bonds | Interest income | Deposits | Interest cost | Manager fee | Dividend received | Expenses/ Income |
|---|---|---|---|---|---|---|---|---|
| Sørlandets Forsikringssenter AS | | | 44 | 2 920 | 13 | | | 16 943 |
| Prosjektutvikling AS | 18 134 | | 990 | 27 | | | | 2 227 |
| Transitt Eiendom AS | 1 871 | | 198 | | | | | |
| Sørmegleren Holding AS | 22 900 | | 1 250 | 3 150 | 1 250 | | 23 857 | 6 412 |
| Sparebanken Sør - Boligkreditt AS | 4 013 403 | | 94 950 | 76 666 | 1 698 | 98 593 | 314 000 | |
| **Total** | **4 056 308** | **-** | **97 432** | **82 763** | **2 961** | **98 593** | **337 857** | **25 582** |

| Joint Venture | Loans | Interest income | Deposits | Interest cost |
|---|---|---|---|---|
| Arendal Brygge AS | 45 338 | 2 022 | 56 | 0 |
| **Total** | **45 338** | **2 022** | **56** | **0** |

| Associated companies | Commission income | Commission costs | Personnel insurance |
|---|---|---|---|
| Balder Betaling AS | | 1 400 | |
| Brage Finans AS | 6 094 | | |
| Frende Holding AS | 64 279 | | 6 036 |
| **Total** | **70 373** | **1 400** | **6 036** |

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 | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Sparebanken Sør Boligkreditt AS | 56 562 | 49 668 |

Sparebanken Sør Boligkreditt AS purchases the majority of services from the Bank. All transactions between the companies are entered into on market terms. As of 31 December 2022, 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.

Information in accordance with CRD IV and the Financial Institutions Regulations §11-10 for companies that have ownership in companies that issue covered bonds.

| | Nominal value | |
|---|---|---|
| NOK MILLION | 31.12.2022 | 31.12.2021 |
| Loans secured by mortgages on residential properties | 56 503 | 49 680 |
| Deductions on ineligible loans* | -238 | -170 |
| **Pool of eligible loans** | **56 265** | **49 510** |
| Certificates and bonds | 5 950 | 3 745 |
| **Total cover pool** | **62 215** | **53 255** |
| **Debt incurred due to issuance of securities** | **54 317** | **46 882** |
| Collateralisation ratio (OC) | 14,5 % | 13,6 % |
| Average loan-to-value | 53 % | 53 % |
| | | |
| Average loan-to-value - Group | 54 % | 56 % |
| Loans secured by mortgages on residential properties - Group | 78 684 | 75 787 |
| Transferred til Sparebanken Sør Boligkreditt AS in % | 72 % | 66 % |

# NOTE 35 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

## THE 20 LARGEST EQUITY CERTIFICATE OWNERS ON 31 DEC. 2022

| | NAME | NUMBER OF EC | SHARE OF EC-CAP. % |
|---|---|---|---|
| 1. | Sparebankstiftelsen Sparebanken Sør | 34 027 792 | 81.60 |
| 2. | EIKA utbytte VPF c/o Eika kapitalforv. | 719 960 | 1.73 |
| 3. | Arendal Kom. pensjonskasse | 317 309 | 0.76 |
| 4. | Pareto AS | 302 107 | 0.72 |
| 5. | Glastad Invest AS | 200 000 | 0.48 |
| 6. | Bergen Kom. Pensjonskasse | 186 000 | 0.45 |
| 7. | Otterlei Group AS | 180 099 | 0.43 |
| 8. | Wenaasgruppen AS | 174 209 | 0.42 |
| 9. | Gumpen Bileiendom AS | 163 300 | 0.39 |
| 10. | Allumgården AS | 151 092 | 0.36 |
| | **Total - 10 largest certificate holders** | **36 421 868** | **87.34** |

| | NAME | NUMBER OF EC | SHARE OF EC-CAP. % |
|---|---|---|---|
| 11. | Ottersland AS | 100 000 | 0.24 |
| 12. | DNB Luxembourg S.A. | 100 000 | 0.24 |
| 13. | MP Pensjon PK | 85 523 | 0.21 |
| 14. | Lombard Int Assurance S.A. | 82 800 | 0.20 |
| 15. | Geir Bergskaug | 76 203 | 0.18 |
| 16. | Gunnar Hillestad | 74 600 | 0.18 |
| 17. | Alf Albert | 73 044 | 0.18 |
| 18. | Apriori Holding AS | 72 575 | 0.17 |
| 19. | K.T. Brøvig Invest AS | 72 000 | 0.17 |
| 20. | Varodd AS | 70 520 | 0.17 |
| | **Total - 20 largest certificate holders** | **37 229 133** | **89.27** |

As of 31 December 2022, Sparebanken Sør owned 27 548 of its own equity certificates (32 272 ECC on 31 December 2021).

As of 31 December, the bank had a total of 41 703 057 outstanding equity certificates, with a nominal value of NOK 50. (15 663 944 ECC on 31 December 2021, with a nominal value of NOK 50).

