SPAREBANKEN SØR
BOLIGKREDITT AS

Annual report 2019

Contents

Board of Director's report

GENERAL

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

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

At the end of 2019, the company had taken on a mortgage loan portfolio totalling NOK 40 210 million, transferred from Sparebanken Sør, of which NOK 40 116 million was included in the cover pool. Sparebanken Sør Boligkreditt AS had issued covered bonds totalling NOK 36 701 million.

The company has established an EMTCN (European Medium Term Covered Note) Programme which enables the company to diversify funding by issuing covered bonds outside the Norwegian bond market. In February 2019 the company issued yet another cover bond amounting to EUR 500 million under the programme.

In the third quarter of 2019, a Green & Substainability Bond Framework was established. In October the company issued a Green Covered Bond amounting to EUR 500 million under the framework.

INCOME STATEMENT / BALANCE SHEET DEVELOPMENT

The financial statements for Sparebanken Sør Boligkreditt AS show a profit after tax of NOK 235.3 million at the end of 2019, compared to NOK 211.7 million in 2018.

The company had net interest income of NOK 408.8 million, compared to NOK 378.7 million in 2018. The increase in net interest income was mainly due to the increase in the mortgage portfolio in the period, combined with an increase in interest rates on mortgages during the period.

Net income from financial instruments shows a negative contribution of NOK 8.2 million in 2019, compared to a negative contribution amounting to NOK 23.0 million in 2018. In 2019, there was a positive contribution of NOK 17.8 million related to basis swaps, and a negative contribution of NOK 23.7 million related to buyback of own bonds.

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

Operating expenses totalled NOK 78.5 million in 2019, compared to NOK 71.1 million in 2018.

Total assets as at 31 December 2019 were NOK 44 280 million, of which net loans to customers accounted for NOK 40 200 million. At the same time in 2018, the corresponding figures were NOK 42 171 million and NOK 38 729 million respectively.

As at 31 December 2019 the loan portfolio was financed through the issuance of bonds amounting to NOK 36 701 million and through equity and drawing rights from Sparebanken Sør. At 31 December 2019, the company had paid-in capital totalling NOK 1 625 million, of which NOK 1 125 million is share capital and NOK 500 million is share premium.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 4 000 million with Sparebanken Sør, which at 31 December 2019, was drawn down by NOK 3 884 million.

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

CAPITAL STRENGTH

At the end of 2019, the net subordinated capital in the company was NOK 3 163 million. This corresponds to both a common equity tier 1 capital ratio / tier 1 capital ratio / total capital ratio of 18.8 percent, while regulatory minimums requirements are 12.5 percent, 14.0 percent and 16.0 percent respectively. The capital adequacy ratio has been calculated based on the standard method in the Basel II -regulations. The Board of Directors considers the company's financial strength and risk-bearing ability to be very good.

CORPORATE GOVERNANCE

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

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

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

The Board of Directors of Sparebanken Sør Boligkreditt AS has an annual meeting and conducts an annual review of the company's business strategy. Seven board meetings took place in 2019. Follow-up on operations, strategy, risk and capital management and monitoring of the markets and framework conditions have been the areas of focus for the Board of Directors. The company's risk strategy has been adopted by the Board of Directors, which conducts an annual review of the company's risk management and internal control. Identified areas of risk and any material deviations are followed up and reported on a regular basis.

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

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

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

RISKS

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

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

In accordance with Board approved requirements, stress testing of the value of the cover pool was conducted in 2019 with simulation of a sharp fall in house prices. The Board of Directors believes that the result of the stress tests is satisfactory.

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

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

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

As at 31.12.2019 the company satisfied the liquidity requirements imposed on European banks and finance companies (LCR - Liquidity Coverage Ratio). The requirement was 100 % as from 31.12.2017.

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

EMPLOYEES AND WORKING ENVIRONMENT

At 31 December 2019, the company had no employees and there are no relevant comments regarding the internal working environment. The Board is composed of four persons, one of whom is female.

RATING

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

SOCIAL RESPONSIBILITY

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

FUTURE PROSPECTS

The Board of Directors regards the future prospects for the company's operations to be very good. Sparebanken Sør Boligkreditt AS plans to further acquire loans from Sparebanken Sør, and the company intends to be able to issue covered bonds aimed at investors in Norway or abroad.

Based on the company`s risk profile, losses on loans to customers are expected to be low in 2020.

DISTRIBUTION OF PROFIT

Profit after tax for 2019 is NOK 235.3 million. The Board of Directors proposes to the annual General Meeting a dividend payment of NOK 235.3 million.

Kristiansand, 2 March 2020

The Board of Directors of Sparebanken Sør Boligkreditt AS

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

Marianne Lofthus

Managing Director

Income statement

NOK Thousand	Notes	31.12.2019	31.12.2018
Interest income, assets recognised at amortised cost	2, 12	1 155 596	894 176
Interest income, assets recognised at fair value	2, 12	62 785	26 056
Interest expenses	2, 12	809 559	541 535
Net interest income	**2**	**408 822**	**378 696**
Commission income		186	170
Commission expenses		5 003	5 000
Net commission income		**-4 817**	**-4 830**
Net income from financial instruments	**3**	**-8 237**	**-22 969**
Personnel expenses		54	54
Other operating expenses	14	78 440	70 997
Total expenses		**78 494**	**71 050**
Profit before loss		**317 275**	**279 847**
Losses on loans and undrawn credit	8	3 543	-2 427
Profit before taxes		**313 732**	**282 275**
Tax expenses	15	78 453	70 565
Profit for the period		**235 279**	**211 709**

Other comprehensive income

NOK Thousand	Notes	31.12.2018	31.12.2017
Profit for the period		**235 279**	**211 709**
Net change in value from basis swaps		-4 954	-19 511
Tax effect		1 239	4 878
Total profit for the period		**231 563**	**197 076**

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

Balance sheet

NOK Thousand	Notes	31.12.2019	31.12.2018
ASSETS			
Loans to and receivables from credit institutions	12	399 399	343 083
Net loans to customers	4,7	40 199 609	38 728 856
Bonds and sertificates		3 108 909	2 625 663
Financial derivatives		505 900	421 929
Deferred tax assets		24 342	28 064
Other assets		41 340	23 217
TOTAL ASSETS		**44 279 500**	**42 170 810**
LIABILITIES AND EQUITY			
Debt to credit institutions	5,12	3 883 843	2 893 918
Debt incurred due to issuance of securities	11	36 700 771	36 014 179
Financial derivatives	3	209 942	0
Payable taxes		73 492	83 336
Other liabilities		9 254	8 743
TOTAL LIABILITIES		**40 877 302**	**39 000 176**
EQUITY			
Paid-in equity		1 625 000	1 625 000
Retained earnings		1 777 197	1 545 635
TOTAL EQUITY CAPITAL		**3 402 197**	**3 170 635**
LOTAL LIABILITIES AND EQUITY CAPITAL		**44 279 500**	**42 170 810**

