



# Q4 2020



**SPAREBANKEN SØR**

# Contents

Key figures Group	3
Board of Director's report	4
Income statement	14
Balance sheet	15
Cash flow statement	16
Statement of changes in equity	17
Notes	18
Risk and capital management	34
Quarterly trend in results	35
Key figures Group 2016-2020	36
Calculations	37
Alternative performance measures – APM	38
Declaration in accordance with sections § 5-6 of the Norwegian Securities Trading Act	39

<b>Income statement (NOK million)</b>	<b>Q4 2020</b>	<b>Q4 2019</b>	<b>31.12.2020</b>	<b>31.12.2019</b>
Net interest income	467	523	1 914	1926
Net commission income	97	91	347	344
Net income from financial instruments	37	-31	40	24
Other operating income	59	26	143	74
<b>Total net income</b>	<b>659</b>	<b>609</b>	<b>2 444</b>	<b>2368</b>
Total operating expenses before losses	260	233	958	918
<b>Operating profit before losses</b>	<b>399</b>	<b>376</b>	<b>1 486</b>	<b>1450</b>
Losses on loans, guarantees and unused credit	-30	-3	83	-17
<b>Profit before taxes</b>	<b>430</b>	<b>379</b>	<b>1 403</b>	<b>1467</b>
Tax expenses	90	86	307	342
<b>Profit for the period</b>	<b>339</b>	<b>293</b>	<b>1 096</b>	<b>1125</b>
<b>Profit as a percentage of average assets</b>				
Net interest income	1.29 %	1.60 %	1.36 %	1.53 %
Net commission income	0.27 %	0.28 %	0.25 %	0.27 %
Net income from financial instruments	0.10 %	-0.09 %	0.03 %	0.02 %
Other operating income	0.16 %	0.08 %	0.10 %	0.06 %
<b>Total net income</b>	<b>1.83 %</b>	<b>1.87 %</b>	<b>1.74 %</b>	<b>1.88 %</b>
Total operating expenses before losses	0.72 %	0.71 %	0.68 %	0.73 %
<b>Operating profit before losses</b>	<b>1.11 %</b>	<b>1.15 %</b>	<b>1.06 %</b>	<b>1.15 %</b>
Losses on loans, guarantees and unused credit	-0.08 %	-0.01 %	0.06 %	-0.01 %
<b>Profit before taxes</b>	<b>1.19 %</b>	<b>1.16 %</b>	<b>1.00 %</b>	<b>1.17 %</b>
Tax expenses	0.25 %	0.26 %	0.22 %	0.27 %
<b>Profit for the period</b>	<b>0.94 %</b>	<b>0.90 %</b>	<b>0.78 %</b>	<b>0.89 %</b>
<b>Key figures, income statement</b>				
Return on equity after tax (adjusted for hybrid capital)	10.4 %	9.6 %	8.4 %	9.5 %
Costs as % of income	39.4 %	38.2 %	39.2 %	38.8 %
Costs as % of income, excl. net income from financial instruments	41.7 %	36.4 %	39.9 %	39.2 %
<b>Key figures, balance sheet</b>				
Total assets	142 126	129 499	142 126	129 499
Average total assets	143 700	129 600	140 400	125 900
Net loans to customers			111 577	106 334
Growth in loans as % last 12 months			4.9 %	3.3 %
Customer deposits			59 833	57 949
Growth in deposits as % last 12 months			3.3 %	2.5 %
Deposits as % of net loans			53.6 %	54.5 %
Equity (incl. hybrid capital)			13 752	13 081
Losses on loans as % of net loans, annualized			0.07 %	-0.01 %
Gross non-performing loans > 90 days as % of gross loans			0.29 %	0.27 %
<b>Other key figures</b>				
Liquidity reserve (LCR) Group			173 %	148 %
Liquidity reserve (LCR) Group - Euro			107 %	1168 %
Liquidity reserve (LCR) Parent Bank			154 %	140 %
Common equity tier 1 capital ratio			15.7 %	15.7 %
Tier 1 capital ratio			17.1 %	17.6 %
Total capital ratio			19.1 %	20.3 %
Total common equity tier 1 capital ratio			12 204	11 356
Tier 1 capital ratio			13 315	12 767
Net subordinated capital			14 864	14 686
Leverage ratio			8.9 %	9.3 %
Number of branches			35	34
Number of FTEs in banking operations			442	429
<b>Key figures, equity certificates</b>				
Equity certificate ratio, weighted average over the period	17.3 %	17.2 %	17.3 %	17.2 %
Number of equity certificates issued			15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2.5	2.4	10.5	9.3
Profit/diluted earnings per equity certificate (Group)	3.6	3.1	11.3	11.7
Dividend last year per equity certificate			14.0	0.0
Book equity per equity certificate			140.0	128.5
Price/book value per equity certificate			0.8	0.9
Listed price on Oslo Stock Exchange at end of period			114.5	110.0

