



**SPAREBANKEN SØR
BOLIGKREDITT AS**

Q2 2023

A company in the Sparebanken Sør Group



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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 issue covered bonds, and is a 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.

The cover pool consists of secured mortgages, substitute assets in interest-bearing securities and financial derivatives. The mortgages are granted by Sparebanken Sør and later taken on by Sparebanken Sør Boligkreditt AS. The secured mortgages meet the requirements established by the company for inclusion in the company's cover pool. One important requirement is that any outstanding loan balance taken on by the company must not exceed 80 % of the mortgaged property's market value at the date of acquisition.

At the end of Q2 2023, Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 52 445 million, transferred from Sparebanken Sør, of which NOK 52 130 million was included in the qualified cover pool. Corresponding figures at the end of Q2 2022 were NOK 54 007 million and NOK 53 743 million respectively.

The portfolio of bonds and certificates totalled NOK 3 839 million at the end of Q2 2023, of which NOK 3 365 million was included in the cover pool. Corresponding figures at the end of Q2 2022 were NOK 3 751 million and NOK 2 530 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 50 426 million, compared to NOK 48 417 million at the same time in 2022. The company has achieved diversified funding by issuing covered bonds outside the Norwegian bond market.

Income statement and balance sheet

The financial statement of Sparebanken Sør Boligkreditt AS shows a profit after tax of NOK 177.1 million at the end of Q2 2023, compared to NOK 135.8 million in 2022.

The company had net interest income of NOK 239.6 million, compared to NOK 244.3 million in 2022. The decrease is mainly due to the increase in market rates (Nibor) on issued covered bonds. Interest rates had an uplift during 2022 and 2023. The Norwegian Central Bank, Norges Bank, has raised the key policy rate from 0 to 3.75 percent as of September 2021. Sparebanken Sør Boligkreditt has changed lending rates on mortgages, in line with hikes in the Norwegian key policy rate.

Net income from financial instruments totalled NOK 23.9 million, compared to minus NOK 6.0 million in 2022. The improvement is mainly related to an increased net income hedging.

The company has issued covered bonds in Euros under the EMTCN (European Medium Term Covered Note) program. In order to control interest and currency exposure, the company has established swap arrangements (basis swaps), to convert foreign currency into NOK. The impact on earnings related to changes in the value of the basis swap, affected the income from financial instruments by NOK 0 million and other comprehensive income by minus NOK 7.4 million at the end of Q2 2023. Assuming that the covered bonds in foreign currency are held to maturity, the total change in fair value is equal to zero. The accounting effects will therefore be reversed over time.

Operating expenses were NOK 52.9 million at the end of Q2 2023, compared to NOK 51.3 million in the same period in 2022.

Tax expenses were NOK 40.6 million at the end of Q2 2023. Corresponding figures at the end of Q2 2022 were NOK 45.3 million respectively. Tax expenses in Q2 2023 were influenced by a refund of to high tax payment in 2018 and 2019.

Total assets as at 30.06.2023 were NOK 59 055 million, of which net loans to customers represented NOK 52 427 million. At the same time in 2022 total assets were NOK 58 855 million, of which net loans to customers were NOK 53 991 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 50 426 million, and by equity and loans from Sparebanken Sør. At the end of Q2 2023, the company had a total paid-in capital of NOK 2 575 million, of which NOK 2 075 million was share capital and NOK 500 million was related to share premiums.

Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 5 000 million with Sparebanken Sør for operational purposes that, as at 30.06.2023, was drawn down by NOK 2 418 million.

Board of Director's report

Capital strength

At the end of Q2 2023, the net subordinated capital in the company was NOK 4 441 million, compared to NOK 4 209 million at the same time in 2022. This corresponds to a common equity tier 1 capital ratio/tier 1 capital ratio/total capital ratio of 20.7 percent (19.5 percent in 2022), while regulatory minimums requirements constitute 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 consider the company's solidity and risk-bearing ability to be good. The company's Leverage Ratio was 7.3 percent at the end of Q2 2023.

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 issuance of covered bonds with a high rating. This means that Sparebanken Sør Boligkreditt AS strives to maintain risk at a low level. The company emphasizes identifying, measuring and controlling risk elements in such a way that the market has high confidence in the company and that bonds issued by the company have a high rating.

