SPAREBANKEN SØR

Minutes from:	General Meeting in Sparebanken Sør
Date of meeting:	March 26, at 17:00 – held at the bank`s head office in Kristiansand, where 7 memers met. The other members participated by telephone conference due to the current Covid-19 situation

1 Opening of the meeting
The General Meeting was opened and led by the Chair of the General Meeting, Jorunn Aarrestad.

2 Recording of attending members
A call was made. The roll showed that 25 members/deputy member of total 28 were present.

In addition, representatives from the Board of Directors and the administration, as well as the independent auditor, were present.

3 Election of two persons to co-sign the minutes together with the Chairman
Harald F. Andersen and Bente Sørensen were appointed to co-sign the minutes together with the Chairman of the General meeting.

4 Approval of the notice of the agenda
The notice with the agenda was made available in Admincontrol as of March 5, 2020.
There were no comments on the notice of the meeting, and this was therefore approved.

Alf Albert, Linda Gjertsen and Nina M. Olsen were chosen to count the votes.

5 Developments in capital structure in the Norwegian banking market
The case was postponed and will be set up again at a later meeting.

6 Capital stategy work done by the Board of Directors
The case was postponed and will be set up again at a later meeting.

7 Status Sparebanken Sør
CEO Geir Bergskaug gave a brief on the status of the business and answered various questions.

8 Annual report and accounts 2019
CEO Geir Bergskaug gave a brief and commented the key figures from the annual report and accounts 2019. The Board of Director`s report, accounts, notes and the auditor`s report was examined.

The General Meeting passed the following unanimous resolution:
The General Meeting has examined the Board of Director`s report, annual accounts including notes and auditor`s report 2019, regarding Sparebanken Sør Parent bank and Group.

The General Meeting approves the annual accounts for 2019, showing a profit of 1,125 NOK million for the Group, and a profit of 904 NOK million for the Parent bank.

Profit of 904 NOK million for the year 2019, regarding Sparebanken Sør (Parent bank) are allocated as follows:

Dividend	0 NOK million
Transferred to gift fund	60 NOK million
transferred to dividend equalization fund	145 NOK million
transferred to primary capital	639 NOK million
Interest on hybrid capital	60 NOK million
Total allocated	**904 NOK million**

Audit fees 2019 for the bank are set at NOK 652,000. Ex VAT.

9 Statement of determination of fees and other remunerations to senior employees in Sparebanken Sør

Chair of the Board Stein Hannevik gave a brief regarding the submitted statement of determination of fees and other remunerations to senior employees in Sparebanken Sør.

The General Meeting passed the following unanimous resolution:

The General Meeting approves the submitted statement on fees and other remuneration to senior employees.

10 Elections

The Chair of the Nomination Committee Jorunn Aarrestad gave an account for the results of the prior votes regarding case 10.1, 10.2, 10,3 and 10.4.

10.1 Election of directors and officers to the General Meeting.

The matter was settled by prior vote.

The General Meeting passed the following unanimous resolution:

Jorunn Aarrestad is elected as Chair of the General Meeting. Terje Spilling is elected as Deputy of the General Meeting. Both elections regarding the period 2020 – 2021.

10.2 Election of chair and deputy chair to The Board of Directors regarding the period 2020-2022

The matter was postponed by prior vote.

The General Meeting passed the following unanimous resolution:

The issue of the election of chair and deputy chair of The Board of Directors for the period 2020 - 2022 is postponed to the autumn's General Meeting.

10.3 Election of members and deputy to The Board of Directors regarding the period 2020-2022

The matter was postponed by prior vote.

The General Meeting passed the following unanimous resolution:
The issue of the election of members and deputy of The Board of Directors for the period 2020 - 2022 is postponed to the autumn's General Meeting.

10.4 Election of Chair, members and deputy members of the Nomination Committee to the General Meeting

The matter was settled by prior vote.

The General Meeting passed the following unanimous resolution:
The following persons are elected as chair, members and deputy of the Board of Trustees' Election Committee, for the period 2020 – 2022:

Members:	Deputy Members:
Brigitte Midgaard, Deposit elected, Chair	Alf Albert, EC-owners
Mette Vestberg Sørensen, Deposit elected	Berit T. Knudsen, Deposit elected
Jorunn Aarrestad, Deposit elected	Tore Askildsen, Public elected
Dag Eide, public elected	Tommy Holter Moi, Employee selected
Helge Sandåker, EC-owner	
Nina Gumpen Hansen, EC-owner	
Nina M. Olsen, Employee selected	
Karen Andersen, Employee selected	

11 Information regarding the deposit election to The Board og Trustees 2020

The case was postponed and will be re-addressed at a later meeting.

12 Election of members and deputy members to the Nomination Committee for deposit holders

Chair of the Nomination committee for deposits Kai M. Strat gave an account for the Nomination Committee's recommendation.

Recommendation from the Nomination Committee:

Members:	Deputy members:
Birgitte Midgaard	Anne Omholt Hovstad
Mette Vestberg Sørensen	Kristi Marie Tveit
Berit T. Knudsen	
Rita Eretveit	

The Deposit elected members of The Board of Trustees made the following unanimous resolution:

Members:	*Deputy members:*
Birgitte Midgaard	*Anne Omholt Hovstad*
Mette Vestberg Sørensen	*Kristi Marie Tveit*
Berit T. Knudsen	
Rita Eretveit	

13 Information regarding the election of EC-owners to The Board of Trustees 2020

The case was postponed and will be re-addressed at a later meeting.

14 Election of members and deputy members to the Nomination Committee for EC-owners

Member of the Nomination committee for EC-owners Tormod Nyberg gave an account for the Nomination Committee's recommendation.

Recommendation from the Nomination Committee:

Members:	**Deputy Members:**
Alf Albert	Nina Berit Gumpen Hansen
Ole Moe	Rune Røiseland
Helge Sandåker	
Svein Bringsjord	

The EC-owner elected members of The Board of Trustees made the following unanimous resolution:

Members:	***Deputy Members:***
Alf Albert	*Nina Berit Gumpen Hansen*
Ole Moe	*Rune Røiseland*
Helge Sandåker	
Svein Bringsjord	

15 Authorization to purchase own equity certificates

The case was postponed and will be re-addressed at a later meeting.

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Kristiansand, 26. March 2020

Jorunn Aarrestad Chair of the General meeting	Harald F. Andersen
Bente Sørensen	

Note: This translation from the Norwegian has been prepared for information purposes only.

ANNUAL REPORT 2019

SPAREBANKEN SØR

HOME

The photos on the front page consist of a group of great people who represented the voluntary, cultural and sports life of the region in 2019. All of these have received support from the bank to the team, association or organization they are part of.

Contents

Highlights in 2019

OUTSTANDING RESULTS

The result for 2019 was the best in the Bank's history, and a strong improvement on 2018. The pre-tax profit of NOK 1467 million was up a full NOK 243 million on the previous year. The outstanding result was attributable to good growth in operating revenues and results contributions from associates, as well as low costs and reduced losses.

HIGHLY COST-EFFECTIVE

The Bank is an extremely cost-effective bank in both a Norwegian and international context. The cost-to-income ratio at year-end amounted to 38.8 percent, compared with 42.7 percent at the end of the previous year. Measured as a percentage of average assets, the cost ratio was a solid 0.73 percent. The strong cost position has been achieved through ongoing adaptations and efficiency improvements, which we will continue moving forward.

RECORD FALL IN LOSSES

Net losses on lending have been low and falling over the last five years, and in 2019 the Bank wrote back NOK 17 million in previously written off losses. In parallel with a sharp decline in losses in recent years, the quality of the lending portfolio has steadily improved, as evidenced in a gradual reduction in non-performing and risk exposures.

SOLID CAPITAL ADEQUACY

Sparebanken Sør has substantially strengthened its equity on the back of several years of solid profits. The Bank's leverage ratio of 9.3 percent places it among the best-performing major banks in Norway and Europe as a whole. At the end of the year, the Bank's common equity tier 1 capital was 15.7 percent, well above regulatory requirements and in line with the Bank's target level. In light of the Bank's high leverage ratio, the return on equity of 9.5 percent in 2019 is deemed to be good.

SATISFACTORY LENDING GROWTH

The Bank maintained its strong position in its home market through the year. Lending growth in the retail market was on a par with regional credit growth, and slightly behind national credit growth. Due to uncertainty regarding future capital requirements through most of 2019, growth in the corporate market was kept below the Bank's long-term growth targets.

At the reporting date, net lending to customers amounted to around NOK 106 billion, while deposits totalled NOK 58 billion. Consequently, the loan-to-deposit ratio is in line with the Bank's target of around 55 percent. In accordance with recently declared capital requirements, the Bank has good capacity for lending growth and we have set our long-term growth target slightly above credit growth in our market area.

DIVERSIFIED FINANCING ENSURES STABLE FUNDING

During the year, the Bank's financing structure was reinforced through the issuance of covered bonds, senior loans, bond loans and subordinated loans. In autumn, Sparebanken Sør became one of the first Norwegian banks to issue a green benchmark mortgage bond of EUR 500 million, which was very well received by the global capital market.

STRONG MARKET POSITION IN A REGION IN GROWTH

The regional economy continued its strong performance through the year under review. Many businesses and industries have shown a good ability to adapt in recent years, and the region is experiencing production growth and increased investment, alongside new job creation and falling unemployment. A weak NOK has improved competitiveness and, together with low interest rates and an expansive fiscal policy, helped stimulate further regional growth in 2019. Sparebanken Sør has maintained its leading market position in the region, where the benefits of the improved economic climate can be seen in the shape of record-low losses, reduced default rates and increasing demand for credit.

STRATEGIC MOVES WILL PRODUCE POSITIVE EFFECTS

The Bank continued its strategic shift in skills through 2019. A number of new employees with leading expertise in focus areas such as technology, digitalisation and analysis have been recruited, while the Bank's planned reduction in full-time equivalents has continued. We are also making significant investments in new technology and new digital customer solutions. These strategic measures will safeguard our position with respect to the digitalised bank customers of the future, provide a better customer experience in all channels, and strengthen the Bank's future profitability and growth capacity.

In the second half of the year, Sparebanken Sør brought its shareholdings in both the insurance company Frende and the leasing and financing company Brage up to 20 percent. This has allowed the Bank to consolidate its share of the results of both companies, and has significantly enhanced the Bank's bottom line in 2019. It will also contribute to a more robust and diversified earnings model moving forward.

INCREASED COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY

We made significant advances in corporate social responsibility in 2019. We have pledged to support the UN's Sustainable Development Goals by signing up to the UNEP Principles for Responsible Banking and the UN Global Compact, and have tightened our requirements with respect to ethics, anti-corruption and sustainability. A substantial element of the Bank's work in the area of corporate social responsibility involves transparency and openness. We passed a milestone in this work this year by for the first time reporting corporate social responsibility in accordance with the GRI standard. The Bank's sustainability report – including the GRI Index and social responsibility and equality balance sheets – is attached to this annual report, and our climate balance sheet and key governing documents in the area of sustainability are published on the Bank's website.

THE REGION'S RELATIONSHIP BANK

The Bank aspires to be the region's relationship bank, with one of the best customer satisfaction ratings. Our customers shall perceive our products and services as relevant and suitable for the vast majority of their financial needs. A long-term approach, proximity to customers and the ability to make decisions locally are the stand-out features of our business. Through continuous changes and improvements, we shall adapt to evolving customer behaviour and provide our customers with both personal advice and constantly improving self-service solutions. A high digitalisation rate and the ability to leverage the opportunities offered by new technology, will provide better customer experience, and increased cost position.

Together, strong customer relations, cost-effectiveness, good credit quality, future-oriented digital solutions and a strong market position makes Sparebanken Sør well positioned to realise the Bank's vision of generating growth and development in the region.

Last but not least: A big thank you to all the staff for their great efforts and good cooperation throughout the year 2019!

Geir Bergskaug

Geir Bergskaug
Adm. direktør

Key figures group

NOK MILLION	31.12.2019	31.12.2018	31.12.2017	31.12.2016*	31.12.2015*
Profit					
Net interest income	1 926	1 729	1 679	1 565	1 544
Net commission income	344	318	312	293	300
Net income from financial instruments	24	2	88	224	-66
Other operating income	74	23	18	28	14
Total net income	**2 368**	**2 072**	**2 097**	**2 110**	**1 792**
Total operating expenses before losses	918	884	811	787	817
Operating profit before losses	**1 450**	**1 188**	**1 286**	**1 323**	**975**
Losses on loans and guarantees	-17	-36	20	50	97
Profit before taxes	**1 467**	**1 224**	**1 266**	**1 273**	**878**
Tax expenses	342	285	282	284	231
Profit for the period	**1 125**	**939**	**984**	**989**	**647**
Profit as a percentage of average assets					
Net interest income	1.53 %	1.46 %	1.53 %	1.49 %	1.58 %
Net commission income	0.27 %	0.27 %	0.28 %	0.28 %	0.31 %
Net income from financial instruments	0.02 %	0.00 %	0.08 %	0.21 %	-0.07 %
Other operating income	0.06 %	0.02 %	0.02 %	0.03 %	0.01 %
Total net income	**1.88 %**	**1.75 %**	**1.92 %**	**2.01 %**	**1.83 %**
Total operating expenses before losses	0.73 %	0.75 %	0.74 %	0.75 %	0.83 %
Operating profit before losses	**1.15 %**	**1.00 %**	**1.17 %**	**1.26 %**	**0.99 %**
Losses on loans and guarantees	-0.01 %	-0.03 %	0.02 %	0.05 %	0.10 %
Profit before taxes	**1.17 %**	**1.03 %**	**1.16 %**	**1.21 %**	**0.90 %**
Tax expenses	0.27 %	0.24 %	0.26 %	0.27 %	0.24 %
Profit for the period	**0.89 %**	**0.79 %**	**0.90 %**	**0.94 %**	**0.66 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	9.5 %	8.5 %	9.7 %	11.6 %	8.4 %
Costs as % of income	38.8 %	42.7 %	38.7 %	37.3 %	45.6 %
Costs as % of income, excl. net income from financial instruments	39.2 %	42.7 %	40.4 %	41.7 %	44.0 %
Key figures, balance sheet					
Total assets	129 499	121 125	114 310	105 455	101 334
Average total assets	125 900	118 600	109 500	104 950	98 000
Net loans to customers	106 334	102 942	97 518	90 928	88 387
Grows in loans as %, last 12 mths.	3.3 %	5.6 %	7.2 %	2.9 %	9.2 %
Customer deposits	57 949	56 537	55 580	51 562	48 349
Growth in deposits as %, last 12 mths.	2.5 %	1.7 %	7.8 %	6.6 %	0.2 %
Deposits as % of net loans	54.5 %	54.9 %	57.0 %	56.7 %	54.7 %
Equity (incl. hybrid capital)	13 081	11 845	11 108	10 051	8 263
Losses on loans as % of net loans, annualised	-0.01 %	-0.17 %	0.02 %	0.05 %	0.11 %
Gross non-performing loans (over 90 days) as % of gross lending	0.27 %	0.21 %	0.28 %	0.30 %	0.47 %
Other key figures					
Liquidity reserves (LCR), Group	148 %	159 %	139 %	128 %	108 %
Liquidity reserves (LCR), Group- EUR	1168 %	4727 %	3105 %		
Likviditetsreserve (LCR), Parent Bank	140 %	180 %	134 %	119 %	71 %
Common equity tier 1 capital ratio	15.7 %	14.8 %	14.9 %	14.7 %	
Tier 1 capital ratio	17.6 %	16.6 %	16.7 %	16.0 %	13.5 %
Total capital ratio	20.3 %	18.7 %	18.9 %	17.9 %	15.5 %
Common equity tier 1 capital	11 356	10 517	9 890	9 114	7 700
Tier 1 capital	12 767	11 591	10 965	9 939	8 210
Net total primary capital	14 686	13 096	12 347	11 121	9 388
Leverage ratio	9.3 %	9.1 %	9.2 %	8.6 %	7.0 %
Number of branches	34	34	34	34	40
Number of FTEs in banking operations	429	434	432	439	449
Key figures, equity certificates					
Equity certificate ratio before profit distribution	17.2 %	17.9 %	18.7 %	17.5 %	13.5 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	4 768 674
Profit per equity certificate (Parent Bank)	9.3	7.7	8.9	8.5	10.6
Profit per equity certificate (Group)	11.7	10.1	11.2	10.7	17.6
Dividend last year per equity certificate (Parent Bank)	8.0	6.0	6.0	6.0	9.0
Book equity per equity certificate	128.5	123.2	120.0	115.2	219.0
Price/book value per equity certificate	0.9	0.8	0.9	0.8	0.6
Listed price on Oslo Stock Exchange at end of period	110.0	96.9	104.0	91.3	139.0

* January 1st 2015 the Group reklassified hybridd capital from debt to equity

Board of Directors' report

Board of Directors' report

NATURE OF THE BUSINESS

Sparebanken Sør is an independent financial institution whose core business is banking, securities trading and real estate brokerage activities in Agder, Rogaland, Vestfold and Telemark. The Group also engages in the sale of insurance, leasing, car loans, consumer credit and share dealing through cooperating product companies, and mortgaging through the wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The Bank has 34 branches, and the head office is located in Kristiansand.

HIGHLIGHTS

The Sparebanken Sør Group delivered a solid profit in 2019, and the Board wishes to highlight the following:

- Historically good results
- Very good results from ordinary operations
- Positive trend in net interest income
- Good results from Frende and Brage
- Efficient operations and low expenses
- Net loss reversals
- Growth in lending of 3.3 percent
- Growth in deposits of 2.5 percent
- Return on equity after tax of 9.5 percent
- Common equity Tier 1 capital ratio of 15.7 percent, well above the 14.5 percent requirement.
- Leverage ratio of 9.3 percent at the end of the year
- The Board will propose distribution of a divided for 2019 of NOK 8.00 per equity certificate.

FRAMEWORK 2019

Higher growth in the Norwegian economy

The Norwegian mainland economy experienced a further upturn in 2019. Growth in GDP for mainland Norway will, according to Norges Bank, probably end the year at 2.6 percent, an increase of 0.2 percentage points over 2018. Employment increased and unemployment appears to have levelled out at 3.6 percent. Household consumption has had relatively weak growth over the course of 2019, and with growth of 1.6 percent is clearly weaker than the growth in activity in the mainland economy in general.

After many years of strong growth in house prices, we have seen moderate and stable growth in the housing market since 2017. At the end of the year, twelve-month growth averaged 2.5 percent, slightly above consumer price growth. There is still a very high level of activity in the housing market. Overall, this indicates a relatively stable and balanced housing market. House prices in the Bank's main markets have shown modest growth over several years.

Credit growth (C2) fell over the course of 2019 to 5.1 percent at the end of the year. Growth in household and business loans was 5.0 and 4.9 percent, respectively. Growth in credit to the municipal sector was 7.0 percent.

Key interest rate

The key interest rate increased from 1.25 to 1.50 percent on 19 September 2019. The reason for the interest rate increase was the good growth in the Norwegian economy, and that the underlying price inflation has been somewhat higher than the inflation target of 2 percent. Norges Bank left the key rate unchanged at its interest rate meeting on 22 January 2020. As Norges Bank assesses the outlook and risk picture, the key rate will likely remain at this level for the near future.

Trends in the financial markets

The Group has had good access to funding, in terms of both deposits and lending, through the issuance of senior debt and covered bonds. The capital markets have been well functioning in 2019, and credit spreads have been relatively stable.

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

On 20 December 2019, the Bank received a decision on the minimum requirement for the total subordinated capital and convertible debt (MREL) from the Financial Supervisory Authority. MREL and internal recapitalisation are key elements of the Bank Recovery and Resolution Directive (BRRD). The MREL requirement is 33.5 percent of the adjusted risk-weighted amount of commitment based on the Bank's balance sheet as at 31 December 2018. Taking into account the subordinated capital available to the Bank, the decision entails a requirement for convertible debt of NOK 9.8 billion. The Bank's MREL requirement in the decision was made effective from 31 March 2020, while the subordination requirement must be met by 31 December 2022. During the transition period, the Bank can use senior debt with a remaining term to maturity of more than 1 year, which was issued prior to 1 January 2020 to meet the requirement. The Bank shall present a plan for meeting the subordinated debt requirement to the Financial Supervisory Authority by 31 March 2020. Early in the transition period, the Financial Supervisory Authority will set the requirement on an annual basis but warns that the requirement will eventually be updated more frequently.

BUSINESS SEGMENTS

Retail market

Over the course of 2019, the Retail Market Division has further developed its services to retail customers, clubs and associations. The branch network has improved its advisory services to customers who want a sparring partner in connection with loans, pensions and credit insurance. In addition, the Customer Service Centre has implemented new technology to further improve availability when customers contact us. The Bank's digital solutions are perceived as being even more functional and user-friendly after both the mobile bank and online bank have been further developed.

The new branch in Jæren reached a milestone by surpassing NOK 1 billion in lending in 2019. It was also decided to establish a new branch in Sandefjord in 2019. The branch will open by the end of 2020.

Despite the Bank expanding its branch network, the number of employees in the division has been reduced. With the help of new technology, centralisation of tasks, standardisation of products and work methods, the division is operating ever more efficiently.

The autumn of 2019 was caracterized by the relegitimisation of the Bank's customers, as was the case for most banks. It has been lower credit growth in the Bank's main area than in the rest of the country, and the demand for loans declined somewhat in 2019. However, the Bank maintains its market share within the retail market. Sales of insurance (Frende), car and boat financing (Brage) and savings products (Norne) increased in 2019. Demand for the Bank's broader product range is likely to continue the positive trend in 2020.

Gross lending to retail customers increased by NOK 2.8 billion to NOK 70.1 billion, corresponding to a change of 4.2 percent. Deposits from retail customers increased by NOK 1.3 billion to NOK 28.1 billion, corresponding to growth of 4.8 percent.

Corporate market

Over the course of 2019, the Bank upheld its position as the business bank for Southern Norway and strengthened its position in Telemark. In addition, the Bank has started to invest in the corporate market in Rogaland. The Bank emerges now as a natural first choice for businesses in large parts of the area that the Bank serves.

Lending to corporate customers increased by NOK 0.4 billion to NOK 36.4 billion in 2019, corresponding to growth of 1.1 percent.

Deposits from corporate customers rose by 0.1 billion to NOK 29.8 billion. This is equivalent to growth of 0.4 percent. The Bank has reduced the share of larger deposits handled through the Capital Markets Division but has had a good increase in operational-related corporate deposits.

The Bank's corporate customers represent a balanced and solid portfolio that is a good reflection of the business community in the region. The customer group also includes 29 municipalities in the public sector.

In addition to fulfilling the role of bank for large parts of the region's trade and industry, as well as the public sector, the Bank also serves a national customer segment through its agreement with the Norwegian Christian organisation KNIF. This is a low-risk segment that includes private hospitals and other enterprises in the health sector, schools, daycare centres, ecclesiastical enterprises, missionary organisations and organisations for children and young people.

The Bank offers general insurance, occupational pensions and group life insurance to the corporate market through Frende Forsikring AS, and leasing through Brage Finans AS. Cooperation with Frende and Brage has been strengthened through an increased commitment, and this has produced good results.

The establishment of our own Customer Service Centre for corporate customers has been very successful. This has allowed the Bank to consolidate and strengthen its expertise, as well as improve its level of service to the corporate customers. In addition, the Bank has increased its focus on digital solutions and image-building in social media.

PROFIT FOR THE YEAR

Accounting policies

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

The annual financial statements have been prepared on a going concern basis. The Group has adequate earnings and equity, and in the view of the Board of Directors there are no indications that it is anything other than a going concern.

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

Profit for the year

Sparebanken Sør achieved a profit before tax of NOK 1,467 million in 2019, compared with NOK 1,224 million in 2018. This is equivalent to 1.17 percent of average total assets, compared with 1.03 percent in 2018.

The Group achieved a very solid profit before tax in 2019 as a result of a positive trend in net interest income, increased net commission expenses, increased contributions from Frende and Brage, low expenses and reversals on losses.

Profit after tax totalled NOK 1,125 million in 2019, compared with NOK 939 million in 2018. This was equivalent to a return on equity, adjusted for interest on hybrid capital, of 9.5 percent in 2019, compared with 8.5 percent in 2018.

Other comprehensive income, which includes changes recognised directly through equity during the financial year, amounted to NOK 1,122 million in 2019, compared with NOK 924 million in 2018.

Net interest income

Net interest income totalled NOK 1,926 million in 2019, compared with NOK 1,729 million in 2018, an increase of NOK 197 million. Net interest income in 2019 was equivalent to 1.53 percent of average total assets, compared with 1.46 percent of average total assets in 2018.

In 2019, the Bank paid NOK 60.0 million in interest on hybrid capital, compared with NOK 55.9 million in 2018. Interest on hybrid capital was charged to equity as an allocation of profit.

Norges Bank increased the key interest rate three times in 2019, and our Bank has followed up with an increase in its lending rates.

Interest rate changes have contributed to increased interest income in 2019. However, the change in interest rates on mortgages has been less than the increase in the market rates (NIBOR).

Increased market interest rates (NIBOR) have entailed increased funding costs, while the increase in interest rates on deposits has been moderate and thus led to a positive development in the Bank's deposit margins.

Commission income

Net commission income totalled NOK 344 million, compared with NOK 318 million in 2018. The increase was primarily attributed to increased income from payment services and increased commission income from the real estate agency business.

Net commission income corresponded to 0.27 percent of average total assets in 2019, which was on par with the level in 2018.

Financial instruments

Net income from financial instruments totalled NOK 24 million in 2019, compared with NOK 2 million in 2018.