## PROPOSED, NOT APPROVED DIVIDEND

| | PARENT BANK | |
|---|---|---|
| | 2022 | 2021 |
| Total proposed dividend | NOK 250.1 mill | NOK 125.3 mill |
| Proposed dividend per equity certificate | NOK 6.0 pr. EC | NOK 8.0 pr. EC |
| Number of equity certificates | 41 703 057 | 15 663 944 |

Dividend for the financial year is classified as equity on 31 December 2022 (Group) and liability (Parent Bank),

## EQUITY CAPITAL AND EARNINGS PER EQUITY CERTIFICATE

| NOK MILLION | 31.12.2022 | 31.12.2021 |
|---|---|---|
| Number of equity certificates | 41 703 057 | 15 663 944 |
| Own equity certificates | 27 548 | 32 272 |
| Nominal value | 50 | 50 |
| | | |
| Equity certificate capital | 2 084 | 782 |
| Premium fund | 2 068 | 451 |
| Dividend equalisation fund | 793 | 519 |
| **Total equity share capital (A)** | **4 945** | **1 752** |
| | | |
| Total equity share capital (Parent bank) | 13 448 | 13 278 |
| - hybrid capital | (1 085) | (1 335) |
| **Equity share capital excl. Hybrid capital and other equity share capital (B)** | **12 363** | **11 678** |
| | | |
| **Ownership ratio after allocation (A/B)** | **40.0 %** | **14.8 %** |
| **Ownership ratio, weighted average (1)** | **40.0 %** | **16.2 %** |

| NOK MILLION | 2022 | 2021 |
|---|---|---|
| Profit for the year, parent bank | 1 353 | 1189 |
| - interest on hybrid capital | (56) | (46) |
| + tax interest on hybrid capital | 14 | |
| **Dividend basis, parent bank** | **1 311** | **1 143** |
| Profit for the year per EC, Parent Bank | 12.6 | 11.8 |
| | | |
| Profit for the year, Group | 1 283 | 1223 |
| - interest on hybrid capital | (56) | (46) |
| + tax interest on hybrid capital | 14 | |
| **Dividend basis, the Group** | **1 241** | **1 177** |
| Profit for the year per EC, Group | 11.9 | 12.2 |

Earnings per equity certificate are 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

It has not been made acquisitions or other forms of business combinations in 2022.

# 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.

# NOTE 38 –EFFECTS OF THE TRANSITION TO "REGULATORY IFRS" IN PARENT BANK

Changes in the accounting principle for the Parent bank have led to a reclassification of liabilities related to proposed dividends and gift funds as discussed in note 1. The effect of reclassification for previous periods is shown in the table below. The change in principle has not resulted in a change in items in the income statement, other comprehensive income, or cash flow.

**Effects of the transition to "regulatory IFRS" - Parent bank**

| NOK million | Reported 31.12.2020 | Reclassification | Adjusted 31.12.2020 | Reported 31.12.2021 | Reclassification | Adjusted 31.12.2021 |
|---|---|---|---|---|---|---|
| TOTAL ASSETS | 98 022 | | 98 022 | 95 328 | | 95 328 |
| Total liabilities | 85 886 | 299 | 86 185 | 82 050 | 266 | 82 315 |
| Total equity | 12 136 | -299 | 11 837 | 13 278 | -266 | 13 013 |
| TOTAL LIABILITIES AND EQUITY | 98 022 | | 98 022 | 95 328 | | 95 328 |

# Calculations

| NOK MILLION | 31.12.2022 | 31.12.2021 |
|---|---|---|
| **Return on equity adjusted for hybrid capital** | | |
| Profit after tax | 1 283 | 1223 |
| Interest on hybrid capital | -56 | -46 |
| Tax on  interests hybrid capital | 14 | |
| **Profit after tax, incl. Interest on hybrid capital** | **1 227** | **1 177** |
| | | |
| Opening balance, equity | 14 941 | 13 752 |
| Opening balance, hybrid capital | -1 335 | -1 075 |
| **Opening balance, equity excl. hybrid capital** | **13 606** | **12 677** |
| Closing balance, equity | 15 779 | 14 941 |
| Closing balance, hybrid capital | -1 085 | -1 335 |
| **Closing balance, equity excl. hybrid capital** | **14 694** | **13 606** |
| Average equity | 15 360 | 14 347 |
| **Average equity excl. Hybrid capital** | **14 150** | **13 142** |
| | | |
| Return on equity | 8.3 % | 8.5 % |
| **Return on equity excl. Hybrid capital** | **8.7 %** | **9.0 %** |
| | | |
| **Net interest income, incl. interest hybrid capital** | | |
| Net interest income, incl. interest hybrid capital | 2 368 | 1 939 |
| Interest on hybrid capital | -42 | - 46 |
| **Net interest income, incl. interest hybrid capital** | **2 326** | **1 892** |
| Average total assets | 149 042 | 143 100 |
| **As a percentage of total assets** | **1.56 %** | **1.32 %** |
| | | |
| **Profit from ordinary operations (Adjusted earnings)** | | |
| Net interest income, incl. interest hybrid capital | 2 326 | 1 939 |
| Net commission income | 417 | 419 |
| Share of profit by associated companies (excl. value adjustment Balder Betaling/Vipps) | 125 | 174 |
| Other operating income | 5 | 7 |
| Operating expenses, adjusted for conversion of the pension scheme | 1 145 | 1 031 |
| **Profit from ordinary operations (adjusted earnings), before tax** | **1 729** | **1 507** |
| | | |
| **Profit excl. Finance, and adjusted for non-recurring items** | | |
| Net interest income, incl. interest hybrid capital | 2 326 | 1 892 |
| Net commission income | 417 | 419 |
| Share of profit from associated companies (excl. value-adjustment Balder Betaling/Vipps) | 125 | 174 |
| Other operating income | 5 | 7 |
| Operating expenses, adjusted for conversion of the pension scheme | 1 145 | 1 031 |
| Losses on loans, guarantees and undrawn credit | 74 | - 18 |
| **Profit excl. Finance, and adjusted for non-recurring items** | **1 655** | **1 479** |
| Tax (25 %) | 375 | 326 |
| **Ordinary operations / adjusted earnings after losses and tax** | **1 280** | **1 153** |
| Average equity excl. Hybrid capital | 14 150 | 13 142 |
| **Return on equity, profit excl. Finance and adjusted for non-recurring items** | **9.0 %** | **8.8 %** |