The company's credit strategy and policy constitute a framework, which includes lending regulations and loan-to-value requirements for any loan taken on by the company. The Board of Directors consider the overall quality of the lending portfolio to be very good and the credit risk is considered low.

The company's mortgage lending to customers is in Norwegian kroner (NOK) at both floating and fixed interest rates. Financing is based on both floating and fixed interest rate bonds in NOK and EUR. Foreign currency debt is swapped to NOK and liabilities established at fixed rates are swapped to floating rates. Accounting for foreign currency debt and debt at fixed interest rates, comply with the rules for hedge accounting. The Board of Directors consider the overall market risk to be low.

The company issues covered bonds with the opportunity to extend the maturities by up to 12 months, given an approval by the FSA. In addition, financing needs are met by using equity and credit facilities with Sparebanken Sør. The Board of Directors considers the company's liquidity risk to be low. As at 30.06.2023 the company had a liquidity portfolio in addition to substitute assets, and was compliant with the liquidity requirements imposed on financial institutions, with a LCR ratio of 209 percent. As at 30.06.2023 the mortgages in the cover pool had an average loan-to-value of 50.1 percent. Over-collateralization was 13.0 percent, and given a stress test on assets prices of 30 percent, the OC was above the legislative OC level of 5 percent.

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

Green Covered Bond

Sparebanken Sør Group has a Green and Sustainability Bond Framework in place, under which Sparebanken Sør Boligkreditt AS has issued green covered bonds. The proceeds are allocated to a mortgage portfolio, financing energy-efficient residential buildings in Norway. The bond framework, which is aligned with ICMA Green Bond Principles, was updated in Q1 2022.

Rating

Covered bonds issued by Sparebanken Sør Boligkreditt AS in NOK and EUR have been given an Aaa rating by Moody's. Sparebanken Sør Boligkreditt AS has an A1 issuer rating with «Positive Outlook» rated by Moody's. The rating was given on June 23, 2023.

Future prospects

Activity in the Norwegian economy is high, with little spare capacity. Unemployment has fallen to a low level, and the labour market is tight. Price inflation is markedly above target according to Norges Bank, and key policy rate forecasts indicate that a further rise in interest rates during 2023 is needed to curb inflation. Uplifts in interest rates may lead to lower consumption and investments.

Residential property prices in the Bank's main markets have shown positive, though moderate, growth over several years. Activity in the housing market in the region has been high and with inflated house prices during 2021 and 2022. House price inflation is projected to stabilize during 2023, owing to higher lending rates and a lower demand of mortgages. A strong labour market and wage growth will on the other hand have a positive effect on house prices.

The risk premiums on covered bonds have increased, a reflection of the financial market volatility. Sparebanken Sør Boligkreditt AS has ample access to wholesale funding and sufficient liquidity reserves to handle challenging financial market conditions.

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

Subsequent events

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

Kristiansand, 9 August 2023

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Svein Ole Holvik
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

Income statement

NOK Thousand	Notes	Q2 2023	Q2 2022	30.06.2023	30.06.2022	31.12.2022
Interest income, assets recognised at amortized cost	2, 12	606 936	328 717	1 201 588	611 955	1 498 771
Interest income, assets recognised at fair value	2, 12	39 106	19 915	89 923	36 271	111 230
Interest expenses	2, 12	525 496	230 823	1 051 879	403 959	1 163 574
Net interest income	2	120 546	117 809	239 633	244 267	446 427
Commission income		44	42	91	77	164
Commission expenses		1 269	1 288	2 578	2 581	5 140
Net commission income		-1 225	-1 246	-2 486	-2 504	-4 976
Net income from financial instruments	3	3 408	395	23 926	-5 970	-32 837
Personnel expenses		0	0	0	0	60
Other operating expenses	12	25 463	26 917	52 932	51 301	103 394
Total expenses		25 463	26 917	52 932	51 301	103 453
Profit before loss		97 266	90 041	208 140	184 492	305 161
Losses on loans and undrawn credit	9	-7 031	5 174	-9 577	3 369	15 645
Profit before taxes		104 297	84 867	217 718	181 123	289 516
Tax expenses		15 664	21 217	40 616	45 281	30 942
Profit for the period		88 633	63 650	177 101	135 842	258 574