# Board of Director's report

## General

Sparebanken Sør is an independent financial institution that engages in banking, securities trading and real estate brokerage activities in Agder, Rogaland, Vestfold and Telemark.

Real estate agency activities are conducted through the subsidiary Sørmeqleren. General insurance and life insurance products are supplied through Frende, an insurance company partly owned by the bank. The bank is also a part owner of Norne Securities, a security trading company, and Brage Finans, a provider of leasing products and vendor's lien.

## Highlights in Q4 2020

- Good result from ordinary operations
- Efficient operations and low costs
- Very good results from Frende and Brage
- Strong result from the company's real estate agency, Sørmeqleren
- Net entry on losses on loans
- Return on equity after tax of 10.4 percent
- Common equity tier 1 (CET1) ratio of 15.7 percent and Leverage Ratio of 8.9 percent
- The Board will propose a dividend for 2020 of NOK 14.0 per equity certificate. This includes a dividend for 2019 of NOK 8 per equity certificate.

## Highlights in 2020

- Good result from ordinary operations
- Efficient operations and low costs
- Good results from Frende, Brage and Sørmeqleren
- Increased model based losses on loans as a result of the Covid-19 pandemic
- 12 months growth in lending of 4.9 percent
- 12 months growth in deposits of 3.3 percent
- Return on equity after tax of 8.4 percent

## Economic framework conditions

The coronavirus pandemic has continued to have a large impact on the Norwegian economy and financial markets through Q4 2020. Market disruptions in the wake of the coronavirus outbreak decreased during the spring and summer. The infection rate has increased somewhat during autumn and winter, which has led to stricter containment measures. Several vaccine programmes have been approved, but there is still uncertainty associated with the pace of vaccine deployment, the duration of the vaccine protection, and its effect on new mutations of the virus.

In May 2020, the key interest rate was reduced to a record low 0 percent. The justification for reducing the policy rate was the impact of COVID-19. The Norwegian economic situation has since improved, and the Norwegian economy experienced an upturn for several months. Economic recovery has now slowed due to the rise of infection and stricter containment measures. However, extensive vaccination has been initiated, and economic growth is expected to pick up in 2021. At its most recent interest rate meeting in January 2021, Norges Bank decided to keep the policy rate unchanged due to the recent major economic downturn, as there is still a high level of uncertainty regarding future developments.

Norway has room to manoeuvre with regard to economic policy and good welfare arrangements. In addition, the banks are financially strong. This puts Norway in an exceptional position to weather the crisis. Reduced borrowing costs will support Norwegian companies and households through a challenging period of lower income. When the measures taken to limit the spread of the coronavirus eventually are reversed, and the situation returns to normal, low interest rates will help restart activity more rapidly.

Capital markets are still being impacted by COVID-19, and there have been significant market movements since mid-March. Premiums in both domestic and global bond and money markets have fallen in recent quarters. In March, Norges Bank issued extraordinary F-loans to banks to ensure that the policy rate is reflected in money market rates. This scheme was valid through 2020.

Annual growth in gross domestic debt to the public, K2, was at 4.8 percent at the end of December 2020. Credit growth for households and businesses was 4.9 percent and 3.7 percent respectively.

On 13 March 2020, the Norwegian Ministry of Finance decided to reduce the banks' counter-cyclical capital buffer requirement from 2.5 percent to 1 percent, with immediate effect. This was done to prevent stricter lending practices by the banks from exacerbating the downturn caused by the pandemic. Reference was made to the fact that Norwegian banks are profitable and financially solid, and have sufficient capital to bear losses in the event of a major setback. Norges bank, which prepares the basis for the decision and advises the Norwegian Ministry of Finance on the capital buffer level, has declared that they do not expect to give advice on increasing the buffer requirement until the first quarter of 2021, at the earliest.

