



SPAREBANKEN SØR
BOLIGKREDITT AS

Q3 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 percent of the mortgaged property's market value at the date of acquisition.

At the end of Q3 2023, Sparebanken Sør Boligkreditt AS had taken on a mortgage loan portfolio totalling NOK 52 607 million, transferred from Sparebanken Sør, of which NOK 52 264 million was included in the qualified cover pool. Corresponding figures at the end of Q3 2022 were NOK 50 902 million and NOK 50 676 million respectively.

The portfolio of bonds and certificates totalled NOK 3 951 million at the end of Q3 2023, of which NOK 3 465 million was included in the cover pool. Corresponding figures at the end of Q3 2022 were NOK 5 192 million and NOK 4 105 million respectively.

Sparebanken Sør Boligkreditt AS has issued covered bonds totalling NOK 49 706 million, compared to NOK 47 989 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 231.3 million at the end of Q3 2023, compared to NOK 190.5 million in 2022.

The company had net interest income of NOK 351.2 million, compared to NOK 350.4 million in 2022.

Net income from financial instruments totalled NOK 12.3 million, compared to minus NOK 11.0 million in 2022. The improvement is related to an increased net income from hedging and positive changes in value from certificates and bonds.

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 45.3 million at the end of Q3 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 78.2 million at the end of Q3 2023, compared to NOK 76.1 million in the same period in 2022.

Tax expenses were NOK 55.8 million at the end of Q3 2023. Corresponding figures at the end of Q3 2022 were NOK 63.5 million respectively. Tax expenses in 2023 were influenced by a refund of to high tax payment in 2018 and 2019.

Total assets as at 30.09.2023 were NOK 58 158 million, of which net loans to customers represented NOK 52 584 million. At the same time in 2022 total assets were NOK 56 590 million, of which net loans to customers were NOK 50 884 million. The loan portfolio has been financed through the issuance of bonds totalling NOK 49 706 million, and by equity and loans from Sparebanken Sør. At the end of Q3 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 30.09.2023, was drawn down by NOK 2 523 million.

Board of Director's report

Capital strength

At the end of Q3 2023, the net subordinated capital in the company was NOK 4 403 million, compared to NOK 4 302 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 20.6 percent (20.8 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 Q3 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 30.09.2023 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 291 percent. As at 30.09.2023 the mortgages in the cover pool had an average loan-to-value of 51.6 percent. Over-collateralization was 13.5 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 is still on a low level, and the labour market is tight. Price inflation is markedly above target according to the Norwegian Central Bank, Norges Bank. In order to curb inflation, the key policy rate in Norway has been raised to 4.25 percent over a short period of time, from 0 in September 2021. There will likely be one additional policy rate hike in December, whereas the key policy rate is expected to remain at the same level during 2024.

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 for 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 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, 24 October 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	Q3 2023	Q3 2022	30.09.2023	30.09.2022	31.12.2022
Interest income effective interest method	2, 12	678 311	372 653	1 879 899	984 608	1 498 771
Other interest income	2, 12	47 374	24 124	137 297	60 395	111 230
Interest expenses	2, 12	614 124	290 622	1 666 002	694 582	1 163 574
Net interest income	2	111 561	106 155	351 194	350 421	446 427
Commission income		41	41	133	118	164
Commission expenses		1 300	1 273	3 877	3 854	5 140
Net commission income		-1 258	-1 232	-3 745	-3 736	-4 976
Net income from financial instruments	3	-11 669	-5 064	12 257	-11 034	-32 837
Other income		80	0	80	0	0
Total other income		-11 589	-5 064	12 337	-11 034	-32 837
Personnel expenses		0	0	0	0	60
Other operating expenses	12	25 306	24 845	78 238	76 145	103 394
Total expenses		25 306	24 845	78 238	76 145	103 453
Profit before loss		73 408	75 014	281 549	259 506	305 161
Losses on loans and undrawn credit	9	4 035	2 187	-5 543	5 556	15 645
Profit before taxes		69 374	72 827	287 091	253 950	289 516
Tax expenses		15 214	18 207	55 830	63 487	30 942
Profit for the period		54 160	54 620	231 261	190 462	258 574

Statement of other comprehensive income

NOK Thousand	Q3 2023	Q3 2022	30.09.2023	30.09.2022	31.12.2022
Profit for the period	54 160	54 620	231 261	190 462	258 574
Net change in value from basis swaps	-48 623	126 102	-58 100	255 142	98 959
Tax effect	10 697	-31 526	12 782	-63 786	-21 771
Total profit for the period	16 234	149 196	185 943	381 819	335 762