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 (additional tier 1 capital / AT-1). |
| Total Assets | Total assets are an industry-specific designation for the sum of all assets. |
| Average assets | The average sum of total assets for the year, calculated as a monthly average. The key figure is used in the calculation of percentage ratios for the profit and loss items. |
| Book equity per equity 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 / diluted 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 earnings per equity certificate is calculated as majority interest multiplied by equity certificate ratio, divided by number of equity certificates issued. |
| Profit after tax, incl. Interest on hybrid capital | The key figure shows what the result after tax would have been if the interest expenses on the hybrid capital had been recognized in the income statement. Hybrid capital is in accordance with IFRS classified as equity and interest expenses on the hybrid capital are therefore recorded as an equity transaction. |
| Deposit to loan ratio | The deposit-to-loan ratio provides important information about how Sparebanken Sør finances its operations. Receivables from customers represent an important share of the financing of the Banks lending, and this key figure provides important information about the dependence on market funding. The key figure is calculated as, deposit from customers as a percentage of gross loans to and receivables from customers. |
| 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. |

| | |
|---|---|
| Non-performing loans in % of gross loans | This ratio is presented because it provides relevant information on the bank's credit exposure. It is calculated as non performing loans 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. |
| Provisioning non-performing loans | The key figure provides information about the bank's credit risk and provides useful additional information beyond what is contained in other accounting notes. Calculated as impairment losses in stage 3 divided by total non-performing loans (stage 3). |
| Total non-performing loans in % of gross loans | The key figure provides information about the bank's credit risk and provides useful additional information beyond what is contained in other accounting notes. Calculated as total non-performing loans in stage 3 divided by gross loans. |
| Impairments in % of gross loans | The key figure provides information on the bank's credit risk and provides useful additional information regarding ratio of loss. Calculated as impairment losses on lending divided by total gross loans. Calculated both collectively and distributed among the various stages in accordance with IFRS 9. |
| Impairments in % of commitments | The key figure provides information on the bank's credit risk and provides useful additional information regarding ratio of loss. Calculated as impairment losses on commitments divided by total commitments. Calculated both collectively and distributed among the various stages in accordance with IFRS 9. |
| LTV (Loan to Value) | The key figure provides information on the loan-to-value ratio in the loan portfolio and is relevant for assessing risk of loss. Calculated as the loans to customers divided by the market value of secured assets. |

# Policy of Corporate governance

## 1 INTRODUCTION

### 1.1 BACKGROUND

Sparebanken Sør will through its corporate governance ensure proper management and increase assurance that stated goals and strategies will be realised. Good corporate governance in Sparebanken Sør includes the values, goals and overarching principles by which the company is governed and are controlled to safeguard the interests of the business' various stakeholders.

The management structure is a prerequisite for creating long-term value for owners, customers and employees. It must also ensure that Sparebanken Sør is sustainable over time.

### 1.2 PURPOSE

The company's intention with the policy of corporate governance policy 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 from a long-term perspective

### 1.3 TARGET GROUP

The policy has been made for the parent company Sparebanken Sør. Guidelines and principles in the document also apply to subsidiaries as far as it is appropriate and shall be implemented in relevant management documents.

### 1.4 DOCUMENT MANAGEMENT

The Board of directors has overall responsibility for corporate governance in Sparebanken Sør. This policy document is managed by the group staff division, appointed by group management and decided by the Board of directors. The document is reviewed annually.

## 2 FRAMEWORK CONDITIONS

### 2.1 EXTERNAL FRAMEWORK CONDITIONS

The formal requirements for this report follow 3 - 3b of the Accounting Act and Oslo Stock exchanges' requirements to comply or explain deviations from the Norwegian Recommendation for corporate governance.

### 2.2 INTERNAL FRAMEWORK CONDITIONS

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 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.

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".