In 2019, there was a positive development in the value of equities, fixed-rate loans and basis swaps. The liquidity portfolio made a negative contribution of NOK 23 million in 2019, compared with NOK 33 million in 2018. The Group will be refinanced in advance of the maturity of external market financing. In connection with the refinancing, an outstanding bond with a short time to maturity will be redeemed. The debt has been recognised at amortised cost, while redemptions are recognised at market value. The change in value is recognised as a net change in profit on financial instruments, and made a negative contribution of NOK 29 million in 2019.

Associated companies

In 2018 and 2019, Sparebanken Sør increased its ownership interests in Frende Holding AS and Brage Finans AS. This was carried out as part of our strategic commitment to be better able to offer our customers good, relevant and integrated solutions.

In January 2019, Sparebanken Sør entered into an agreement with Fana Sparebank to purchase 4.34 percent of the shares in Brage Finans AS. In addition, a new share issue was carried out in the company in the first quarter, and the Bank increased its ownership interest by 0.9 percent. Following the purchase, Sparebanken Sør owns 20.8 percent of the shares in Brage and has classified Frende as an associate. The shareholding has been recognised according to the equity method as of the first quarter.

Income from associated companies totalled NOK 64 million in 2019, up from NOK 13 million in 2018. The share of the profit in 2019 can be broken down to NOK 65.5 million from Frende Holding AS and NOK 23.7 million from Brage Finans AS. The income in 2018 was primarily attributed to Balder Betaling AS, in which Sparebanken Sør has a holding of 22 percent. Balder Betaling AS owns 10.5 percent of the shares in Vipps.

In connection with the purchase of shares in Frende Holding AS in 2018, excess value was identified that will be amortised over the expected life. The Group has amortised excess value by NOK 20 million in 2019. In addition, an adjustment was made to Frende's financial statements for 2018, which had a negative effect on the results of Sparebanken Sør of NOK 5.2 million in 2019.

Expenses

Group expenses totalled NOK 918 million in 2019, compared with NOK 884 million in 2018. As a percentage of the average total assets, this was equivalent to 0.73 percent, compared with 0.75 percent in 2018. The cost-to-income ratio, excluding income from financial instruments, was 38.8 percent, compared with 42.7 percent in 2018.

Personnel expenses increased compared with 2018. The increase is attributed to salary growth and strategic investments through employment within analysis, risk management and business development.

Depreciation and amortisation of property, plant and equipment increased compared with the previous year, primarily attributed to investments in systems. Operating expenses declined by NOK 7 million compared with 2018.

Losses and non-performing loans

Net losses on loans saw reversals of NOK 17 million, compared with net reversals of NOK 36 million in 2018.

At year-end, the Bank's write-downs on loans amounted to NOK 397 million, corresponding to 0.36 percent of gross lending, and is still at a low level. The write-downs totalled NOK 473 million in 2018, corresponding to 0.46 percent of gross lending.

Gross non-performing loans over 90 days amounted to NOK 286 million, which corresponds to 0.27 percent of gross lending. The corresponding figure in 2018 was NOK 213 million, which was equivalent to 0.21 percent of gross lending.

BALANCE SHEET

Total assets

Total assets amounted to NOK 129.5 billion at year-end 2019, compared with NOK 121.1 billion in the previous year. This corresponded to growth of NOK 8.4 billion, or 6.9 percent.

Lending

Net lending to customers totalled NOK 106.3 billion in 2019, compared with NOK 102.9 billion in 2018. This resulted in growth of NOK 3.4 billion or 3.3 percent.

Gross lending to retail customers amounted to NOK 70.1 billion, compared with NOK 67.3 billion in 2018. This resulted in growth of NOK 2.8 billion, corresponding to 4.2 percent. On a national basis, household lending growth (C2) was 5.0 percent. At the end of the 2019, loans totalling NOK 40.2 billion had been transferred to Sparebanken Sør Boligkreditt AS. This company is an important instrument that enables the Bank to offer competitive terms in the retail market. Loans to retail customers accounted for 66 percent of total lending, compared with 65 percent in 2018.

Gross lending to corporate customers totalled NOK 36.4 billion in 2019, compared with NOK 35.9 billion in the previous year. This resulted in growth of NOK 0.4 billion or 1.1 percent. On a national basis, lending to corporate customers (C2) grew by 4.9 percent. As a result of uncertainty about future capital requirements, the bank has had one limited lending growth in the corporate market in 2019.

Deposits

At the end of the year, total deposits amounted to NOK 57.9 billion, compared with NOK 56.5 billion in 2018. This resulted in growth of NOK 1.4 billion, or 2.5 percent.

Deposits in the retail market totalled NOK 28.1 billion, compared with NOK 26.8 billion in 2018. This resulted in growth of NOK 1.3 billion, or 4.8 percent. Deposits in the corporate marked totalled NOK 29.8 billion, compared with NOK 29.7 billion in 2018. This resulted in growth of NOK 0.1 billion, or 0.4 percent.

The deposit-to-loan ratio was 54.5 percent as at 31 December 2019, compared with 54.9 percent in 2018.

Debt established through issuance of securities and debt to financial institutions

The Bank funds itself in the capital market by issuing interest-bearing securities. The Group's debt from securities amounted to NOK 53.4 billion at the end of 2019, compared with NOK 48.3 billion at the end of 2018. Long-term bond funding has been established as covered bonds and senior debt. Covered bonds accounted for 69 percent of this funding at the end of 2019. Long-term funding with a maturity of more than 12 months accounted for 93 percent. The average maturity of long-term funding was 3.5 years, and the Group's long-term funding (NSFR) indicator was 125.7 percent at the end of 2019.

The Group has arranged for long-term funding from the international market by establishing EMTN (European Medium Term Bond Note) programmes for the Bank and the mortgage company. In the first quarter of 2019, Sparebanken Sør Boligkreditt issued EUR 500 million to international investors. In the fourth quarter, Sparebanken Sør Boligkreditt issued a green covered bond denominated in euros. The transaction was carried out in accordance with the obligations set out in the Group's framework for green and sustainable bond issues. At the end of 2019, the Group had diversified funding from international investors of EUR 2.8 billion. Funding in foreign currency is hedged for interest rate and currency risk against floating Norwegian kroner (NOK).

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

Securities

The Group's liquidity portfolio of interest-bearing certificates and bonds amounted to NOK 19.9 billion at the end of the year.

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

The Group's liquidity reserve (LCR) stood at 148 percent as at 31 December 2019 (140 percent for the parent bank). Investments in shares and equity certificates totalled NOK 190 million.

Subordinated capital

The Bank strengthened its subordinated capital in 2019 through a solid profit, adjusted growth in risk-weighted assets and the issuance of hybrid capital totalling NOK 300 million and subordinated loan capital totalling NOK 500 million.

Net subordinated capital totalled NOK 14.7 billion at year end. The hybrid capital amounted to NOK 1.4 billion and subordinated loan capital amounted to NOK 2.0 billion.

The common equity Tier 1 capital ratio was 15.7 percent at the end of 2019. The common equity Tier 1 capital ratio was 17.6 percent and the total capital ratio was 20.3 percent, based on the standard method in the Basel II regulations.

Sparebanken Sør owns 20.8 percent of Brage Finans AS. The company is proportionately consolidated in accordance with the rules on collaborating groups.

The figures for the Parent Bank were a common equity Tier 1 capital ratio of 16.0 percent, Tier 1 capital ratio of 18.3 percent and total capital ratio of 21.4 at the end of 2019.

A new SME discount was introduced with effect from 31 December 2019 for all small and medium-sized enterprises. This discount entails that the capital requirements for SMEs shall be reduced by a factor of 23.8 percent. In order to qualify for reduced capital requirements, the total commitments must not exceed EUR 1.5 million. In addition, only enterprises with maximum annual revenue of EUR 50 million are eligible. The impact on Sparebanken Sør resulted in a reduction of NOK 1.9 billion in the calculation basis and amounted to an improvement in the common equity Tier 1 capital ratio of approximately 0.4 percentage points.

The Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of the risk-weighted balance sheet in 2018. The requirement is linked to an assessment of risk factors not covered by the Pillar 1 requirements and also includes a new method for calculating capital requirements for partly-owned insurance companies. The capital requirement linked to an ownership interest in Frende Holding AS alone is around 0.3 percentage points.

The Group met the applicable minimum capital requirements for financial institutions as at 31 December 2019 with a common equity Tier 1 capital ratio of 14.5 percent, Tier 1 capital ratio of 16.0 percent and a total capital ratio of 18 percent, respectively. The Group's internal target is a common equity Tier 1 capital ratio of 15.3 percent.

The Ministry of Finance has adopted regulatory amendments that put into force the EU Capital Requirements Regulations CRR/ CRD IV as of 31 December 2019. The systemic risk buffer requirement will increase from 3.0 to 4.5 percent. Previously, a gradual introduction of the systemic risk buffer requirement by 2021 was signalled. However, the Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which will entail that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022.

The Group will adapt to the new requirements by 2022 and ensure the necessary buffers above the minimum requirement.

An important part of the Group's objective is that the commom equity Tier 1 capital ratio should be on par with that of comparable banks. Of the major regional banks, only Sparebanken Sør uses the standard method for the calculation of capital adequacy, and today the Bank has a higher leverage reatio than the other regional banks. Sparebanken Sør has decided to apply to the Financial Supervisory Authority for the approval of internal models for the calculation of capital adequacy (IRB). The work on preparing an IRB application is a high priority area for the Bank. However, the work is more extensive than originally assumed, partly as a result of changed requirements from the EBA affecting the Bank's model development.

The Bank's objective is to submit the IRB application to the Financial Supervisory Authority well in advance of the implementation of the increased systemic risk buffer requirement in 2022.

The Group's leverage ratio was 9.3 percent at the end of 2019, compared with 9.1 percent at the end of 2018.

The Bank's solidity is deemed to be highly satisfactory.

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

The EU Bank Recovery and Resolution Directive (BRRD) was introduced in Norway with effect from 1 January 2019. A key element of the directive is the requirement for internal recapitalisation as a crisis measure, in a situation where capital instruments and debt are written down or converted into equity (bail-in). The Financial Supervisory Authority shall set a minimum requirement for the sum of subordinated capital and convertible debt (Minimum Requirement of Own Funds and Eligible Liabilities), and under the EU directive, may require that eligible convertible debt shall have lower priority in full or in part than other debt .

The MREL consists of a loss absorption amount and a recapitalisation amount. For enterprises that are to be liquidated through public administration in a crisis, the point of departure will be that the ordinary capital requirements are sufficient to absorb the losses. The minimum level for this part of the MREL is related to the applicable capital adequacy requirements. For enterprises where it is considered important that all or part of the operations continue, the MREL should also include a recapitalisation amount. The size of this amount is related to the expected capital requirements after the crisis measures have been implemented and the operations continue. The MREL is determined based on the crisis management authority's crisis measures plan for the enterprise in question.

On 20 December 2019, the Financial Supervisory Authority set the minimum requirement for subordinated capital and convertible debt for Sparebanken Sør and seven other banks.

The requirements have been set as a percentage of the Bank's risk-weighted calculation basis at the end of 2018. For banks with wholly or partly owned mortgage companies, adjustments have been made that reflect the fact that the mortgage company is exempt from requirements for the MREL, so that the MREL calculation takes into account the Bank's financial obligations to the mortgage company.

The Financial Supervisory Authority has set Sparebanken Sør's MREL requirement at 33.5 percent of the adjusted calculation basis. The decision states that the MREL requirement will be covered by subordinated capital, in combination with debt instruments with a lower priority than unsecured senior bond debt. The requirement for such subordinated debt (Tier 3) amounts to NOK 9.8 billion and must be fully met by 31 December 2022. Up until this date, senior debt with a remaining term to maturity of more than one year, which was issued prior to 1 January 2020, will be deemed to be eligible. The Bank must establish a plan for phasing in subordinated debt (Tier 3) to be submitted to the Financial Supervisory Authority by the end of Q1 2020.

ALLOCATION OF PROFIT

In the view of the Board, the submitted income statement and balance sheet present a true and fair view of the financial position and results of the Group and the Parent Bank. The Board of Directors is not aware of any circumstances that have arisen after the turn of the year that would alter this view.

The following allocation of the Parent Bank's profit of NOK 904 million is proposed:

Dividend:	NOK 125 million
Interest on hybrid capital:	NOK 60 million
Transferred to donation fund:	NOK 60 million
Transferred to equalisation fund:	NOK 20 million
Transferred to primary capital:	NOK 639 million
Total allocated:	**NOK 904 million**

EQUITY CERTIFICATES AND DIVIDEND

As at 31 December 2019, the Bank had issued 15,633,944 equity certificates with a nominal value of NOK 50.

A list of the 20 largest equity certificate holders as at 31 December 2019 is presented in Note 36. Earnings per equity certificate amounted to NOK 9.3 for the Parent Bank and NOK 11.7 for the Group.

The ownership ratio was 17.2 percent on average in 2019. Hybrid capital (hybrid Tier 1 loans) classified as equity, has been excluded from calculation of the ownership ratio.

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

The profit will be distributed between the equity certificate capital (equity certificate holders) and primary capital in accordance with their share of the equity.

Sparebanken Sør's need for capital, including regulatory capital adequacy requirements, investors' expectations and the Bank's strategic targets, will be considered when determining the annual dividend.

Our target is that approximately 50 to 70 percent of the equity certificate holders' share of the profit after tax for the year should be distributed as a dividend.

The Board of Directors will propose a dividend for 2019 of NOK 8.0 per equity certificate to the Board of Trustees, which is equivalent to a payout ratio of approximately 69 percent. In addition, the Board of Directors will propose an allocation of NOK 60 million to the gift fund.

The Bank's equity certificate ratio was 17.2 percent before allocation of the profit for the year. With the proposed dividend and allocation to the donation fund, the equity certificate ratio will be reduced to 16.2 percent.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør Boligkreditt

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company is licensed to operate as a mortgage company with the right to issue covered bonds. The main object of the company is to ensure stable and long-term funding on competitive terms.

At year end, loans totalling NOK 40.2 billion had been transferred to the mortgage company. The average loan-to-value ratio was 57.4 percent. At year end, covered bonds totalling NOK 36.7 billion had been issued. The cover pool, including interest-bearing securities and derivatives, amounted to NOK 42.6 billion. The over-collateralisation ratio calculated from the gross outstanding bond debt was 15.7 percent.

The company reported a profit before tax of NOK 313.7 million. The common equity Tier 1 capital ratio was 20.2 percent at the end of the year. The company has entered into agreements with the Parent Bank, which include financing liabilities and agreements to supply important services to the company, such as loan administration, shared services and treasury functions.

In the first quarter of 2019, the company issued EUR 500 million as a covered bond under the company's EMTCN programme. In the fourth quarter, Sparebanken Sør Boligkreditt issued a green covered bond denominated in euros. The transaction was carried out in accordance with the obligations set out in the Group's framework for green and sustainable bond issues.

At the end of 2019, the company had five outstanding benchmark loans in euros totalling EUR 2.5 billion. The loans were swapped back to floating interest rate funding in NOK.

The derivatives contracts are entered into with reputable financial counterparties under ISDA/CSA agreements.

Sørmegleren

Sørmegleren is the Bank's real estate agency. During the six years the company has been in the market, it has become the leading real estate agency in Southern Norway, with a market share of nearly 30 percent. In the Grenland district, its cooperation with Porsgrunn Boligbyggelag (PBBL) has proved to be successful, with a market share now approaching 15 percent. Sørmegleren holds a dominant position in the new-build market in Agder, and in Kristiansand in particular.

Sørmegleren has a total of 16 offices, of which the offices in Søgne and Evje opened in 2019. The business has 83 employees.

Other subsidiaries and joint ventures

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

COLLABORATING COMPANIES

Frende Holding AS

Frende Holding AS (20.2 percent ownership interest) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which offer general and life insurance to private individuals and businesses.

Frende Holding AS achieved a profit before tax of NOK 401.8 million in 2019, compared with NOK 44.1 million for the same period in the previous year.

Frende Skade reported a profit before tax of NOK 267.0 million in 2019, compared with NOK 9.3 million in 2018. The company possesses a total portefolio of insurances of NOK 2,111 million in 2019, compared with NOK 1,994 million in 2018, and they are distributed among 164,000 customers. The market share was 3.5 percent at the end of the third quarter. The loss ratio as at 31 December was 77.4 percent in 2019, compared with 81.5 percent in 2018, and the company's combined ratio was 96.0 percent in 2019, compared with 100.5 percent in 2018.

The return on equity for Frende Skade was 17 percent (0 percent) for the year. Frende Liv reported a profit before tax of NOK 155.0 million in 2019, compared with NOK 40.4 million in the previous year. The portefolio of insurances, excluding savings, increased to NOK 568 million in 2019, compared with NOK 530 million in 2018, an increase of NOK 38 million over the course of the year. The return on equity for Frende Liv was 28.8 percent in 2019, compared with 8.4 percent in 2018.

Brage Finans AS

Brage Finans AS is a financing company that offers leasing, car financing and consumer credit. The company's head office is located in Bergen. In addition, the company has sales offices in Kristiansand, Kragerø, Stavanger, Haugesund and Ålesund. The company's products are distributed mainly through owner banks, its own sales organisation and distributors. Brage Finans is owned by 12 independent savings banks.

In the first half of 2019, Sparebanken Sør entered into an agreement with Fana Sparebank to purchase 4.34 percent of the shares in Brage Finans AS. In addition, a new share issue was carried out in the company in the first quarter, in which the Bank increased its ownership interest by 0.9 percent. Following the purchase, Sparebanken Sør owns 20.8 percent of the shares in Brage and has classified Brage as an associated company. The shareholding has been recognised in accordance with the equity method as of the first quarter.

Brage Finance AS achieved a profit before tax of NOK 168.2 million in 2019, an improvement in earnings of NOK 74.3 million over 2018. Robust growth in lending in both the corporate and retail markets is one of the main reasons for the company's earnings improvement, which produced a return on equity of 8.0 percent, compared with 7.6 percent in 2018.

At the end of 2019, Brage had a gross lending portfolio of NOK 12.0 billion, an increase of NOK 2.7 billion compared with the same time the previous year.

Norne Securities AS

Norne Securities AS is a full-service investment firm with expertise in banking, finance and coastal business. Sparebanken Sør has an ownership interest of 17.4 percent.

Norne has further developed its role as the leading Norwegian adviser and issue manager for equity certificates in Norwegian savings issues. The company has also streamlined its operations into two clear market areas: Online equity and fund trading for the retail customer market, and Corporate Finance and Investment Advice for the corporate customer market and professional investors.

Balder Betaling AS

Balder Betaling AS was established in 2017 and has an ownership interest of 10.6 percent in Vipps AS. The company's objective is to further develop Vipps together with the other owners. Sparebanken Sør's ownership interest is 22.2 percent, and the remaining shares are held by the banks in the Frende collaboration group.

RISK MANAGEMENT

Risk is a fundamental feature of banking, and risk management is crucial to the Bank's day-to-day operations and follow-up by the Board of Directors.

The Bank's risk management and internal control activities must help ensure that risk is managed in a way that supports the Bank's strategic objectives and safeguards the Bank's long-term value creation. The overall guidelines for the Bank's risk management and risk exposure limits are assessed and established annually by the Board of Directors in conjunction with maintenance of the Bank's internal strategy and policy documents. The Board of Directors establishes frameworks for risk appetite, including specified management objectives and limits on risk tolerance for the various categories of risk such as credit risk, market risk, liquidity risk and operational risk. Systems and structures are established for measurement, management, follow-up and control of risk, as well as authorisations involving systems for reporting to management and the Board of Directors for the various categories of risk. The Bank's objective is to have a low level of risk exposure, and there is a continuous process aimed at enhancing and improving the Bank's management of risk.

The most significant risk factors can be classified as financial risk, operational risk (including money laundering risk, ICT risk and cyber risk), compliance risk and strategic and business risk.

Financial risk covers credit risk, market risk (related to the Bank's exposure to the interest rate, currency and stock markets) and liquidity risk. Operational risk is the risk of losses due to inadequate or flawed internal processes or systems, human error or external events. Strategic risk relates to the strategies, plans and changes the Bank makes or intends to make, while business risk is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic upturns/downturns, competition, customer behaviour, lack of business development and regulation by public authorities.

The Bank has an ongoing process relating to the monitoring and assessment of the different risk factors. Internal control processes are performed with respect to all main areas in accordance with the relevant regulations. The Bank's Group management addresses matters relating to risk management as and when they arise and reports periodically to the Board of Directors. The Board considers that the Bank's risk management is effective.

Credit risk

Credit risk is the most significant category of risk for the Bank. It is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the Bank. Work on credit risk is therefore given high priority day to day, and in the Board's follow-up activities. The Board of Directors approves the Bank's credit strategy and credit policy. Credit risk is also managed through credit management routines, credit assessment processes and credit allocation authorisations. The Board has established objectives and guidelines, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the Bank's credit policy is monitored by the Risk Management Division, which is an independent unit.

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

The Bank's management and control of credit risk must be good, and on a par with that of comparable banks. The Bank's total credit risk must also be on a par with that of comparable banks.

Market risk

Market risk includes risk associated with variations in the value of unhedged interest rate, credit spread, currency and equity positions. Losses may arise due to movements in interest rates and credit spread, and in the event of fluctuations in foreign exchange rates and share prices. In addition, the valuation of covering transactions (basis swaps), which are used to hedge interest rate and currency risk arising when the Bank carries out financing in foreign markets, will also have a temporary impact on profit or loss.

Sparebanken Sør must have a low market risk. Activity with respect to financial instruments is intended primarily to cover the Bank's exposures that arise in connection with the Bank's ordinary customer activities and the funding of its operations.

The Board has established risk-tolerance guide levels for investment in shares, bonds and positions in the interest rate and currency markets. Compliance with these performance targets is followed up regularly and reported to the Board.

The interest rate risk limit is determined as an upper limit on how large the loss on unhedged interest rate positions may be in case of shifts or distortions in the interest rate curve. Interest rate risk arising from the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies are hedged on an ongoing basis.

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

At year end, the Group's net interest rate risk was measured using the market value method at NOK 23.8 million. Accounting for income statement items related to fixed rate financing (hedge accounting), entails, however, an expected lower impact on profit in the event of changes in the yield curve (NOK 7.2 million).

Beyond the interest rate risk limit, an upper risk tolerance level has been set for credit spread risk, stated as the effect on profit or loss of an assumed change in the credit spread, which will lead to changes in the value of the Group's interest-bearing securities portfolio. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The Bank's credit spread exposure is related to the liquidity portfolio. At year-end 2019, 74.0 percent of the limit adopted by the Board had been used.

The Group is subject to fluctuations in the foreign exchange market through its customer-related currency activities. Derivatives (currency futures, swaps and options) are used to hedge open currency exposures. Currency exposure is measured as a 25 percent change in the exchange rate on the currency position.

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

At year end, the Group's equity investments totalled NOK 190 million. The Bank's commercial investments in the product companies Frende Holding AS, Norne Eierselskap AS and Brage Finans AS were among its largest individual investments. In addition, there is the Bank's ownership interest in Balder Betaling AS.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments or be unable to finance ordinary lending growth and its assets, or that funding cannot be obtained without incurring significant additional costs.

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

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. The Group's deposit-to-loan ratio was 54.5 percent at year-end.

Sparebanken Sør Boligkreditt AS represents an important funding instrument for the Group, because it ensures access to long-term funding by issuing covered bonds. To be able to issue covered bonds, mortgages equivalent to 57.0 per cent of all loans to the retail market were transferred from the Parent Bank to the mortgage company in 2019.

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

The indicator for long-term funding stood at 125.7 percent at the end of 2019.

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

The Bank's short-term liquidity risk is managed partly by adaptation to the Liquidity Coverage Requirement (LCR). At year-end 2019, the total LCR indicator for Sparebanken Sør (Group and Parent Bank) and Sparebanken Sør Boligkreditt AS was sufficient to meet all the projected liquidity maturities within the next 30 days under a stress scenario by a good margin. The Group and Parent Company had an LCR ratio of 148 percent and 140 percent, respectively, as at 31 December 2019. The regulatory requirement was 100 percent.

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

The Group's liquidity risk is reported periodically to the Board.

Counterparty risk

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

Derivative contracts are entered into to hedge the risk which arises in the Bank's ordinary operations in connection with funding at fixed interest rates and in a currency other than NOK, loans to customers at fixed interest rates, and in foreign currency and in derivatives trading with customers.

Derivative contracts must be established with reputable counterparties with a good rating and must be regulated by an underlying ISDA agreement. Derivative contracts must be distributed among various counterparties to avoid counterparty concentration.

The Bank complies with the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) for settlement, confirmations, documentation and reporting to the authorities.

The Bank's counterparty risk is regulated through the establishment of agreements on the furnishing of collateral (Collateral Support Annex) between the parties. Under CSA settlement, the value of derivatives is reconciled with the derivative counterparty, and settlement of collateral takes place. By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. In 2019, the Bank has established clearing against the London Clearing House through a clearing agent.

Operational risk

Operational risk is the risk of losses due to weak or inadequate internal processes or systems, human error or external incidents. These may be disruptions or interruptions of an operational nature, breach of procedures, faults in ICT systems or hardware, breach of rules, fraud, fire or criminal acts.

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

The Bank aims to have a low operational risk.

Compliance

The Group focuses on having good processes to ensure compliance with applicable laws and regulations. Compliance risk is the risk of the Group incurring legal or regulatory sanctions, financial losses or impaired reputation as a result of non-compliance with laws, regulations or policy documents. Efforts are constantly being made to assess how best to adapt to new rules and regulations in order to achieve both compliance and efficiency in the organisation. New rules and regulations are implemented in the Bank's policy documents and procedures. The Bank's compliance function is organised independently of the business units.

The Bank must have a low compliance risk.