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

Kristiansand, 2 March 2020

Board of Directors of Sparebanken Sør Boligkreditt AS

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

Marianne Lofthus

Managing Director

Cash flow statement

NOK Thousand	31.12.2019	31.12.2018
Interest received	1 206 935	912 501
Interest paid	-765 568	-501 098
Operating expenditure	-82 800	-74 528
Changes in loans to customers	-1 464 284	-7 751 384
Income tax paid	-82 279	-68 099
Net cash flow from operating activities	**-1 187 996**	**-7 482 607**
Payments received, securities	3 367 929	2 070 130
Payments made, securities	-3 851 175	-3 886 976
Changes in other assets	56 577	205 150
Changes in deposits from credit institutions	990 050	-468 551
Changes in other liabilities	511	1 299
Net cash flow from current financing activities	**563 892**	**-2 078 948**
Paid-in share capital	0	600 000
Payments received, bond debt	9 960 155	15 559 155
Payments made, bond debt	-9 279 735	-6 407 473
Net cash flow from long-term financing activities	**680 420**	**9 751 682**
Net change in liquid funds	**56 316**	**190 127**
Liquid funds as at 01.01.	343 083	152 957
Liquid funds at the end of the period	**399 399**	**343 083**

Equity statement

NOK Thousand	Share capital	Share premium reserve	Retained earnings	Total
Balance 01.01.2018	**525 000**	**500 000**	**1 348 559**	**2 373 559**
Share capital increase	600 000	0	0	600 000
Profit 2018	0	0	211 709	211 709
Other comprehensive income	0	0	-14 633	-14 633
Balance 31.12.2018	**1 125 000**	**500 000**	**1 545 635**	**3 170 635**
Profit 2019	0	0	235 279	235 279
Other comprehensive income	0	0	-3 716	-3 716
Balance 31.12.2019	**1 125 000**	**500 000**	**1 777 197**	**3 402 197**

NOTE 1 – ACCOUNTING POLICIES

GENERAL INFORMATION

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

The main object of Sparebanken Sør Boligkreditt AS is to acquire loans secured through mortgages on residential property up to 75 percent of the property value, and to issue covered bonds to national and international investors.

All amounts in the financial statements are stated in NOK thousand, unless otherwise indicated. The company's financial statements are presented in Norwegian kroner, which is the functional currency.

The financial statements for 2019 were presented by the Board of Directors on 2 March 2020, and will be adopted with final effect at the General Meeting on 26 March 2020. The General Meeting is the company's supreme body.

BASIS OF COMPILATION OF THE FINANCIAL STATEMENT

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

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

REVENUE

Interest income and costs related to assets and liabilities which are measured at amortised cost, are expensed as incurred using the effective interest method. All charges related to interest-bearing loans and borrowings are included in the calculation of the effective interest rate and are amortised over the expected term.

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

FINANCIAL INSTRUMENTS

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

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

Recognition and deductions

Financial assets and liabilities are recognised when the company becomes a party to the contractual decisions.

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

A financial liability is derecognised when the liability has been discharged, cancelled or has expired. 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

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

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

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

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

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

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

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

Fair value with changes in value recognised through profit or loss

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

On transition to the new standard, the company is recognising holdings of interest-bearing liabilities and certificates at fair value through profit and loss. These are assets and liabilities that are managed, measured and reported to management at fair value.

This category covers interest rate swaps and currency swaps, which are established before 1 January 2018 and are considered as fair value hedging instruments of bonds issued at fixed rate and in foreign exhange. Hedge accounting is discussed further in a separate section below.

Amortised cost

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

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

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

Derivatives designated as hedging instruments recognised at fair value

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

Subsequent measurement

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

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

Measurement of financial instruments traded on an active market

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

Measurement of financial instruments not traded on an active market

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

The fair value of interest-bearing securities is determined on the basis of established market values, reported by leading external market players, or by calculating the fair value on the basis of current market yield and credit spread curves at any time.

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

Measurement at amortised cost

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

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

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

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

Derivatives designated as hedging instruments recognised at fair value

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

Offsetting

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

Modification

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

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

Impairment of financial assets

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

Impairment losses are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The principal rule is that a loss provision is calculated on the basis of the expected credit loss over the next 12 months or expected credit loss over the whole term. Expected credit loss over the whole term is calculated for assets where the credit risk has increased materially since initial recognition, with the exception of assets which regardless of this are assessed as having a low absolute credit risk on the reporting date. If no material increase in credit risk since initial recognition has appeared, the loss provision will be calculated on the basis of the expected credit loss over the next 12 months.

The expected credit loss for commitments 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.

Impairment losses on loans reduce their book value in the balance sheet. In the income statement, losses on loans consist of realised losses, changes in impairment losses, income on loans and provisions for undrawn credit facilities, as well as receipts relating to previously realised losses. Losses on loans are based on an assessment of the company's loan portfolio in accordance with IFRS 9.

For a further description, please refer to Note 26.

Loans with low credit risk

The Bank does not utilise the low credit risk exemption for loans to customers. The simplification rules are applied for lending to credit institutions and central banks. This means that the 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.

Provisions for losses

The transition to IFRS 9 has changed the way the company recognises loss provisions for financial assets, by moving from objective evidence that a loss event has occurred in IAS 39 to a model based on expected credit loss (ECL). IFRS 9 requires the company to recognise a provision for expected credit loss for all debt instruments not held at fair value through profit or loss.

The impairment model under IFRS 9 is described in Note 26.

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

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

The Group deems a financial asset to be in default if a minimum of one of the following criteria is met:

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

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

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

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

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

Realised losses

When it is highly probable that the loss is final, this is recognised as a realised loss. This includes losses, which imply that the Company has lost its claim against the debtor as a result of bankruptcy, a debt settlement, an unsuccessful distress warrant, a legally binding court ruling or debt remission. This applies even if the company has otherwise suspended enforcement or waived part of or all loans. Some realised losses will be covered through the previous decision made on individual loan loss write-downs, and booked against the former provision. Realised losses, without coverage in individual impairment loss, as well as over - or under coverage in relation to previous impairment loss, are recognised.

Recognition in balance sheet and income statement

Loans

Loans are recorded as either loans and receivables to credit institutions or loans to customers. Interest is included in the income statement under interest income. Changes in value due to impairment charges are recognised in the income statement under losses on loans.

Bonds and certificates

The company`s portfolio of bonds and certificates is included in the balance sheet. Interest is included in the income statement as interest income. Changes in value are recognised through net income from financial instruments.