Statement of other comprehensive income

NOK Thousand	Q2 2023	Q2 2022	30.06.2023	30.06.2022	31.12.2022
Profit for the period	88 633	63 650	177 101	135 842	258 574
Net change in value from basis swaps	-6 090	14 429	-9 478	129 040	98 959
Tax effect	1 340	-3 607	2 085	-32 260	-21 771
Total profit for the period	83 883	74 472	169 708	232 622	335 762

Balance sheet

NOK Thousand

ASSETS	Notes	30.06.2023	30.06.2022	31.12.2022
Loans to and receivables from credit institutions	12	1 445 833	684 903	76 670
Net loans to customers	7,8,9,11	52 426 974	53 990 669	56 561 879
Bonds and certificates	11	3 838 883	3 751 188	6 458 757
Financial derivatives	11	1 302 636	387 150	493 132
Deferred tax assets		0	0	0
Other assets		40 196	40 908	73 973
TOTAL ASSETS		59 054 523	58 854 817	63 664 411
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 697 690	4 730 662	4 027 018
Debt incurred due to issuance of securities	10,11	50 425 526	48 417 317	53 277 192
Financial derivatives		225 188	1 281 192	1 821 055
Payable taxes		37 267	5 779	41 317
Deferred tax liabilities		35 050	58 766	32 171
Other liabilities		10 655	10 801	12 221
TOTAL LIABILITIES		54 431 376	54 504 518	59 210 973
EQUITY				
Paid-in equity	6	2 575 000	2 575 000	2 575 000
Retained earnings	6	2 048 146	1 775 299	1 878 438
TOTAL EQUITY CAPITAL	6	4 623 146	4 350 299	4 453 438
TOTAL LIABILITIES AND EQUITY CAPITAL		59 054 523	58 854 817	63 664 411

Kristiansand, 9 August 2023

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Svein Ole Holvik
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director

Cash flow statement

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Interest received	1 291 824	640 293	1 562 326
Interest paid	-1 073 623	- 366 607	-1 023 757
Operating expenditure	- 56 384	- 54 011	- 108 111
Changes in loans to customers	4 144 161	-4 318 517	-6 861 995
Income tax paid	- 46 984	- 98 397	- 98 421
Net cash flow from operating activities	4 258 995	-4 197 239	-6 529 958
Payments received, securities	6 774 210	8 420 249	8 956 716
Payments made, securities	-4 147 890	-7 146 701	-10 349 803
Changes in other assets	33 777	1 191	- 31 874
Changes in deposits from credit institutions	- 329 328	642 094	- 61 550
Changes in other liabilities	- 600	- 207	835
Net cash flow from current financing activities	2 330 169	1 916 626	-1 485 677
Paid-in share capital	0	700 000	700 000
Paid dividend	0	- 314 000	- 314 000
Payments received, bond debt	0	7 017 395	12 144 183
Payments made, bond debt	-5 220 000	-4 694 250	-4 694 250
Net cash flow from long-term financing activities	-5 220 000	2 709 145	7 835 933
Net change in liquid funds	1 369 164	428 532	- 179 701
Liquid funds as at 01.01.	76 670	256 371	256 371
Liquid funds at the end of the period	1 445 833	684 903	76 669

Statement of changes in Equity

NOK Thousand	Share capital	Share premium reserve	Retained earnings	Total	
Balance 31.12.2021		1 375 000	500 000	1 856 676	3 731 676
Dividend		0	0	- 314 000	- 314 000
Share capital increase		700 000	0	0	700 000
Profit 01.01.2022 - 30.06.2022		0	0	135 842	135 842
Other income/expenses		0	0	96 781	96 781
Balance 30.06.2022		2 075 000	500 000	1 775 299	4 350 299
Profit 30.06.2022 - 31.12.2022		0	0	122 731	122 731
Other income/expenses		0	0	- 19 592	- 19 592
Balance 31.12.2022		2 075 000	500 000	1 878 438	4 453 438
Profit 01.01.2023 - 30.06.2023		0	0	177 101	177 101
Other income/expenses		0	0	- 7 393	- 7 393
Balance 30.06.2023		2 075 000	500 000	2 048 146	4 623 146