## 3 ORGANIZATION

### 3.1 ABOUT SPAREBANKEN SØR

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.

| NOK THOUSAND | Type of business | Registered office | Ownership | Share capital | Book value |
|---|---|---|---|---|---|
| | | | | | PARENT BANK 31.12.2022 |
| Sparebanken Sør Boligkreditt AS | Mortgage company | Kristiansand | 100.0 % | 2 075 000 | 2 795 695 |
| Sørmegleren Holding AS | Real estate business | Kristiansand | 90.1 % | 10 739 | 11 499 |
| Sørlandets Forsikringssenter AS | Ensurance | Kristiansand | 78.0 % | 45 | 5 300 |
| Arendal Brygge AS | Property managment | Arendal | 50.0 % | 601 | 0 |
| Prosjektutvikling AS | Property managment | Arendal | 100.0 % | 100 | 0 |
| Transitt Eiendom AS | Property managment | Kristiansand | 100 % | 100 | 780 |
| **Total** | | | | | **2 813 274** |

ASSOCIATED COMPANIES

| NOK THOUSAND | Type of business | Registered office | Ownership | Book value |
|---|---|---|---|---|
| | | | | PARENT BANK 31.12.2022 |
| Frende Holding AS | Insurance | Bergen | 19.9 % | 531 842 |
| Brage Finans AS | Finance | Bergen | 24.9 % | 703 831 |
| Balder Betaling AS | Finance | Bergen | 23.0 % | 200 143 |
| Åseral Næringshus AS | Property managment | Åseral | 30.0 % | 450 |
| Søndeled Bygg AS | Property managment | Arendal | 29.0 % | 1 125 |
| **Total** | | | | **1 437 391** |

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.

## 3.2 OBJECTIVES

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

## 3.3 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 from 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 bank. This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" requirements of the Oslo Stock Exchange.

See the articles of association on the Bank's website www.sor.no.

## 3.4 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.

## 3.5 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.

## 3.6 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 in chapter 3: None**

# 4 EQUITY AND DIVIDENDS

## 4.1 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 throughout the year with internal calculations and reports.

## 4.2 DIVIDEND

Through solid, stable and profitable operations, Sparebanken Sør will ensure that its equity certificate holders achieve a competitive return in the form of dividends and increase in the value of their equity certificates.

Profit will be distributed between equity certificate capital (equity certificate owners) and primary capital based on their share of the equity.

The target is to distribute around 50 percent of the Group's profit after tax as dividends. Dividends are distributed through cash dividends to the owners of equity certificates, customer dividends to the bank's customers and gifts in the regions where the primary capital is built up. When determining the dividends, potential for profitable growth, expected profit development in a normalised market situation, external framework conditions, future need for Common Equity Tier 1 and bank's strategic plans will be taken into consideration.

## 4.3 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 in chapter 4: None**

# 5 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**

# 6 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**

# 7 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**

# 8 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.

## 8.1 THE WORK OF THE NOMINATION COMMITEES

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**

# 9 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.

## 9.1 THE BOARD OF DIRECTORS INDEPENDENCE

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

## 9.2THE 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 in chapter 9: None**

## 10 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.

## 10.1 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 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.

## 10.2 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 to 4 members to the committee from among its members.

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

## 10.3 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.

## 10.4 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 preparing 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 in chapter 10: None

# 11 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.

## 11.1 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.

## 11.2 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 the framework and facilitation of the Group's internal control processes is allocated to the Risk Management Division, organised independently of the business units.

## 11.3 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.

## 11.4 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.

## 11.5 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 activities and transactions with related parties. The code's guidelines also require 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 chapter 11: None**

# 12 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**

# 13 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 to 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 annually submits a report on salary and other remuneration to executive employees for board of trustees.

**Deviations from the recommendation: None**

## 14 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**

## 15 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**

## 16 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 § 6-16 a 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 as 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.

**Decisionmaking 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 2022 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 2022, where estimated annual wage growth was 3.9 percent, which was a slightly above the "frontline" target of 3.7 percent.

#### Guidelines for remuneration schemes for leading persons

Guidelines for remuneration schemes for leading persons decided by the Board og Trustees in february 2022, 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 2022, nor have there been any exceptions to established guidelines for leading persons in 2022.

#### Changes in the composition of leading persons

Steinar Vigsnes was hired as CFO, and joined the Group's management on 01 June 2022. 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. Deputy CEO, Director retail market, Director market and communication have received fees for their Board positions in Sørmegleren. Beyond this, no leading persons have received fees from either the Bank or its subsidiaries.

### Fringe benefits

Fringe benefits are paid in accordance with regulations. There have been no changes in scope or content.

### Variable pay

At a board meeting on 9 February 2023, the Board decided to pay all employees, including leading persons, a bonus for 2022 of 112 percent of their monthly salary. The bonus was paid out as a cash amount in connection with ordinary payroll processing in February 2023. The bank has no variable remuneration that is paid over several years.

### Extraordinary remuneration

No extraordinary remuneration has been paid to leading persons in 2022.