Financial derivatives (assets and liabilities)

The balance sheet includes financial derivatives. Value adjustments related to derivative instruments are recognised in the income statement under net change in value from financial instruments.

Debt to credit institutions

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

Debt incurred due to issue of securities

The balance sheet item includes securities debt. Interests is recognised in the income statement under interest expenses.

HEDGE ACCOUNTING

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

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

- The hedge accounting is expected to be very effective, in that it counteracts changes in the fair value of the bond issued.
- Among other things, 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.
- The effectiveness must be able to be reliably measured.
- Satisfactory documentation has been established prior to hedging, that among other things shows that the hedging is effective and is expected to remain effective throughout the entire period.

Sparebanken Sør Boligkreditt AS utilises fair value hedging. Hedging is measured and documented every quarter to ensure that the hedging is effective. The dollar-offset method is used as a method of measuring the effectiveness of hedging. When the hedging is established and effective, interest rate and foreign exchange swaps will be added to the balance sheet at fair value and added to the income statement under "Net value change from financial instruments".

The hedge object is recognised in the balance sheet at amortised cost. Changes in the fair value associated with the hedged risk are accounted for as an addition to or deduction from the balance-added value of the bond debt and are carried in the income statement under "net value change from financial instruments".

IFRS 9 has simplified the requirements for hedge accounting by linking hedging effectiveness more closely to risk management activities, and consequently provides greater opportunity for assessment. The requirement for a hedging effectiveness of 80-125% has been removed and replaced by more qualitative requirements.

Under IFRS 9 a prospective (future-oriented) effectiveness test is sufficient, while hedging effectiveness under IAS 39 had to be viewed both retrospectively and prospectively.

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, which is due to a change in the base spread linked to the hedging instruments.

For interest and currency swaps established on or after 1 January 2018, changes in value due to changes in spreads will be recognised through other comprehensive income as a hedging effect. Interest rate and currency swaps created before 1 January 2018 are recognised at fair value, through profit or loss until these fall due.

If circumstances should occur, which imply that the hedging is not effective, the company will amortise the change in value associated with the hedged object over the remaining period. The associated hedging instrument will continue to be recognised at fair value with a change in value in the income statement.

ACCOUNTING OF EXCHANGE EFFECTS

Revenues and expenses in currencies are converted to NOK according to the exchange rate at time of transaction.

Balance items in foreign currencies are hedged. Debt in foreign currency is converted to NOK according to the company`s mid-rate at the balance sheet date. Changes in value are recognised in the income statement as net commission from financial instruments. The company`s currency exposure is related to funding and is fully secured by basis swaps.

INCOME TAX

Income tax is accrued as a cost, irrespective of the time of payment. Hence the tax charge reflects this year's and future taxes payable as a result of this year's activity. The tax is expected to offset net income included in this year's tax cost and in the balance sheet and is referred to as payable tax. Deferred tax is calculated on the basis of differences between the reported tax and accounting results that will be offset in the future. Tax increasing and tax reducing temporary differences within the same accounting period, are offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax reducing differences will be realised.

CASH FLOW STATEMENT

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

CHANGES IN ACCOUNTING POLICIES AND NOTES

IFRS 16 Leases IFRS 16 was introduced with effect from 01.01.2019. The standard lays down principles for the recognition, measurement and presentation of leases. IFRS 16 is not applicable to Sparebanken Sør Boligkreditt AS as the company does not have such contracts.

In 2019 no new standards have been implemented that have a significant impact on the accounts from Sparebanken Sør Boligkreditt AS.

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

Management has decided against the early adoption of the following new standards and interpretations of existing standards, which have been published and will be mandatory for company and consolidated financial statements in future accounting periods:

Amendments to IAS 1 and IAS 8 – Definition of Materiality

The International Accounting Standards Board (IASB) has published amendments to the definition of materiality to make it easier for companies to make materiality assessments. The definition of materiality is an important concept in the IFRS framework, which helps enterprises to assess what information to disclose in their financial statements. The new definition has resulted in amendments to IAS 1 and IAS 8.

The amendments reflect feedback from enterprises on challenges relating to the use and interpretation of the previous definition in assessing which information was material for the financial statements. The amendments harmonise the definition of materiality across the standards and further clarify and explain the definition. The amendments also ensure that the concept of materiality is consistent across the entire IFRS framework.

The amendments enter into force for accounting periods beginning on or after 1 January 2020, with an option for early adoption. The Group is not planning to early-adopt the amendments.

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

The amendments provide enterprises with temporary relief subject to fulfilment of specific requirements relating to hedge accounting during the period of uncertainty before the current reference interest rates method was changed to the alternative risk-free interest rate (RFR) approach.

Companies are required to provide further qualitative and quantitative information for hedging relationships where the reliefs have been applied. The amendments also provide an exemption from the requirements in IAS 8.28(f) to disclose the effect of the amendments for each item in the current and previous periods in the financial statements.

The amendments apply to accounting periods starting on or after 1 January 2020, with an option for early adoption. The requirements must be applied retrospectively. The Group is not planning to early-adopt the amendments.

The effect of the changes to these standards has been assessed by management as being of little significance to the company`s financial statements.

NOTE 2 – DISCRETIONARY ASSESSMENTS, ESTIMATES AND ASSUMPTIONS

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

GENERAL

In applying accounting policies, the company`s management has exercised discretion as a basis for accounting in some areas and has made assumptions about future events. The use of discretion and assumptions about future events in the financial records, will naturally inherit uncertainty. In exercising discretion and determining assumptions about future events management will look at available information on the balance sheet date, historical experience with similar assessments and market and third-party assessments of current conditions. Although the management uses its best discretion and estimates and on best estimates available, it must be anticipated that the actual outcome in some cases, may differ materially from what is accounted for.

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

WRITE-DOWNS ON LOANS

Assessment of individual and collective write-downs will always be based on a significant degree of discretion. Predictions based on historical information may prove to be incorrect since the relevance historical data for decisions is not certain. The risk associated with the type of lending provided by the company is considered to be limited as the collateral objects consist of private residential property.

NOTE 3 – RISK MANAGEMENT

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

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

ORGANISATION

Board of Directors

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

The company's management

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

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

Responsibility for implementation of the annual assessment of the risk situation and the capital adequacy requirement has been delegated to the Risk Management division of Sparebanken Sør and is regulated by a supply agreement between the Mortgage Company and Sparebanken Sør. This analysis will be coordinated and integrated with other planning and strategy work for the Group.

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

Internal auditor

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

Risk control process

There are reasonable and appropriate strategies and processes for risk management and the assessment of capital needs and how this can be maintained. The collective term for this is ICAAP (Internal Capital Adequacy Assessment Process).