Ownership risk

Ownership risk is the risk of the Group incurring negative results from ownership interests in subsidiaries and associates and/or having to contribute new equity to these companies. Ownership is defined as companies in which Sparebanken Sør has a significant shareholding or influence.

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

The Bank's ownership risk is considered low.

Capital management

The purpose of capital management is to ensure that the Group's capital adequacy meets regulatory requirements and requirements from the financial markets. Capital management must also ensure that market opportunities are exploited and ambitions fulfilled, and that the Group achieves a satisfactory return in relation to the Bank's risk profile.

At the end of 2019, the common equity Tier 1 capital ratio for the Group after proportionate consolidation of partly owned subsidiaries was 15.7 percent, the Tier 1 capital ratio was 17.6 percent and the total capital ratio was 20.3 percent. The Group met the applicable minimum capital requirements for financial institutions as at 31 December 2019 with a common equity Tier 1 capital ratio of 14.5 percent, Tier 1 capital ratio of 16.0 percent and a total capital ratio of 18 percent, respectively.

The Bank's solidity is considered highly satisfactory in relation to the applicable regulatory requirements. This is substantiated by the Group's high leverage ratio, which stood at 9.3 percent at year-end.

The Bank's capital requirements are assessed annually on the basis of an estimated total risk. The internal capital adequacy assessment process (ICAAP) enables the Bank to maintain good risk management and provides an overview of the risks to which the Bank is exposed, while ensuring that the Group is sufficiently capitalised. In July 2018, the Bank received the Financial Supervisory Authority's assessment of the Group's capital requirements (SREP), and the Pillar 2 requirement was set at 2.0 percent of the risk-weighted balance. The requirement is linked to an assessment of risk factors not covered by the Pillar 1 requirements, and also includes a new method for calculating capital requirements for a partly owned insurance company. The capital requirement linked to the ownership interest in Frende Holding AS alone is around 0.3 percentage points. It is expected that the Bank will receive a new Pillar 2 requirement in the second half of 2020.

The Group has stated that its target is a common equity Tier 1 capital ratio of 15.3 percent. The Ministry of Finance decided in December 2019 that the requirement for the systemic risk buffer should be increased by 1.5 percentage points. For banks that use the standard method, this requirement will not apply until 31 December 2022.

The Group will comply with the requirement by this date and will secure the necessary buffers above the minimum requirement.

An important part of the Group's objective is that the common equity Tier 1 capital ratio should be at the same level as comparable banks. Sparebanken Sør is the only one of the large regional banks to make use of the standard method when calculating capital adequacy. As a "standard bank", the Bank will therefore have a higher calculation basis when calculating capital adequacy in relation to the comparable regional banks that use IRB, and the Bank currently has a higher leverage ratio than the other regional banks. Sparebanken Sør has begun a process to apply to the Financial Supervisory Authority for approval to use internal models for credit risk (IRB). This is a complex process, and the work is more extensive than originally assumed, partly as a result of changed requirements from the EBA affecting the Bank's model development. The Bank's objective is to submit the IRB application to the Financial Supervisory Authority well in advance of the implementation of the increased systemic risk buffer requirement in 2022.

The Group's capital adequacy is followed up by means of periodic reporting to the Board of Directors.

RATING

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

Sparebanken Sør has a long-term rating of A1 with a "Stable Outlook". In connection with the implementation of the Bank Recovery and Resolution Directive in Norwegian legislation, the rating outlook was changed from a "Negative Outlook" to "Stable Outlook" in June 2019 for 7 large Norwegian banks in parallel.

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

CORPORATE GOVERNANCE

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

Sparebanken Sør's principles and policy are intended to ensure that the Bank's corporate governance is in line with generally accepted perceptions and standards, as well as the applicable laws and regulations. Furthermore, corporate governance is intended to ensure good cooperation between the Bank's different stakeholders, such as holders of equity certificates, lenders, customers, employees, governing bodies, management and society at large. The Board believes that the Bank's corporate governance is satisfactory and consistent with its principles and policy. See the full report attached to the annual report.

PERSONNEL AND WORKING ENVIRONMENT

At year-end 2019, the Bank had 429 full-time equivalent employees (FTEs) and the Group had 501 FTEs.

Sickness absence was 4.7 percent in 2019 and is somewhat higher than the level in 2018, when it was 3.5 percent. Short-term absence and medium-term absence declined somewhat from 2018. The increase in sickness absence is found in long-term absence and is linked to employees with a long-term and serious illness. The Bank works systematically and continuously to follow up sickness absence and expects a reduction throughout 2020. The Bank has made arrangements for employees with disabilities. New constructions and refurbishments have been designed for universal access, which means that the buildings are arranged so that everyone can use them without any special adaptations or assistive devices.

The Bank continuously endeavours to ensure that its employees have the right skills. In addition to ongoing training on products, systems and procedures, among other things, a training program has been implemented related to anti-money laundering for the Board and the Bank's employees. The Bank's various training measures are described in more detail in the Sustainability Report for 2019, which is published under Corporate social responsibility on the Bank's website www.sor.no.

The Bank has stable and good working conditions with a good working environment, and investments continue to be made in various social activities for employees in areas such as company sports and art clubs. The Bank's provision of staff holiday cabins and apartments is popular, and these are heavily used throughout the year.

Diversity and equal opportunity

At year end, the Bank had a total of 446 employees, with 223 men and 223 women. In 2018, there were 453 employees. Women make up 35.5 percent of the Bank's managers. In the Bank's governing bodies, the proportion of women was 46.0 percent on the Board of Trustees and 50.0 percent on the Board of Directors. The Bank has prepared gender equality accounts, which are found in the Sustainability Report for 2019, which is published under Corporate social responsibility on the Bank's website.

RESEARCH AND DEVELOPMENT

The Group does not carry out any own research activities.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is integral to Sparebanken Sør's business activities. Sparebanken Sør's corporate social responsibility is expressed in the Bank's business concept of contributing to growth and development in the region, and the goal of its corporate social responsibility activities is to help achieve this in a responsible and sustainable way. The Bank's efforts in the area of corporate social responsibility help to strengthen its competitiveness, reduce risk, and attract good customers, investors and capable employees. Sparebanken Sør also gives back some of its profits in the form of donations and initiatives that benefit the region and local communities. The Bank has prepared a corporate social responsibility report that is found in the Sustainability Report for 2019, which is published under Corporate social responsibility on the Bank's website.

Climate challenges and the external environment

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

The Bank has a diversified lending portfolio. Several of the Bank's corporate customers have operations that will have an impact on the external environment. By providing credit, the Group may indirectly impact the external environment. In 2018, the Bank established guidelines for the implementation of sustainability in the Bank's lending operations. These guidelines are published on the Bank's website.

Human rights

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

The Bank's relation to human rights, workers' rights and social conditions follow what is standard and required for Norwegian businesses. The Bank is a member of Finance Norway and is bound by collective bargaining agreements within this area. The Bank has also entered into a separate collective bargaining agreement (company agreement) with employee representatives in the company. All the Bank's operations are within Norway. The few corporate customers that are registered as a Norwegian branch of a foreign company (NUF) or as a Ltd company are subject to special review.

Money laundering and the financing of terrorism

The Bank has its own measures to counteract money laundering and the financing of terrorism, and it aims to strengthen the quality of its compliance with laws and regulations. A new Money Laundering Act, implemented in 2018, strengthens the requirements banks must meet in the area of money laundering. In this connection, the Bank has drawn up a new policy document for the area and has revised its money laundering procedures. Based on the emphasis placed on those with a duty to report adopting a risk-based approach to this issue, a comprehensive overall risk analysis of the money laundering area has been carried out. The risk analysis has identified various measures whose implementation is being assessed in order to strengthen the Bank's monitoring and efforts to counteract money laundering. A number of controls and reports to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental Crime) are made during the course of the year.

In 2019, there was an on-site inspection at the Bank in the money laundering area, and like the other banks, a comprehensive relegitimisation process for the customer portfolio was initiated.

Anti-corruption measures, code of conduct and notification procedures

Under the Bank's code of conduct, employees must act with due diligence and integrity, and endeavour to behave in a manner that inspires confidence and is in accordance with standards, laws and regulations applicable in society. This must characterise all activities, so the Bank gains trust from the market and safeguards its competitiveness and reputation. The code of conduct shows the expectations and requirements Sparebanken Sør has for how its employees act and behave. Management, employees, employee representatives, temporary personnel and hired consultants are all covered by the code of conduct. Everyone who is covered by these standards must act in such a way that confidence in Sparebanken Sør is not weakened. No breaches of the code of conduct were reported in 2019.

The Bank actively works to prevent corruption linked to employees, customers and other partners. The Bank's internal ethical regulations deal specifically with this matter. No incidents that can be defined as corruption were reported in 2019. The Bank has good procedures for the notification of undesirable incidents, censurable conditions, threats, etc. The procedure is reviewed and audited annually by a broadly composed group of managers, union representatives and employees from risk, HR and internal auditing. Whistleblowing alerts are reported to a neutral body (internal auditor).

The whistleblowing procedure is easily accessible for the Bank's employees.

DONATIONS FOR THE PUBLIC GOOD

Sparebanken Sør has defined donations as a strategic priority area. When making donations, the Bank is concerned to ensure that projects which receive funding are of real benefit for the community. For the Bank, therefore, donations provide an opportunity to promote growth and development in the region.

The Donations Committee considered 577 applications in 2019. Of these applications, 197 received a combined total of NOK 45.9 million. Children and young people are a priority target group for the Bank's donation strategy, and the funds have largely gone to youth support projects, as well as projects in the areas of childhood, sports and culture. The Bank has prioritised broad rather than narrow target groups, and teams rather than individual performers. The Board of Directors proposes that NOK 60.0 million of the Bank's profit for 2019 be set aside for distribution in 2020.

OUTLOOK

The Board of Directors considers the results for 2019 to be very satisfactory. Interest rate changes have been implemented and had a good effect on the Bank's net interest income. The Bank will continue the profitability work in 2020.

House prices in the Bank's main markets have shown positive, but modest, growth over several years. The statistics for the end of 2019 show weak positive growth in house prices in the Bank's market area. The Group's mortgage portfolio is well secured, and the Group is well prepared to respond to any fall in house prices. This is substantiated by the stress tests performed.

Norges Bank changed its key interest rate on 19 September 2019 from 1.25 per cent to 1.50 per cent. Norges Bank's forecasts indicate that the key interest rate is likely to remain unchanged for the near future.

The Group has a common equity Tier 1 capital requirement, including a Pillar 2 supplement of 2.0 percent, which amounts to 14.5 percent. The Group has a common equity Tier 1 capital ratio target of 15.3 percent at year-end. At the end of 2019, the common equity Tier 1 capital ratio was 15.7 percent, which is a good point of departure for market adjustments.

The Ministry of Finance has adopted regulatory amendments that put into force the EU Capital Requirements Regulations CRR/CRD IV as of 31 December 2019. The systemic risk buffer requirement increased from 3.0 to 4.5 percent. The Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which will entail that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022. The Group will adapt to the new requirements by 2022 and ensure the necessary buffers above the minimum requirement.

The Group has a long-term goal of lending growth in excess of credit growth (C2), and a return on equity target of minimum 9.0 percent.

Recent times have been marked by fears in the global financial markets as a result of the Corona virus. The virus has triggered economic turmoil and uncertainty that appear to have a negative impact on global economic growth.

Based on the composition of the Bank's lending portfolio, the cyclical trend and local market conditions, it is expected that losses in Sparebanken Sør will remain at a low level also in 2020.

The Bank's investments in technology and expertise will continue. The Bank will utilize the opportunities digitalisation provides to maintain a high level of customer satisfaction, contribute to cost-effective operations, and enable efficiency of the branch structure. The use of technology opportunities, together with good quality credit management, will contribute to continued profitable growth and development for Sparebanken Sør. The Bank is well positioned to deliver good results in 2020.

CLOSING REMARKS

The Board of Directors wishes to express its gratitude to the Bank's employees for their valuable contributions to what has been a good year for Sparebanken Sør. At the same time, the Board of Directors wishes to thank the Bank's customers, equity certificate holders and other business associates for supporting the Bank and for the confidence they have shown in the Bank over the past year.

THE BOARD

Kristiansand, 3 March 2020

Stein Hannevik

Chair

Inger Johansen

Deputy Chair

Marit Kittilsen

Tom Erik Jebsen

Erling Holm

Mette Ramfjord Harv

Jan Erling Tobiassen

Gunnhild Tveiten Golid

Geir Bergskaug

CEO

Income statement

PARENT BANK		NOK MILLION		GROUP	
2018	**2019**		**Notes**	**2019**	**2018**
1 291	1 543	Interest income	15.33	3 305	2 778
1 012	1 148	Interest income from assets at fair value through profit and loss	15.33	487	367
951	1 172	Interest expenses	15.33	1 866	1 416
1 352	**1 519**	**Net interest income**	**5.15**	**1 926**	**1 729**
346	365	Commission income	16.34	403	380
62	59	Commission expenses		59	62
283	**306**	**Net commission income**		**344**	**318**
16	11	Dividend		6	7
19	47	Net income from other financial instruments	12.13	18	-5
35	**58**	**Net income from financial instruments**	**17**	**24**	**2**
13	64	Income from associated companies		64	13
9	8	Other operating income		10	10
22	**72**	**Total other income**		**74**	**23**
1 692	**1 954**	**Total net income**		**2 368**	**2 072**
415	438	Wages and other personnel expenses	18.35	533	499
29	37	Depriciation, amortization and impairment of non-current assets	30	37	30
338	336	Other operating expenses	19.34	348	355
782	**811**	**Total operation expenses before losses**	**5**	**918**	**884**
910	**1 143**	**Operating profit before losses**		**1 450**	**1 188**
-33	-21	Losses on loans, guarantees and unused credit	7.8	-17	-36
943	**1 164**	**Profit before taxes**	**5**	**1 467**	**1 224**
212	261	Tax expenses	20	342	285
731	**904**	**Profit for the period**		**1 125**	**939**
		Minority interests		-	1
731	**904**	**Majority interests**		**1 125**	**938**
56	60	Attributable to additional Tier 1 Capital holders		60	56
675	844	Attributable to ECC- holders and to the saving bank reserve		1 065	883
731	**904**	**Profit for the period**		**1 125**	**939**
7,7	9,3	Profit/diluted earnings per equity certificate (in whole NOK)	36	11.7	10.1

OTHER COMPREHENSIVE INCOME

PARENT BANK		NOK MILLION		GROUP	
2018	**2019**		**Notes**	**2019**	**2018**
731	**904**	**Profit for the period**		**1 125**	**939**
		Items that will not be reclassified subsequently to profit or loss			
		Recognized estimate deviation. pensions	18		
		Tax effect	18.20		
		Items that may be reclassified to profit or loss			
		Change in value. basis swaps		-4	-20
		Tax effect		1	5
		Change in value. customer mortgages			
731	**904**	**Comprehensive income for the period**		**1 122**	**924**
		Miniority interests		1	1
731	**904**	**Majority interests**		**1 121**	**923**

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

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2018	**31.12.2019**		**Notes**	**31.12.2019**	**31.12.2018**
ASSETS					
1 287	462	Cash and receivables from central banks	21.22	462	1 288
3 010	4 063	Loans to credit instituitions	21.22.29	182	119
64 263	66 185	Net loans to customers	5.6.9.10.11.21.22.33.34	106 334	102 942
17 691	16 807	Bonds and certificates	21.22.23	19 916	14 598
369	189	Shares	21.22.24	190	370
197	251	Financial derivatives	21.22.27	757	619
1 858	1 858	Shareholding in group companies	25		
584	968	Shareholding in associated companies	26	968	584
22	27	Intangible assets	30	27	22
387	426	Property, plant and equipment	30	458	413
90	107	Other assets		205	171
89 758	**91 344**	**TOTAL ASSETS**	**5**	**129 499**	**121 125**
LIABILITIES AND EQUITY CAPITAL					
2 261	2 192	Liabilites to credit institutions	14. 21. 22.29.34	1 793	1 918
56 546	57 963	Deposits from customers	5.14.21.22	57 949	56 537
18 027	16 707	Liabilities related to issue of securities	14.21.22.28.34	53 430	48 323
179	213	Financial derivatives	21.22.27	423	179
223	284	Payable taxes	20	361	309
288	387	Other liabilities	32	425	328
61	43	Provisions for commitments	18	43	61
51	49	Deferred tax	20	24	21
1 604	1 971	Subordinated loan capital	4.14.21.22.28	1 971	1 604
79 240	**79 809**	**Total liabilities**	**5.14**	**116 418**	**109 280**
1 603	1 623	Equity certificate capital	4.36	1 623	1 603
1 075	1 375	Hybrid capital	4	1 375	1 075
7 840	8 537	Other equity	4	10 083	9 167
10 518	**11 535**	**Total equity**	**4**	**13 081**	**11 845**
89 758	**91 344**	**TOTAL LIABILITIES AND EQUITY**	**5**	**129 499**	**121 125**

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

Kristiansand, 31 December 2019 / 3 March 2020

Stein A. Hannevik
ChairmanInger

Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen

Gunnhild Tveiten Golid

Geir Bergskaug
CEO

Statement of changes in equity

NOK MILLION	Equity certificates	Premium fund	equaliza- tionfund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP									
Balance 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 230**	**2**	**11 108**
Dividend distributed for 2017							-94		-94
Accounting effects on transistion to IFRS9			1		4		-3		2
Interest on hybrid capital				-56					-56
Profit 2018			27	56	514	40	302		939
Other comprehensive income							-15		-15
Allocated from gift fund						-39			-39
Other changes							1	-1	0
Balance 31.12.2018	**783**	**451**	**369**	**1 075**	**7 683**	**62**	**1 421**	**1**	**11 845**
Dividend distributed for 2018							-94		-94
Interest on hybrid capital				-60					-60
Profit 2019			20	60	639	60	347	0	1125
Issuance of hybrid capital				300					300
Issuance and sale of Equity certificates			1						1
Other comprehensive income							-4		-4
Allocated from gift fund						-34			-34
Other changes					1		1		2
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 323**	**88**	**1 671**	**1**	**13 081**
PARENT BANK									
Balance 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**94**	**0**	**9 970**
Dividend distributed for 2017							-94		-94
Accounting effects on transistion to IFRS9			1		4				5
Interest on hybrid capital				-56					-56
Profit 2018			27	56	514	40	94		731
Allocated from gift fund						-39			-39
Balance 31.12.2018	**783**	**451**	**369**	**1 075**	**7 683**	**62**	**94**	**0**	**10 518**
Dividend distributed for 2018							-94		-94
Interest on hybrid capital				-60					-60
Profit 2019			20	60	639	60	125		904
Issuance of hybrid capital				300					300
Issuance and sale of Equity certificates			0						0
Allocated from gift fund						-34			-34
Other changes			0		1				1
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 323**	**88**	**125**	**0**	**11 535**

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

See Note 36 concerning equity certificates, equity capital and proposed dividend.

Cash flow statement

PARENT BANK		NOK MILLION	GROUP	
31.12.2018	**31.12.2019**		**31.12.2019**	**31.12.2018**
2 417	2 662	Interest received	3 749	3 258
-1 059	-1 185	Interest paid	-1 840	-1 518
348	334	Other payments received	346	380
-716	-770	Operating expenditure	-898	-823
8	13	Loan recoveries	13	8
-225	-225	Tax paid for the period	-289	-291
-27	-28	Gift expenditure	-28	-27
954	1 404	Change in customer deposits	1 399	958
2 286	-1 921	Change in loans to customers	-3 382	-5 464
506	0	Change in loans to credit institutions	0	117
246	-15	Change in deposits from credit institutions	-108	-41
4 738	**269**	**Net cash flow from operating activities**	**-1 038**	**-3 443**
15 353	20 016	Payments received, securities	12 258	17 414
-20 473	-18 948	Payments made, securities	-17 380	-18 568
6	3	Payments received, sale of property, plant and equipment	3	11
-50	-37	Payments made, purchase of property, plant and equipment	-40	-51
-246	-293	Investments in subsidiaries and associated companies	-293	-246
-474	-12	Change in other assets	-108	-3
-5 884	**729**	**Net cash flow from investing activities**	**-5 560**	**-1 443**
	-1 053	Change in loans to credit institutions	-63	0
1 039	-54	Change in deposits from credit institutions	-17	1 055
3 900	3 600	Payments received, bond debt	16 063	13 770
-3 656	-4 815	Payments made, bond debt	-10 867	-10 052
-150	-154	Payments made, dividends and interest on hybrid capital	-154	-150
0	300	Issue of hybrid capital	300	
600	500	Issue of subordinated loan capital	500	600
-400	-134	Buyback of subordinated loan capital	-134	-400
	-13	Change in other assets	144	208
1 290	**-1 823**	**Net cash flow from financing activities**	**5 772**	**5 031**
144	**-825**	**Net change in liquid assets**	**-826**	**145**
1 143	**1 287**	**Cash and cash equivalents as at 1 Jan**	**1 288**	**1 143**
1 287	**462**	**Cash and cash equivalents at end of period**	**462**	**1 288**

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

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

Notes 2019 – Sparebanken Sør

NOTE 1 – ACCOUNTING POLICIES

GENERAL INFORMATION

The Sparebanken Sør Group consists of the Parent Bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, AS Eiendomsvekst, Prosjektutvikling AS and Transitt Eiendom AS. The Group conducts banking operations at 34 locations and provides real estate services at 17 locations in the counties of Agder, Rogaland, Vestfold and Telemark.

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

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

The consolidated financial statements for 2019 were presented by the Board of Directors on 3 March 2020 and are due to be adopted by the Board of Trustees on 26 March 2020. The Board of Trustees is the Bank's highest governing body.

BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Application of IFRSs

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

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

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

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

Consolidation and Group companies

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

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

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

Associates and joint ventures

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

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

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

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

The Sparebanken Sør Group's shares in joint ventures are insignificant in scope.

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

Business combinations

Business combinations are recognised in accordance with the acquisition method.

The consideration for the purchase of the business is measured at fair value at the acquisition date. Transaction costs are recognised in income as they arise. The contingent consideration is classified as a liability and recognised at fair value in subsequent periods, with changes in value recognised through profit or loss.

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

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

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

REVENUE RECOGNITION

Interest income and expenses related to assets and liabilities, which are measured at amortised cost, are recognised in income on an ongoing basis using the effective interest method. All charges related to interest-bearing borrowings and loans are included in the calculation of the effective interest rate and are amortised over the expected term. Interest income and expenses related to instruments measured at fair value through profit or loss are presented as part of net interest income. Changes in value, including changes in value related to the interest element, are recognised as net income from other financial instruments.

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

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

FINANCIAL INSTRUMENTS

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

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

Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the financial asset in such a way that the risk and profit potential of the asset concerned is substantively.

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

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

The Group classifies its financial assets in four categories:

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

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

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

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

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

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

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

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

Fair value with changes in value recognised through profit or loss

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

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

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

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

Fair value through other comprehensive income (OCI)

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

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

Amortised cost

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

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

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

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

Derivatives designated as hedging instruments recognised at fair value

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

Subsequent measurement

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

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

Measurement of financial instruments traded on an active market

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

Measurement of financial instruments not traded on an active market

The fair value of financial instruments not traded on an active market is determined using a suitable valuation method. Valuation techniques are based on recently signed transactions between independent parties, by referencing instruments with virtually the same content or by discounting cash flows. As far as possible, valuations are based on externally observed parameter values.

Fair value of interest-bearing securities is determined by established market values reported by leading external market players, or at the fair value calculated on the basis of the prevailing market yield and credit spread curves.

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

For shares that are not listed or traded actively, the change in value is based primarily on valuations carried out by others. If this is not available, the value of the shares or units is based on the available accounting information.

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

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

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

Measurement at amortised cost

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

Group financial assets at amortised cost include receivables from costumers and loans to customers, with the exception of fixed-interest loans.

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

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 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. Changes in value due to changes in spreads are recognised as a hedging effect through other comprehensive income.

Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet, only when the company has a legally enforceable right to offset and intends to realise the asset and settle the liability simultaneously.

Modification

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

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

Impairment of financial assets

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

Loss allowance are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The model used to value the provision for expected losses depends on whether the credit risk has significantly increased since initial balance sheet recognition. On initial balance sheet recognition, and in cases where the credit risk has not significantly increased since initial recognition, a provision is recognised for expected losses over the next 12 months. Expected losses over the next 12 months are losses that are expected to be incurred over the lifetime of the instrument that can be linked to events that will occur in the next 12 months. Expected credit losses over the whole term are calculated for assets where the credit risk has increased materially since initial recognition, with the exception of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date.

The expected credit loss for exposures that have been qualitatively assessed is calculated based on the present value of all cash flows over the expected residual lifetime. In effect, this is the difference between the contractual cash flows in accordance with the agreement and the cash flow that the Group expects to receive, discounted at the effective interest rate of the instrument. The expected cash flows shall cover cash flows from the sale of collateral or other credit enhancements that are embedded in the contract terms.

In the balance sheet, loan impairments reduce the carrying amounts of the exposures. In the income statement, losses on loans consist of realised losses, changes in loss allowance, income on loans and provisions for guarantees and unused credit facilities, as well as receipts relating to previously realised losses. Losses on loans are based on a qualitative assessment of the Bank's loan and guarantee portfolio in accordance with IFRS 9.

For further details, please refer to Note 7.

Loans with low credit risk

The Bank 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.

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

Loss allowance based on qualitative assessments is recognised when there are objective and observable indications that a loan is impaired as a result of a credit loss. An loss allowance is reversed when the loss is reduced and the reduction is objectively attributable to an event occurring after the date on which loss allowance was recognised. All loans regarded as 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 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.