Balance sheet

NOK Thousand

ASSETS	Notes	30.09.2023	30.09.2022	31.12.2022
Loans to and receivables from credit institutions	12	681 521	86 858	76 670
Net loans to customers	7,8,9,11	52 584 478	50 884 196	56 561 879
Bonds and certificates	11	3 951 258	5 191 853	6 458 757
Financial derivatives	11	905 599	390 938	493 132
Deferred tax assets		0	0	0
Other assets		35 223	36 183	73 973
TOTAL ASSETS		58 158 079	56 590 028	63 664 411
LIABILITIES AND EQUITY				
Debt to credit institutions	5,12	3 074 015	2 342 359	4 027 018
Debt incurred due to issuance of securities	10,11	49 705 910	47 988 862	53 277 192
Financial derivatives		645 254	1 622 430	1 821 055
Payable taxes		72 434	- 5	41 317
Deferred tax liabilities		10 042	114 282	32 171
Other liabilities		11 044	22 604	12 221
TOTAL LIABILITIES		53 518 699	52 090 533	59 210 973
EQUITY				
Paid-in equity	6	2 575 000	2 575 000	2 575 000
Retained earnings	6	2 064 380	1 924 495	1 878 438
TOTAL EQUITY CAPITAL	6	4 639 380	4 499 495	4 453 438
TOTAL LIABILITIES AND EQUITY CAPITAL		58 158 079	56 590 028	63 664 411

Kristiansand, 24 October 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	30.09.2023	30.09.2022	31.12.2022
Interest received	1 998 901	1 031 451	1 562 326
Interest paid	-1 656 070	- 665 230	-1 023 757
Operating expenditure	- 82 609	- 68 285	- 108 111
Changes in loans to customers	4 001 125	-1 208 570	-6 861 995
Income tax paid	- 41 343	- 98 397	- 98 421
Net cash flow from operating activities	4 220 004	-1 009 031	-6 529 958
Payments received, securities	7 075 313	8 695 414	8 956 716
Payments made, securities	-4 555 663	-8 836 343	-10 349 803
Changes in other assets	38 750	5 915	- 31 874
Changes in deposits from credit institutions	- 953 002	-1 746 209	- 61 550
Changes in other liabilities	- 550	11 596	835
Net cash flow from current financing activities	1 604 847	-1 869 627	-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	604 851	- 169 513	- 179 701
Liquid funds as at 01.01.	76 670	256 371	256 371
Liquid funds at the end of the period	681 521	86 858	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 - 30.09.2022		0	0	190 462	190 462
Other income/expenses		0	0	191 356	191 356
Balance 30.09.2022		2 075 000	500 000	1 924 495	4 499 495
Profit 30.09.2022 - 31.12.2022		0	0	68 111	68 111
Other income/expenses		0	0	-114 169	-114 169
Balance 31.12.2022		2 075 000	500 000	1 878 438	4 453 438
Profit 01.01.2023 - 30.09.2023		0	0	231.261	231.261
Other income/expenses		0	0	-45 318	-45 318
Balance 30.09.2023		2 075 000	500 000	2 064 380	4 639 380

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 2022 (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 2022 (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, 2021 and 2022 particularly challenging to quantify. In 2023, there are again major turmoil and fluctuations in the financial market. At the end of the third 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	Q3 2023	Q3 2022	30.09.2023	30.09.2022	31.12.2022
<i>Interest income recognised at amortized cost</i>					
Interest on loans to customers	677 302	372 644	1 878 161	982 625	1 496 712
Interest on loans to and receivables from credit institutions	1 009	10	1 738	1 983	2 059
Total interest income recognised at amortized cost	678 311	372 653	1 879 899	984 608	1 498 771
Interest income effective interest method	678 311	372 653	1 879 899	984 608	1 498 771
<i>Interest income recognised at fair value</i>					
Interest on certificates/bonds/interest-bearing securities	47 374	24 124	137 297	60 395	111 230
Total interest income recognised at fair value	47 374	24 124	137 297	60 395	111 230
Other interest income	47 374	24 124	137 297	60 395	111 230
Total interest income	725 685	396 777	2 017 197	1 045 003	1 610 001
<i>Interest expenses recognised at amortized cost</i>					
Interest on debt to credit institutions	24 055	20 038	93 830	60 642	85 862
Interest on issued securities	587 453	268 256	1 564 205	626 964	1 068 408
Other interest expenses	2 615	2 328	7 967	6 976	9 304
Total interest expenses recognised at amortized cost	614 124	290 622	1 666 002	694 582	1 163 574
Total interest expenses	614 124	290 622	1 666 002	694 582	1 163 574
Net interest income	111 561	106 155	351 194	350 421	446 427