RISK CATEGORIES

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

Credit risk /counterparty risk

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

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

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

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

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

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

Settlement risk

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

Liquidity risk

Liquidity risk is defined as the risk of Sparebanken Sør Boligkreditt AS being unable to meet its obligations or unable to fund its assets, but also not being possible to achieve funding without incurring significant additional costs, in the form of an impairment in 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 of the financial market is ceasing to function.

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

Market risk

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

Interest rate risk

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

Foreign exchange risk

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

Spread risk

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

Business risk

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

Strategic risk

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

Operational risk

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

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

Concentration risk

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

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

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

HEDGING INSTRUMENTS

The Company uses the following hedging instruments:

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

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

NOTE 4 – CAPITAL ADEQUACY

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

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

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

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

The minimum requirement for common equity tier 1 ratio was 12.5 percent, tier 1 capital ratio 14.0 percent and total capital ratio 16.0 percent.

NOK Thousand	31.12.2019	31.12.2018
EQUITY CAPITAL		
Share capital	1 125 000	1 125 000
Share premium reserve	500 000	500 000
Other equity capital	1 777 197	1 545 635
Deductions	-3 825	-3 048
Dividend	-235 279	0
Net subordinated capital (common equity tier 1)	**3 163 093**	**3 167 587**
Minimum requirements for equity capital		
Credit risk	1 290 307	1 248 960
Market risk	0	0
Operational risk	55 424	53 614
CVA addition	0	0
Deductions	0	0
Total minimum requirements for equity capital	**1 345 731**	**1 302 574**
Risk weight balance (calculation basis)	16 821 638	16 282 175
Common equity tier 1 capital ratio	**18,8 %**	**19,5 %**
Tier 1 capital ratio	**18,8 %**	**19,5 %**
Total capital ratio	**18,8 %**	**19,5 %**
Leverage Ratio	**6,8 %**	**7,2 %**

NOTE 5 – CREDIT AREA AND CREDIT RISK

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

Loans broken down by risk classes

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

All customers must be classified in terms of risk before the loan is transferred from Sparebanken Sør to Sparebanken Sør Boligkreditt AS, and loans that are taken on by Sparebanken Sør Boligkreditt AS must have a probability of default (PD value) not exceeding 3.00 percent. Customers who have a weaker risk classification after transfer to the company may remain as part of the cover pool if the loan-to-value ratio is not exceeding 75 percent.

The company's risk categories are as follows:

Risk classes	Lower limit of default (PD-values)	Upper limit of default (PD-values)
A	0.00 %	0.10 %
B	0.11 %	0.25 %
C	0.26 %	0.50 %
D	0.51 %	0.75 %
E	0.76 %	1.25 %
F	1.26 %	2.00 %
G	2.01 %	3.00 %
H	3.01 %	5.00 %
I	5.01 %	8.00 %
J	8.01 %	99.99 %
K	100.00 %	

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

Specification within risk categories at 31 December 2019

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

Specification within risk categories at 31 December 2018

NOK Thousand	Commitments	In %	Gross loans	Potensial exposure
Low risk	34 716 092	82,8 %	31 660 819	3 055 273
Medium risk	6 668 343	15,9 %	6 538 447	129 896
High risk	465 466	1,1 %	464 406	1 060
Non performing and write-downs	0	0,0 %	0	0
Unclassified	82 486	0,2 %	72 862	9 624
Total	**41 932 387**	**100,0 %**	**38 736 534**	**3 195 853**

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

Maximum credit exposure

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

NOK Thousand	31.12.2019	31.12.2018
Assets		
Loans to credit institutions	399 399	343 083
Net loans to customers	40 199 609	38 728 856
Bonds and certficates	3 108 909	2 625 663
Financial derivatives	505 900	421 929
Total credit exposure balace items	**44 213 818**	**42 119 531**
Potensial exposure		
Undrawn credits	3 463 330	3 195 853
Total potensial exposure	**3 463 330**	**3 195 853**
Total credit exposure	**47 677 148**	**45 315 384**

NOTE 6 - LOANS

NOK Thousand	31.12.2019	31.12.2018
Loans assessed at amortized cost		
Flexi-loans	8 558 533	8 214 867
Loans with installments	31 651 280	30 521 668
Gross loans	**40 209 813**	**38 736 534**
Loss allowance	-10 204	-7 679
Net loans	**40 199 609**	**38 728 856**
Undrawn credit on Flexi-loans	3 463 330	3 195 853

NOK Thousand	31.12.2019	31.12.2018
Loans distributed to sectors and industries		
Retail customers	40 209 813	38 736 534
Gross loans	**40 209 813**	**38 736 534**
Loss allowance	-10 204	-7 679
Net loans	**40 199 609**	**38 728 856**

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

	31.12.2019		31.12.2018	
Loans broken down by geographical area				
Vest-Agder	16 528 592	41.1 %	15 976 361	41.3 %
Aust-Agder	10 713 475	26.7 %	10 230 536	26.4 %
Telemark	4 004 896	10.0 %	3 788 416	9.8 %
Rogaland	1 299 637	3.2 %	1 106 520	2.9 %
Oslo	3 779 836	9.4 %	3 890 000	10.0 %
Akershus	1 726 918	4.3 %	1 649 156	4.3 %
Other counties	2 146 255	5.3 %	2 087 867	5.4 %
Total	**40 199 609**	**100.0 %**	**38 728 856**	**100.0 %**

NOTE 7 - NON-PERFORMING LOANS

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

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

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

NOK Thousand	31.12.2019	31.12.2018
Gross non-performing loans > 90 dager	9 469	0
Other non-performing loans	20 836	22 394
Total non-performing loans (stage 3)	**30 305**	**22 394**
Stage 3 impairment losses	942	1 192
Net non performing loans	**31 247**	**23 586**
Provision ratio impairment losses	3,1 %	5,3 %
Gross non-performing loans in % of gross loans	**0,0 %**	**0,0 %**

NOTE 8 – LOSSES ON LOANS AND UNDRAWN CREDIT

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

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

NOK Thousand	31.12.2019	31.12.2018
Changes in impairment losses for the period, stage 1	769	286
+ Changes in impairment losses for the period, stage 2	1 983	-3 696
+ Changes in impairments losses for the period, stage 3	790	982
= Total losses for the period	**3 543**	**-2 427**

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

NOK Million	Stage 1 Excpected losses in the next 12 months	Stage 2 Lifetime excpected credit losses	Stage 3 Lifetime excpected credit losses	Total
Loss provisions as at 01.01.2018	**1 600**	**8 200**	**400**	**10 200**
Transfers				
Transferred to stage 1	3 900	-3 868	-32	0
Transferred to stage 2	-157	157	0	0
Transferred to stage 3	0	-16	16	0
Losses on new loans	782	678	6	1 466
Losses on derecognised loans	-326	-2 195	-93	-2 614
Losses on older loans and other changes	-3 922	1 745	916	-1 261
Loss provisions as at 31.12.2018	**1 878**	**4 700**	**1 212**	**7 791**
Loss provision for loans	1 830	4 656	1 192	7 679
Loss provisions for undrawn credit	48	44	20	112
Total loss provision as at 31.12.2018	**1 878**	**4 700**	**1 212**	**7 791**

Changes in gross loans in the balance sheet.