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

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

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

Realised losses

When it is highly probable that a loss is final, it is recognised as a realised loss. Some realised losses will be covered by previously recognised, qualitatively assessed loss allowance, and will therefore be recognised against the existing provision. Realised losses not covered by qualitatively assessed loss allowance, as well as any surplus or deficit in relation to previously recognised loss allowance are recognised through profit or loss.

Presentation in balance sheet and income statement

Loans

Loans are recorded as either loans to and receivables from credit institutions or as net loans to customers. Interest is included in the income statement under interest income from assets valued at amortised cost. Changes in value due toloss allowance are included in the income statement under losses on loans, guarantees and unused credit facilities.

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

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

Bonds and certificates

This balance sheet item includes the Group's certificate and bond portfolio. Interest is included in the income statement under interest income from assets at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

Shares

The balance sheet includes the Group's shares recognised at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

Financial derivatives (assets and liabilities)

This balance sheet item includes financial derivatives. Changes in value related to the derivatives are recognised in the income statement under net income from financial instruments.

Liabilities to credit institutions and deposits from customers

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

Liabilities from issuance of securities

This balance sheet item includes issued securities debt. Interest is recognised in the income statement under interest expenses. In case of early redemption or repurchase of issued bonds, any gains and losses are recognised under net change in the value of financial instruments.

Subordinated loan capital

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

HEDGE ACCOUNTING

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

The Bank's criteria for classifying a derivative as a hedging instrument are:

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

Sparebanken Sør uses fair value hedging. Hedging is measured and documented every quarter to ensure that it is effective. The dollar-offset method is used to measure the effectiveness of hedging. When the hedging is established and effective, interest rate swaps and currency swaps will be recognised in the balance sheet at fair value and in the income statement under net income from financial instruments.

The hedged item is recognised in the balance sheet at amortised cost. Changes in fair value associated with the hedged risk are accounted for as a supplement or deduction in the book value of the bond debt and is recognised in income under net income from financial instruments.

IFRS 9 applies qualitative requirements for hedge effectiveness, where a prospective effectiveness test is regarded as adequate.

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

ACCOUNTING OF EXCHANGE-RATE EFFECTS

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

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

TANGIBLE ASSETS

Tangible assets are recognised at cost less accumulated depreciation and impairments. Depreciation is computed on a straight-line basis over the expected useful economic life of the asset. The remaining useful economic life and residual values for each asset are reassessed annually.

At each reporting date, an assessment is made as to whether there are any indications of impairment. If there are indications of impairment of an asset, the Bank will obtain valuations or calculate the value in use of the asset. The asset is written down to the higher of fair value and value in use. The basis for previous write-downs is considered at the same time.

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

Leases

The Group as lessee

Leases where a significant part of the risk and return associated with ownership of the asset is not transferred are classified as operating leases. Lease payments are classified as operating expenses and recognised through profit or loss on a straight-line basis over the term of the lease. Sparebanken Sør has not entered into financial leases.

The Group as lessor

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

The Group has implemented IFRS 16 using the modified retrospective method. The effect of amendments to accounting policies and the effect of initial recognition are described in Note 30 – Fixed and intangible assetsand transition effects of IFRS 16.

Sparebanken Sør has traditionally owned the buildings where the Bank's offices are located. The introduction of the new standard will require only small changes in bookkeeping compared with the original standard. In recent years, there has been a slight increase in the use of leased premises, but on a limited scale. For Sparebanken Sør, the new standard will primarily apply to leases where the Bank is the lessee.

Recognition of leases and recognition exemptions

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

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

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

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

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

Distinction between service contracts and leases

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

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

PENSION EXPENSES AND LIABILITIES

Defined-benefit pension scheme

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

In accordance with IAS 19, both liabilities related to group plans in life insurance companies and unsecured liabilities are recognised in the financial statements in accordance with the calculations performed by an external actuary. The net pension expense for the year consists of the present value of accrued pension entitlements for the year and interest expenses on the pension liability, less the expected return on pension plan assets. The net pension expense is included under personnel expenses. Changes in estimate deviations are recognised through other comprehensive income (OCI) and plan changes will be added to the income statement as personnel cost consecutively. Defined-benefit group schemes in a life insurance company have been closed. The schemes was terminated in 2016 in connection with the transition to a defined-contribution scheme.

Defined-contribution scheme

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

INCOME TAX

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

Deferred tax is calculated on the basis of differences between the reported results for tax and accounting purposes that will be offset in the future. Tax-increasing and tax-reducing temporary differences within the same time interval are offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax-reducing differences will be realised. The company will likewise reduce the deferred tax asset to the extent that the company no longer considers it probable that it can make use of the deferred tax asset.

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

EQUITY

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

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

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

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

HYBRID CAPITAL

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

SEGMENTS/SEGMENT REPORTING

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

Sparebanken Sør has two operating segments:

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

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

CASH FLOW STATEMENT

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents are defined as cash and receivables with central banks.

CHANGES IN ACCOUNTING POLICIES AND NOTE DISCLOSURES

The Bank has started to apply the following standards and changes to standards with effect from January 2019.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces: IAS 17 Leases; IFRIC 4 Determining whether an Arrangement Contains a Lease; SIC 15 Operating Leases – Incentives; and SIC 27 Evaluating the Substance of Transactions in the Legal Form of a Lease.

The Group has implemented IFRS 16 effective 1 January 2019 applying the modified retrospective method, with the result that comparative figures have not been restated. The Group has recognised the transition effects of the standard at the implementation date. Consequently, the right of use and lease liability are the same on implementation and no adjustments have been made to equity.

For lessors, IFRS 16 essentially continues the existing principles of IAS 17. These principles require lessors to continue to classify and separately account for their leases as either operating or finance leases. The Group is not obliged to make adjustments to leases where the Group is the lessor as a result of the transition to IFRS 16. The Group has recognised its leases in accordance with IFRS 16 since the time of initial recognition.

For details of the transition effects, please refer to Note 20 in the 2019 annual financial statements, and Note 38 in the 2018 annual financial statements. The transition effect is the same for the Parent Bank and the Group due to the fact that there are no material leases in the Group's subsidiaries covered by the new standard. Sparebanken Sør will only be marginally impacted by the implementation of IFRS 16.

STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, 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 is changed to approximate alternative risk-free interest rates (RFR).

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 and consolidated financial statements.

NOTE 2 – DISCRETIONARY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

General

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

Write-down of loans

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

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

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

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

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

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

Assessment of loss allowances, where there is objective evidence of impairment, will always be based on a significant degree of discretion.

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

The loss model contains data for macroeconomic conditions, and relevant parameters must be adjusted to take account of any changes in the economic climate or macroeconomic conditions. The timing and selection of parameters to be updated depends on discretionary assessments and may vary between the different banks.

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

Fair value of financial instruments

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

NOTE 3 – RISK MANAGEMENT

Sparebanken Sør shall maximise its long-term value creation, and with this objective it is essential that the risk is subject to active and satisfactory management. Part of the Group's business strategy is to keep a low to moderate risk profile for the whole enterprise. Taking risks is a fundamental feature of banking, and risk management is therefore a key area in both day-to-day operations and the general work of the Board. We also refer to the Bank's Pillar 3 disclosure document, which is available on the Bank's website.

ORGANISATION

Board of directors

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

Audit committee and risk committee:

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

The bank's management

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

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

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

Internal auditor

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

Risk management process

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

RISK CATEGORIES

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

Credit risk

Credit risk is the risk of loss due to the Group's counterparties or customers not having the ability or willingness to meet their payment obligations to the Sparebanken Sør Group. Credit risk concerns all receivables from counterparties/ customers. Credit risk arises when the borrower does not fulfil the loan agreement, and when the established collateral does not cover the commitment.

Credit risk is the Group's highest risk, and the risk that requires the most capital. The Bank's objective is for its credit exposure to be low to moderate. The Board approves the Group's credit strategy and credit policy. . Credit risk is also managed through credit management routines, credit assessment processes and credit allocation authorisations.

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

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

Settlement risk

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

Counterparty risk

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

Derivative contracts are entered into to hedge risk which arises in the Bank's ordinary operations, in connection with funding at fixed interest rates and in a currency other than NOK, loans to customers at fixed interest rates and in foreign currencies, and derivatives trading with customers. Derivative contracts must be established with reputable counterparties with a good rating and must be regulated by an underlying ISDA agreement. Derivative contracts must be spread across various counterparties to avoid counterparty concentration.

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

The Bank's counterparty risk is regulated through the establishment of agreements on the furnishing of collateral (Collateral Support Annex) between the parties. Under CSA settlement, the value of derivatives is reconciled with the derivative counterparty, and settlement of collateral takes place.

By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. In 2019, the Bank has established clearing against the London Clearing House through a clearing agent.

Concentration risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

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

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

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

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

Market risk

Market risk includes risk associated with variations in the value of unhedged interest rate, credit spread, currency and equity positions. Losses may arise due to movements in interest rates and credit spread, and in the event of fluctuations in foreign exchange rates and share prices. In addition, the valuation of covering transactions (basis swaps), which are used to hedge interest rate and currency risk arising when the Bank carries out financing in foreign markets, will also have a temporary impact on profit or loss.

Sparebanken Sør shall have a low market risk. The Board has established risk-tolerance guide levels for investment in shares, bonds and positions in the interest rate and currency markets. Compliance with these performance targets is followed up regularly and reported to the Board.

Interest rate risk

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

The interest rate risk limit is determined as an upper limit on how large the loss on unhedged interest rate positions may be in case of shifts or distortions in the interest rate curve. Interest rate risk arising from the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies are hedged on an ongoing basis.

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

Exchange rate risk

Exchange rate risk is the risk of financial loss arising from a disadvantageous change in the value of asset and liability items (on and off the balance sheet) measured in the base currency (NOK) due to changes in exchange rates. Exposure is measured as the size of the potential losses in a stress scenario, where exchange rates change by 25% and the exchange rate risk is regulated by limits for the maximum aggregated exchange rate position. Limits have been set for exposure in the individual currencies.

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

Share price risk (share risk)

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

Credit spread risk

Credit spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in credit margins.

A general increase in credit margins would lead to a reduction in the value of a portfolio of interest-bearing securities. Changes in the credit margin are a consequence of changes in investors' requirement for a risk premium for a shift in anticipated credit risk and/or changes in other market conditions. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The Bank's credit spread exposure is mainly related to the liquidity portfolio.

Business risk

Business risk is defined as the risk of unexpected fluctuations in revenue and expenses, based on changes in external factors such as cyclical fluctuations, competitive situation, customer behaviour, inadequate business development and regulations issued by public authorities, i.e. factors other than credit risk, market risk and operational risk. This risk also includes reputational risk, which is the risk associated with increased losses, reduced income and/or increased costs as a result of damage to the Bank's reputation.

Strategic risk

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

Operational risk

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

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

The Bank aims to have a low operational risk.

HEDGING INSTRUMENTS

The group uses the following hedging instruments:

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

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

NOTE 4 – CAPITAL ADEQUACY

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

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

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

A new SME discount was introduced with effect from 31 December 2019 for all small and medium-sized enterprises. This discount entails that the capital requirements for SMEs shall be reduced by a factor of 23.8 per cent. In order to qualify for reduced capital requirements, the total commitments must not exceed EUR 1.5 million. In addition, only enterprises with maximum annual revenue of EUR 50 million are eligible. The impact on Sparebanken Sør resulted in a reduction of NOK 1.9 billion in the calculation basis and amounted to an improvement in the core Tier 1 capital ratio of approximately 0.4 percentage points.

The Group met the applicable minimum capital requirements for financial institutions as at 31 December 2019 with a common equity tier 1 capital ratio of 14.5 percent, Tier 1 capital ratio of 16.0 percent and a total capital ratio of 18 percent, respectively. The Group's internal target is a common equity tier 1 capital ratio of 15.3 percent.

The Ministry of Finance has adopted regulatory amendments that put into force the EU Capital Requirements Regulations CRR/ CRD IV as of 31 December 2019. The systemic risk buffer requirement will increase from 3.0 to 4.5 percent. Previously, a gradual introduction of the systemic risk buffer requirement by 2021 was signalled. However, the Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which will entail that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022.

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

PARENT BANK		NOK MILLION	GROUP	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
10 518	**11 535**	**Total equity**	**13 081**	**11 845**
		Tier 1 capital		
-1 075	-1 375	Equity not eligible as common equity tier 1 capital	-1 375	-1 075
-189	-245	Share of profit not eligible as common equity tier 1 capital	-245	-189
-22	-27	Deductions for intagible assets and deferred tax assets	-27	-22
-24	-44	Deductions for additional value adjustements	-27	-21
		Proportion of common equity tier 1 capital from Brage Finans AS	374	184
		Deductions for internal eliminations from Brage Finans AS	-374	-187
-37	-104	Other deductions	-51	-21
9 171	**9 740**	**Total common equity tier 1 capital**	**11 356**	**10 514**
		Other tier 1 capital		
1 075	1 375	Hybrid capital	1 375	1 075
		Proportion of tier 1 capital Brage Finans AS	36	15
0	0	Deductions from other tier 1 capital	0	0
10 246	**11 115**	**Total tier 1 capital**	**12 767**	**11 604**
		Additional capital supplementary to tier 1 capital		
1 604	1 971	Subordinated loan capital	1 971	1 604
		Proportion of net subordinated capital Brage Finans AS	49	27
-99	-101	Deductrions from additional capital	-101	-99
1 505	**1 870**	**Total additional capital**	**1 919**	**1 532**
11 751	12 985	**Net subordinated capital**	**14 686**	**13 135**
		Minimum requirement for subordinated capital Basel II calculated according to standard method		
3	2	Engagements with local and regional authorities	2	3
51	70	Engagements with institutions	34	20
148	218	Engagements with enterprises	224	150
452	415	Engagements with mass market	520	537
3 104	3 029	Engagements secured in property	4 167	4 213
76	92	Engagements which have fallen due	98	80
2	2	Engagements which are high risk	2	2
403	384	Engagements in covered bonds	107	86
299	334	Engagements in collective investment funds	184	151
49	49	Engagements, other	49	62
4 587	**4 595**	**Capital requirements for credit and counterparty risk**	**5 387**	**5 304**
1	**1**	**Capital requirements for position, currency and product risk**	**1**	**1**
240	**259**	**Capital requirements for operational risk**	**313**	**298**
0	**1**	**CVA addition**	**1**	**0**
0	**0**	**Deductions from the capital requirement**	**0**	**0**
4 828	**4 856**	**Total minimum requirement for subordinated capital**	**5 702**	**5 603**
60 354	60 702	Risk-weighted balance (calculation basis)	71 275	70 036
		Porportionate share of calculation basis Brage Finans AS	2 112	1 336
		Deductions for internal eliminations Brage Finans AS	-955	-484
		Risk weighted balance after proportonate consolidation	72 432	70 888
15.2 %	16.0 %	Common equity tier 1 capital ratio, %	15.7 %	14.8 %
17.0 %	18.3 %	Tier 1 capital ratio, %	17.6 %	16.4 %
19.5 %	21.4 %	Total capital ratio, %	20.3 %	18.5 %
7.9 %	8.5 %	Leverage ratio	9.3 %	9.1 %

With effect from 2017, the Group also reported capital adequacy where cooperating groups were consolidated proportionately. For Sparebanken Sør, this applies to Brage Finans AS, in which the Bank has a shareholding of more than 10%.

NOTE 5 – SEGMENT REPORTING

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

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

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

None of the Group's customers individually account for more than 10% of turnover. This applies to both 2019 and 2018.

Report per segment		**31.12.2019**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest and commision income	1 084	760	81	1 926	0	1 926
Net other operating income	207	73	41	321	121	442
Operating expenses	377	101	332	810	108	918
Profit before losses per segment	**915**	**732**	**-210**	**1 437**	**12**	**1 450**
Losses on loans and guarantees	2	-52	33	-17		-17
Profit before tax per segment	**913**	**784**	**-243**	**1 454**	**12**	**1 467**
Net loans to customers	71 182	35 113	39	106 334		106 334
Other assets			23 093	23 093	73	23 166
Total assets per segment	**71 182**	**35 113**	**23 132**	**129 426**	**73**	**129 499**
Deposits from customers	30 164	22 399	5 386	57 949		57 949
Other liabilities	41 018	12 714	4 664	58 396	73	58 469
Total liabilities per segment	**71 182**	**35 113**	**10 051**	**116 345**	**73**	**116 418**
Equity			13 081	13 081		13 081
Total liabilities and equity per segment	**71 182**	**35 113**	**23 131**	**129 426**	**73**	**129 499**

Report per segment		**31.12.2018**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest and commision income	1 000	686	43	1 729	0	1 729
Net other operating income	194	73	-33	234	109	343
Operating expenses	383	99	301	783	101	884
Profit before losses per segment	**811**	**660**	**326**	**1 180**	**8**	**1 188**
Losses on loans and guarantees	12	-25	-23	-36		-36
Profit before tax per segment	**799**	**685**	**349**	**1 216**	**8**	**1 224**
Net loans to customers	68 206	34 819	-84	102 942		102 942
Other assets			18 115	18 115	67	18 183
Total assets per segment	**68 206**	**34 819**	**18 032**	**121 057**	**67**	**121 125**
			0			
Deposits from customers	28 719	21 208	6 610	56 537		56 537
Other liabilities	39 488	13 611	-423	52 676	67	52 744
Total liabilities per segment	**68 206**	**34 819**	**6 187**	**109 213**	**67**	**109 280**
Equity			11 845	11 845		11 845
Total liabilities and equity per segment	**68 206**	**34 819**	**18 032**	**121 058**	**67**	**121 125**

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

NOTE 6 – CREDIT AND CREDIT RISK

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

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

The Bank's risk classes are as follows:

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

Loans distributed in risk classes

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

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

Probability of default	
Low risk (A-D)	0.00 - 0.75%
Medium risk (E-G)	0.76 - 3.00 %
High risk (H-J)	3.01 - 99.99 %
Default (K)	100 %

TOTAL COMMITMENTS DISTRIBUTED BY RISK CLASSES

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

PARENT BANK					GROUP			
31.12.2018		31.12.2019		NOK MILLION	31.12.2019		31.12.2018	
				Retail banking customers:				
25 105	78.2 %	27 385	81.3 %	Low risk	63 949	82.7 %	59 917	80.9 %
5 958	18.6 %	5 436	16.1 %	Medium risk	11 916	15.4 %	12 635	17.1 %
647	2.0 %	641	1.9 %	High risk	1 257	1.6 %	1 088	1.5 %
31 710		**33 463**		**Total non-matured or written down**	**77 123**		**73 639**	
384	1.2 %	215	0.6 %	Commitment in default and write-downs comm.	248	0.3 %	409	0.6 %
32 094	**100 %**	**33 678**	**100 %**	**Total retail banking customers**	**77 370**	**100 %**	**74 048**	**100 %**
				Corporate customers:				
21 924	51.0 %	22 300	50.8 %	Low risk	22 295	50.8 %	21 917	51.0 %
15 116	35.2 %	16 949	38.6 %	Medium risk	16 942	38.6 %	15 111	35.2 %
4 778	11.1 %	3 848	8.8 %	High risk	3 847	8.8 %	4 777	11.1 %
41 818		**43 098**		**Total non-matured or written down**	**43 085**		**41 805**	
1 134	2.6 %	824	1.9 %	Commitment in default and write-downs comm.	824	1.9 %	1 134	2.6 %
42 952	**100 %**	**43 922**	**100 %**	**Total corporate customers**	**43 908**	**100 %**	**42 938**	**100 %**
75 046		**77 599**		**Total commitments**	**121 279**		**116 986**	

MIGRATION BETWEEN RISK CLASSES DURING THE YEAR

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

For the business market portfolio, there has been a slightly positive migration from high to medium risk.

The classification does not take collateral into account, only solvency.

Maximum credit risk

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

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Assets		
3 010	4 063	Loans and advances to credit institutions	182	119
64 263	66 185	Net loans to costumers	106 334	102 942
17 691	16 807	Bonds and certifiates	19 916	14 598
197	251	Financial derivatives	757	619
85 161	**87 306**	**Total credit risk exposure from balance sheet**	**127 189**	**118 278**
		Financial guarantee commitments, unutilised credits and loan approvals		
1 432	1 380	Guarantees	1 380	1 432
1 109	119	Unutilised credits to credit institutions		
8 901	9 674	Unutilised credits	13 195	12 155
325	360	Loan approvals	360	325
11 767	**11 533**	**Total financial guarantee commitments, unutilised credits and loan approvals**	**14 935**	**13 912**
96 928	**98 839**	**Total credit risk exposure**	**142 124**	**132 190**

Collateral

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

Collateral in the retail market

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

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2019

	PARENT BANK		GROUP	
LTV 31.12.2019	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 827	7.3 %	7 909	12.1 %
40 - 50 %	1 521	6.1 %	6 620	10.1 %
50 - 60 %	2 838	11.3 %	10 918	16.7 %
60 - 70 %	5 166	20.6 %	18 972	29.0 %
70 - 75 %	2 656	10.6 %	7 863	12.0 %
75 - 80 %	3 412	13.6 %	4 685	7.2 %
80 - 85 %	2 581	10.3 %	2 928	4.5 %
85 - 90 %	1 876	7.5 %	1 993	3.1 %
90 - 95 %	1 230	4.9 %	1 268	1.9 %
95 - 100 %	1 203	4.8 %	1 241	1.9 %
Over 100 %	813	3.2 %	933	1.4 %
TOTAL	**25 123**	**100 %**	**65 332**	**100 %**

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2018

	PARENT BANK		GROUP	
LTV 31.12.2018	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 494	7.0 %	7 835	12.9 %
40 - 50 %	1 258	5.9 %	6 200	10.2 %
50 - 60 %	2 309	10.7 %	10 349	17.1 %
60 - 70 %	3 963	18.5 %	17 383	28.7 %
70 - 75 %	2 153	10.0 %	6 923	11.4 %
75 - 80 %	2 765	12.9 %	3 929	6.5 %
80 - 85 %	2 814	13.1 %	3 154	5.2 %
85 - 90 %	1 699	7.9 %	1 711	2.8 %
90 - 95 %	1 191	5.5 %	1 203	2.0 %
95 - 100 %	902	4.2 %	919	1.5 %
Over 100 %	930	4.3 %	931	1.5 %
TOTAL	**21 477**	**100 %**	**60 537**	**100 %**

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

Collateral in the commercial market

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

NOTE 7 – DESCRIPTION OF THE LOSS MODEL UNDER IFRS 9

LOSS MODEL

The model assessing the impairment of financial assets under IFRS 9 applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. The new standard was implemented on 1 January 2018. See Note 1 for a discussion of accounting policies implemented to comply with the new standard. The same calculation model is used for the Group, mortgage company and Parent Bank, 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.

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

Assessment of a significant increase in credit risk

FThe Bank use the PD-level as the main criteria to assess a significant increase in credit risk. A significant increase in credit risk is assessed on the basis of both the relative increase in PD and the absolute change. It requires the relative change to be significant and the level of risk itself to be not insignificant compared with that considered to be a low risk. In addition, any large absolute change must, under any circumstances, be regarded as a significant increase.

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

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

The absolute limit corresponds to risk class D. Risk class D for CM corresponds to 0.625%, but some customers are scored according to the RM model, and can then receive up to 0.75%. Risk class D for RM corresponds to the range 0.5% to 0.75%.

If the economic cycle or 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 in the sectors/industries concerned.

PD as basis for expected loss

The PD model gives PD at customer level, 12 months ahead. At the end of 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. The PD-models are hybrid-models and gives expectation oriented estimates. Since the loss model is expected oriented, calibrating PD is done to a excepted oriented estimate before used in the loss model.

Population

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

Data that exists only at customer level is linked to individual accounts. For example, risk class is allocated at the customer level so that all the customer's accounts have the same score. The most important variables in the extract are risk class and PD with associated interest, balance, approval and collateral at the time of calculation.

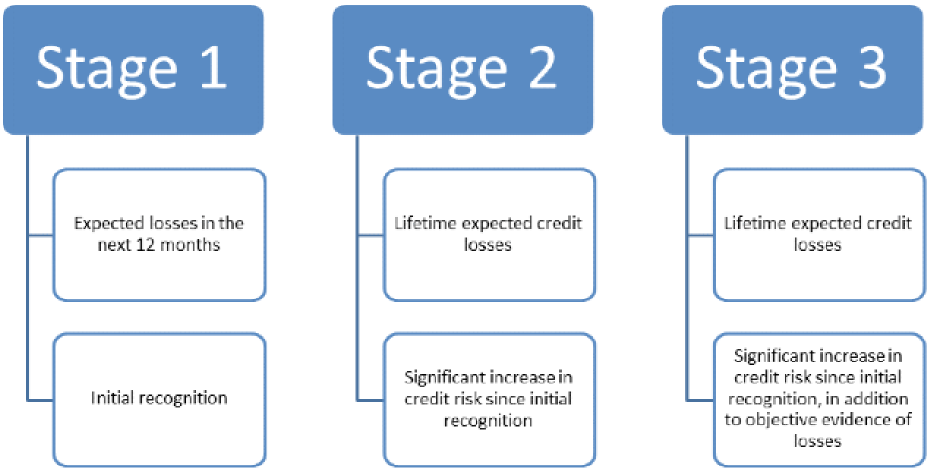
Loans approved but not discounted at the calculation date must also be included in the basis of calculation.

Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The Group has no loss provisions with respect to these receivables for the financial year 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 Group 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 in risk since approval (change of credit risk). For a description of the individual "stages", see the subsequent explanations. All commitments are placed in stage 1 upon initial recognition, and are subsequently moved to stage 2 or 3 if there has been a significant increase in credit risk. Commitments for which qualitatively assessed loss allowance have been recognised are excluded from the model-based calculation of loss allowance. Qualitatively assessed loss allowance are added to those in stage 3.