1. ACCOUNTING POLICIES

The quarterly financial statements have been kept in accordance with the International Financial Reporting Standards, IFRS, including IAS 34. Sparebanken Sør Boligkreditt AS is a part of the Sparebanken Sør Group and follows the same accounting principles as the Group. Please refer to the annual financial statements for 2021 (Note 1 – Accounting policies) for further details.

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

A tax rate of 22 percent is assumed.

Discretionary assessments, estimates and assumptions

With the preparation of the financial statements, the management makes discretionary assessments, estimates and assumptions that affect the accounting policies and financial records. Please refer to the annual financial statements for 2021 (Note 2 – Discretionary assessments, estimates and assumptions) for further details.

The financial item losses on loans and undrawn credit are subject to a significant degree of discretionary assessments. This item was in 2020 and 2021 particularly challenging to quantify, due to the ongoing pandemic. In 2022, there are again major turmoil and fluctuations in the financial market. Many macro parameters pointed upward from the last six months of 2021 and 2022. At the end of the second quarter of 2023, there is a significant increase in pessimism in the market with increased raw material prices, an increasing key policy rate, an expected future fall in the property market and an expected future increase in unemployment. Models used to calculate future credit losses contains forward-looking macro data, and in events of major economic changes, the current models and parameters must be changed accordingly.

Macro parameters and measures that have been used as input in the loss model is presented in note 9.

2. NET INTEREST INCOME

NOK Thousand	Q2 2023	Q2 2022	30.06.2023	30.06.2022	31.12.2022
Interest income recognised at amortized cost					
Interest on loans to customers	606 448	328 006	1 200 859	609 982	1 496 712
Interest on loans to and receivables from credit institutions	487	712	729	1 974	2 059
Total interest income recognised at amortized cost	606 936	328 717	1 201 588	611 955	1 498 771
Interest income recognised at fair value					
Interest on certificates/bonds/interest-bearing securities	39 106	19 915	89 923	36 271	111 230
Total interest income recognised at fair value	39 106	19 915	89 923	36 271	111 230
Total interest income	646 041	348 632	1 291 512	648 226	1 610 001
Interest expenses recognised at amortized cost					
Interest on debt to credit institutions	30 928	25 689	69 774	40 604	85 862
Interest on issued securities	491 892	202 392	976 752	358 708	1 068 408
Other interest expenses	2 676	2 743	5 352	4 648	9 304
Total interest expenses recognised at amortized cost	525 496	230 823	1 051 879	403 959	1 163 574
Total interest expenses	525 496	230 823	1 051 879	403 959	1 163 574
Net interest income	120 546	117 809	239 633	244 267	446 427

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	Q2 2023	Q2 2022	30.06.2023	30.06.2022	31.12.2022
Profit (loss) and changes in value from certificates and bonds	- 2 964	- 13 527	- 3 660	- 21 978	- 24 424
Net income from certificates and bonds	- 2 964	- 13 527	- 3 660	- 21 978	- 24 424
Change in value fixed rate loans - interest	0	182	0	55	55
Change in value fixed rate loans - margin	0	- 68	0	- 76	- 76
Expected credit loss IFRS9	0	0	0	0	0
Net change in value fixed rate loans	0	115	0	- 21	- 21
Change in value fixed rate bonds - hedge accounting					
Change in value derivatives fixed rate bonds	- 710 068	- 843 347	- 2 333 452	1 200 985	1 542 750
- designated as hedging instruments	716 440	857 154	2 361 038	- 1 184 955	- 1 551 142
Net income hedging	6 372	13 807	27 586	16 029	- 8 391
<i>Whereof effects from basis swaps (1)</i>	0	1 850	0	5 021	5 021
Profit (loss) buyback own bonds - amortised cost	0	0	0	0	0
Currency gains (losses)	0	0	0	0	0
Net other financial instruments and derivatives	0	0	0	0	0
Net income from financial instruments	3 408	395	23 926	- 5 970	- 32 837

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

Basis swaps are derivative contracts 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 instrument's duration equals zero. Accounting effects are therefore reversed over time.