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

NOK Thousand				2018
Gross loan assessed at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross loan as at 01.01.2018 assessed at amortised cost	**28 130 215**	**2 832 534**	**11 213**	**30 973 963**
Transferred to stage 1	1 937 410	-1 936 620	-790	0
Transferred to stage 2	-1 594 905	1 595 654	-749	0
Transferred to stage 3	-10 248	-6 167	16 416	0
Net change on present loans	-1 305 837	-79 620	-432	-1 385 890
New loans	15 533 671	233 536	880	15 768 087
Derecognised loans	-5 851 420	-764 061	-4 143	-6 619 625
Gross loan as at 31.12.2018 assessed at amortised cost	**36 838 885**	**1 875 256**	**22 394**	**38 736 534**

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

NOK Thousand				2018
Undrawn credits (off balance)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Undrawn credits as at 01.01.2018	**2 242 045**	**44 468**	**897**	**2 287 410**
Transferred to stage 1	33 645	-33 645	0	0
Transferred to stage 2	-22 352	22 352	0	0
Transferred to stage 3	0	0	0	0
Net change on undrawn credits	131 349	-145	-77	131 127
New undraw credits	831 260	1 895	0	833 155
Derecognised undrawn credits	-51 534	-4 305	0	-55 839
Undrawn credits as at 31.12.2018	**3 164 414**	**30 619**	**820**	**3 195 853**

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

	Fair value	
NOK Thousand	**31.12.2019**	**31.12.2018**
Loans secured by mortgages on residential properties	40 199 609	38 728 856
Deductions on ineligible loans	-84 101	-82 734
Pool of eligible loans	40 115 508	38 646 122
Sertificates and bonds	2 178 549	2 166 143
Financial derivatives	295 958	422 884
Total cover pool	**42 590 016**	**41 235 150**
Debt incurred due to issuance of securities	**36 814 704**	**36 079 881**
Collateralisation ratio (OC)	**15.7 %**	**14.3 %**

	Nominal value	
	31.12.2019	**31.12.2018**
OC based on nomial value - eligibles only	16.5 %	14.1 %
OC based on nominal value - total loans	16.7 %	14.3 %

	31.12.2019	**31.12.2018**
Average debt to assets ratio in %	57.4 %	56.8 %
Portfolio divided into intervals of debt to assets ratio		
Less than or equal to 40%	16.8 %	16.1 %
41 - 50 %	13.3 %	12.5 %
51 - 60 %	21.9 %	20.5 %
61 - 70 %	35.2 %	34.3 %
71 - 75 %	9.3 %	12.1 %
More than 75%	3.6 %	4.4 %
Total	**100.0 %**	**100.0 %**

NOTE 10 - INTEREST RATE AND EXCHANGE RATE RISK

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

Interest rate risk is managed through fixing of interest rates for asset and liability items and by use of financial derivatives. The company reports to the Board of Directors on a quarterly basis.

At 31 December 2019, Sparebanken Sør Boligkreditt AS`s portfolio of loans to customers consists solely of floating rate loans.

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

According to the company`s internal rules, the interest rate risk should not exceed NOK 100 million. The interest risk exposure was NOK 48.6 million at 31.12.2019 (NOK 0.3 million at 31.12.2018).

According to the company`s internal rules, the total accounting effect by a 25 percent exchange rate movement should not exceed NOK 10 million. The currency exposure was NOK 0 million as at 31.12.2019 (NOK 0 million as at 31.12.2018).

NOTE 11 - LIQUIDITY RISK

Liquidity risk is defined as the risk of the company failing to fulfill its obligations as they fall due. The company's liquidity risk was generally low in 2019, as illustrated by the fact that most of the company's loans were financed on a long-term basis through covered bonds. Long-term financing is defined as financing from the money and capital markets with maturities exceeding one year, as well as unutilised committed drawing rights. The company has to have sufficient liquid funds in order to fulfil its obligations at all times. In 2019, the company's funding structure complied with requirements imposed by law and instructions by the Board of Directors.

As of 31 December 2019, Sparebanken Sør Boligkreditt AS has an overdraft facility amounting to NOK 4 000 million with Sparebanken Sør. In addition, the company has a revolving credit facility with the Parent Bank, which can be used to refinance outstanding bonds. Annual commission is paid on the drawing rights.

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

LIQUIDITY RISK

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

						31.12.2019
NOK Million	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
Liabilities / non derivative obligations						
Debt to credit institutions	3 884	3 884				
Debt incurred due to issuance of securities	37 397	20	131	588	21 061	15 597
Other liabilities	83	5	4	116	0	-43
Loans commitments and undrawn facilities	3 463	3 463				
Total liabilities	**44 827**	**7 372**	**135**	**705**	**21 061**	**15 554**
Derivative commitments						
Financial derivative gross payments						
Payments made	-14 814				-14 814	
Payments recieved	14 324				14 324	
Total derivative commitments	**-490**	**0**	**0**	**0**	**-490**	**0**

						31.12.2018
NOK Million	**Total**	**1 mth.**	**3 mth.**	**1 year**	**5 years**	**Over 5 years**
Liabilities / non derivative obligations						
Debt to credit institutions	2 894	2 894				
Debt incurred due to issuance of securities	36 263	20	109	5 034	25 500	5 600
Other liabilities	92	4	4	84		
Loan commitments and undrawn credit facilities	3 195	3 195				
Total liabilities	**42 444**	**6 113**	**113**	**5 118**	**25 500**	**5 600**
Derivative commitments						
Financial derivative gross payments						
Payments made	-14 898				-14 898	
Payments received	14 324				14 324	
Total derivative commitments	**-574**	**0**	**0**	**0**	**-574**	**0**