3. NET INCOME FROM FINANCIAL INSTRUMENTS

NOK Thousand	Q3 2023	Q3 2022	30.09.2023	30.09.2022	31.12.2022
Profit (loss) and changes in value from certificates and bonds	1 681	- 10 831	- 1 979	- 32 809	- 24 424
Net income from certificates and bonds	1 681	- 10 831	- 1 979	- 32 809	- 24 424
Change in value fixed rate loans - interest	0	0	0	55	55
Change in value fixed rate loans - margin	0	0	0	- 76	- 76
Expected credit loss IFRS9	0	0	0	0	0
Net change in value fixed rate loans	0	0	0	- 21	- 21
Change in value fixed rate bonds - hedge accounting					
Change in value derivatives fixed rate bonds	773 374	456 270	-1 560 078	1 657 255	1 542 750
- designated as hedging instruments	- 786 724	- 450 503	1 574 314	-1 635 458	-1 551 142
Net income hedging	- 13 350	5 767	14 236	21 796	- 8 391
<i>Whereof effects from basis swaps (1)</i>	0	0	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	- 11 669	- 5 064	12 257	- 11 034	- 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

	30.09.2023	30.09.2022	31.12.2022
Average debt to assets ratio in %	51.6%	50.5%	53.0%
Portfolio broken down by intervals of debt to assets ratio			
Less than or equal to 40 %	21.9 %	22.2 %	19.5 %
41 - 50 %	20.5 %	21.2 %	18.5 %
51 - 60 %	26.6 %	30.3 %	27.9 %
61 - 70 %	23.6 %	22.9 %	24.2 %
71 - 75 %	5.8 %	2.0 %	6.9 %
76 - 80 %	0.7 %	0.7 %	2.2 %
Above 80 %	0.9 %	0.7 %	1.0 %
Total	100.0 %	100.0 %	100.0 %

5. DEBT TO CREDIT INSTITUTIONS

NOK Thousand	30.09.2023	30.09.2022	31.12.2022
Credit facility with Sparebanken Sør	2 522 603	2 334 303	4 013 403
Received collaterals	551 412	8 056	13 615
Total debt to credit institutions	3 074 015	2 342 359	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	30.09.2023	30.09.2022	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	1 833 119	1 734 033	1 878 438
Deductions	- 5 502	- 7 205	- 8 773
Dividend	0	0	0
Net subordinated capital (common equity tier 1)	4 402 617	4 301 828	4 444 665
Minimum requirements for equity capital			
Credit risk	20 484 493	19 775 706	21 942 354
Market risk	0	0	0
Operational risk	882 123	874 094	882 133
CVA addition		0	0
Deductions		0	0
Risk weight balance (calculation basis)	21 366 616	20 649 800	22 824 487
Common equity tier 1 capital ratio	20.6 %	20.8 %	19.5 %
Tier 1 capital ratio	20.6 %	20.8 %	19.5 %
Total capital ratio	20.6 %	20.8 %	19.5 %
Leverage Ratio	7.3 %	7.3 %	6.7 %

Minimum capital requirements:

NOK Thousand	30.09.2023	30.09.2022	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	2 670 827	2 374 727	2 738 938
Tier1 Capital requirements	2 991 326	2 684 474	3 081 306
Total capital requirements	3 418 659	3 097 470	3 537 795
Above CET1 requirements	1 731 790	1 927 101	1 705 726
Above Tier1 Capital requirements	1 411 291	1 617 354	1 363 359
Above total capital requirements	983 959	1 204 358	906 869

7. LOANS TO CUSTOMERS

NOK Thousand	30.09.2023	30.09.2022	31.12.2022
Loans assessed to amortised cost			
Flexi-loans	15 724 592	14 012 705	15 499 817
Loans with installments - floating interest	36 776 310	36 835 897	41 002 210
Loans with installments - fixed interest	0	0	0
Gross loans	52 607 123	50 902 442	56 589 977
Loss allowance	- 22 644	- 18 246	- 28 098
Net loans	52 584 478	50 884 196	56 561 879
Undrawn credit on Flexi-loans	5 490 499	5 206 945	5 349 504

Loans broken down by sectors and industries	30.09.2023	30.09.2022	31.12.2022
Retail customers	52 502 014	50 849 752	56 503 164
Accrued interests	105 108	52 690	86 813
Gross loans	52 607 123	50 902 442	56 589 977
Loss allowance	- 22 644	- 18 246	- 28 098
Net loans	52 584 478	50 884 196	56 561 879