### Pensions

Pension payments in 2022 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 | CEO | 2022 | 3 076 | 185 | 70 | | 2 084 | 5 415 | 76 203 | 2 995 | 102,2 % |
| | | 2021 | 2 984 | 194 | 42 | | 2 672 | 5 893 | 75 691 | 2 993 | 93,3 % |
| Lasse Kvinlaug | Deputy CEO/ Director, Corporate market | 2022 | 1 976 | 203 | 46 | | 368 | 2 592 | 4 052 | 0 | 100,2 % |
| | | 2021 | 1 921 | 161 | 30 | | 511 | 2 622 | 3 540 | 0 | 94,4 % |
| Gunnar Thomassen | Director, Retail market | 2022 | 1 853 | 275 | 42 | | 312 | 2 483 | 3 718 | 5 911 | 100,0 % |
| | | 2021 | 1 800 | 328 | 28 | | 512 | 2 668 | 3 206 | 6 017 | 95,4 % |
| Rolf Søraker | Director, Group support | 2022 | 1 525 | 195 | 35 | | 276 | 2 031 | 2 608 | 1 631 | 99,9 % |
| | | 2021 | 1 481 | 199 | 25 | | 399 | 2 105 | 2 096 | 1 792 | 95,6 % |
| Marianne Lofthus | Director, Capital market | 2022 | 1 501 | 252 | 34 | | 307 | 2 094 | 1 228 | 6 304 | 100,3 % |
| | | 2021 | 1 427 | 292 | 24 | | 439 | 2 182 | 1 228 | 4 428 | 94,8 % |
| Bjørn A. Friestad | Director, Risk management | 2022 | 1 579 | 183 | 36 | | 306 | 2 103 | 5 083 | 744 | 99,9 % |
| | | 2021 | 1 533 | 192 | 25 | | 401 | 2 152 | 4 571 | 1 432 | 95,2 % |
| Gry Moen | Director, Business development | 2022 | 1 503 | 194 | 34 | | 293 | 2 023 | 732 | 5 319 | 100,5 % |
| | | 2021 | 1 427 | 212 | 24 | | 439 | 2 102 | 732 | 5 268 | 94,1 % |
| Steinar Breen | Director, Strategy and compliance | 2022 | 1 514 | 211 | 36 | | 162 | 1 923 | 1 578 | 1 413 | 98,1 % |
| | | 2021 | 1 425 | 191 | 18 | | 165 | 1 800 | 1 066 | 1 341 | 94,5 % |
| Eva Kvelland 1) | Director, market and communication | 2022 | 1 263 | 148 | 13 | | 140 | 1 564 | 772 | 1 788 | 99,1 % |
| | | 2021 | 1 261 | 121 | 0 | | 154 | 1 536 | 260 | 1 858 | 100,0 % |
| Steinar Vigsnes 2) | Director financial | 2022 | 1 339 | 124 | 133 | | 139 | 1 735 | 6 718 | 4 992 | 92,3 % |
| Gunhild Tveiten Golid | Employee representative boardmember 3) | 2022 | 175 | 0 | 0 | | 0 | 175 | 1 464 | 0 | 100,0 % |
| | | 2021 | 140 | 6 | 0 | | 0 | 146 | 0 | 0 | 100,0 % |
| Jan Erling Tobiassen | Employee representative boardmember 3) | 2022 | 175 | 0 | 0 | | 0 | 175 | 0 | 0 | 100,0 % |
| | | 2021 | 140 | 6 | 0 | | 0 | 146 | 0 | 0 | 100,0 % |

* In 2022, there has been a negative return on parts of the pension. This is classified as variable remuneration and affects the proportion of fixed remuneration

1) Director from 16.08.2021

2) Director from 01.06.2022

3) Fees paid to the Board of Directors

**Tabel 2: Remuneration and similar to the Board of Directors**

| | | | | | | 2022 |
|---|---|---|---|---|---|---|
| Board of Directors NOK THOUSAND | Role | Number of equity certificates | Remuneration 1) | Fringe benefits | Total remuneration | Loans and collateral |
| Stein A. Hannevik 2) | Chairman | 38 467 | 138 | 3 | 140 | |
| Inger Johansen 3) | Deputy chairman | 0 | 72 | 0 | 72 | |
| Knut R Sæthre 4) | Chairman | 0 | 413 | 0 | 413 | |
| Mette Harv 5) | Deputy chairman | 0 | 294 | 0 | 294 | |
| Merete Østby | Member | 0 | 208 | 0 | 208 | |
| Erik Tønnesen | Member | 0 | 250 | 0 | 250 | 8 336 |
| Trond Randøy 6) | Member | 0 | 197 | 0 | 197 | |
| Eli Giske 7) | Member | 0 | 181 | 0 | 181 | |
| Tor Kim Steinsland 7) | Deputy member | 0 | 113 | 0 | 113 | 3 279 |
| Jan Erling Tobiassen | Employee representative | 0 | 175 | 0 | 175 | |
| Gunnhild Tveiten Golid | Employee representative | 0 | 175 | 0 | 175 | |
| **Total** | | **38 467** | **2 216** | **3** | **2 218** | **11 615** |

1) Fees paid to the Board of Trustees and the committees
2) Chairman until 31.03.2022
3) Deputy chairman until 31.03.2022
4) Chairman from 01.04.2022
5) Deputy chairman from 01.04.2022
6) Permanent member from 01.04.2022
7) Deputy member from 01.04.2022

| | | | | | | 2021 |
|---|---|---|---|---|---|---|
| Board of Directors NOK THOUSAND | Role | Number of equity certificates | Remuneration 1) | Fringe benefits | Total remuneration | Loans and collateral |
| Stein A. Hannevik | 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