4. DEBT TO ASSETS RATIO

	30.06.2023	30.06.2022	31.12.2022
Average debt to assets ratio in %	50.1%	50.3%	53.0%
Portfolio broken down by intervals of debt to assets ratio			
Less than or equal to 40 %	23.3%	22.1 %	19.5 %
41 - 50 %	22.6%	21.7 %	18.5 %
51 - 60 %	28.9%	31.4 %	27.9 %
61 - 70 %	21.2%	22.1 %	24.2 %
71 - 75 %	2.7%	1.4 %	6.9 %
76 - 80 %	0.5%	0.6 %	2.2 %
Above 80 %	0.8 %	0.6 %	1.0 %
Total	100.0%	100.0 %	100.0 %

5. DEBT TO CREDIT INSTITUTIONS

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Credit facility with Sparebanken Sør	2 417 750	4 720 991	4 013 403
Received collaterals	1 279 939	9 672	13 615
Total debt to credit institutions	3 697 690	4 730 662	4 027 018

Sparebanken Sør Boligkreditt AS has entered into an agreement with Sparebanken Sør for a credit facility of NOK 5 000 million for operational purposes. In addition, the company has a revolving multicurrency loan facility, which can be used to refinance outstanding bonds.

6. CAPITAL ADEQUACY

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

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Equity capital			
Share capital	2 075 000	2 075 000	2 075 000
Share premium reserve	500 000	500 000	500 000
Other equity capital	1 871 045	1 639 456	1 878 438
Deductions	- 5 367	- 5 420	- 8 773
Dividend	0	0	0
Net subordinated capital (common equity tier 1)	4 440 678	4 209 036	4 444 665
Minimum requirements for equity capital			
Credit risk	20 572 765	20 688 644	21 942 354
Market risk	0	0	0
Operational risk	882 123	874 094	882 133
CVA addition	0	0	0
Deductions		0	0
Risk weight balance (calculation basis)	21 454 888	21 562 738	22 824 487
Common equity tier 1 capital ratio	20.7 %	19.5 %	19.5 %
Tier 1 capital ratio	20.7 %	19.5 %	19.5 %
Total capital ratio	20.7 %	19.5 %	19.5 %
Leverage Ratio	7.3 %	7.0 %	6.7 %

Minimum capital requirements:

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Minimum Tier 1 capital requirements	4.50 %	4.50 %	4.50 %
Conservation buffer	2.50 %	2.50 %	2.50 %
Systemic risk buffer	3.00 %	3.00 %	3.00 %
Counter-cyclical buffer	2.50 %	1.50 %	2.00 %
CET1 requirements	12.5 %	11.50 %	12.00 %
Tier1 Capital requirements	14.0 %	13.00 %	13.50 %
Total capital requirements	16.0 %	15.00 %	15.50 %
CET1 requirements	2 681 861	2 479 715	2 738 938
Tier1 Capital requirements	3 003 684	2 803 156	3 081 306
Total capital requirements	3 432 782	3 234 411	3 537 795
Above CET1 requirements	1 758 817	1 729 322	1 705 726
Above Tier1 Capital requirements	1 436 994	1 405 880	1 363 359
Above total capital requirements	1 007 896	974 626	906 869

7. LOANS TO CUSTOMERS

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Loans assessed to amortised cost			
Flexi-loans	15 585 510	14 280 182	15 499 817
Loans with installments - floating interest	36 772 356	39 678 367	41 002 210
Loans with installments - fixed interest	0	0	0
Gross loans	52 445 479	54 006 778	56 589 977
Loss allowance	- 18 505	- 16 109	- 28 098
Net loans	52 426 974	53 990 669	56 561 879
Undrawn credit on Flexi-loans	5 577 029	5 259 453	5 349 504

Loans broken down by sectors and industries	30.06.2023	30.06.2022	31.12.2022
Retail customers	52 358 978	53 959 706	56 503 164
Accrued interests	86 501	47 071	86 813
Gross loans	52 445 479	54 006 778	56 589 977
Loss allowance	- 18 505	- 16 109	- 28 098
Net loans	52 426 974	53 990 669	56 561 879