Debt securities issued as at 31.12.2019

ISIN Number	Ticker	Currency	Nominal value	Interest		Due date	Book value	Fair value
NO0010714058	SORB24	NOK	765 000	Floating	3M Nibor	24.06.2020	764 697	766 422
XS1383921803		EUR	500 000	Fixed	0,250 %	22.03.2021	4 964 530	4 983 686
NO0010778954	SORB27	NOK	5 000 000	Floating	3M Nibor	22.11.2021	5 013 383	5 054 684
XS1622285283		EUR	500 000	Fixed	0,125 %	30.05.2022	4 983 668	4 982 619
NO0010671597	SORB09	NOK	350 000	Fixed	3,85 %	13.02.2023	376 442	379 860
XS1775786145		EUR	500 000	Fixed	0,375 %	20.02.2023	5 056 646	5 039 001
NO0010832637	SORB28	NOK	5 000 000	Floating	3M Nibor	24.09.2025	4 992 782	5 033 649
XS1947550403		EUR	500 000	Fixed	0,50 %	06.02.2026	5 118 087	5 095 142
XS2069304033		EUR	500 000	Fixed	0,01 %	26.10.2026	4 859 352	4 903 069
NO0010670409	SORB08	NOK	500 000	Fixed	4,00 %	24.01.2028	571 184	576 572
TOTAL							**36 700 771**	**36 814 704**

NOTE 12 - INTEREST INCOME AND INTEREST EXPENSES

NOK Thousand	31.12.2019	31.12.2018
Interest income recognised at amortized cost		
Interest on loans to customers	1 155 139	893 303
Interest on loans to and receivables from credit institutions	458	872
Total interest income recognised at amortized cost	**1 155 596**	**894 176**
Interest income recognised at fair value		
Interest on certificates/bonds/interest-bearing securities	62 785	26 056
Total interest income recognised at fair value	**62 785**	**26 056**
Total interest income	**1 218 381**	**920 231**
Interest expenses recognised at amortized cost		
Interest on debt to credit institutions	68 066	65 552
Interest on issued securities	736 920	475 984
Other interest expenses	4 572	0
Total interest expenses recognised at amortized cost	**809 559**	**541 535**
Total interest expenses	**809 559**	**541 535**
Net interest income	**408 822**	**378 696**

NOTE 13 - INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	31.12.2019	31.12.2018
Profit (loss) and changes in value from covered bonds	-6 878	-5 820
Net income from covered bonds	**-6 878**	**-5 820**
Change in value fixed rate bonds - hedge accounting	42 207	-330 753
Change in value derivatives fixed rate bonds - designated as hedging instruments	-19 852	314 715
Net income hedging	**22 356**	**-16 038**
Whereof effects from basis swaps (1)	17 808	-1 537
Profit (loss) buyback own bonds - amortised cost	-23 715	-1 111
Net other financial instruments and derivatives	**-23 715**	**-1 111**
Net income from financial instruments	**-8 237**	**-22 969**

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

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

NOTE 14 - OTHER OPERATING EXPENSES

NOK Thousand	2019	2018
External fees	1 457	1 587
Management of loans / services purchased	73 618	65 857
Other operating expenses	3 365	3 553
Total other operating expenses	**78 440**	**70 997**

NOK Thousand	2019	2018
Ordinary audit fees, statutory audit	68	128
Other attestation services	156	258
Fees on other services		30
Total remuneration of elected auditor (Incl. VAT)	**224**	**416**

Remuneration to auditors is included in other operating expenses

NOTE 15 - TAX

NOK Thousand	31.12.2019	31.12.2018
Tax-increasing temporary differences		
Fixed assets	-142	-177
Bond debt - adjustment of hedge accounting	-712 100	-754 809
Total tax-increasing temporary differences	**-712 242**	**-754 986**
Financial derivatives	647 412	672 218
Change in value from basis swaps recognised over OCI	-24 465	-19 511
Accounting effects of transition to IFRS 9	0	-4 228
Bond assets	-8 071	-5 749
Total tax-reducing temporary differences	**614 876**	**642 729**
Basis for deferred tax (+) / deferred tax assets (-)	**-97 366**	**-112 257**
Calculated deferred tax (+) / deferred tax assets (-) (25%)	**-24 341**	**-28 064**
Deferred tax / deferred tax assets as at 01.01.	-28 064	-14 920
Change in deferred tax in the profit	3 904	-7 209
Change in deferred tax in the total profit	-1 239	-4 878
Accounting effects of transition to IFRS 9	1 057	-1 057
Deferred tax / deferred tax assets as at 31.12.	**-24 341**	**-28 064**
Profit before tax expenses	313 732	282 275
Permanent differences	80	-13
Change in temporary differences	-19 845	33 065
Taxable income	**293 967**	**315 327**
Tax payable (25%)	**73 492**	**78 832**
Tax not settled for 2018	0	5 561
Other changes	0	-1 057
Tax payable in the balance sheet	**73 492**	**83 336**
Tax payable	73 492	78 832
Changes in deferred tax	3 904	-7 209
Accounting effects of transition to IFRS 9	1 057	-1 057
Tax cost for the year	**78 453**	**70 565**
Effective tax rate	25,0 %	25,0 %

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

NOTE 16 - FINANCIAL INSTRUMENTS BY CATEGORY

Amortised cost

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

Fair value through profit and loss

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

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

Hedge accounting

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

Classification as at 31.12.2019

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

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

Classification as at 31.12.2018

NOK Thousand	Fair value	Hedge accounting	Amortized cost (1)	31.12.2018 Total
Loans to credit institutions			343 083	343 083
Net loans to customers			38 728 856	38 728 856
Bonds and certificates	2 625 663			2 625 663
Financial derivatives		421 929		421 929
Total financial assets	**2 625 663**	**421 929**	**39 071 938**	**42 119 530**
Debt to credit institutions			2 891 358	2 891 358
Debt incurred due to issuance of securities			36 014 179	36 014 179
Financial derivatives		0	0	0
Total financial liabilities	**0**	**0**	**38 905 537**	**38 905 537**

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

NOTE 17 - FAIR VALUES OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

General

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

Interest rate swaps

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

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

Certificates and bonds

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

Loans

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

Debt

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

Deposits

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

Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

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

Level 2:

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

Level 3:

Instruments are based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. This category includes investments in unlisted companies and fixed rate loans, for which no market information exists.

				31.12.2019
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
Assets recognised at amortised cost				
Loans to and receivables from credit institutions	399 399		399 399	
Net loans to customers (floating interest rate)	40 199 609			40 199 609
Assets recognised at fair value				
Bonds and certificates	3 108 909		3 108 909	
Financial derivatives	505 900		505 900	
Total financial assets	**44 213 818**	**0**	**4 014 209**	**40 199 609**
Liabilities recognised at amortised cost				
Debt to credit institutions	3 881 408		3 881 408	
Debt incurred due to issuance of securities	36 700 771		36 079 881	
Liabilities recognised at fair value				
Financial derivatives	209 942		209 942	
Total financial liabilities	**40 792 121**	**0**	**40 171 231**	**0**

				31.12.2018
	Recognised		Fair value	
NOK Thousand	value	Level 1	Level 2	Level 3
Assets recognised at amortised cost				
Loans to and receivables from credit institutions	343 083		343 083	
Net loans to customers (floating interest rate)	38 728 856			38 728 856
Assets recognised at fair value				
Bonds and certificates	2 625 663		2 625 663	
Financial derivatives	421 929		421 929	
Total financial assets	**42 119 530**	**0**	**3 390 674**	**38 728 856**
Liabilities recognised at amortised cost				
Debt to credit institutions	2 891 358		2 891 358	
Debt incurred due to issuance of securities	36 014 179		36 079 881	
Liabilities recognised at fair value				
Financial derivatives	0		0	
Total financial liabilities	**38 905 537**	**0**	**38 971 239**	**0**

Hedge accounting

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

All bonds issued at fixed rate or in foreign exchange are accounted for using hedge accounting. Sparebanken Sør Boligkreditt AS uses fair value hedge accounting. The hedge is measured and documented every quarter to ensure that it is effective to maturity.