**Tabel 3: Remuneration and similar benefits to the Board of Trustees**

| | | | | 2022 |
|---|---|---|---|---|
| Board of Trustees NOK THOUSAND | Role | Number of equity certificates | 1) Remuneration | Loans |
| Anne Omholt Hovstad | Chairman, Deposit elected from 01.04.2022 | 0 | 58 | 0 |
| Eldbjørg Dahl | Deputy Chairman, Deposit elected from 01.04.2022 | 0 | 16 | 0 |
| Jorunn Aarrestad 5) | Chairman, Deposit elected until 31.03.2022 | 0 | 32 | 3 183 |
| Nina Berit Gumpen Hansen 3) | Deputy chairman, Deposit elected until 31.03.2022 | 174 209 | 47 | 0 |
| Terje Spilling | Deposit elected | 0 | 8 | 1 447 |
| Anders Gaudestad | Deposit elected | 0 | 8 | 11 515 |
| Hege Nodeland | Deposit elected | | 4 | 6 763 |
| Astri Lunde Wilmann | Deposit elected | | 4 | 0 |
| Berit Therese Knudsen | Deposit elected | 0 | 16 | 0 |
| Birgitte Midgaard | Deposit elected | 0 | 81 | 291 |
| Kristi Marie Tveit | Deposit elected | 0 | 8 | 465 |
| Oddmund Ljosland | Deposit elected | 0 | 8 | 5 750 |
| Mette Vestberg Sørensen 5) | Deposit elected | 0 | 27 | 0 |
| Terje Røsnes | Deposit elected | 600 | 4 | 0 |
| Merete Fogh Lund | Deposit elected | 0 | 8 | 2 166 |
| Gjermund Nesland | Deposit elected | | 12 | 0 |
| Tore Askildsen | Public elected | 0 | 8 | 1 641 |
| Dag Eide | Public elected | 0 | 19 | 0 |
| Bjørn Rudborg | Public elected | 0 | 8 | 0 |
| Alf Albert 5) | EC owner | 73 044 | 31 | 1 800 |
| Ole Moe Dy | EC owner | 24 577 | 20 | 0 |
| Rune Røisland | Permanent attendee EC owner | 370 | 16 | 0 |
| Kari Anne Nordbø 2) | EC owner | 175 | 8 | 0 |
| Harald Rune Øyhovden 4) | EC owner | 189 099 | 16 | 0 |
| Karen Andersen 5) | Elected by employees | 894 | 19 | 1 597 |
| Hildegunn Smidsrød | Elected by employees | 1 346 | 4 | 693 |
| Tommy Holter Moi | Elected by employees | 1 666 | 8 | 5 978 |
| Nina Merete Olsen 5) | Elected by employees | 1 648 | 19 | 4 375 |
| Britt Ytterbø | Elected by employees | 894 | 8 | 1 573 |
| Hege Kirkhus 5) | Elected by employees | 1 346 | 4 | 6 637 |
| Hans Arthur Frigstad | Elected by employees | 280 | 12 | 2 714 |
| Vidar Ås | Elected by employees | 1 700 | 4 | 2 280 |
| Veronica Hamstad | Elected by employees | 1 648 | 8 | 5 561 |
| Jan-Inge Wågestad | Elected by employees | 1 740 | 4 | 2 906 |
| **Total** | | **466 236** | **556** | **69 338** |

1) Fees paid to the Board of Trustees and the Nomination Committee.

2) Represents Sparebankstiftelsen Sparebanken Sør, which owns 34 027 762 equity certificates

3) Represents Gumpen Bileiendom AS which owns 174 209 equity certificates

4) Represents Hamjern Invest AS which owns 180 099 equity certificates

5) Member of the Board of Trustees until 31.03.2022

| | | | | 2021 |
|---|---|---|---|---|
| Board of Trustees<br>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 | 3 | 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 |
| 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 | 3 | 1 621 |
| Hege Kirkhus | Elected by employees | 1 346 | 6 | 3 028 |
| Hans Arthur Frigstad | Elected by employees | 162 | 6 | 2 508 |
| **Total** | | **287 895** | **577** | **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 Bileiendom AS, which owns 174 209 equity certificates