Loans broken down by geographical areas

NOK Thousand	30.09.2023		30.09.2022		31.12.2022	
Agder	34 195 618	65.0 %	33 075 200	65.0 %	36 629 215	64.8 %
Vestfold og Telemark	6 463 107	12.3 %	6 207 987	12.2 %	7 074 798	12.5 %
Oslo	4 953 366	9.4 %	4 818 527	9.5 %	5 313 447	9.4 %
Viken	3 601 661	6.8 %	3 475 309	6.8 %	3 809 776	6.7 %
Rogaland	2 026 170	3.9 %	1 884 672	3.7 %	2 151 928	3.8 %
Other counties	1 344 557	2.6 %	1 422 502	2.8 %	1 582 715	2.8 %
Total	52 584 478	100.0 %	50 884 196	100.0 %	56 561 879	100.0 %

8. NON-PERFORMING LOANS

NOK Thousand	30.09.2023	30.09.2022	31.12.2022
Total non-performing loans (stage 3)	183 320	155 466	173 159
Stage 3 impairment losses	4 248	3 418	4 500
Net non-performing-loans	179 072	152 048	168 659
Provision ratio non-performing loans	2.32 %	2.20 %	2.60 %
Total non-performing loans in % of gross loans	0.35 %	0.31 %	0.31 %
Gross loans	52 607 123	50 902 442	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	30.09.2023	30.09.2022	31.12.2022
Changes in impairment losses for the period, stage 1	- 3 174	2 540	6 867
+ Changes in impairment losses for the period, stage 2	- 2 115	2 013	6 556
+ Changes in impairments losses for the period, stage 3	- 253	1 003	2 222
= Total losses for the period	- 5 543	5 556	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	11 511	26 205	44 075	5 044	1 616
Total	11 511	26 205	44 075	5 044	1 616

NOK Thousand	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Loss provisions as at 01.01.2023	11.981	12.058	4.500	28.539
Transfers				
Transferred to stage 1	3 976	-3 313	-663	0
Transferred to stage 2	-588	1 199	-610	0
Transferred to stage 3	-32	-534	566	0
	0	0	0	0
Losses on new loans	2 133	865	243	3 241
Losses on deducted loans*	-2 540	-3 198	-782	-6 520
Losses on older loans and other changes	-6 124	2 866	994	-2 263
Loss provisions as at 30.09.2023	8 806	9 943	4 247	22 997
Loss provisions for loans	8 511	9 892	4 241	22 644
Loss provisions for undrawn credit	296	51	6	352
Total loss provisions as at 30.09.2023	8 806	9 943	4 247	22 997

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	1 942	-1 500	-442	0
Transferred to stage 2	-251	425	-173	0
Transferred to stage 3	-13	-202	216	0
Losses on new loans	2 825	1 311	202	4 338
Losses on deducted loans*	-1 169	-1 250	-191	-2 609
Losses on older loans and other changes	-794	3 230	1 392	3 827
Loss provisions as at 30.09.2022	7 654	7 515	3 419	18 588
Loss provision for loans	7 392	7 435	3 419	18 246
Loss provisions for undrawn credit	262	80	0	342
Total loss provision as at 30.09.2022	7 654	7 515	3 419	18 588

* 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	973 046	- 930 680	- 42 366	0
Transferred to stage 2	-1 664 870	1 687 709	- 22 839	0
Transferred to stage 3	- 50 771	- 61 173	111 944	0
Net change on present loans	-1 899 120	- 72 004	- 8 317	-1 979 442
New loans	8 420 972	178 004	10 407	8 609 383
Derecognised loans	-9 853 370	- 719 322	- 40 102	-10 612 795
Gross loans as at 30.09.2023 assessed at amortised cost	49 417 187	3 006 822	183 114	52 607 123

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	728 335	- 704 034	- 24 301	0
Transferred to stage 2	-1 282 697	1 296 871	- 14 175	0
Transferred to stage 3	- 71 793	- 43 751	115 544	0
Net change on present loans	-1 766 594	- 87 492	- 3 883	-1 857 970
New loans	12 313 221	357 230	7 641	12 678 092
Derecognised loans	-9 072 163	- 509 118	- 16 748	-9 598 030
Gross loans as at 30.09.2022 assessed at amortised cost	48 250 452	2 496 523	155 466	50 902 442