Result of hedge accounting

NOK Thousand	2019	2018
Result / ineffektiveness in hedge accounting		
Net income from other finansial instruments	22 356	-16 038
Total	**22 356**	**-16 038**
Whereof effects from basis swaps	17 808	-1 537

Inefficiency in hedge accounting is recognised as a change in value and appears in Note 13 as well.

Hedge accounting in the balance sheet

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

NOK Thousand	2019	2018
Recognitions concerning hedge accounting		
Finansial derivatives (clean value)	836 380	672 218
Total financial assets	**836 380**	**672 218**
Nominal hedge items	25 136 750	15 174 250
Adjustments of hedge items - hedged risk	712 100	754 809
Finansial derivatives (clean value)	188 968	0
Total financial liabilities	**26 037 818**	**15 929 059**

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

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

Uncertainty arising from the interest rate benchmark reform

On December 20, the Ministry of Finance decided amendments to the Reference Interest Act that implements the regulations (EU 2016/1011) in Norwegian law.

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

Nominal value hedge accounting:

Thousands	31.12.2019	31.12.2018
Nominal value		
Interest rate swaps NOK	850 000	850 000
Interest rate swaps EUR	2 500 000	1 500 000

The bank is currently in the process of establishing a project group to handle issues concerning the interest rate benchmark reform.

The Bank assumes that NIBOR and EURIBOR will be quoted for another couple of years, but expects a final date for the transition to be clarified during 2020.

NOTE 18 - BONDS AND CERTIFICATES

NOK Thousand	31.12.2019	31.12.2018
Short-term investments designated at fair value through profit		
Sertificates and bonds issued by public sector	1 454 087	154 105
Sertificates and bonds issued by others	1 646 756	2 467 262
Accrued interests	8 066	4 295
Total	**3 108 909**	**2 625 663**

Classification of financial investments

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

Sparebanken Sør Boligkreditt AS owns only instruments with the lowest credit risk (Aaa rated) as at 31 December 2019.

NOTE 19 - FINANCIAL DERIVATIVES

NOK Thousand	31.12.2019	31.12.2019 (1) Presented as net	31.12.2018	31.12.2018 (1) Presented as net
Assets				
Financial derivatives	505 900	295 958	421 929	421 929
Debt				
Financial derivatives	209 942		0	

1) Shows assets and liabilities if the company had netted their financial derivatives for individual counterparty.

The company's counter-claim rights comply with general Norwegian law. Sparebanken Sør Boligkreditt AS has the right to offset other outstanding accounts under ISDA agreements in cases where certain events occur. The amounts have not been offset in the balance sheet at 31 December 2019 or 31 December 2018 as the transactions are generally not settled on a net basis.

NOTE 20 - DEBT DUE TO ISSUANCE OF SECURITIES

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

NOK Thousand	31.12.2017	Issued	Matured / redeemed	Other changes in period	31.12.2018
Bonds, nominal value	26 409 900	15 559 154	-6 407 473	-73 581	35 488 000
Value adjustment	27 030	0	0	417 972	445 002
Accrued interest	58 476	0	0	22 701	81 177
Total debt due to issuance of securities	**26 495 406**	**15 559 154**	**-6 407 473**	**367 092**	**36 014 179**

NOTE 21 - AVERAGE INTEREST EXPENSES

NOK Thousand	31.12.2019	31.12.2018
Debt to credit institutions		
Debt to credit institutions	2.13 %	3.03 %
Debt incurred due to issuance of securities		
Bond debt, floating interest rate	1.97 %	1.63 %
Bond debt, fixed interest rate	3.94 %	3.94 %
Bond debt, fixed interest rate in Euro	0.25 %	0.25 %

Average interest rate, defined as annual interest in arrears, has been calculated as a weighted average of the actual interest rate conditions at 31 December 2019. No liabilities have special conditions. For fixed rate covered bonds, the coupon rate is specified. Fixed rate in NOK and foreign currency are swapped to floating rate in NOK.

NOTE 22 - RELATED PARTIES

NOK Thousand	31.12.2019	31.12.2018
Income statement		
Interest income from Sparebanken Sør on deposits	458	872
Interest expenses and commission from Sparebanken Sør on loans/credit	73 068	70 552
Interest expenses on bond debts to Sparebanken Sør	45 955	6 536
Paid administration fees to Sparebanken Sør	73 582	65 655
Balance sheet		
Bank deposit in Sparebanken Sør	399 399	343 083
Covered bonds owned by Sparebanken Sør	0	5 711 000
Loans/credit in Sparebanken Sør	3 881 408	2 891 358

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

NOTE 23 - EMPLOYEES, MANAGEMENT AND REPRESENTATIVES

The company had no employees at 31 December 2019.

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

NOTE 24 - SHARE CAPITAL AND SHARE OWNERS

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

NOK Thousand						2018
Shareholders	Number of shares	Nominal value per share	Share capital (1)	Dividend (1)	Profit for the period (1)	Profit per share (1)
Sparebanken Sør	100 000	11 250	1 125 000	0	197 076	1 970,76

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

NOTE 25 - SEGMENT REPORTING

The company consists of only one segment, lending to consumers in Norway. Please refer to Note 6 regarding the geographical break down of loans. The company's activity consists of residential mortgages up to 75% of the property's market value. None of the company's customers individually accounts for more than 10% of the turnover. This applies to both 2019 and 2018.

NOTE 26 - DESCRIPTION OF THE LOSS MODEL UNDER IFRS 9

Impairment model

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

Under IFRS 9, provision must be made for expected losses, based on relevant information available at the time of reporting, including historical, current and future information. The difference compared with the previous standard is that the loss is shown in the accounts before a loss event has occurred, and that future expectations are included in the calculations.