Non-performing account commitments are defined in the model as all account commitments where the customer has risk class K. For an overview of the Bank's risk classes, refer to Note 6 –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. When a customer has one or several defaulted loans, it is the customer's total commitment which is reported as default and not the individual loan. See also Note 11.



Stage 1

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

Stage 2

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

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

- For commitments that qualify for a one-year loss calculation (stage 1), a check will be made of whether there is a 30-day default/account overdrawn. If so, the commitment will be transferred to lifetime calculation (stage 2). This applies to overdrawn accounts from the first Norwegian krone, but older than 30 days.

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

Stage 3

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

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

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

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

Migration to a lower stage

A commitment that has migrated to 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, except for loans market with forberance. 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 of any 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:

	2019	2020	2021	2022	2023
GDP %	2.3	1.6	1.4	1.0	1.0
Housing price %	1.6	3.1	2.8	2.7	2.7
Housing price region %	1.0	2.5	2.2	2.1	2.1
Unemployment %	3.8	2.8	3.8	3.2	3.2
Oilprice, $	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 scenarios are applicable with effect from the date of calculation. This means that the first scenario period is in progress at the time of calculation. This is done so that the scenarios will have an impact on the whole calculation, including stages 1 and 3. The background to the assessments is an overall assessment of all the central elements affecting the development of the Norwegian and regional economy, and whether these factors suggest that changes should be made to the PD and/or LGD level in individual sectors, product and market segments or the whole portfolio.

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

The optimistic scenario is a macroeconomic scenario that represents an economic upturn with strong economic growth. 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

To a large extent, Sparebanken Sør has loans secured by property. This is considered to be one of the parameters that affect LGD the most. . 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 Group's loss expense:

				GROUP 31.12.2019
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	35	77	127	63
Loan loss provisions, RM	12	27	44	8
Total	**47**	**104**	**171**	**71**

				PARENT BANK 31.12.2019
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	35	77	127	63
Loan loss provisions, RM	7	16	27	5
Total	**42**	**93**	**154**	**68**

Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
				GROUP 31.12.2018
Loan loss provisions, CM	29	65	107	77
Loan loss provisions, RM	11	38	40	13
Total	**40**	**103**	**147**	**90**

Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
				PARENT BANK 31.12.2018
Loan loss provisions, CM	29	65	107	77
Loan loss provisions, RM	7	29	25	9
Total	**36**	**94**	**132**	**86**

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

Parameter	RM	CM
Weighted optimistic scenario	20,00%	20,00%
Weighted realistic scenario	60,00%	60,00%
Weighted pessimistic scenario	20,00%	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 results there will be an assessment related to the satisfactory of the model and process – and any needs for adjustments.

Changes in the loss model in 2019

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

- From 1. January 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.
- Minor macro adjustments on the basis of validation.

NOTE 8 – LOSSES ON LOANS, GUARANTEES AND UNUSED CREDIT FACILITIES

Losses on loans

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

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

PARENT BANK			GROUP	
31.12.18	31.12.19	NOK MILLION	31.12.19	31.12.18
-3	-6	Period's change inn write-downs stage 1	-5	-3
-3	31	+ Period's change inn write-downs stage 2	33	-7
-44	-89	+ Period's change inn write-downs stage 3	-89	-43
22	41	+ Period's confirmed loss	41	22
4	18	+ Recognised as interest income	18	4
8	13	- Period's recoveries relating to previous losses	13	8
-1	-1	+ Change in write downs on guaranties	-1	-1
-33	**-21**	**= Loss expenses during the period**	**-17**	**-36**

The balance of confirmed losses as at 31. December 2019 was NOK 132 million. The equivalent figure as at 31 December 2018 was NOK 119 million. This applies to loans which have been derecognised and which the Group is still working to collect.

GROUP	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**45**	**94**	**335**	**473**
Transfers				
Transferred to stage 1	47	-17	-30	0
Transferred to stage 2	-4	51	-47	0
Transferred to stage 3	-1	-2	3	0
Losses on new loans	20	39	37	96
Losses on deducted loans	-16	-24	-67	-107
Losses on older loans and other changes	-53	-13	0	-66
Provisions for loan losses as at 31.12.2019	**39**	**126**	**231**	**397**
Provisions for loan losses	32	111	228	370
Provisions for guarantees and undrawn credits	8	15	4	27
Total provision for losses as at 31.12.2019	**39**	**126**	**231**	**397**

GROUP	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2018	**51**	**99**	**416**	**566**
Transfers				
Transferred to stage 1	35	-32	-3	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	19	16	29	64
Losses on deducted loans	-10	-17	-83	-110
Losses on older loans and other changes	-44	23	-24	-46
Provisions for loan losses as at 31.12.2018	**45**	**94**	**335**	**473**
Provisions for loan losses	39	88	331	458
Provisions for guarantees and undrawn credits	6	6	3	16
Total provision for losses as at 31.12.2018	**45**	**94**	**335**	**473**

* Losses on derecognised loans relate to losses on loans redeemed or transferred between the parent bank and Sparebanken Sør Boligkreditt AS.

Losses on older loans and other changes consists mostly of change inn loss allowances and guaranties included in provisions for loan losses as at 01.01, and is still part of the portfolio as at 31.12

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

PARENT BANK	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**44**	**91**	**330**	**466**
Transfers				
Transferred to stage 1	46	-16	-30	0
Transferred to stage 2	-3	50	-47	0
Transferred to stage 3	-1	-2	3	0
Losses on new loans	19	36	37	92
Losses on deducted loans *	-15	-22	-67	-105
Losses on older loans and other changes	-53	-17	4	-66
Provisions for loan losses as at 31.12.2019	**37**	**120**	**230**	**387**
Provisions for loan losses	29	105	226	360
Provisions for losses on guarantees and undrawn credits	8	15	4	27
Total provision for losses as at 31.12.2019	**37**	**120**	**230**	**387**

PARENT BANK	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2018	**49**	**91**	**415**	**555**
Transfers				
Transferred to stage 1	31	-28	-3	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	18	15	29	62
Losses on deducted loans *	-10	-15	-83	-108
Losses on older loans and other changes	-39	23	-29	-44
Provisions for loan losses as at 31.12.2018	**44**	**91**	**330**	**466**
Provisions for loan losses	38	85	327	450
Provisions for losses on guarantees and undrawn credits	6	6	3	16
Total provision for losses as at 31.12.2018	**44**	**91**	**330**	**466**

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

Losses on older loans and other changes consists mostly of change inn loss allowances and guaranties included in provisions for loan losses as at 01.01, and is still part of the portfolio as at 31.12.

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

IMPAIRMENT BY SECTOR, INDUSTRY AND STAGE

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Loss allowances as of 31.12.19	NOK MILLION	Loss allowances as of 31.12.19	Stage 3	Stage 2	Stage 1
3	10	34	47	Retail customers	59	35	19	5
0	0	0	0	Public administration	0	0	0	0
1	1	1	3	Primary industry	3	1	1	1
4	2	4	9	Manufactoring industry	9	4	2	4
7	21	66	94	Real estate development	94	66	20	8
1	3	13	17	Building and construction industry	17	13	3	1
15	70	58	143	Property management	142	58	68	15
0	0	24	25	Transport	25	24	0	0
1	3	18	22	Retail trade	22	18	3	1
0	1	0	1	Hotel and restaurants	1	0	1	0
0	1	0	2	Housing cooperatives	2	0	1	0
2	6	8	16	Financial/commercial services	16	8	6	2
2	2	3	7	Sosial services	7	3	2	2
37	**120**	**230**	**387**	**Total loss allowances on loans, guarantees and undrawn credit**	**397**	**231**	**126**	**39**
29	105	226	360	Loss allowances on lending	370	228	111	32
8	15	4	27	Loss allowances on unused credits and guarantees	27	4	15	8
37	**120**	**230**	**387**	**Total loss allowances**	**397**	**231**	**126**	**39**

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Loss allowances at 31.12.18	NOK MILLION	Loss allowances at 31.12.18	Stage 3	Stage 2	Stage 1
3	11	31	44	Retail customers	52	31	17	5
0	0	0	0	Public administration	0	0	0	0
0	0	1	2	Primary industry	2	1	0	0
1	2	35	38	Manufactoring industry	38	35	2	1
11	9	36	56	Real estate development	56	36	9	10
1	5	90	95	Building and construction industry	96	91	4	1
22	52	100	174	Property management	173	101	50	22
1	2	7	9	Transport	9	7	1	1
1	4	20	25	Retail trade	25	20	4	1
0	1	0	1	Hotel and restaurants	1	0	0	0
1	1	0	2	Housing cooperatives	2	0	1	0
1	3	9	13	Financial/commercial services	13	9	3	1
3	2	3	7	Sosial services	7	3	2	3
44	**91**	**330**	**466**	**Total loss allowances on loans, guarantees and undrawn credit**	**473**	**335**	**94**	**45**
38	85	327	450	Loss allowances on lending	457	331	88	39
6	6	3	16	Loss allowances on unused credits and guarantees	16	3	6	7
44	**91**	**330**	**466**	**Total loss allowances**	**473**	**335**	**94**	**45**

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

CHANGE IN GROSS LOANS

NOK MILLION		Amortised cost				GROUP 31.12.2019
GROSS LOANS	Stage 1	Stage 2	Stage 3	Gross loans	Fair value	Total gross loans incl accrued interest
Gross loans as at 1.1.2019	**86 297**	**10 411**	**978**	**97 686**	**5 714**	**103 400**
Transferred to stage 1	1 518	-1 472	-45	0		0
Transferred to stage 2	-1 958	2 001	-43	0		0
Transferred to stage 3	-147	-62	209	0		0
Net change on present loans	-1 367	-473	-51	-1 890		-1 890
New loans	26 078	2 804	180	29 062	1 106	30 168
Derecognised loans	-21 153	-2 499	-189	-23 842	-1 146	-24 988
Change in value during the period					15	15
Gross loan as at 31.12.2019	**89 267**	**10 710**	**1038**	**101 016**	**5 689**	**106 704**

NOK MILLION		Amortised cost				GROUP 31.12.2018
GROSS LOANS	Stage 1	Stage 2	Stage 3	Gross loans	Fair value	Total gross loans incl accrued interest
Gross loans as at 1.1.2018	**81 141**	**10 372**	**257**	**91 770**	**6 316**	**98 086**
Transferred to stage 1	4 433	-4 381	-52	0		0
Transferred to stage 2	-5 588	5 609	-21	0		0
Transferred to stage 3	-180	-116	295	0		0
Net change on present loans	-3 615	-313	492	-3 436		-3 436
New loans	37 571	2 366	336	40 273	1 334	41 607
Derecognised loans	-27 465	-3 126	-330	-30 921	-1 867	-32 788
Change in value during the period					-69	-69
Gross loan as at 31.12.2018	**86 297**	**10 411**	**978**	**97 686**	**5 714**	**103 400**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN	Amortised cost	Fair value through other comprehensive income	Fair value	Toal gross loans incl accrued interest
Gross loan as at 1.1.2019	**38 095**	**20 905**	**5 714**	**64 713**
Transferred to stage 1	-	-	0	0
Transferred to stage 2	0	-	0	0
Transferred to stage 3	-	0	-	0
Net change on present loans	50	-449	-	-399
New loans	9 120	9 214	1 106	19 440
Derecognised loans	-8 159	-7 920	-1 146	-17 224
Change in value during the period			15	15
Gross loan as at 31.12.2019	**39 106**	**21 751**	**5 689**	**66 545**

NOK MILLION				PARENT BANK 31.12.2018
GROSS LOAN	Amortised cost	Fair value through other comprehensive income	Fair value	Toal gross loans incl accrued interest
Gross loan 1.1.2018	**35 861**	**24 980**	**6 316**	**67 157**
Transferred to stage 1	-	-0	0	-0
Transferred to stage 2	-0	0	0	0
Transferred to stage 3	-	-0	-	-0
Net change on present loans	-1 401	-650	-	-2 051
New loans	12 223	12 288	1 334	25 845
Derecognised loans	-8 588	-15 714	-1 867	-26 169
Change in value during the period		-	-69	-69
Gross loan as at 31.12.2018	**38 095**	**20 905**	**5 714**	**63 714**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN ASSESSED AT AMORTISED COST	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2019 at amortised cost	**31 360**	**5 886**	**849**	**38 095**
Transferred to stage 1	810	-775	-35	-
Transferred to stage 2	-1 344	1 392	-48	0
Transferred to stage 3	-112	-44	155	-
Net change on present loans	482	-383	-48	50
New loans	7 556	1 418	146	9 120
Derecognised loans	-6 887	-1 116	-156	-8 159
Gross loan assessed at amortised cost 31.12.2019	**31 866**	**6 378**	**863**	**39 106**

NOK MILLION				PARENT BANK 31.12.2018
GROSS LOAN ASSESSED AT AMORTISED COST	Stage 1	Stage 2	Stage 3	Total
Gross loan assessed at amortised cost 1.1.2018	**31 035**	**4 696**	**130**	**35 861**
Transferred to stage 1	1 574	-1 533	-41	-
Transferred to stage 2	-2 776	2 777	-1	-0
Transferred to stage 3	-153	-82	234	-
Net change on present loans	-1 714	-190	503	-1 401
New loans	10 906	1 000	317	12 222
Derecognised loans	-7 512	-782	-293	-8 588
Gross loan assessed at amortised cost 31.12.2018	**31 601**	**5 886**	**849**	**38 095**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2019 through other comprehensive income	**18 139**	**2 650**	**116**	**20 905**
Transferred to stage 1	317	-308	-9	-
Transferred to stage 2	-142	137	6	-
Transferred to stage 3	-24	-18	42	0
Net change on present loans	-406	-42	-0	-449
New loans	8 312	884	18	9 214
Derecognised loans	-6 955	-934	-30	-7 920
Gross loan as at 31.12.2019 through other comprehensive income	**19 241**	**2 369**	**141**	**21 751**

NOK MILLION				PARENT BANK 31.12.2018
GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2018 through other comprehensive income	**22 021**	**2 843**	**116**	**24 980**
Transferred to stage 1	921	-911	-10	-0
Transferred to stage 2	-1 218	1 237	-19	0
Transferred to stage 3	-17	-28	44	-0
Net change on present loans	-595	-44	-11	-650
New loans	11 128	1 133	27	12 288
Derecognised loans	-14 101	-1 580	-32	-15 714
Gross loan as at 31.12.2018 through other comprehensive income	**18 139**	**2 650**	**116**	**20 905**

NOK MILLION				GROUP 31.12.2019
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2019	**12 597**	**903**	**32**	**13 528**
Transferred to stage 1	227	-220	-6	-
Transferred to stage 2	-520	533	-12	0
Transferred to stage 3	-40	-12	52	-
Net change on present loans	-563	-.205	-28	-796
New loans	3 250	458	7	3 716
Derecognised loans	-1 583	-338	-10	-1 931
Undrawn credits and guarantees as at 31.12.2019	**13 362**	**1 120**	**35**	**14 517**

NOK MILLION				GROUP 31.12.2018
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2018	**11 868**	**778**	**44**	**12 690**
Transferred to stage 1	263	-256	-7	0
Transferred to stage 2	-643	647	-2	-
Transferred to stage 3	-13	-6	19	-
Net change on present loans	-734	-283	6	-1 010
New loans	3 706	150	0	3 856
Derecognised loans	-1 853	-126	-128	-2 007
Undrawn credits and guarantees as at 31.12.2018	**12 592**	**903**	**32**	**13 528**

NOK MILLION				PARENT BANK 31.12.2019
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2019	**9 428**	**873**	**32**	**13 333**
Transferred to stage 1	214	-208	-6	-
Transferred to stage 2	-510	522	-12	0
Transferred to stage 3	-40	-12	52	-
Net change on present loans	-658	-.2052	-28	-888
New loans	3 025	457	7	3 490
Derecognised loans	-1 536	-334	-10	-1 881
Undrawn credits and guarantees as at 31.12.2019	**9 923**	**1 096**	**34**	**11 054**

NOK MILLION				PARENT BANK 31.12.2018
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2018	**9 626**	**734**	**43**	**10 403**
Transferred to stage 1	229	-222	-7	0
Transferred to stage 2	-623	624	-2	-
Transferred to stage 3	-13	-6	19	-
Net change on present loans	-865	-.283	6	-1 141
New loans	2 875	148	0	3 023
Derecognised loans	-1 801	-122	-28	-1 951
Undrawn credits and guarantees as at 31.12.2018	**9 428**	**873**	**32**	**10 333**

Expected annual average net loss

Loss allowance totalling NOK 397 million were recognised in connection with losses on loans, guarantees and unused credit facilities as at 31 December 2019 (NOK 473 million in individual impairments as at 31 December 2018). These relate to different risk classes.

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

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

The Group has made provisions for expected losses, which has led to somewhat greater fluctuations in the loss expense over the year. Fluctuations in loss expenses are also expected in the future. Based on the composition of the Bank's loan portfolio, the state of the economy and local market conditions, it is expected that losses in Sparebanken Sør overall will remain at a low level in 2020. The Bank's goal of keeping its total loss level below 0.20% of gross loans is maintained for the period 2019–2021.

NOTE 9 – LOANS BROKEN DOWN BY TYPE

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Loans valued at amortised cost		
6 334	6 920	Overdraft- and working capital facilities	15 478	14 548
3 845	3 950	Building loans	3 950	3 845
27 788	28 082	Repayment loans	81 365	79 120
37 967	**38 951**	**Total loans valued at amortised cost**	**100 793**	**97 513**
		Loan designated at fair value through income statement		
20 893	21 733	Mortgages		
5 714	5 689	Fixed rate loans	5 689	5 714
26 607	**27 422**	**Total loans designated at fair value through income statement**	**5 689**	**5 714**
139	173	Accrued interest	222	173
64 713	**66 545**	**TOTAL GROSS LOANS**	**106 704**	**103 400**
-450	-360	Impairment losses on lending	-370	-458
64 263	**66 185**	**TOTAL NET LOANS**	**106 334**	**102 942**

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

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

GROSS LOANS BY GEOGRAPHICAL AREA

PARENT BANK					GROUP			
31.12.2018		31.12.2019		NOK MILLION	31.12.2019		31.12.2018	
31 913	49.3 %	31 330	47.1 %	Vest-Agder	47 782	44.8 %	46 322	44.8 %
15 482	23.9 %	15 199	22.8 %	Aust-Agder	25 791	24.2 %	25 003	24.2 %
7 957	12.3 %	7 812	11.7 %	Telemark	11 743	11.0 %	11 384	11.0 %
4 991	7.7 %	4 899	7.4 %	Oslo	8 924	8.4 %	8 651	8.4 %
1 687	2.6 %	1 656	2.5 %	Akershus	2 802	2.6 %	2 716	2.6 %
991	1.5 %	973	1.5 %	Rogaland	2 675	2.5 %	2 593	2.5 %
1 557	2.4 %	4 503	6.8 %	Others	6 765	6.3 %	6 559	6.3 %
135	0.2 %	173	0.3 %	Accrued interests	222	0.2 %	173	0.2 %
64 713	**100.0 %**	**66 545**	**100.0 %**	**Total gross loans**	**106 704**	**100.0 %**	**103 400**	**100.0 %**

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

GROSS LOANS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
28 575	30 034	Retail customers	70 126	67 282
550	498	Public administration	499	551
947	1 157	Primary industry	1 159	948
971	795	Manufacturing industry	796	972
4 756	4 855	Real estate development	4 836	4 663
1 516	1 386	Building and construction industry	1 388	1 518
18 019	17 239	Property management	17 257	18 039
668	677	Transport	678	669
1 051	1 093	Retail trade	1 098	1 052
301	274	Hotel and restaurant	275	301
1 095	1 248	Housing cooperatives	1 249	1 096
1 150	1 872	Financial/commercial services	1 874	1 151
4 978	5 242	Social services	5 248	4 983
135	173	Accrued interests	222	173
64 713	**66 545**	**TOTAL GROSS LOANS**	**106 704**	**103 400**
450	360	Impairment losses	370	458
64 263	**66 185**	**TOTAL NET LOANS**	**106 334**	**102 942**

GUARANTEES BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
19	17	Retail customers	17	19
2	3	Public administration	3	2
13	16	Primary industry	16	13
208	241	Manufacturing industry	241	208
393	324	Real estate development	324	393
259	295	Building and construction industry	295	259
153	119	Property management	119	153
93	95	Transport	95	93
180	176	Retail trade	176	180
9	7	Hotel and restaurant	7	9
0	0	Housing cooperatives	0	0
62	45	Financial/commercial services	45	62
40	40	Social services	40	40
1 432	**1 380**	**TOTAL GUARANTEES**	**1 380**	**1 432**

UNDRAWN CREDIT BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
3 442	3 551	Retail customers	7 085	6 636
323	404	Public administration	403	322
156	205	Primary industry	204	154
404	514	Manufacturing industry	513	403
1 327	1 593	Real estate development	1 613	1 420
514	575	Building and construction industry	574	512
1 372	1 254	Property management	1 236	1 352
68	91	Transport	90	67
485	531	Retail trade	530	484
45	53	Hotel and restaurant	52	45
11	7	Housing cooperatives	6	10
216	425	Financial/commercial services	423	215
540	470	Social services	464	535
8 901	**9 674**	**TOTAL UNDRAWN CREDITS**	**13 195**	**12 155**

COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
32 036	33 603	Retail customers	77 229	73 938
875	905	Public administration	905	875
1 116	1 379	Primary industry	1 379	1 116
1 584	1 550	Manufacturing industry	1 550	1 584
6 476	6 772	Real estate development	6 773	6 476
2 289	2 257	Building and construction industry	2 257	2 289
19 544	18 612	Property management	18 612	19 544
829	864	Transport	864	829
1 716	1 801	Retail trade	1 804	1 716
355	334	Hotel and restaurant	334	355
1 106	1 255	Housing cooperatives	1 255	1 106
1 428	2 342	Financial/commercial services	2 342	1 428
5 558	5 752	Social services	5 752	5 558
135	173	Accrued interests	222	173
75 046	**77 599**	**TOTAL COMMITMENTS**	**121 279**	**116 986**

NOTE 11 – 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.

NON-PERFORMING COMMITMENTS

PARENT BANK			GROUP	
31.12.18	31.12.19	NOK MILLION	31.12.19	31.12.18
213	276	Gross non-performing loans > 90 days	286	213
783	763	Other non performing loans	787	797
996	**1 039**	**Total non-performing loans (step 3)**	**1 073**	**1 010**
330	230	Impairement losses in stage 3	231	335
666	**809**	**Net non-performing loans**	**842**	**675**
33.1 %	22.1 %	Provisioning non-performing loans	21.5 %	33.2 %
0.33 %	**0.41 %**	**Gross non-performing loans > 90 days in % of gross loans**	**0.27 %**	**0.21 %**

GROSS NON-PERFORMING COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
215	215	Retail banking customers	249	229
781	824	Corporate customers	824	781
996	**1 039**	**Total defaulted commitments**	**1 073**	**1 010**
0	0	Public administration	0	0
17	16	Primary industry	16	17
40	19	Manufacturing industry	19	40
180	424	Real estate development	424	180
177	25	Building and construction industry	25	177
256	223	Property management	223	256
10	48	Transport	48	10
47	43	Retail trade	43	47
8	1	Hotel and restaurant	1	8
0	0	Housing cooperatives	0	0
30	16	Financial/commercial services	16	30
16	8	Social services	8	16
781	**824**	**Total corporate customers**	**824**	**781**

The weighted average collateral coverage was 73% for non-performing commitements as at 31 December 2019 and 77 % as at 31 December 2018. Collateral coverage is the extent of the pledged security linked to each loan, and cannot exceed 100%.

NOTE 12 – EXCHANGE RATE RISK

The table states the net currency position for Sparebanken Sør, including financial derivatives. Under the Bank's internal rules, net positions in each individual currency must not exceed NOK 20 million and the maximum effect on profit in the event of a 25% movement in exchange rates must not be more than NOK 20 million. Currency risk measurement has changed in 2019. Sparebanken Sør measured a 10 % movement in exchange rates and the limit was NOK 10 million in 2018.

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
2	2	Net foreign currency position	2	2
0	0	Income effect at 10% change	0	0
1	1	Income effect at 25% change	1	1

NOTE 13 – INTEREST RATE RISK

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

Calculation of interest rate risk follows guidelines from The Financial Supervisory Authority of Norway. The Bank's Board of Directors has adopted limits for maximum interest rate risk, and receives quarterly reports thereon. The Bank's interest rate risk was well within approved limits at year-end.

The Group's interest rate position meant that a possible increase in interest rates of 2 percentage points was estimated to be capable of making a positive contribution to profit of NOK 7 million at 31 December 2019. The equivalent figure for the Bank is NOK 41 million.

Interest rate risk is managed through the choice of fixed interest on asset and liability items and the use of financial derivatives.

Interest rate sensitivity

The table indicates the effect on the Bank's earnings of a 2-percentage point parallel shift or a distortion in the interest rate curve for the Bank's total interest positions. Under the Bank's internal rules, this effect must not exceed NOK 125 million. The table shows the outcome for the past two years.

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
45	41	Parallel shift and twist in the yield curve	7	31

NOTE 14 – LIQUIDITY RISK

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

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

Periodic stress testing of liquidity risk is carried out, and there are established contingency and recovery plans for the Group.

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2019, the Group's deposit-to-loan ratio was 54.5%, down from 55% at 31 December 2018.

In addition, Sparebanken Sør Boligkreditt AS is an important funding instrument, ensuring access to long-term funding through the issuance of covered bonds. In order to issue covered bonds, mortgage loans equivalent to 56% of the total mortgage volume were transferred from the Bank to the mortgage loan company as at 31 December 2019 (58% as at 31 December 2018).