5) Member of the Board of Trustees until 31.03.2021

## 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 - 2022 | 2022 |
|---|---|---|---|---|---|---|---|---|
| Total remuneration | | in percent | 5.1 | 4.1 | -2.3 | 13.2 | -8.1 | |
| Total remuneration | | In NOK Thousand | 247 | 210 | -125 | 685 | -478 | 5 415 |
| Fixed Salary | | in percent | 2.8 | 2.9 | 1.6 | 1.6 | 3.1 | |
| Fixed Salary | | In NOK Thousand | 77 | 82 | 47 | 46 | 92 | 3 076 |
| Lasse Kvinlaug | Deputy CEO/Director Corp. market | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 0.8 | -8.6 | 6.8 | 2.2 | -1.1 | |
| Total remuneration | | In NOK Thousand | 22 | -225 | 175 | 57 | -30 | 2 592 |
| Fixed Salary | | in percent | 3.0 | 2.9 | 1.3 | 1.9 | 2.9 | |
| Fixed Salary | | In NOK Thousand | 53 | 52 | 24 | 36 | 55 | 1 976 |
| Gunnar P. Thomassen | Director, Retail market | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 3.7 | 6.5 | 2.7 | 8.3 | -6.9 | |
| Total remuneration | | In NOK Thousand | 81 | 146 | 64 | 205 | -185 | 2 483 |
| Fixed Salary | | in percent | 2.7 | 3.1 | 1.3 | 1.8 | 2.9 | |
| Fixed Salary | | In NOK Thousand | 45 | 53 | 22 | 34 | 53 | 1 853 |
| Rolf H Søraker | Director, Retail market | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 1.0 | 6.3 | 2.6 | 5.0 | -3.5 | |
| Total remuneration | | In NOK Thousand | 18 | 116 | 50 | 100 | -74 | 2 031 |
| Fixed Salary | | in percent | 2.8 | 2.9 | 1.8 | 1.4 | 3.0 | |
| Fixed Salary | | In NOK Thousand | 38 | 40 | 26 | 21 | 44 | 1 525 |
| Marianne Lofthus | Director, Capital market | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 2.9 | 4.4 | 5.4 | 7.3 | -4.0 | |
| Total remuneration | | In NOK Thousand | 52 | 82 | 104 | 148 | -88 | 2 094 |
| Fixed Salary | | in percent | 5.2 | 3.8 | 1.5 | 3.7 | 5.2 | |
| Fixed Salary | | In NOK Thousand | 65 | 50 | 21 | 51 | 74 | 1 501 |
| Bjørn A. Frietad | Director, Risk management | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 1.1 | 1.6 | 5.6 | 0.5 | -2.3 | |
| Total remuneration | | In NOK Thousand | 21 | 32 | 113 | 11 | -49 | 2 103 |
| Fixed Salary | | in percent | 2.8 | 2.9 | 1.5 | 1.8 | 3.0 | |
| Fixed Salary | | In NOK Thousand | 39 | 42 | 22 | 27 | 46 | 1 579 |
| Gry Moen | Director, Business support | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | -0.7 | 5.3 | 3.6 | 6.1 | -3.8 | |
| Total remuneration | | In NOK Thousand | -12 | 96 | 69 | 121 | -79 | 2 023 |
| Fixed Salary | | in percent | 3.1 | 3.1 | 1.9 | 3.7 | 5.3 | |
| Fixed Salary | | In NOK Thousand | 39 | 41 | 26 | 51 | 76 | 1 503 |
| Steinar Breen | Director of strategy and compliance | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | NA | NA | NA | -2.2 | 6.8 | |
| Total remuneration | | In NOK Thousand | NA | NA | 1840 | -40 | 123 | 1 923 |
| Fixed Salary | | in percent | NA | NA | NA | -4.4 | 6.2 | |
| Fixed Salary | | In NOK Thousand | NA | NA | 1490 | -65 | 89 | 1 514 |
| Eva Kvelland | Director of marketing and communication | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | NA | NA | NA | NA | 1.8 | |
| Total remuneration | | In NOK Thousand | NA | NA | NA | 1 536 | 28 | 1 564 |
| Fixed Salary | | in percent | NA | NA | NA | NA | 0.2 | |
| Fixed Salary | | In NOK Thousand | NA | NA | NA | 1 261 | 2 | 1 263 |
| Steinar Vigsnes | Director financial | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | NA | NA | NA | NA | NA | |
| Total remuneration | | In NOK Thousand | NA | NA | NA | NA | NA | 1 735 |
| Fixed Salary | | in percent | NA | NA | NA | NA | NA | |
| Fixed Salary | | In NOK Thousand | NA | NA | NA | NA | NA | 1 339 |
| Jan Erling Tobiassen | Employee repr. boardmember | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 12.1 | 3.1 | 32.8 | 7.3 | -8.4 | 0 |
| Total remuneration | | In NOK Thousand | 14 | 4 | 44 | 13 | -16 | 175 |
| Fixed Salary | | in percent | 15.0 | 4.3 | 15.0 | 1.4 | 25.0 | 0 |
| Fixed Salary | | In NOK Thousand | 15 | 5 | 18 | 2 | 35 | 175 |
| Gunhild Tveiten Golid | Employee repr. boardmember | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
| Total remuneration | | in percent | 12.9 | 7.6 | 14.9 | 51.2 | -28.6 | |
| Total remuneration | | In NOK Thousand | 15 | 10 | 21 | 83 | -70 | 175 |
| Fixed Salary | | in percent | 15.0 | 4.3 | 16.7 | 0 | 25.0 | |
| Fixed Salary | | In NOK Thousand | 15 | 5 | 20 | 0 | 35 | 175 |

**Tabel 4, continued**

| Change in the bank's operating profit | Change | 2017 - 2018 | 2018 -2019 | 2019 - 2020 | 2020 - 2021 | 2021 - 2022 | 2022 |
|---|---|---|---|---|---|---|---|
| | in NOK Million | -45 | 186 | -31 | 129 | 60 | 1 283 |
| | in percent | -4.6 | 19.8 | -2.8 | 11.8 | 4.9 | |
| Change in return on equity | in percent | -12.4 | 11.8 | -11.6 | 7.1 | -3.3 | 8.7 |
| Change in average fixed salary employees excluding senior staff | In NOK Thousand | 17 | 25 | 13 | 31 | 22 | |
| | in percent | 2.9 | 4.1 | 2.0 | 4.9 | 3.3 | 694 636 |