10. BONDS AND CERTIFICATES

NOK Thousand	30.09.2023	30.09.2022	31.12.2022
Short-term investments designated at fair value through profit			
Certificates and bonds issued by public sector	1 390 007	1 850 808	2 042 255
Certificates and bonds issued by others	2 538 992	3 324 860	4 387 875
Accrued interests	22 259	16 186	28 627
Total	3 951 258	5 191 853	6 458 757

11. DEBT SECURITIES ISSUED AT 30.09.2023

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	5 030 936	5 043 260
NO0010832637	SORB28	NOK	5 750 000	Floating 3M Nibor	24.09.2025	5 760 215	5 773 650
XS2555209381		EUR	500 000	Fixed 0.31 %	14.11.2025	5 741 217	5 751 587
XS1947550403		EUR	500 000	Fixed 0.50 %	06.02.2026	5 253 467	5 280 538
XS2069304033		EUR	500 000	Fixed 0.01 %	26.10.2026	5 073 348	5 085 034
NO0012535824	SORB32	NOK	5 500 000	Floating 3M Nibor	31.05.2027	5 519 071	5 542 620
NO0011002529	SORB31	NOK	7 000 000	Floating 3M Nibor	20.09.2027	7 141 287	7 082 596
NO0010670409	SORB08	NOK	500 000	Fixed 4.00 %	24.01.2028	495 626	495 882
XS2291901994		EUR	500 000	Fixed 0.01 %	28.01.2028	4 899 661	4 871 248
XS2389362687		EUR	500 000	Fixed 0.01 %	25.09.2028	4 791 082	4 757 807
TOTAL						49 705 910	49 684 222

12. COVER POOL COMPOSITION AND OC

NOK Thousand	Nominal value		
	30.09.2023	30.09.2022	31.12.2022
Loans secured by mortgages on residential properties	52.502.014	50.902.442	56 503 164
Deductions on ineligible loans*	-238.230	-226.085	-237 935
Pool of eligible loans	52 263 784	50 676 357	56 265 229
Certificates and bonds	3 465 000	4 105 000	5 950 000
Total cover pool	55 728 784	54 781 357	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)	13.5 %	11.4 %	14.5 %

NOK Thousand	Fair value		
	30.09.2023	30.09.2022	31.12.2022
Loans secured by mortgages on residential properties	52 584 478	50 884 196	56 561 879
Deductions on ineligible loans*	-238 230	-226 085	-237 935
Pool of eligible loans	52 346 248	50 658 111	56 323 944
Sertificates and bonds	3 513 907	4 143 676	6 032 542
Financial derivatives (assets)	0	0	0
Total cover pool	55 860 155	54 801 787	62 356 486
Debt incurred due to issuance of securities	49 684 222	47 911 596	53 242 213
Financial derivatives (debt)	-260 345	1 231 492	1 327 922
Total	49 423 878	49 143 088	54 570 136
Collateralisation ratio (OC)	13.0 %	11.5 %	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	30.09.2023	30.09.2022	31.12.2022
Income statement			
Interest income from Sparebanken Sør on deposits	1 738	1 572	1 698
Interest expenses/commission from Sparebanken Sør on loans/credit	97 580	64 392	90 862
Interest expenses on bond debts to Sparebanken Sør	0	4 088	4 088
Paid administration fees to Sparebanken Sør	74 584	73 120	98 603
Balance sheet			
Bank deposit in Sparebanken Sør	681 517	86 854	76 666
Covered bonds owned by Sparebanken Sør	0	0	0
Loans/credit in Sparebanken Sør	2 522 603	2 334 303	4 013 403

QUARTERLY PROFIT TREND

NOK Thousand	Q3	Q2	Q1	Q4	Q3
	2023	2023	2023	2022	2022
Net interest income	111 561	120 546	119 087	96 005	106 155
Net other operating income	- 12 847	2 183	19 256	- 23 043	- 6 296
Operating expenses	25 306	25 463	27 469	27 308	24 845
Profit before losses on loans	73 408	97 266	110 875	45 655	75 014
Losses on loans and undrawn credits	4 035	- 7 031	- 2 546	10 089	2 187
Profit before taxes	69 374	104 297	113 421	35 566	72 827
Tax expenses	15 214	15 664	24 953	- 32 546	18 207
Profit for the period	54 160	88 633	88 468	68 111	54 620
Liquidity coverage ratio (LCR)	291 %	209 %	302 %	578 %	1 413 %
Total capital ratio	20.6 %	20.7 %	20.2 %	19.5 %	20.8 %
Leverage Ratio	7.3 %	7.3 %	7.1 %	6.7 %	7.3 %



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