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

The Group has an extensive liquidity reserve in the form of liquid interest-bearing securities. The Bank also has mortgages cleared for transfer to the mortgage company. At year-end, the Bank's interest-bearing liquidity portfolio, composed of government securities, other zero-weighted securities, covered bonds and municipal bonds, totalled NOK 19.9 billion.

The Bank's short-term liquidity risk is managed partly through the Liquidity Coverage Requirement (LCR) imposed by the authorities. At the end of 2019, the LCR indicator for Sparebanken Sør was 148% (159% at 31 December 2018). This is sufficient to meet all projected liquidity maturities within the next 30 days under a stress scenario. The requirement was 100% at 31 December 2019. The requirement is applicable at all times.

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

LIQUIDITY RISK

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

					GROUP 31.12.2019	
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	1 802	42	11	0	750	1 000
Deposits from customers	58 017	48 217	6 561	3 239		
Debt incurred due to issue of securities	55 115	20	378	3 627	34 669	16 420
Other liabilities	739	136	138	447	10	10
Subordinated loan capital	3 741	67	34	1 011	2 630	
Loan commitments and unused credit facilities	13 555	13 555				
Total liabilities	**132 970**	**62 036**	**7 121**	**8 324**	**38 059**	**17 430**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-31 783	-1 595	-1 891	-358	-18 062	-9 876
Payment received	31 512	2 026	1 517	502	17 505	9 963
Total derivative obligations	**-271**	**431**	**-374**	**144**	**-558**	**86**

						PARENT BANK 31.12.2019
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	2 184	423	11	0	750	1 000
Deposits from customers	58 031	48 231	6 561	3 239		
Debt incurred due to issue of securities	17 718	0	247	3 039	13 609	823
Other liabilities	657	131	134	330	10	53
Subordinated loan capital	3 741	67	34	1 011	2 630	
Loan commitments and unused credit facilities	10 034	10 034				
Total liabilities	**92 365**	**58 885**	**6 986**	**7 620**	**16 998**	**1 876**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-7 093	-1 595	-1 891	-358	-3 248	
Payment received	7 225	2 026	1 517	502	3 180	
Total derivative obligations	**133**	**431**	**-374**	**144**	**-68**	**0**

						GROUP 31.12.2018
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	1 929	171	8	0	750	1 000
Deposits from customers	56 583	45 943	8 029	2 610		
Debt incurred due to issue of securities	49 283	20	187	4 877	39 228	4 971
Other liabilities	662	138	96	350	8	70
Subordinated loan capital	2 749	5	22	15	2 708	
Loan commitments and unused credit facilities	12 480	12 480				
Total liabilities	**123 686**	**58 757**	**8 343**	**7 852**	**42 694**	**6 041**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-18 744	-396	-190	-104	-18 055	
Payment received	18 281	196	568	104	17 413	
Total derivative obligations	**-464**	**-200**	**378**	**0**	**-642**	**0**

						PARENT BANK 31.12.2018
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	2 235	477	8	0	750	1 000
Deposits from customers	56 592	45 953	8 029	2 610		
Debt incurred due to issue of securities	18 731	0	79	3 054	13 727	1 871
Other liabilities	570	134	92	266	8	70
Subordinated loan capital	2 749	5	22	15	2 708	
Loan commitments and unused credit facilities	9 226	9 226				
Total liabilities	**90 104**	**55 794**	**8 230**	**5 946**	**17 193**	**2 941**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-3 846	-396	-190	-104	-3 157	
Payment received	3 956	196	568	104	3 089	
Total derivative obligations	**110**	**-200**	**378**	**0**	**-68**	**0**

MATURITY STRUCTURE OF ISSUED BONDS AS AT 31.12.2019

NOK MILLION

ISIN Number	Ticker	Currency	Nominal	Owned by the bank	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010692189	SOR16 PRO	NOK	300		307	307	Fixed rate	No installments	28.04.2021
NO0010724081	SOR29 PRO	NOK	1 101		1 103	1 103	Fixed rate	No installments	24.11.2020
NO0010708027	SOR02 PRO	NOK	134		134	134	Fixed rate	No installments	19.03.2020
NO0010708019	SOR01 PRO	NOK	60		60	60	NIBOR 3 mths	No installments	19.03.2020
NO0010729502	SOR30 PRO	NOK	1 663		1 670	1 670	NIBOR 3 mths	No installments	21.08.2020
NO0010736960	SOR35 PRO	NOK	500		502	502	Fixed rate	No installments	26.05.2021
NO0010735327	SOR33 PRO	NOK	499		502	502	Fixed rate	No installments	06.05.2022
NO0010735418	SOR34 PRO	NOK	500		504	504	Fixed rate	No installments	12.05.2025
NO0010754849	SOR41 PRO	NOK	300		312	312	Fixed rate	No installments	23.12.2025
NO0010781214	SOR44 PRO	NOK	551		551	551	Fixed rate	No installments	22.03.2022
NO0010782253	SOR45 PRO	NOK	500		505	505	NIBOR 3 mths	No installments	17.02.2022
NO0010807910	SOR48 PRO	NOK	1 498		1 510	1 510	NIBOR 3 mths	No installments	11.11.2022
NO0010805385	SOR50 PRO	NOK	1 495		1 481	1 481	Fixed rate	No installments	13.09.2023
XS1815076838		EURO	300		2 969	2 971	NIBOR 3 mths	No installments	03.05.2021
NO0010830631	SOR52 PRO	NOK	1 000		999	999	Fixed rate	No installments	28.08.2024
NO0010869548	SOR57 PRO	NOK	600		600	600	Fixed rate	No installments	28.11.2022
NO0010869530	SOR58 PRO	NOK	1 000		1 000	1 000	NIBOR 3 mths	No installments	28.11.2022
NO0010872344	SOR59 PRO	NOK	998		1 001	1 001	NIBOR 3 mths	No installments	22.12.2023
NO0010872351	SOR60 PRO	NOK	999		997	997	Fixed rate	No installments	23.12.2024
Issued by Parent bank				**-**	**16 707**	**16 709**			
NO0010671597	SORB09	NOK	350		376	368	Fixed rate	No installments	13.02.2023
NO0010670409	SORB08	NOK	500		571	558	Fixed rate	No installments	24.01.2028
NO0010714058	SORB24	NOK	765		765	766	NIBOR 3 mths	No installments	24.06.2020
XS1383921803		EURO	500		4 965	4 974	Fixed rate	No installments	22.03.2021
NO0010778954	SORB27	NOK	5 000		5 013	5 041	NIBOR 3 mths	No installments	22.11.2021
XS1622285283		EURO	500		4 984	4 979	Fixed rate	No installments	30.05.2022
XS1775786145		EURO	500		5 057	5 023	Fixed rate	No installments	20.02.2023
NO0010832637	SORB28	NOK	5 000		4 993	5 032	NIBOR 3 mths	No installments	24.09.2025
XS2069304033		EURO	500		4 859	4 903	Fixed rate	No installments	26.10.2026
XS1947550403		EURO	500		5 118	5 073	Fixed rate	No installments	06.02.2026
Issued by Subsidiary				**-**	**36 701**	**36 717**			
Total bonds				**-**	**53 408**	**53 427**			

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

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

At year-end 2019, the average remaining term to maturity of the portfolio of senior bond debt and covered bonds was 3.5 years, compared with 3.0 years at year-end 2018.

MATURITY STRUCTURE OF ISSUED SUBORDINATED LOANS AS AT 31.12.2019

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010730112	SOR31 PRO	66	66	67	NIBOR 3 mths	Subordinated loan capital	30.01.2025
NO0010737026	SOR36 PRO	300	301	302	NIBOR 3 mths	Subordinated loan capital	03.06.2025
NO0010743255	SOR38 PRO	300	301	303	NIBOR 3 mths	Subordinated loan capital	25.08.2025
NO0010809460	SOR49 PRO	200	201	203	NIBOR 3 mths	Subordinated loan capital	02.11.2027
NO0010825094	SOR51 PRO	250	250	253	NIBOR 3 mths	Subordinated loan capital	14.06.2028
NO0010832157	SOR53 PRO	250	250	253	NIBOR 3 mths	Subordinated loan capital	14.09.2028
NO0010837313	SOR54 PRO	100	100	102	NIBOR 3 mths	Subordinated loan capital	23.11.2028
NO0010871247	SOR56 PRO	500	501	502	NIBOR 3 mths	Subordinated loan capital	12.12.2029
Subordinated loan capital		**1 966**	**1 971**	**1 986**			

LIQUIDITY INDICATORS

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

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

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

At year-end 2019, LCR was 148% for the Group and 140% for the Parent Bank. Corresponding figures for 2018 were 159% for the Group and 180% for the Parent Bank.

NOTE 15 – INTEREST INCOME AND INTEREST EXPENSES

INTEREST INCOME

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Interest income from financial instruments at amortised cost		
75	92	Interest on receivables from credit institutions	24	10
1 217	1 452	Interest on loans given to customers	3 281	2 768
1 291	**1 543**	**Total interest from financial instruments at amortised cost**	**3 305**	**2 778**
		Interest income from financial instruments at fair value		
150	165	Interest on loans given to customers (fixed rate loans)	166	150
198	305	Interest on certificates and bonds	321	217
348	**470**	**Total interest from financial instruments at fair value via profit or loss**	**487**	**367**
		Interest income from financial instruments at fair value via OCI		
664	**677**	Interest on loans given to customers (mortgages)		
664	**677**	**Total interest from financial instruments at fair value via OCI**		
2 303	**2 691**	**Total interest income**	**3 792**	**3 145**

INTEREST EXPENSES

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Interest expenses from financial instruments at amortised cost		
19	38	Interest on liabilities to credit institutions	38	19
547	692	Interest on customer deposits	691	543
305	345	Interest on issued securities	1 036	774
41	49	Interest on subordinated loans	49	41
39	47	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	52	39
951	**1 172**	**Interest expenses from financial instruments at amortised cost**	**1 866**	**1 416**
951	**1 172**	**Total interest expenses**	**1 866**	**1 416**

NOTE 16 – COMMISSION INCOME

PARENT BANK			GROUP	
2018	2019	NOK MILLION	2019	2018
26	25	Guarantee commission	22	21
25	21	Security trading and management	19	25
179	188	Payment transmission	172	179
30	34	Insurance services	29	30
		Real estate turnover and management	116	105
86	97	Fees from other activities	45	20
346	**365**	**Total commission income**	**403**	**380**

NOTE 17 – INCOME FROM FINANCIAL INSTRUMENTS

PARENT BANK			GROUP	
2018	2019	NOK MILLION	2019	2018
-70	-39	Changes in value - fixed rate loans - designated at fair value through profit	-39	-70
69	54	Changes in value - derivatives fixed rate loans - liable to fair value through profit	54	69
-1	**14**	**Net fixed rate loans**	**14**	**-1**
-27	3	Gains(losses) and change in value - certificates and bonds	-23	-33
16	11	Share dividend	6	7
29	10	Gains(losses) and change in value - shares	10	29
17	**24**	**Certificates, bonds and shares - designated at fair value through profit**	**-7**	**2**
100	59	Change in value - bonds at fixed interest rate - hedge accounting	101	-217
-100	-58	Change in value - derivatives fixed rate bonds - liable to fair value through profit	-77	214
0	**1**	**Net issued securities at fixed rate - hedge accounting**	**24**	**-2**
IA	IA	*Effect of earnings on basisswap*	18	2
-80	17	Change in value liabilities Euro - amortised cost	17	-80
72	-21	Change in value financial derivatives - fair value	-21	72
-8	**-5**	**Netto resultateffekt gjeld i Euro**	**-5**	**-8**
0	-3	Gains (losses) from buy-back of own bonds - amortised cost	-29	-15
25	26	Currency gains (losses)	26	25
2	0	Other financial derivatives - liable to fair value through profit	0	2
26	**22**	**Net other financial instruments and derivatives**	**-3**	**12**
35	**58**	**Net income from financial instruments**	**24**	**2**

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

NOTE 18 – PAYROLL EXPENSES AND PENSIONS

PARENT BANK			GROUP	
2018	2019	NOK MILLION	2019	2018
294	308	Wages to employees and fee to elected representatives (1)	382	359
46	47	Payroll tax	58	56
17	18	Financial tax	18	17
43	44	Pension costs	46	45
16	21	Other Personell costs	28	23
415	**438**	**Total personnel costs**	**533**	**499**
434	429	Number og FTE at 31.12	501	507
433	432	Average numer of FTE per year	504	505

1 – The Bank primarily pays its employees a fixed salary, but also has a bonus scheme. The scheme covers all employees, with the exception of the head of internal auditing. Depending on the achievement of performance goals, the bonus scheme can result in a maximum payment of 1 month salary per employee. Board members are not included in the bonus scheme.

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

PENSIONS

On 1 November 2016, the Bank's defined-benefit group pension scheme through Nordea Liv and Storebrand Livsforsikring was terminated and replaced by a defined-contribution group pension scheme in Storebrand Livsforsikring. Remaining liabilities in the defined-benefit schemes are linked to incapacity/partial incapacity. (Employees who have an estimated pension loss resulting from this change will be compensated.)

The funded defined-benefit group scheme now covers 21 people who are incapacitated/partially incapacitated.

The Bank also has pension liabilities covering 35 people who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These pension schemes are considered to be defined-benefit schemes. Estimate changes and deviations are recognised directly in the statement of comprehensive income. The new pension scheme, which was introduced in 2010, is treated as a defined-contribution scheme as at 31 December 2019.

The pension scheme fulfils the requirements set out in in the Mandatory Occupational Pensions Act.

The Bank uses the OMF rate as its reference rate. The market for these bonds is considered to be sufficiently liquid at the reporting date.

The pension-related computations performed by an external actuary is based on the following assumptions:

	2019	2018
Discounting interest rate	2.30 %	2.60 %
Expected wage adjustment	2.25 %	2.50 %
Expected pension adjustment	0.50 %	0.80 %
Expected 'G' -adjustment	2.00 %	2.25 %
Expected investment return on pension resources	2.30 %	2.60 %
Voluntary retirement	0.00 %	0.00 %

The assumptions as at 31 December 2019 have been used as a basis for calculating the pension expense for 2019. The economic assumptions have been assessed in a long-term perspective. The assumptions are identical to the Norwegian Accounting Standards Board's recommendations. The calculation as at 31 December 2019 is based on mortality table FNH2013 the same table as was used as at 31.12.2018.

BREAKDOWN OF PENSION EXPENSE

	31.12.2019		31.12.2018	
NOK MILLION	Funded	Unfunded	Funded	Unfunded
Pension earnings for the year		3		3
Net scheme-change				
Interest costs on the pension commitments		1		1
Recognized return on pension funds				
Total pension costs - defined benefit schemes		**4**		**4**
New AFP and permium deposit pension		41		51
Total pension costs recognised in the income statement		**45**		**55**
Estimate deviations recognised in the total result		-		0
Total pension costs		**45**		**55**
Movements - pension commitments				
Commitments at the beginning of the period	23	58	23	84
Pension earnings for the year		3		3
Interest costs on the pension commitments		1		1
New commitment				
Actuariel losses/gains				
Pension payments		-22		-30
Pension commitments at end of period	**23**	**40**	**23**	**58**
Movements - pension funds				
Pension funds at the beginning of the period	19		19	
Return on pension funds				
Actuariel losses/gains				
New commitment				
Payment into pension funds	1		1	
Pension payments				
Pension funds at end of period	**20**		**20**	
Net pension commitments at end of period	**3**	**40**	**3**	**58**

ACTIVE MEMBERS IN THE DIFFERENT SCHEMES

	31.12.2019	31.12.2018
Active members of the benefit pension scheme	0	0
Pensioners and disabled in the scheme	21	21
Total number of persons who are included in the benefit scheme	**21**	**21**
Active members of non-insured schemes	9	12
Pensioners and disabled people in non-secured schemes	26	27
Total number of people in non-secured schemes	**35**	**39**
Active members of contribution scheme	461	462
Total number of people in the contribution scheme	**461**	**462**

SENSITIVITY ANALYSIS PENSION CALCULATION

The Bank switched its group occupational pension arrangements from a defined-benefit to a defined-contribution scheme on 1 November 2016. As a result, pension liabilities were significantly reduced. A sensitivity analysis is therefore not considered to be significant and has consequently not been performed for 2019 and 2018.

NOTE 19 – OTHER OPERATING EXPENSES

PARENT BANK			GROUP	
2018	2019	MILLONER KRONER	2019	2018
39	32	Marketing	38	44
143	147	IT costs	150	146
40	25	Operating costs - real estate	29	44
14	29	External fees	31	15
14	20	Wealth tax	20	14
88	82	Other operating expenses	79	92
338	336	Total other operating expenses	348	355

Remuneration paid to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2018	2019	NOK THOUSAND	2019	2018
1 157	722	Ordinary audit fees	1 085	1 694
175	41	Tax advice	41	175
530	564	Other attestation services	725	788
1 845	969	Fees from other services 1	973	1 845
3 707	**2 296**	**Total remuneration of elected auditor (incl. VAT)**	**2 823**	**4 502**

NOTE 20 – TAX

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Deferred tax and deferred tax asset		
56	54	Fixed assets	53	54
-5	-11	Securities	-13	-6
21	11	Loans	11	20
-15	-12	Pension commitments	-12	-15
-4	11	Bonds loans	-220	-193
-1	-4	Derivatives	205	162
-1	0	Other accounting provisions	0	-1
51	**49**	**Total deferred tax and deferred tax assets**	**24**	**21**
		Composition of tax cost for the year		
8	**-2**	**Change in deferred tax**	**3**	**-4**
-2	1	Deferred tax recognised in the total result comprehensive income	0	4
0	0	Other change in deferred tax	0	0
6	**-1**	**Deferred tax recognised in the profit for the year**	**4**	**0**
206	261	Tax payable on net income	338	285
6	-1	Recognised deferred tax	4	0
0	0	Excess provision previous years	0	0
212	**261**	**Tax cost for the year**	**342**	**285**
		Tax payable on net income		
236	291	25% of profit before tax	367	307
-24	-30	25% of permanent differences	-24	-22
-6	1	Recognised deferred tax	-4	0
206	**261**	**Tax payable on net income**	**338**	**285**
		Payable tax in the balance sheet		
206	261	Tax payable on net income	338	285
14	20	Wealth tax	20	14
	1	Correction of tax previous year	1	
	2	Effect IFRS 9 adjusted on deferred tax	2	
3	0	Correction of tax 2017	0	10
223	**284**	**Payable tax un the balance sheet**	**361**	**309**

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

NOTE 21 – FINANCIAL INSTRUMENTS BY CATEGORY

Amortised cost

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

Fair value through profit or loss

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

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

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

Fair value through other comprehensive income (OCI)

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

Hedge accounting

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

CLASSIFICATION 31.12.2019

					GROUP 31.12.2019
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				462	462
Loans to and receivables from credit institutions				182	182
Net loans to customers	5 689			100 645	106 334
Bonds and certificates	19 916				19 916
Shares	190				190
Financial derivatives	293		464		757
Ownership in group companies					0
Ownership in associated companies				968	968
Total financial assets	**26 088**	**0**	**464**	**102 257**	**128 809**
Debts to credit institution				1 793	1 793
Deposits from customers				57 949	57 949
Debt incurred due to issue of securities			33 763	19 667	53 430
Financial derivatives	187		236		423
Subordinated loan capital				1 971	1 971
Total financial liabilities	**187**	**0**	**33 998**	**81 380**	**115 566**

					PARENT BANK 31.12.2019
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				462	462
Loans to and receivables from credit institutions				4 063	4 063
Net loans to customers	5 689	21 733		38 764	66 185
Bonds and certificates	16 807				16 807
Shares	189				189
Financial derivatives	258		-7		251
Ownership in group companies				1 858	1 858
Ownership in associated companies				968	968
Total financial assets	**22 943**	**21 733**	**-7**	**46 115**	**90 783**
Debts to credit institution				2 192	2 192
Deposits from customers				57 963	57 963
Debt incurred due to issue of securities			7 938	8 769	16 707
Financial derivatives	170		43		213
Subordinated loan capital				1 971	1 971
Total financial liabilities	**170**	**0**	**7 981**	**70 895**	**79 046**

CLASSIFICATION 31.12.2018

GROUP 31.12.2018					
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				1 288	1 288
Loans to and receivables from credit institutions				119	119
Net loans to customers	5 714			97 228	102 942
Bonds and certificates	14 598				14 598
Shares	370				370
Financial derivatives	197		422		619
Ownership in associated companies					0
Total financial assets				584	584
Sum finansielle eiendeler	**20 879**	**0**	**422**	**99 219**	**120 520**
Debts to credit institution				1 918	1 918
Deposits from customers				56 537	56 537
Debt incurred due to issue of securities			24 207	24 116	48 323
Financial derivatives	147		32		179
Subordinated loan capital				1 604	1 604
Total financial liabilities	**147**	**0**	**24 239**	**84 175**	**108 561**

PARENT BANK 31.12.2018					
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				1 287	1 287
Loans to and receivables from credit institutions				3 010	3 010
Net loans to customers	5 714	20 893		37 656	64 263
Bonds and certificates	17 691				17 691
Shares	369				369
Financial derivatives	157		40		197
Ownership in group companies				1 858	1 858
Ownership in associated companies				584	584
Total financial assets	**23 931**	**20 893**	**40**	**44 395**	**89 259**
Debts to credit institution				2 261	2 261
Deposits from customers				56 546	56 546
Debt incurred due to issue of securities			8 314	9 713	18 027
Financial derivatives	146		33		179
Subordinated loan capital				1 604	1 604
Total financial liabilities	**146**	**0**	**8 347**	**70 124**	**78 617**

NOTE 22 – FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

GENERAL

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

INTEREST RATE SWAPS AND CURRENCY SWAPS

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

CERTIFICATES AND BONDS

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

LENDING

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

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

BORROWINGS

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

DEPOSITS

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

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

SHARES

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

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

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

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

Level 2:

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

Level 3:

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

PARENT BANK				31.12.2019	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
462		462		Cash and receivables from central banks	462		462	
4 063		4 063		Loans to and receivables from credit institutions	182		182	
38 764			38 764	Net loans to customers (floating interest rate)	100 645			100 645
				Assets recognised at fair value				
5 689			5 689	Net loans to customers (fixed interest rate)	5 689			5 689
21 733			21 733	Net loans to customers (mortgages)				
16 807		16 807		Bonds and certificates	19 916		19 916	
189	6		183	Shares	190	6		184
251		251		Financial derivatives	757		757	
87 958	**6**	**21 584**	**66 368**	**Total financial assets**	**127 841**	**6**	**21 318**	**106 518**
				Liabilities recognised at amortised cost				
2 192		2 192		Debt to credit institutions	1 793		1 793	
57 963			57 963	Deposit from customers	57 949			57 949
16 707		16 709		Debt incurred due to issue of securities	53 430		53 427	
1 971		1 981		Subordinated loan capital	1 971		1 981	
				Liabilities recognised at fair value				
213		213		Financial derivatives	423		423	
79 046	**0**	**21 095**	**57 963**	**Total financial liabilities**	**115 565**	**0**	**57 623**	**57 949**

PARENT BANK				31.12.2018	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
1 287		1 287		Cash and receivables from central banks	1 288		1 288	
3 010		3 010		Loans to and receivables from credit institutions	119		119	
37 656			37 656	Net loans to customers (floating interest rate)	97 228			97 228
				Assets recognised at fair value				
5 714			5 714	Net loans to customers (fixed interest rate)	5 714			5 714
20 893			20 893	Net loans to customers (mortgages)				
17 691		17 691		Bonds and certificates	14 598		14 598	
369	5		364	Shares	370	5		365
197		197		Financial derivatives	619		619	
86 817	**5**	**22 185**	**64 627**	**Total financial assets**	**119 936**	**5**	**16 624**	**103 307**
				Liabilities recognised at amortised cost				
2 261		2 261		Debt to credit institutions	1 918		1 918	
56 546			56 546	Deposit from customers	56 537			56 537
18 027		18 081		Debt incurred due to issue of securities	48 323		48 443	
1 604		1 601		Subordinated loan capital	1 604		1 601	
				Liabilities recognised at fair value				
179		179		Financial derivatives	179		179	
78 617	**0**	**22 122**	**56 546**	**Total financial liabilities**	**108 561**	**0**	**52 141**	**56 537**

There were no movements between levels 1 and 2 in 2019 or 2018.