# 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 2022 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 2022 / 7 March 2023**

| | | | | |
|---|---|---|---|---|
| Knut Ruhaven Sæthre<br>Chair | Mette Ramfjord Harv<br>Deputy chair | Merete Steinvåg<br>Østby | Erik Edvard Tønnesen | Trond Randøy |

| | | | |
|---|---|---|---|
| Eli Giske | Jan Erling Tobiassen<br>Employee representative | Gunnhild Tveiten Golid<br>Employee representative | Geir Bergskaug<br>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 2022, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 2022, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 2022, and its financial performance and its cash flows for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and
- the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by 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 relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

PricewaterhouseCoopers AS, Gravane 26, Postboks 447, NO-4664 Kristiansand
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

pwc

We have been the auditor of the Company for 9 years from the election by the Board of Trustees on 27 March 2014 for the accounting year 2014 with a renewed election on 31 March 2022.

**Key Audit Matters**

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

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 2022 as in the previous year.

| Key Audit Matters | How our audit addressed the Key Audit Matter |
|---|---|
| Valuation of loans to customers | |
| We focused on valuation of loans to customers because loans represent a significant portion of totals assets and valuation of loans involves significant judgement and large quantities of data which makes calculation of impairment of loans to customers complex.<br><br>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 impact financial results for the period and compliance with solvency regulations due to the risk classification of loans.<br><br>For loans to customers where objective indicators of impairment exist, we 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 used by management to calculate the impairment loss.<br><br>For other loans to customers where impairment loss is calculated collectively | As part of our audit of expected impairment provisions, we assessed design and tested operating effectiveness of selected controls over quality assurance of assumptions and calculation methods. We determined that we could rely on these controls for the purpose of our audit. Further, we performed detailed testing both where impairment is recognised based on a model and where impairment is recognised individually based on objective impairment indicators.<br><br>For loans where objective impairment indicators existed and the impairment amount was estimated individually, we tested a sample of such loans. We assessed the recoverable amount and cash flows prepared by management to support the impairment amount. 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.<br><br>The effects of climate change, including the impact on model-based impairment provisions, was discussed with management. Further, we discussed the effect that the war in Ukraine, increased interest rates and inflation have on the bank’s impairment provisions.<br><br>Where impairment is calculated based on a model, we gained a detailed understanding of the process and performed tests of details to assess the following:<br><br>• Calculations and methods used. |

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 are allocated to different stages.
- Determination of significant model parameters.
- 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.

- That the model used was in accordance with the applicable framework and operated as intended.
- Reliability and accuracy of central parameters and data used in 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 appropriate.

The bank uses external service organisations to operate certain key IT systems. The auditor of the respective service organisations has been used to evaluate design, effectiveness and test 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. Moreover, the testing covered integrity of data, and 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 we assessed potential weaknesses and remediation initiatives implemented. We also performed testing ourselves 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 appear 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 statutory 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 the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and true and fair view of the consolidated financial statements of the Group 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. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use 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 and 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's 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 Requirement on European Single Electronic Format (ESEF)

*Opinion*
As part of the audit of the financial statements of Sparebanken Sør, we have performed an assurance engagement to obtain reasonable assurance about whether the financial statements included in the annual report, with the file name 549300U497VKMF6R3Q14-2022-12-31-en, have been prepared, in all material respects, in compliance with the requirements of the Commission Delegated Regulation

(EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) and regulation pursuant to Section 5-5 of the Norwegian Securities Trading Act, which includes requirements related to the preparation of the annual report in XHTML format, and iXBRL tagging of the consolidated financial statements.

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

*Management's Responsibilities*

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

*Auditor's Responsibilities*

For a description of the auditor's responsibilities when performing an assurance engagement of the ESEF reporting, see: https://revisorforeningen.no/revisjonsberetninger

Kristiansand, 7 March 2023
**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**
Lasse Kvinlaug

**Director Retail Banking**
Gunnar P. Thomassen

**Director Capital Market**
Marianne Lofthus

**Director Group Staff**
Rolf H. Søraker

**Director Risk Management**
Bjørn Friestad

**Director Strategy**
Steinar Breen

**Director Business Development**
Gry Moen

**Director Marketing and Communication**
Eva Kvelland

**CFO**
Steinar Vigsnes

## 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).

## Chief financial officer (CFO)

### Steinar Vigsnes (1980)

CFO from 1. June 2022. Joined the bank in 2009 and previously held the position as Controller (2009-2013) and Head of Finance and Reporting (2014-2022). Vigsnes also has experience as an authorised auditor. Master of Business and Administration from the University of Agder.

## 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.

# The Group management

## 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.

## 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 (2006–2013) 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.

## 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.

## Risk Management Director (CRO)

### 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.

# 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.

## Director of Strategy

### Steinar Breen (1976)

Director of strategy 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.

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Sparebanken Sør Pb. 200, 4662 Kristiansand | www.sor.no | tlf. 38 10 92 00