Loans broken down by geographical areas

NOK Thousand	30.06.2023		30.06.2022		31.12.2022	
Agder	34 024 246	64,9 %	35 139 215	65,1 %	36 629 215	64,8 %
Vestfold og Telemark	6 592 427	12,6 %	6 584 381	12,2 %	7 074 798	12,5 %
Oslo	4 941 801	9,4 %	5 100 892	9,4 %	5 313 447	9,4 %
Viken	3 562 756	6,8 %	3 659 013	6,8 %	3 809 776	6,7 %
Rogaland	1 955 253	3,7 %	2 010 863	3,7 %	2 151 928	3,8 %
Other counties	1 350 491	2,6 %	1 496 304	2,8 %	1 582 715	2,8 %
Total	52 426 974	100,0 %	53 990 669	100,0 %	56 561 879	100,0 %

8. NON-PERFORMING LOANS

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Total non-performing loans (stage 3)	176 362	192 708	173 159
Stage 3 impairment losses	3 797	4 532	4 500
Net non-performing-loans	172 565	197 240	168 659
Provision ratio non-performing loans	2.15 %	2.35 %	2.60 %
Total non-performing loans in % of gross loans	0.34 %	0.36 %	0.31 %
Gross loans	52 445 479	54 006 778	56 589 977

NON-PERFORMING LOANS

All commitments in stage 3 are defined as non-performing. Non-performing loans are based on a minimum amount of NOK 1 000 for retail customers, and NOK 2 000 for corporate customers respectively. There is also introduced a relative limit of 1 percent of the customer's total commitment. Both claims must be met in order to a non-performing loan to occur.

In addition to the requirements mentioned above, a non-performing loan may occur as well if causes of objective nature, qualitative assessments and loss allowances are available.

The following may also lead to a non-performing loan:

Forbearance – a combination of financial problems and concessions from the bank

Unlikelihood to pay – breach of covenants or other information relevant to non-performing assessments

There are also introduced rules related to *infections and quarantine*, which implies an *infected* co-borrower if a loan is defaulted. A quarantine period of 3 to 12 months will be applied until the situation is clarified and the customer is declared performing.

9. LOSSES ON LOANS AND UNDRAWN CREDIT

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Changes in impairment losses for the period, stage 1	- 2 775	1 069	6 867
+ Changes in impairment losses for the period, stage 2	- 6 099	184	6 556
+ Changes in impairments losses for the period, stage 3	- 703	2 116	2 222
= Total losses for the period	- 9 577	3 369	15 645

The sensitivity analyses presented below, are related to parameters that the company considers to have the most significant effect on LGD (loss given default) in the current situation

NOK Thousand	10 percent collateral decline	20 percent collateral decline	30 percent collateral decline	100 percent increase of PD	10 percent increase in unemployment
Loan loss provision	9 852	22 184	37 029	4 337	1 541
Total	9 852	22 184	37 029	4 337	1 541

NOK Thousand	Stage 1	Stage 2	Stage 3	Total
	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	
Loss provisions as at 01.01.2023	11.981	12.058	4.500	28.539
Transfers				
Transferred to stage 1	4 384	-3 508	-876	0
Transferred to stage 2	-789	1 220	-431	0
Transferred to stage 3	-31	-390	421	0
	0	0	0	0
Losses on new loans	1 265	282	0	1 546
Losses on deducted loans*	-1 770	-2 189	-608	-4 568
Losses on older loans and other changes	-5 834	-1 513	791	-6 556
Loss provisions as at 30.06.2023	9 206	5 959	3 797	18 962
Loss provisions for loans	8 887	5 821	3 797	18 505
Loss provisions for undrawn credit	319	138	0	457
Total loss provisions as at 30.06.2023	9 206	5 959	3 797	18 962