MOVEMENTS IN VALUES RECOGNISED AT FAIR VALUE CLASSIFIED AT LEVEL 3

			GROUP
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2018	**6 316**	**-2**	**567**
Acquisitions 2018	1 334		66
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-69	1	45
Disposals 2018	-1 867		-13
Reclassified as assosiated company			-300
Recognized value as at 31.12.2018	**5 714**	**-1**	**365**
Acquisitions 2019	1 106		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		
Reclassified as assosiated company			-298
Recognized value as at 31.12.2019	**5 689**	**13**	**184**

			PARENT BANK
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2018	**6 316**	**-2**	**567**
Reclassification mortages at fair value	25 002		
Acquisitions 2018	1 334		66
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-69	1	45
Disposals 2018	-5 976		-13
Reclassified as assosiated company			-300
Recognized value as at 31.12.2018	**26 607**	**-1**	**365**
Acquisitions 2019	1 946		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		
Reclassified as assosiated company			-298
Recognized value as at 31.12.2019	**27 422**	**13**	**183**

(1) Disposals 2019 includes the net transfer of loans to the subsidiary Sparebanken Sør Boligkreditt AS.
Changes in value recognised in the year apply mainly to financial instruments recognised in the balance sheet as at 31 December.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

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

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

SHARES

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

SENSITIVITY ANALYSIS LEVEL 3

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

	GROUP / PARENT BANK	
NOK MILLION	31.12.2019	31.12.2018
Loan to customers	**19**	**18**
- of which, loans to the corporate market (CM)	3	4
- of which, loans to the retail market (RM)	16	14

HEDGE ACCOUNTING

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

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

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

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

HEDGE ACCOUNTING IN THE BALANCE SHEET

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Hedging instruments / financial derivatives		
40	-7	Interest rate swaps NOK	59	119
		Interest rate swaps EUR	770	593
40	**-7**	**Total financial assets**	**829**	**713**
		Hedged items		
8 300	7 984	Nominal debt NOK	8 834	9 150
		Nominal debt EUR (1)	24 287	14 324
14	-46	Adjustment of hedged items NOK - interest risk	22	93
		Adjusment of hedged items EUR - interest- and currency risk	645	675
		Hedging instruments / financial derivatives		
33	43	Interest rate swaps NOK	43	33
		Interest rate swaps EUR	189	0
8 346	**7 981**	**Total financial liabilities**	**34 019**	**24 275**

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

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

RESULT OF HEDGE ACCOUNTING

PARENT BANK			GROUP	
2018	2019	NOK MILLION	2019	2018
		Result / inneffectiveness in hedge acconting		
0	1	Income effect hedge interest rate risk (NOK)	1	0
		Income effect hedge interest- and currency risk (EUR)	22	-2
IA	*IA*	*Effect of earnings from currency basis*	*18*	*-2*
0	**1**	**Total**	**24**	**-2**
		Other comprehensive income (OCI)		
IA	*IA*	*Change in results from change in value of currency basis*	*-5*	*-20*

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:

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Nominal value		
8 300	7 984	Interest rate swaps NOK	8 834	9 150
		Interest rate swaps EUR	2 500	2 500

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 23 – BONDS AND CERTIFICATES

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Short-term investments designed at fair value through profit and loss		
3 133	4 612	Certificates and bonds issued by public sector	6 066	3 287
8 847	12 195	Certificates and bonds issued by others	13 850	11 311
5 711	0	Certificated and bonds issued by subsidiaries	0	0
17 691	**16 807**	**Total short-term investment designed at fair value through profit and loss**	**19 916**	**14 598**
17 691	**16 807**	**Investment in securities**	**19 916**	**14 598**
11 456	13 346	Bonds pledged for drawing-rights in Norges Bank	13 346	11 456

CLASSIFICATION OF FINANCIAL INVESTMENTS

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

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

CERTIFICATES AND BONDS

PARENT BANK			GROUP	
31.12.2018	31.12.2018	NOK MILLION	31.12.2018	31.12.2018
		Certificates and bonds		
17 559	16 758	Lowest risk	19 859	14 466
0	0	Low risk	0	0
0	0	Medium risk	0	0
0	0	High risk	0	0
99	0	Highest risk	0	99
33	49	Accrued interest	57	33
17 691	**16 807**	**Total certificates and bonds**	**19 916**	**14 598**

NOTE 24 – SHARES

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

			GROUP 31.12.2019
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5	75 000	66 454
VN Norge AS*	2.27	43 097	-
Norne Eierselskap	17.4	6 038	6 038
Sparebanken Vest		5 699	2 735
Norgesinvestor Proto	17.6	23 283	15 600
Norgesinvestor IV	2.1	9 875	8 058
Øvrige selskaper (36 stk)		8 202	11 557
Total shares valued at fair value through profit and loss		**171 194**	**110 442**
Participations classified at fair value through profit and loss			
Skagerak Venture Capital 1 KS	12.4	12 000	12 000
Skagerak Seed Capital II AS	10.4	757	757
Skagerak Maturo Seed AS	5.8	5 850	5 850
Total participations valued at fair value through profit and loss		**18 607**	**18 607**
TOTAL		**189 801**	**129 049**

*The company was restructured in 2018, and the number of shares is stated in billions.

			GROUP 31.12.2018
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5	75 000	66 454
Brage Finans	15.5	186 537	160 883
VN Norge AS*	2.27	33 558	-
Norne Eierselskap	17.6	7 687	7 687
Sparebanken Vest		4 764	2 735
Norgesinvestor Proto	17.6	22 955	15 600
Norgesinvestor IV	2.1	13 628	8 058
Other companies (37)		6 225	9 647
Total shares valued at fair value through profit and loss		**350 354**	**271 065**
Participations classified at fair value through profit and loss			
Skagerak Venture Capital 1 KS	12.4	13 860	13 860
Skagerak Seed Capital II AS	10.4	2 002	2 002
Skagerak Maturo Seed AS	5.8	3 150	3 150
Total participations valued at fair value through profit and loss		**19 012**	**19 012**
TOTAL		**369 366**	**290 077**

*The company was restructured in 2018, and the number of shares is stated in billions.

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

The Bank's investment in venture companies largely constitutes participation in an investment company. The company values itself based on its underlying portfolio of investments, and the Bank uses this valuation.

The Group has committed to additional payments linked to the investment in Skagerak Seed Capital and Skagerrak Maturo Seed AS. At 31 December 2019, uncalled capital totalled NOK 9,300,349 (NOK 12,159,000 at 21 December 2018).

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

NOTE 25 – OWNERSHIP OF GROUP COMPANIES

					PARENT BANK 31.12.2019
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1 125 000	1 845 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	1 000
Prosjektutvikling AS	Property managment	Arendal	100 %	100	0
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	1 450
Total					**1 858 063**

					PARENT BANK 31.12.2018
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1 125 000	1 845 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	1 000
Prosjektutvikling AS	Property managment	Arendal	100 %	100	-
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	1 450
Total					**1 858 063**

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

Shareholdings correspond to the percentage of voting capital.

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

NOTE 26 – ASSOCIATED COMPANIES

				PARENT BANK 31.12.2019
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	20 %	482 868
Brage Finans AS	Finance	Bergen	21 %	373 849
Balder Betaling AS	Finance	Bergen	22 %	103 346
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	6 400
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**968 039**

				PARENT BANK 31.12.2018
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	20 %	483 108
Balder Betaling AS	Finance	Bergen	22 %	93 100
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	6 330
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**584 113**

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

NOTE 27 – FINANCIAL DERIVATIVES

				GROUP
NOK MILLION	31.12.2019	31.12.2019 (1) presented as net	31.12.2018	31.12.2018 (1) presented as net
Assets				
Financial derivatives	757	335	619	447
Liabilities				
Financial derivatives	422	0	179	7

				PARENT BANK
NOK MILLION	31.12.2019	31.12.2019 (1) presented as net	31.12.2018	31.12.2018 (1) presented as net
Assets				
Financial derivatives	251	89	197	118
Liabilities				
Financial derivatives	212	50	179	101

(1) Shows assets and liabilities as if the Bank and the Group had netted their financial derivatives against each individual counterparty.

The Bank and the Group's offsetting rights follow general Norwegian law. By means of ISDA agreements, the Bank and Sparebanken Sør Boligkreditt AS are entitled to offset other balances if certain events occur. The amounts have not been offset in the balance sheet at 31 December 2019 or 31 December 2018 because the transactions are not, as a rule, settled on a net basis. Derivative agreements are entered into with other banks with a solid credit rating.

NOTE 28 – BOND DEBT AND SUBORDINATED LOANS

DEBT SECURITIES - GROUP

NOK MILLION	31.12.2019	31.12.2018
Bonds, nominal value	52 977	47 969
Value adjustments	273	170
Accrued interest	180	184
Debt incurred due to issuance of securities	**53 430**	**48 323**

CHANGE IN DEBT SECURITIES - GROUP

NOK MILLION	31.12.2018	Issued	Matured/ Reedemed	Other changes during the period	31.12.2019
Bonds, nominal value	47 969	16 063	-10 867	-187	52 977
Value adjustments	170			103	273
Accrued interest	184			-4	180
Debt incurred due to issuance of securities	**48 323**	**16 063**	**-10 867**	**-89**	**53 430**

NOK MILLION	31.12.2017	Issued	Matured/ Reedemed	Other changes during the period	31.12.2018
Bonds, nominal value	43 990	13 770	-10 052	261	47 969
Value adjustment	125			45	170
Accrued interest	228			-44	184
Total debt due to issue of securities	**44 343**	**13 770**	**-10 052**	**262**	**48 323**

CHANGE IN SUBORDINATED LOAN CAPITAL – PARENT BANK AND GROUP

NOK MILLION	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	31.12.2019
Subrdinated loans	1 600	500	-134		1 966
Accured interest	4			1	5
Total subordinated loan capital	**1 604**	**500**	**-134**	**1**	**1 971**

NOK MILLION	31.12.2017	Issued	Matured/ Redeemed	Other changes during the period	31.12.2018
Subordinated loans	1 400	600	-400		1 600
Accrued interest	4				4
Total subordinated loan capital	**1 404**	**600**	**-400**		**1 604**

DEBT SECURITIES - PARENT BANK

NOK MILLION	31.12.2019	31.12.2018
Bonds, nominal value	16 672	17 904
Value adjustments	-47	13
Accrued interest	82	110
Debt incurred due to issuance of securities	**16 707**	**18 027**

CHANGE IN DEBT SECURITIES - PARENT BANK

NOK MILLION	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	31.12.2019
Bonds, nominal value	17 904	3 600	-4 815	-17	16 672
Value adjustments	13			-60	-47
Accrued interest	110			-28	82
Debt incurred due to issuance of securities	**18 027**	**3 600**	**-4 815**	**-104**	**16 707**

NOK MILLION	31.12.2017	Issued	Matured/ Redeemed	Other changes during the period	31.12.2018
Bonds, nominal value	17 580	3 900	-3 656	-80	17 904
Value adjustment	99			-86	13
Accrued interest	169			-59	110
Debt incurred due to issue of securities	**17 848**	**3 900**	**-3 656**	**-225**	**18 027**

NOTE 29 – LOANS AND DEBT TO CREDIT INSTITUTIONS

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
		Loans to credit institutions		
2 924	3 964	Without agreed maturity	82	33
86	100	With agreed maturity	100	86
3 010	**4 063**	**Total loans to credit institutions**	**182**	**119**
		Debts to credit institutions		
327	419	Without agreed maturity	38	21
1 932	1 770	With agreed maturity	1 752	1 895
2	2	Accrued interest	2	2
2 261	**2 192**	**Total debts to credit institutions**	**1 793**	**1 918**

GROUP

NOK MILLION	31.12.2018	Issue debt	Net change credits	31.12.2019
Loan to credit institutions	119		63	182
Debt to credit institutions	1 918		-125	1 793
Total net debt to credit institutions	**-1 799**		**188**	**-1 611**

GROUP

NOK MILLION	31.12.2017	Issue debt	Net change credits	31.12.2018
Loan to credit institutions	236		-117	119
Debt to credit institutions	902	1000	16	1 918
Total net debt to credit institutions	**-666**	**-1 000**	**-133**	**-1 799**

PARENT BANK

NOK MILLION	31.12.2018	Issue debt	Net change credits	31.12.2019
Loan to credit institutions	3 010		1 053	4 063
Debt to credit institutions	2 261		-69	2 192
Total net debt to credit institutions	**749**		**1 122**	**1 871**

PARENT BANK

NOK MILLION	31.12.2017	Issue debt	Net change credits	31.12.2018
Loan to credit institutions	3 516		-506	3 010
Debt to credit institutions	974	1000	287	2 261
Total net debt to credit institutions	**2 542**	**-1 000**	**-793**	**749**

NOTE 30 – TANGIBLE ASSETS AND TRANSITION EFFECTS IFRS 16

GROUP	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2019	2018	2019	2018	2019	2018	2019	2018
Acquisition cost 01.01.	**205**	**215**	**519**	**514**	**43**	**IA**	**767**	**729**
Additions during the year	13	9	5	29	5		23	38
Disposals during the year	-29	-19	-12	-24			-41	-43
Acquisition cost 31.12.	**189**	**205**	**512**	**519**	**48**	**IA**	**749**	**724**
Accumulated depreciations and write-downs 31.12.	146	164	139	147	5		290	311
Book value as at 31.12	**43**	**41**	**373**	**372**	**42**	**IA**	**458**	**413**
Ordinary depreciation	10	10	7	8	5		22	18
Impairments			2	1			2	1
Gains/losses on sale			0	-8			0	-8

GROUP	Intangible assets	
NOK MILLION	2019	2018
Acquisition cost 01.01.	**181**	**175**
Additions during the year	20	17
Disposals during the year	-11	-11
Acquisition cost 31.12.	**190**	**181**
Accumulated depreciations and write-downs 31.12.	163	159
Book value as at 31.12	**27**	**22**
Ordinary depreciation	14	10
Impairments		
Gains/losses on sale		

PARENT BANK	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2019	2018	2019	2018	2019	2018	2019	2018
Acquisition cost 01.01.	**192**	**202**	**491**	**485**	**43**	**IA**	**726**	**687**
Additions during the year	13	9	5	24	5		23	33
Disposals during the year	-29	-19	-12	-18			-41	-37
Acquisition cost 31.12.	**176**	**192**	**484**	**491**	**48**	**IA**	**708**	**683**
Accumulated depreciations and write-downs 31.12.	134	152	143	144	5		282	296
Book value as at 31.12	**42**	**40**	**341**	**347**	**42**	**IA**	**426**	**387**
Ordinary depreciation	10	10	7	8	5		22	18
Impairments			2	1			2	1
Gains/losses on sale			0	-8			0	-8

PARENT BANK	Intangible assets	
NOK MILLION	2019	2018
Acquisition cost 01.01.	**83**	**77**
Additions during the year	20	17
Disposals during the year	-11	-11
Acquisition cost 31.12.	**92**	**83**
Accumulated depreciations and write-downs 31.12.	65	61
Book value as at 31.12	**27**	**22**
Ordinary depreciation	14	10
Impairments		
Gains/losses on sale		

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

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

IMPACT ON THE FINANCIAL STATEMENTS OF TRANSITION TO IFRS 16

January 2019, IFRS 16 Leases replaced IAS 17 Leases. Sparebanken Sør chose to make use of a modified retrospective method in connection with transition to the new standard. The reason for that was that the scope of leases in the Group is small and future calculated liabilities are regarded as insignificant in its balance sheet

When measuring at the time of implementation, right of use and leasing liabilities will be identical at transition on 1 January 2109, and no transitional effect will be recognised in equity.

The transitional effect will be identical for the Parent Bank and Group, as there are no leases covered by the new standard in the Group's subsidiaries.

PARENT BANK / GROUP	Rights of use of rented premises
NOK MILLION	2019
Transitional effect 1.1.2019	**43**
Additions during the year	5
Adjustments	0
Lease payments	-6
Interests	1
Rights of us of rented premises (end of year) 31.12.2019	**43**

PARENT BANK / GROUP	Obligation of rented premises
NOK MILLION	2019
Transitional effect 1.1.2019	**43**
Additions during the year	5
Adjustments	0
Depreciations	-5
Obligation of rented premises (end of year) 31.12.2019	**42**

A weighted discount rate of 2.6% has been applied in calculating rights of use and liabilities at transition.

NOTE 31 – DEPOSITS FROM CUSTOMERS

DEPOSITS FROM CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
26 797	28 084	Retail customers	28 074	26 798
10 072	9 325	Public administration	9 326	10 073
442	561	Primary industry	561	442
1 672	1 923	Manufacturing industry	1 923	1 672
519	566	Real estate development	561	507
978	1 117	Building and construction industry	1 117	978
2 892	3 066	Property management	3 066	2 892
598	645	Transport	645	598
1 005	1 032	Retail trade	1 032	1 005
147	152	Hotel and restaurant	152	147
207	186	Housing cooperatives	186	207
5 176	5 075	Financial/commercial services	5 075	5 176
6 026	6 202	Social services	6 202	6 026
16	29	Accrued interests	29	16
56 546	**57 963**	**Total deposits from customers**	**57 949**	**56 537**

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
47 301	46 975	Deposits from costumers with no fixed maturity	46 960	47 291
9 230	10 960	Deposits from costumers with agreed maturity	10 960	9 230
56 531	**57 935**	**Total deposits from costumers**	**57 920**	**56 521**
16	29	Accrued interest	29	16
56 546	**57 963**	**Total deposits from costumers incl. accrued interest**	**57 949**	**56 537**

NOTE 32 – OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.2018	31.12.2019	NOK MILLION	31.12.2019	31.12.2018
13	59	Trade creditors	68	24
15	16	Tax withholdings	22	22
57	37	Clearing accounts	37	57
78	142	Other liabilities	145	80
35	37	Accrued holiday pay	45	51
90	98	Other incurred costs	108	95
288	**387**	**Total other liabilities**	**425**	**328**

NOTE 33 – AVERAGE INTEREST RATES

PARENT BANK			GROUP	
31.12.2018	31.12.2019		31.12.2019	31.12.2018
		Debt to credit institutions		
1.81 %	2.42 %	Debt to credit institutions	2.42 %	1.81 %
		Deposits from customers		
1.00 %	1.15 %	Deposits from customers	1.15 %	1.00 %
		Debt incurred due to issue of securities		
1.81 %	2.42 %	Bond debt - floating interest rate	1.38 %	1.71 %
0.18 %	0.11 %	Bond debt - floating interest rate EUR	0.11 %	0.18 %
2.66 %	2.45 %	Bond debt - fixed interest rate	2.50 %	2.77 %
		Bond debt - fixed interest rate EUR	0.25 %	0.25 %

The average interest rate is calculated as a weighted average of actual interest rate terms at 31 December, defined as interest in arrears for the full year. No liabilities have special conditions.

The bulk of the debt to credit institutions is denominated in NOK. Debt established through the issuance of securities is entirely in NOK.

NOTE 34 – DISCLOSURES ON RELATED PARTIES

Sparebanken Sør has entered into transactions with related parties as described in this note and Note 35. Transactions with subsidiaries have been eliminated in the consolidated financial statements.

Sparebanken Sør sold its own 5 168 equity certificates in 2019.

NOK THOUSAND	Group management	Board of Directors	Chairman of the Board of Trustees
Loans as at 31.12	18 991	11 319	2 333
Interest income	258	145	65
Deposits as at 31.12	11 620	5 969	40
Interest cost	98	123	0

Subsidiaries	Loans	Interest income	Deposits	Interest cost	Interest on bonds	Management fee
Prosjektutvikling AS	19 905	0	827	747		
Eiendomsvekst AS	5 000	18	5 202	0		
Transitt Eiendom AS	4 198	0	0	294		
Sørmegleren Holding AS	0	43	1 445	166		
Sparebanken Sør - Boligkreditt AS	3 881 408	458	399 399	73 068	45 955	73 582
Total	**3 910 511**	**519**	**406 873**	**74 275**	**45 955**	**73 582**

Associated companies	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	48 194	0	11	1 708
Torvparkering AS	159 665	29	7 182	5 761
Total	**207 859**	**29**	**7 193**	**7 469**

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

NOK MILLION	31.12.2019	31.12.2018
Sparebanken Sør Boligkreditt AS	40 200	38 729

Sparebanken Sør Boligkreditt AS purchases the majority of services from the Bank. All transactions between the companies are entered into on market terms. As at 31 December 2019, Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 4,000 million in Sparebanken Sør. In addition, Sparebanken Sør Boligkreditt AS has, at all times, a revolving credit facility with the Parent Bank, for which an annual commission is paid.

NOTE 35 – REMUNERATION AND SIMILAR BENEFITS

Information in this note applies to the status of the Group's Board of Directors, management and employee representatives.

Key personel NOK THOUSAND	Role	Number of equity certificates	Wages	Performance bonus	Taxable benefits	Pension cost	Total remuneration	Loans 2019
Geir Bergskaug	CEO	60 625	2 891	68	188	2 186	5 333	2 968
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 474	1 865	49	182	294	2 390	0
Gunnar Thomassen	Director, Retail market	2 592	1 744	47	258	350	2 399	3 328
Rolf H. Søraker	Director, Group support	1 030	1 463	41	133	318	1 955	2 258
Marianne Lofthus	Director, Capital market	162	1 359	39	176	356	1 930	4 468
Bjørn A. Friestad	Director, Risk management	3 505	1 486	42	200	300	2 028	1 301
Gry Moen	Director, Business support	118	1 352	39	173	348	1 912	4 667
Total		**70 506**	**12 160**	**325**	**1 310**	**4 152**	**17 947**	**18 991**

Key personel NOK THOUSAND	Role	Number of equity certificates	Wages	Performance bonus	Taxable benefits	Pension cost	Total remuneration	Loans 2018
Geir Bergskaug	CEO	40 463	2 809	91	193	2 030	5 123	2 975
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 312	1 845	65	227	478	2 615	509
Gunnar Thomassen	Director, Retail market	1 430	1 722	62	227	242	2 253	2 958
Rolf H. Søraker	Director, Group support	868	1 394	54	150	241	1 839	546
Marianne Lofthus	Director, Capital market	0	1 357	52	171	268	1 848	4 447
Bjørn A. Friestad	Director, Risk management	2 393	1 443	55	189	309	1 996	1 343
Gry Moen	Director, Business support	118	1 312	52	190	262	1 816	4 781
Total		**47 584**	**11 882**	**431**	**1 347**	**3 830**	**17 490**	**17 559**

The CEO has an agreement for one year's severance pay in the event of enforced resignation before the end of the agreed period of tenure.

There is a bonus system for all the Bank's employees, including Group Management, see Note 18.

							2019
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remun-eration 1)	Pension	Fringe benefits	Total remun-eration	Loans and collateral
Stein A. Hannevik	Chairman	23 467	441		13	454	6 813
Inger Johansen	Deputy chairman	0	206		2	208	2 975
Marit Kittelsen	Member	0	131		8	139	1 150
Erling Holm	Member	0	240		23	263	0
Mette Harv	Member	0	220		2	222	0
Tom Erik Jebsen	Member	2 500	131		9	140	0
Knut R Sæthre	Deputy member	0	120		0	120	0
Jan Erling Tobiassen	Employee representative	162	120		14	134	70
Gunnhild Tveiten Golid	Employee representative	162	120		21	141	0
Total		**26 291**	**1 729**		92	**1 821**	**11 008**

							2018
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remun-eration 1)	Pension	Fringe benefits	Total remun-eration	Loans and collateral
Stein A. Hannevik	Chairman	10 467	440	301	21	762	10
Inger Johansen	Deputy chairman	0	198		1	199	2 911
Marit Kittelsen	Member	0	144		1	145	1 177
Erling Holm	Member	0	233		1	234	500
Mette Harv	Member	0	132		0	132	0
Tom Erik Jebsen	Member	0	99		0	99	0
Knut R Sæthre	Deputy member	0	90		1	91	0
Jan Erling Tobiassen	Employee representative	0	115		15	130	85
Gunnhild Tveiten Golid	Employee representative	0	115		16	131	0
Total		**10 467**	**1 566**		**56**	**1 923**	**4 683**

1) Fees paid to the Board of Trustees and the committees

				2019
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remuneration	Loans
Jorunn Aarrestad	Chairman, Deposit elected	0	63	2 333
Terje Spilling	Deputy Chairman, Deposit elected	0	3	0
Øystein Haga	Deposit elected	0	16	2 438
Kai Magne Strat	Deposit elected	0	13	2 636
Ingvild Hovden	Deposit elected	97	6	1 250
Birgitte Midtgaard	Deposit elected	0	34	439
Kristi Marie Tveit	Deposit elected	0	0	1 537
Linda Gjertsen	Deposit elected	0	3	1 038
Mette Vestberg Sørensen	Deposit elected	0	36	0
Ole Tom Haddeland	Deposit elected	0	6	507
Ståle Rysstad	Deposit elected	0	49	0
Berit T Knudsen	Deposit elected	0	3	0
Nils Johannes Nilsen	Public elected	0	6	0
Vidar Stang	Public elected	0	6	0
Harald Fauskanger Andersen	Public elected	500	33	2 574
Tormod Nyberg 2)	EC owner	20 000	3	0
Alf Albert	EC owner	59 313	3	1 346
Egil B Galteland	EC owner - deputy	6 020	6	0
Helge Sandåker 3)	EC owner	0	3	0
Kari Anne Norbø 3)	EC owner	0	6	0
Svein Bringsjord 4)	EC owner	5 854	33	1 901
Karen Andersen	Elected by employees	162	27	1 598
Ellen Haugen	Elected by employees	280	6	1 499
Per Bø	Elected by employees	280	6	3 013
Nina Merete Olsen	Elected by employees	70	27	3 701
Bente Sørensen	Elected by employees	360	3	863
Hege Kirkhus	Elected by employees	280	6	3 069
Birger Sløgedal	Elected by employees	312	6	1 676
Total		**93 528**	**412**	**33 420**

1. Fees paid to the Board of Trustees and the Nomination Committee.
2. Represents Acan AS
3. Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates
4. Represents Sparebankstiftelsen Sparebanken Sør

				2018
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remunerations	Loans
Øystein Haga	Chairman, Deposit elected	0	45	2 340
Tormod Nyberg 2)	Deputy Chairman. EC owner	19 372	12	0
Jorunn Aarrestad	Deposit elected	0	16	2 196
Kai Magne Strat	Deposit elected	0	10	637
Ingvild Hovden	Deposit elected	0	7	1 556
Birgitte Midtgaard	Deposit elected	0	5	206
Øyvind Tveit	Deposit elected	0	38	0
Linda Gjertsen	Deposit elected	0	2	1 011
Mette Vestberg Sørensen	Deposit elected	0	16	10
Ole Tom Haddeland	Deposit elected	0	5	646
Ståle Rysstad	Deposit elected	0	27	0
Lisa Jensen	Deposit elected	0	4	0
Wigdis Hansen	Deposit elected	0	13	0
Nils Johannes Nilsen	Public elected	0	2	0
Vidar Stang	Public elected	0	5	0
Harald Fauskanger Andersen	Public elected	0	14	2 349
Einar Holmer Hoven	Public elected - deputy	0	3	0
Alf Albert	EC owner	57 955	16	1 486
Kristian Tørres Brøvig	EC owner	9 747	2	0
Helge Sandåker 3)	EC owner	0	11	0
Kari Anne Norbø 3)	EC owner	0	3	0
Svein Bringsjord 4)	EC owner	7 300	27	1 976
Karen Andersen	Elected by employees	0	19	1 632
Ellen Haugen	Elected by employees	118	5	1 500
Per Bø	Elected by employees	118	5	2 984
Nina Merete Olsen	Elected by employees	70	17	2 485
Bente Sørensen	Elected by employees	198	3	940
Hege Kirkhus	Elected by employees	118	5	2 997
Birger Sløgedal	Elected by employees	0	5	2 498
Total		**94 996**	**342**	**29 448**

1. Fees paid to the Board of Trustees and the Nomination Committee.
2. Represents Acan AS
3. Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates
4. Represents Sparebankstiftelsen Sparebanken Sør and 7 300 own equity certificates

NOTE 36 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

THE 20 LARGEST EQUITY CERTIFICATE OWNERS AT 31 DEC. 2019

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00
2.	EIKA utbytte VPF c/o Eika	640 284	4.09
3.	Arendal Kom. pensjonskasse	450 000	2.87
4.	Pareto AS	417 309	2.66
5.	Glastad Invest AS	368 765	2.35
6.	Otterlei Group AS	330 659	2.11
7.	Øyhovden Invest AS	212 000	1.35
8.	Wenaasgruppen AS	186 000	1.19
9.	Gumpen Bileiendom AS	174 209	1.11
10.	Allumgården AS	151 092	0.96
	Total - 10 largest certificate holders	**10 918 997**	**69.71**

	NAVN	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Catilina Invest AS	114 558	0.73
12.	Svenska Handelsbanken AB	100 000	0.64
13.	Ottersland AS	100 000	0.64
14.	Bergen Kom. Pensjonskasse	94 499	0.60
15.	MP Pensjon PK	85 523	0.55
16.	Artel AS	82 131	0.52
17.	Profond AS	76 478	0.49
18.	Apriori Holding AS	72 575	0.46
19.	Varodd AS	70 520	0.45
20.	Birkenes Sparebank	66 000	0.42
	Total - 20 largest certificate holders	**11 781 281**	**75.21**

Sparebanken Sør has no equity certificates at 31 December 2019. The bank has sold the 5,168 equity certificates that the bank owned as of 31.12.2018. As of 31 December, the bank had a total of 15,663,944 outstanding equity certificates, with a nominal value of NOK 50.