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

Assessment of a significant increase of credit risk

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

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

Parameter	RM
Absolute limit (a)	0.75 %
Relative change (b)	2 %
Absolute change (c)	5 %

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

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

PD as basis for expected loss

The PD model gives PD at customer level, 12 months ahead. At the end of 2019 there is no lifetime PD model integrated, but the Parent Bank is in the process of introducing one. When calculating the expected credit loss over the lifetime of the commitment, it is the probability of default over the same lifetime that should be used. A methodology has been developed to estimate PD over a commitment's lifetime. This is based on breaking lifetime down into separate years and estimating PD for each year ahead in time. The PD models are validated every year.

Population

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

From April 2018 until April 2019, the calculation of impairment losses under IFRS 9 was based on extracts at the end of the previous months for all the customers. From May 2019, the calculation is based on extracts at the end of the current reporting month. All model calculations are made at the account level. Data that exists only at the customer level is linked to the individual account. For example, risk class is allocated at the customer level so that all the customer's accounts have the same score. The most important variables in the extract are risk class and PD with associated interest, balance, approval and collateral at the time of calculation.

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

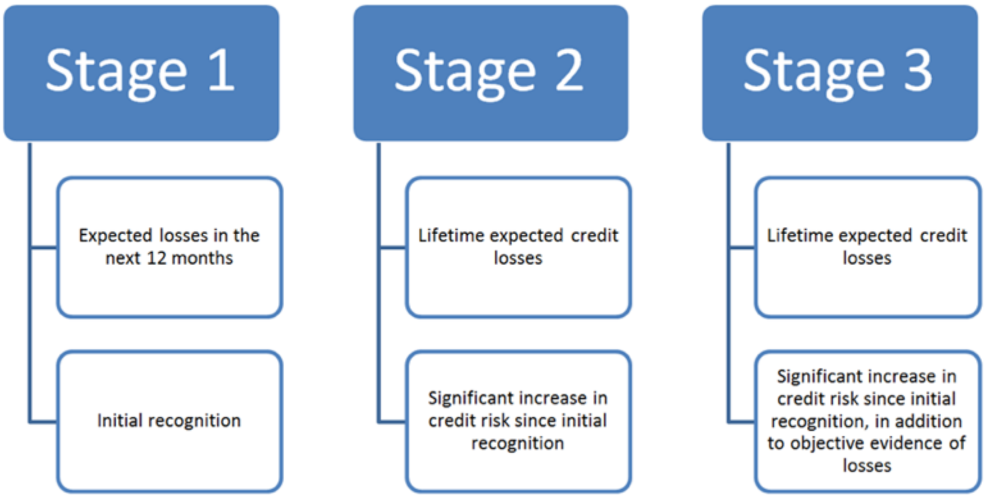
Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The company has made no loss provisions with respect to these receivables for the financial year 2019. This is because the bulk of its loans to credit institutions relates to Norwegian banks. These are allocated to risk class B and have a PD of 0.175%.

LGD are regarded as being low as they have a high rating from external agencies. The company considers the requirements for low credit risk to have been met as of the balance sheet date.

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

Non-performing account commitments are defined in the model as all account commitments where the customer has risk class K. For an overview of the company`s risk classes, refer to Note 5 –Credit and credit risk.

A customers commitment is assessed as being non performing if an instalment has not been paid 90 days after its due date and the amount exceeds 1000 NOK, in case of bankcrupsy, losses are confirmed, or qualitative assessments and markes have been made. See note 1 for a description of when qualitative assessments are made.



Stage 1

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

Stage 2

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

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

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

Stage 3

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

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

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

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

Migration to a lower stage

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

Forbearance and quarantine

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

Macroeconomic conditions and scenarios

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

The following 9 parameters are used:

1. International growth in GDP
2. National growth in GDP (mainland)
3. Level of key interest rate
4. Growth in unemployment
5. GDP gap
6. Growth in house prices
7. Oil price (USD)
8. Exchange rate related to import
9. Credit growth RM

Macroeconomic variables as a basis of scenarios.

NOK Thousand	2019	2020	2021	2022	2023
GDP %	2,3	1,6	1,4	1,0	1,0
House prices %	1,6	3,1	2,8	2,7	2,7
House prices region %	1,0	2,5	2,2	2,1	2,1
Unemployment %	3,8	2,8	3,8	3,2	3,2
Oil price, $	62,0	62,0	61,0	60,0	65,0
Key interest rate	**1,00**	**1,50**	**2,00**	**2,25**	**2,25**

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

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

The optimistic scenario is a macroeconomic scenario that represents an economic upturn with strong economic growth. In year 5, the scenario converges towards balance with the realistic scenario. 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 year 5, the scenario converges towards balance with the realistic scenario. 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.

Sensitivities

Loan to customers in the company are secured by real estate. This is considered to be one of the parameters that affect LGD mostly. Another important parameter that significantly affects the loss expense relates to the probability of default (PD). A sensitivity analysis relating to changes in the portfolio's collateral and increased probability of default was therefore performed as at 31 December 2019. The analysis has been carried out over the coming year by assuming a double increase of PD, and a fall in collateral of 10%, 20% and 30% respectively. The changes have the following impact on the company's loss expense:

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

				31.12.2018
NOK Thousand	Collateral reduction of 10%	Collateral reduction of 20%	Collateral reduction of 30%	Double increase of PD
Provisions on loans	3 933	8 925	14 889	4 241

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

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

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 Main Credit Committee. Based on the result 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 2019

The following changes have been made in 2019 and effects calculations of model based impairments:

- From April 2018 until April 2019, the calculation under IFRS 9 was based on extracts at the end of the previous months for all the customers. From May 2019, the calculation was based on extracts at the end of the current reporting month. This provides more accurate calculations.
- Changes in PD calibration factor.
- Fewer macro adjustments on the basis of validation.

NOTE 27 – SUBSEQUENT EVENTS

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

Declaration from the Board of Directors and Managing Director

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

The Board of Directors and Managing Director of Sparebanken Sør Boligkreditt AS hereby confirm that the Company's 2019 financial statements have been prepared in accordance with applicable accounting standards and that the information provided in the financial statements gives a true and fair view of the Company's assets, liabilities, financial position and overall result of operation.

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

Kristiansand, 2 March 2020

The Board of Directors of Sparebanken Sør Boligkreditt AS

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

Marianne Lofthus

Managing Director

Auditor's report 2019

To the General Meeting of Sparebanken Sør Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

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

The company's business activities are largely unchanged compared to the year before. We have not identified regulatory changes, transactions or other events that qualify as new Key Audit Matters. As a result, the focus areas of our audit have been the same in 2019 as in the previous year.

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Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

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

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Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

Other information

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

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

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

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

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

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resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors’ report

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

Independent Auditor's Report - Sparebanken Sør Boligkreditt AS

Opinion on Registration and Documentation

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

Kristiansand, 2 March 2020
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

SPAREBANKEN SØR
BOLIGKREDITT AS

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