NOK Thousand	Stage 1	Stage 2	Stage 3	Total
	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	
Loss provisions as at 01.01.2022	5 114	5 502	2 416	13 032
Transfers				
Transferred to stage 1	1 917	- 1 458	- 459	0
Transferred to stage 2	- 241	340	- 99	0
Transferred to stage 3	- 26	- 217	243	0
Losses on new loans	2 149	464	188	2 801
Losses on deducted loans*	- 802	- 905	- 155	- 1 862
Losses on older loans and other changes	- 1 929	1 960	2 399	2 430
Loss provisions as at 30.06.2022	6 183	5 686	4 532	16 401
Loss provision for loans	5 969	5 628	4 512	16 109
Loss provisions for undrawn credit	214	58	20	292
Total loss provision as at 30.06.2022	6 183	5 686	4 532	16 401

* Losses on deducted loans are related to losses on fully repaid loans and loans transferred between the company and the parent bank.

Changes in gross loans in the balance sheet

NOK Thousand	Stage 1	Stage 2	Stage 3	Total
Gross loans assessed at amortised cost				
Gross loans as at 01.01.2023 assessed at amortised cost	53 491 301	2 924 288	174 388	56 589 977
Transferred to stage 1	1 024 742	- 976 768	- 47 974	0
Transferred to stage 2	-2 246 267	2 263 877	- 17 610	0
Transferred to stage 3	- 52 931	- 45 070	98 001	0
Net change on present loans	-1 409 190	- 61 977	- 3 125	-1 474 293
New loans	4 587 365	74 718	0	4 662 083
Derecognised loans	-6 825 962	- 479 007	- 27 319	-7 332 288
Gross loans as at 30.06.2023 assessed at amortised cost	48 569 058	3 700 060	176 361	52 445 479

NOK Thousand	Stage 1	Stage 2	Stage 3	Total
Gross loans assessed at amortised cost				
Gross loans as at 01.01.2022 assessed at amortised cost	47 402 143	2 186 818	91 388	49 680 350
Transferred to stage 1	666 471	- 638 937	- 27 534	0
Transferred to stage 2	-1 178 114	1 184 843	- 6 728	0
Transferred to stage 3	- 97 572	- 44 598	142 170	0
Net change on present loans	-1 265 717	- 59 437	- 5 447	-1 330 602
New loans	12 046 071	221 869	9 627	12 277 568
Derecognised loans	-6 258 321	- 351 449	- 10 768	-6 620 538
Gross loans as at 30.06.2022 assessed at amortised cost	51 314 961	2 499 109	192 708	54 006 778

10. BONDS AND CERTIFICATES

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Short-term investments designated at fair value through profit			
Certificates and bonds issued by public sector	1 288 855	1 483 944	2 042 255
Certificates and bonds issued by others	2 533 007	2 256 010	4 387 875
Accrued interests	17 021	11 235	28 627
Total	3 838 883	3 751 188	6 458 757

11. DEBT SECURITIES ISSUED AT 30.06.2023

NOK Thousand

ISIN Number	Ticker	Currency	Nominal value	Interest	Due date	Book value	Fair value
NO0010882632	SORB30	NOK	5 000 000	Floating 3M Nibor	19.11.2024	5 027 466	5 035 313
NO0010832637	SORB28	NOK	5 750 000	Floating 3M Nibor	24.09.2025	5 759 684	5 765 309
XS2555209381		EUR	500 000	Fixed 0.31 %	14.11.2025	5 885 550	5 886 450
XS1947550403		EUR	500 000	Fixed 0.50 %	06.02.2026	5 626 438	5 403 642
XS2069304033		EUR	500 000	Fixed 0.01 %	26.10.2026	4 962 654	5 208 220
NO0012535824	SORB32	NOK	5 500 000	Floating 3M Nibor	31.05.2027	5 514 593	5 522 465
NO0011002529	SORB31	NOK	7 000 000	Floating 3M Nibor	20.09.2027	7 148 305	7 065 088
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	492 413	492 302
XS2291901994		EUR	500 000	Fixed 0.01 %	28.01.2028	5 052 704	5 013 157
XS2389362687		EUR	500 000	Fixed 0.01 %	25.09.2028	4 955 717	4 914 374
TOTAL						50 425 526	50 306 320