PROPOSED, NOT APPROVED DIVIDEND

	PARENT BANK	
	2019	2018
Total proposed dividend	125.0 mill. kroner	94.0 mill. kroner
Proposed dividend per equity certificate	kr 8.0 pr. bevis	kr 6.0 pr. bevis
Number of equity certificates	15 663 944	15 663 944

Dividend for the financial year 2019 is classified as other equity at 31 December 2019.
The dividend approved by the Board of Trustees on 28 March 2019 for the financial year 2018 was paid in 2019.

EQUITY CAPITAL AND EARNINGS PER EQUITY CERTIFICATE

NOK MILLION	31.12.2019	31.12.2018
Number of equity certificates	15 663 944	15 663 944
Nominal value	50	50
Equity certificate capital	783	783
Premium fund	451	451
Dividend equalisation fund	389	369
Total equity share capital (A)	**1 623**	**1 603**
Total equity share capital (Parent bank)	11 535	10 518
- hybrid capital	(1 375)	(1 075)
- other equity	(125)	(94)
Equity share capital excl. Hybrid capital and other equity share capital (B)	**10 035**	**9 349**
Ownership ratio after allocation (A/B)	**16.2 %**	**17.2 %**
Ownership ratio, weighted average (1)	**17.2 %**	**17.9 %**

NOK MILLION	2019	2018
Profit for the year, parent bank	904	731
- interest on hybrid capital	(60)	(56)
Dividend basis, parent bank	**844**	**675**
Profit for the year per EC, Parent Bank	9.3	7.7
Profit for the year, Group	1125	938
- interest on hybrid capital	(60)	(56)
Dividend basis, the Group	**1 065**	**882**
Profit for the year per EC, Group	11.7	10.1

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

Equity certificates owned by the CEO, senior management, members of the Board of Directors, members of the Board of Trustees and their personal related parties as in section § 7–26 of the Norwegian Accounting Act and section § 8-20 of its supplementary regulations are disclosed in Note 34.

NOTE 37 – BUSINESS COMBINATIONS

Business acquisitions

On 31 January 2019, Sparebanken Sør purchased 4 921 977 shares (equivalent to 4.3 percent) in Brage Finans AS.

Price per share amounted to 9.63 and total purchase price amount to 47 392 317 NOK. In addition an issue was carried out in February 2019, where the bank increased its ownership in the company by 0.9 percent. The total shareholding after the purchase and issue is 20.8 percent.

From the date of purchase, Brage Finans AS changed from being an investment in shares measured at fair value to being an investment in an associate. The value of the shares at the time of purchase is based on the most recently observed transactions at the time of their takeover.

Brage Finans AS is a financing company that offers leasing and loans secured by the purchased objects in the corporate and retail market. The company headquarter is located to Bergen and there are branches in Stavanger, Kristiansand, Ålesund, Haugesund and Kragerø. Distribution of the products is provided mainly through owner banks and retailers, in addition to the company's own organisation.

The acquisition and reclassification resulted in an accounting gain of NOK 8 million. Allocated negative goodwill is recognized at the time of the acquisition, and taken into the accounts in its entirety. Management believes that the purchase will have a positive impact on future earnings beyond the value of the company's individual assets. The shareholding in Brage Finans AS corresponds to voting rights.

Excess value analysis have been made in conjunction with the purchase of 4.3 percent shareholding and in advance of the following issuance. The analysis is based on figures at the close date of 31. december 2018.

NOK MILLION	Sparebankens Sør's calculated excess values recognised on the acquisition date
Negative Goodwill	-24
Book value of shares in Brage Finans AS on the acquisition date	241
Book value of shares on the acquisition date	217
Book value before acquisition	-170
Purchase price	**47**

NOK MILLION	Fair value on acquisition date
Assets	
Cash and deposits in credit institutions	237
Net loans to customers	9 248
Financial assets	63
Fixed assets	3
Other inrangible assets	27
Other assets	48
	9 626
Liabilities	
Loans and deposits to credit institutions	-775
Bonds and sertifikates	-7 230
Other Liabilities	-20
Provisions	-71
Commitment deferred tax	-48
Subordinated loan capital	-170
Hybrid capital	-100
	-8 414
Net identifiable assets at fair value	**1 212**
Other shareholder values at fair value	-971
Sparebanken Sør's share of fair value of investment on the acquisition date	241
Book value of shares on the acquisition date	217
Book value before acquisition	-170
Purchase price	**47**

The acquired company has contributed in 2019 with NOK 23.7 million in revenue. This is recognised as income from ownership interests in associates.

NOTE 38 – EVENTS AFTER THE BALANCE SHEET DATE AND CONTINGENCIES

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

Calculations

NOK MILLION	31.12.2019	31.12.2018
Return on equity adjusted for hybrid capital		
Profit after tax	1 125	939
Interest on hybrid capital	-60	-56
Profit after tax, incl. Interest on hybrid capital	**1 065**	**883**
Opening balance, equity	11 845	11 108
Opening balance, hybrid capital	-1 075	-1 075
Opening balance, equity excl. hybrid capital	**10 770**	**10 033**
Closing balance, equity	13 081	11 845
Closing balance, hybrid capital	-1 375	-1 075
Closing balance, equity excl. hybrid capital	**11 706**	**10 770**
Average equity	12 463	11 477
Average equity excl. Hybrid capital	**11 238**	**10 402**
Return on equity	9.0 %	8.2 %
Return on equity excl. Hybrid capital	**9.5 %**	**8.5 %**
Net interest income, incl. interest hybrid capital		
Net interest income, incl. interest hybrid capital	1 926	1 729
Interest on hybrid capital	-60	-56
Net interest income, incl. interest hybrid capital	**1 866**	**1 674**
Average total assets	125 900	118 600
As a percentage of total assets	**1.48 %**	**1.41 %**
Profit from ordinary operations (Adjusted earnings)		
Net interest income, incl. interest hybrid capital	1 866	1 674
Net commision income	344	318
Share of profit by associated companies (excl. valueadjustment Balder Betaling/Vipps)	64	-9
Other operating income	10	11
Operating expenses, adjusted for conversion of the pension scheme	918	884
Profit from ordinary operations (adjusted earnings), before tax	**1 366**	**1 110**
Profit excl. Finance, and adjusted for non-recurring items		
Net interest income, incl. interest hybrid capital	1 866	1 674
Net commision income	344	318
Share of profit from associated companies (excl. valueadjustment Balder Betaling/Vipps)	64	
Other operating income	10	11
Operating expenses, adjusted for conversion of the pension scheme	918	884
Losses on loans, guarantees and undrawn credit	-17	-36
Profit excl. Finance, and adjusted for non-recurring items	**1 383**	**1 155**
Tax (25 %)	346	289
Ordrinary operations / adjusted earnings after losses and tax	**1 037**	**866**
Average equity excl. Hybrid capital	11 238	10 402
Return on equity, profit excl. Finance and adjusted for non-recurring items	**9.2 %**	**8.3 %**

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

Alternative performance measures

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

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

Sparebanken Sør's alternative performance measures and definitions:

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

Corporate governance

CORPORATE GOVERNANCE REPORT

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

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

					PARENT BANK 31.12.2019
NOK THOUSAND	Type of business	Office location	Owner shares	Share capital	Nominal value
Sparebanken Sør Boligkreditt AS	Credit institution	Kristiansand	100 %	1 125 000	1 845 695
Sørmegleren Holding AS	Estate agency firm	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	1 000
Prosjektutvikling AS	Property managment	Arendal	100 %	100	-
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	1 450
Total					**1 858 063**

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

The company's intention with this document is:

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

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

THE CONNECTION WITH THE BANK'S OTHER POLICY DOCUMENTS

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

The structure of the various documents is shown below.

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

For operationalization of the Bank's strategic objectives, detailed annual action plans will be prepared, which also are related to the critical success factors included in the strategy document.

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

OPERATIONS

Objectives

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

Main strategies

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

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

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

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

Social responsibility

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

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

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

Measures against money laundering and the financing of terrorism

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

Environmental matters

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

Deviations from the recommendation: None

EQUITY AND DIVIDENDS

Equity

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

Dividend

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

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

Board authorisations

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

Deviations from the recommendation: None

EQUAL TREATMENT OF SHARE-HOLDERS AND TRANSACTIONS WITH RELATED PARTIES

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

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

In cases where the Bank has transactions in its own equity certificates, these are done on the stock exchange. If significant transactions occur between the Sparebanken Sør Group and equity certificate holders, board members, senior executives or parties related to these, the Board of Directors must ensure that a valuation has been made by an independent third party.

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

Deviations from the recommendation: None

EQUITY CERTIFICATES AND NEGOTIABILITY

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

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

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

Deviations from the recommendation: None

THE BOARD OF TRUSTEES

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

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

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

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

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

Deviations from the recommendation: None

NOMINATING COMMITTEES

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

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

The work of the nomination committees

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

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

Deviations from the recommendation: None

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

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

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

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

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

The Board of Directors independence

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

The Board members' independence

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

Deviations from the recommendation: None

THE WORK OF THE BOARD OF DIRECTORS

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

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

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

The Board of Directors conducts an annual self-assessment.

The Audit Committee

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

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

The Board of Directors elects 4 members to the committee from among its members. The Board's chair is elected to chair the Audit Committee.

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

The Risk Committee

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

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

The Board of Directors elects 4 members to the committee from among its members. The Chairman of the Board is elected as Chairman of the Risk Committee.

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

The Remuneration Committee

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

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

The Bank has established a Remuneration Committee consisting of 5 members of the Board of Directors, of whom 1 member is an employee representative. The Chairman of the Board is elected as Chairman of the Remuneration Committee.

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Bank has established a separate risk management and control division. There is a clear division of responsibility between the various governing bodies in the Bank in accordance with laws and regulations, as well as internally adopted management, control and reporting procedures. Key bodies are the Board of Trustees, the Board of Directors, external auditing, internal auditing and Group management.

Internal audit

The Bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor must ensure that adequate and efficient internal control and risk management procedures have been established and implemented. Separate instruction has been prepared for the internal auditor. Each year, the Board of Directors approves the annual internal auditing plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The Bank has established guidelines and procedures for the implementation of internal controls based on the COSO model. This model has an international standard for comprehensive risk management, and is widely used within the financial sector. Responsibility for practical implementation of the Group's internal control processes is allocated to the Risk Management Division, organised independently of the business units.

Compliance

The Bank focuses on having good processes to ensure compliance with applicable laws and regulations, and has established a separate compliance function, organised independently of the business units.

Risk management and capital adequacy

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives are given by the strategic business concept. The targeted return is decisive for the bank's activities and specification of targets. Focus is to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the Bank's capital assessment. A process related to the Bank's risk and capital adequacy assessment (ICAAP) is carried out annually. The Board of Directors ensures that the bank has sufficient capital relatively to the desired risk and the bank's operations and ensures that the bank is adequately capitalised in respect of regulatory requirements. The ICAAP - process is based on requirements set out by the authorities in addition to the banks own assessments.

Consideration of external factors in value creation

As a basis for its operations, the Bank must set strict requirements for honesty and good business ethics. The Bank therefore expects employees and elected representatives to have a high level of integrity, and attitudes in accordance with the Bank's code of conduct. These provide guidance on customer care, donations, confidentiality, participation in other commercial activity and transactions with related parties. The code's guidelines also requires employees to report any breaches of internal guidelines, laws and regulations. The procedure for how such disclosures are to be made is described in more detail in the Bank's whistleblowing routines.

Deviations from the recommendation: None

REMUNERATION OF THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviations from the recommendation: None

REMUNERATION OF EXECUTIVE PERSONNEL

The remuneration to the CEO and the head of internal auditing is determined by the Board of Directors, following a proposal from the Remuneration Committee. Remuneration paid to members of Group management is determined by the CEO in consultation with the Remuneration Committee. No members of Group management receive performance-based remunerations other than participating in the Bank's ordinary bonus scheme, which encompasses all Bank employees. The head of internal auditing does not receive performance-based remuneration, and does not participate in the Bank's ordinary bonus scheme.

The Board of Directors' declaration on pay to executive personnel is submitted to the Board of Trustees annually.

Deviations from the recommendation: None

INFORMATION AND COMMUNICATION

The Bank must have an open and active dialogue with all stakeholders. It is the intention of the Bank that customers, equity certificate holders, lenders (financial market players) and public authorities should have simultaneous access to correct, clear, relevant and complete information on the Bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, a separate Investor Relations area on the Bank's website and financial reports.

Deviations from the recommendation: None

COMPANY ACQUISITION

Sparebanken Sør is a self-owned institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law, and no party may own more than 10 percent of the Bank's equity. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

The savings bank foundation Sparebankstiftelsen Sparebanken Sør owns 51 percent of the equity certificates in the bank.

Statutory limits on ownership are assumed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviations from the recommendation: None

EXTERNAL AUDITOR

An external auditor is selected by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor attends the meeting of the Board of Directors at which the annual financial statements are discussed. The external auditor also attends meetings of the Audit Committee and has an annual meeting with the Board of Directors without members of administration being present. The external auditor's fees are considered by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also governed by a separate letter of engagement which, among other things, is concerned with the parties' responsibilities.

The Audit Committee monitors the auditor's independency, including what other services are provided by the auditor.

Deviations from the recommendation: None

Declaration from the Board of Directors and CEO

Declaration in accordance with section 5-5 of the Securities Trading Act

The Board of Directors and Sparebanken Sør`s Chief Executive Officer hereby confirm that the Bank and the Group`s 2019 financial statements have been prepared in accordance with currently valid accounting standards and that the information provided in the financial statements presents a true and fair view of the Bank's assets, liabilities, financial position and overall results.

In addition, we confirm that the Board og Directors report give a true and fair view of the development, results and financial position of the Bank and the Group, together with a description of the most central risk factors and uncertainties facing the Bank and the Group.

Kristiansand, 31 December 2019 / 3 March 2020

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO

To the Board of Trustees of Sparebanken Sør

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør, which comprise:

- The financial statements of the parent company Sparebanken Sør (the Company), which comprise the balance sheet as at 31 December 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, and
- The consolidated financial statements of Sparebanken Sør and its subsidiaries (the Group), 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 financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements 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 the EU.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group 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 the 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 and the Group 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.

PricewaterhouseCoopers AS, Gravane 26, Postboks 447, NO-4664 Kristiansand
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised

Independent Auditor's Report - Sparebanken Sør

Key Audit Matters

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

The business activities of the Group and the Company are largely unchanged compared to the previous year. We have not identified regulatory changes, transactions or other events that classify as new Key Audit Matters and our focus areas have remained the same in 2019 as in the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of loans to customers We focused on this area because loans to customers represent a significant portion of totals assets in the balance sheet and because valuation of loans to customers involves considerable judgement and large quantities of data which makes calculation of impairment of loans to customers complex. Impairment of loans to customers is performed in accordance with IFRS 9. For loans to customers where objective indicators of impairment exist, impairment is determined individually for each loan. For other loans to customers, impairment is calculated collectively based on a model. Both methods involve judgement that may affect financial results for the period and compliance with solvency regulations due to the risk classification of loans. For loans to customers where objective indicators of impairment exist, we have focused specifically on management’s process for identification of loans to customers where objective indicators of impairment exist, management’s follow-up of such loans and the assumptions used by management to calculate the impairment loss. For other loans to customers where impairment loss has been calculated collectively based on a model we have focused specifically on: - Risk classification of loans to	As part of our audit of expected impairment provisions, we assessed design and tested operating effectiveness of controls over quality assurance of assumptions and calculation methods. We determined that we could rely on these controls for the purposes of our audit. In addition, we performed detailed testing related to both loans to customers where impairment is calculated collectively based on a model and where impairment is estimated individually based on objective indicators of impairment. For loans to customers where objective indicators of impairment existed and the impairment was estimated individually, we tested a sample of such loans. We assessed the recoverable amount and cash flows that management had prepared to support the amount of impairment loss. We challenged management’s assessment by interviewing client account managers and management. We compared the recoverable amount to external evidence where available. The outcome of our testing showed that the assumptions used by management when calculating individual impairment losses were reasonable. Where impairment is calculated collectively based on a model, we gained a detailed understanding of the process and performed testing to assess the following: - Calculations and methods used. - That the model used was was in accordance with the applicable framework and operated as intended. - Reliability and accuracy of central parameters and data used by the model. - Accurate and complete transfer of information from the model to the accounting system. Our testing gave no indications of material

customers.

- Calculation of expected credit loss.
- Calculation of probability of default.
- Identification of significant change in credit risk.
- How loans to customers have been allocated to stages.
- Determination of significant input variables to the model.

We refer to notes 6 through 11 to the financial statements for a description of the group’s impairment model, credit risk and impairment of loans to customers.

misstatement.

We have looked at the information disclosed in the notes related to valuation of loans to customers and found it to be sufficient and adequate.

The bank used external service organisations to operate certain key IT systems. The auditor of the respective service organisations evaluated design and tested operating effectiveness of the controls addressing integrity of the IT systems that are relevant to financial reporting. The auditor has issued a report on the audit of reports and application controls. The auditor tested that key calculations produced by the core IT systems were performed in line with expectations, including interest calculations and amortizations. The testing also covered integrity of data, changes and access to the IT systems. To assess if we could rely on the information included in the auditor’s reports, we satisfied ourselves regarding the auditor’s competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the bank’s IT systems and segregation of duties where this was considered necessary to our audit.

Our assessments and tests showed that we could rely on the data managed by and the calculations produced by the bank’s IT systems relevant to financial reporting to be reliable.

Other information

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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report - Sparebanken Sør

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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 and in the statements on Corporate Governance and Corporate Social Responsibility 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.

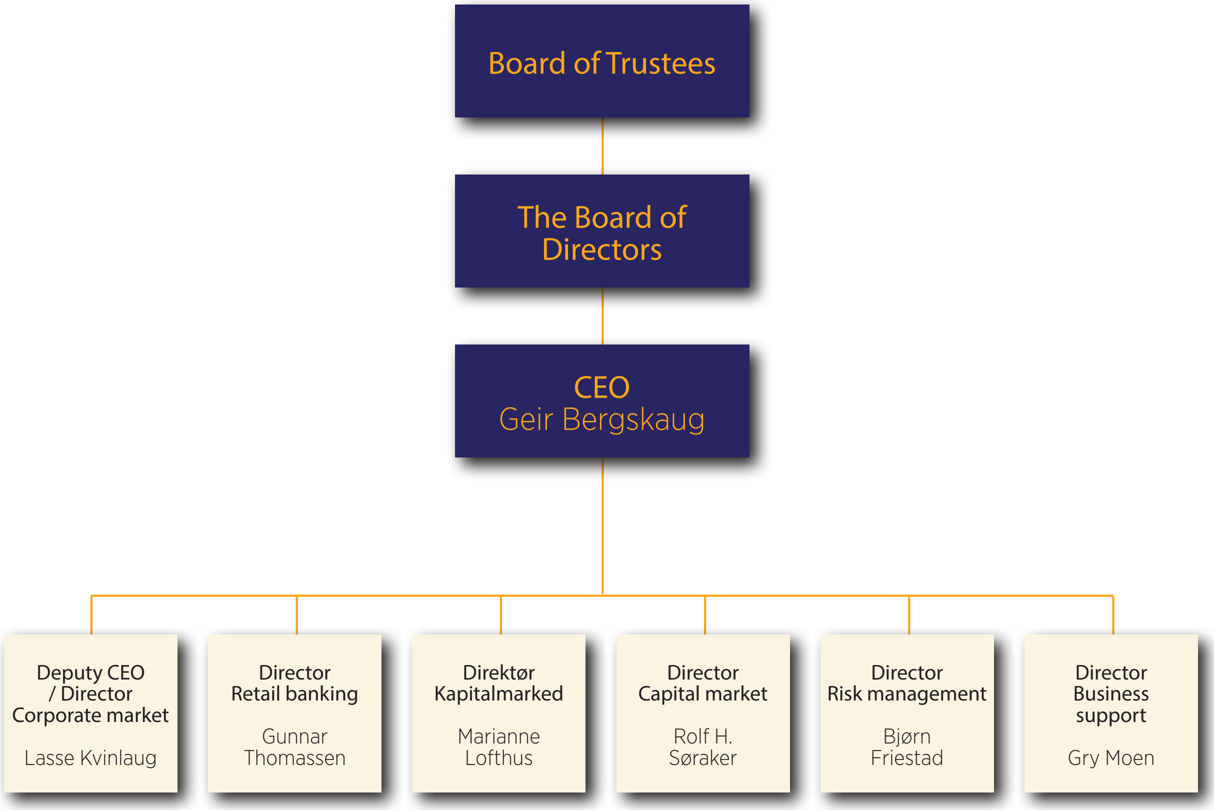
Opinion on Registration and Documentation

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, 3 March 2020
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

Organisation



THE BANK'S BRANCHES

The Group management

Geir Bergskaug (1960)

CEO from 1 January 2014. Former CEO of the "old" Sparebanken Sør from 1 November 2010. Worked in Gjensidige as Director and Executive Vice President (1999–2010), chairman of the board of Gjensidige Bank (2008–2010), General Manager / Director of DnB NOR (1988–1999). Master of Business and Economics from the Norwegian School of Economics and Business Administration. Additional education from Harvard Business School in Boston – GMP, INSEAD, Fontainebleau in France – MBA.

Lasse Kvinlaug (1961)

Deputy Chief Executive from 1 January 2014 and Corporate Market Director. Master of Business and Economics. Formerly worked in Sparebanken Pluss as Deputy Chief Executive, Director and General Manager (1997–2013). Also experience from Sparebanken NOR / Sparebanken ABC (1987–1997), as Assistant General Manager with responsibility for the corporate market in Kristiansand. Financial Consultant in Statoil (1984–87)

Marianne Lofthus (1961)

Capital Market Director from 1 January 2014 and General Manager of Sparebanken Sør Boligkreditt. Was CFO in Sparebanken Pluss (2003–2013) and has many years of experience from the financial operations in Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from the Norwegian School of Economics and Business Administration.

Gunnar P. Thomassen (1965)

Retail Banking Market Director from 1 January 2014. Previously worked in Sparebanken Sør as director, regional director and bank manager (1999–2013). Also has experience from Ernst & Young Management Consulting and the Industrial Fund/SND. Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology.

The Group management

Rolf H. Søraker (1960)

Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Also has experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master of Management.

Bjørn A. Friestad (1959)

Risk Management Director from 1 January 2014. Was responsible for credit and business development in Sparebanken Plus (2001–2013). Has a wide range of experience from various business areas in Sparebanken Agder / Sparebanken Pluss since 1986. Master in Business and Economics and aut. financial analyst (AFA) from the Norwegian School of Economics and Business Administration.

Gry Moen (1963)

Business Development Director from 1 January 2014. Has also worked in "old" Sparebanken Sør as Business Development Director from 2011. Was General Manager of ABCenter Holding (2009–2010) and Marketing Director in Sparebanken Sør (2006–2009). Has previous experience from Statoil, Telenor and LOS / Agder Energi. Education from Trondheim Business College / Ecôle Superiéure de Commerce Grenobles/Nantes.

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