12. COVER POOL COMPOSITION AND OC

NOK Thousand	Nominal value		
	30.06. 2023	30.06.2022	31.12.2022
Loans secured by mortgages on residential properties	52 358 978	54 006 778	56 503 164
Deductions on ineligible loans*	-228 633	-264 121	-237 935
Pool of eligible loans	52 130 344	53 742 657	56 265 229
Certificates and bonds	3 365 000	2 530 000	5 950 000
Total cover pool	55 495 344	56 272 657	62 215 229
Debt incurred due to issuance of securities	49 096 750	49 187 500	54 316 750
Total	49 096 750	49 187 500	54 316 750
Collateralisation ratio (OC)	13.0 %	14.4 %	14.5 %

NOK Thousand	Fair value		
	30.06.2023	30.06.2022	31.12.2022
Loans secured by mortgages on residential properties	52 426 974	53 990 669	56 561 879
Deductions on ineligible loans*	-228 633	-264 121	-237 935
Pool of eligible loans	52 198 341	53 726 548	56 323 944
Sertificates and bonds	3 401 762	2 565 178	6 032 542
Financial derivatives (assets)	0	0	0
Total cover pool	55 600 103	56 291 726	62 356 486
Debt incurred due to issuance of securities	50 306 320	48 367 201	53 242 213
Financial derivatives (debt)	-1 077 448	894 043	1 327 922
Total	49 228 872	48 667 609	54 570 136
Collateralisation ratio (OC)	12.9 %	14.3 %	14.3 %

* Loans above 80 % LTV and loans in default.

As of Q4 2022, OC is calculated based on nominal values, and deductions on loans above 80 % LTV.

13. RELATED PARTIES

NOK Thousand	30.06.2023	30.06.2022	31.12.2022
Income statement			
Interest income from Sparebanken Sør on deposits	729	1 974	1 698
Interest expenses/commission from Sparebanken Sør on loans/credit	72 274	43 185	90 862
Interest expenses on bond debts to Sparebanken Sør	0	4 088	4 088
Paid administration fees to Sparebanken Sør	50 157	48 870	98 603
Balance sheet			
Bank deposit in Sparebanken Sør	1 445 830	684 903	76 666
Covered bonds owned by Sparebanken Sør	0	0	0
Loans/credit in Sparebanken Sør	2 417 750	4 720 991	4 013 403

QUARTERLY PROFIT TREND

NOK Thousand	Q2	Q1	Q4	Q3	Q2
	2023	2023	2022	2022	2022
Net interest income	120 546	119 087	96 005	106 155	117 809
Net other operating income	2 183	19 256	- 23 043	- 6 296	- 852
Operating expenses	25 463	27 469	27 308	24 845	26 917
Profit before losses on loans	97 266	110 875	45 655	75 014	90 041
Losses on loans and undrawn credits	- 7 031	- 2 546	10 089	2 187	5 174
Profit before taxes	104 297	113 421	35 566	72 827	84 867
Tax expenses	15 664	24 953	- 32 546	18 207	21 217
Profit for the period	88 633	88 468	68 111	54 620	63 650
Liquidity coverage ratio (LCR)	209 %	302 %	578 %	1 413 %	805 %
Total capital ratio	20.7 %	20.2 %	19.5 %	20.8 %	19.5 %
Leverage Ratio	7.3 %	7.1 %	6.7 %	7.3 %	7.0 %

DECLARATION IN ACCORDANCE WITH SECTION 5-6 OF THE NORWEGIAN SECURITIES TRADING ACT

The Board of Directors and CEO of Sparebanken Sør Boligkreditt AS, hereby confirm that the Company's financial statements for the first half of 2023 have been prepared in accordance with applicable accounting standards, and the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall result.

In addition, we confirm that the report provides a true and fair view of the Company's development, result and position, together with a description of the most significant risks and uncertainty factors facing the Company.

Kristiansand, 9 August 2023

The Board of Directors for Sparebanken Sør Boligkreditt AS

Geir Bergskaug
Chairman

Seunn Smith-Tønnessen
Member

Svein Ole Holvik
Member

Steinar Vigsnes
Member

Marianne Lofthus
Managing Director



SPAREBANKEN SØR
BOLIGKREDITT AS