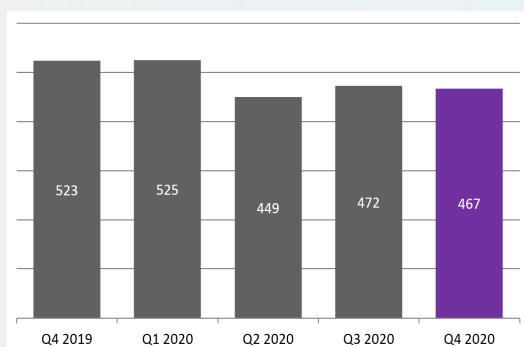
## Earnings

Sparebanken Sør posted a profit before tax of NOK 430 million in Q4 2020, compared with NOK 379 million in the same period in 2019. This corresponds to an increase of NOK 51 million. The Group achieved a return on equity after tax of 10.4 percent in Q4 2020, compared with 9.6 percent in the same period in 2019.

Profit before tax in 2020 amounted to NOK 1 403 million, compared with NOK 1 467 million in the same period in 2019. The return on equity after tax was 8.4 percent in 2020, compared with 9.5 percent in 2019.

## Net interest income

### Quarterly net interest income (NOK million)



Net interest income totalled NOK 467 million in the Q4 2020, compared with NOK 523 million in the Q4 2019, a reduction of NOK 56 million.

Norges Bank has cut the policy rate from 1.50 percent to a record-low 0 percent. Sparebanken Sør has followed up by notifying a reduction in its lending rate of up to 1.25 percent in the same period. The bank also implemented changes in interest rates on some deposits in 2020.

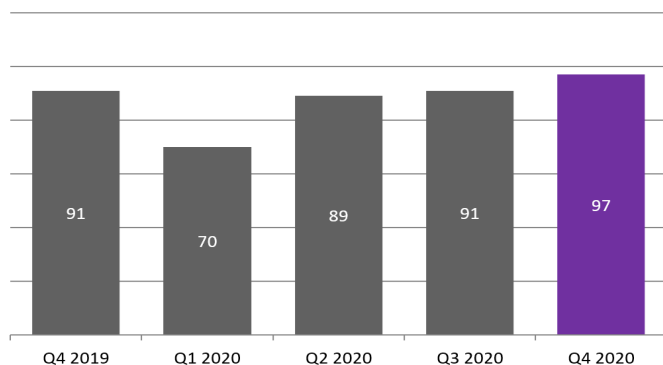
Net interest income fell significantly in the second quarter of 2020 as a result of interest rate changes. The bank implemented the interest rate change with shortened notice periods, and the bank's customers could benefit from low lending rates in a demanding period. The notice period for change in interest rates is normally 6 weeks, and the effects of the shortened notice period reduced net interest income by approx NOK 56 million in Q2 2020.

The interest rate changes have put pressure on the bank's net interest income and the overall interest margin, which has decreased in Q4 2020.

# Board of Director's report

## Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 97 million in Q4 2020, compared with NOK 91 million in Q4 2019.

Gross commission income in Q4 2020 totalled NOK 117 million, compared with NOK 109 million in Q4 2019.

Commission income	Q4 2020	Q4 2019	Change	2020	2019	Change
Payment services	46	51	-5	164	188	-24
Real estate brokerage	40	23	17	148	116	32
Other commission income	30	35	-5	96	99	-3
<b>Total</b>	<b>117</b>	<b>109</b>	<b>8</b>	<b>409</b>	<b>403</b>	<b>6</b>

Gross commission income has indecreased in Q4 2020, compared with the same period 2019. This is mainly due to increased income from the bank's real estate agency, Sørmelegren. The company has had a solid growth and an increased commission income in Q4 and in 2020 overall.

There has been a decrease in commission income from payment services and other products in Q4 and in 2020, which is mainly due to the loss of currency exchange income related to reduced use of credit cards abroad. The Covid-19 situation caused less traveling by the banks customers. For other products, the fall is due to lower bonus commissions from Frende and Brage in 2020, compared with 2019. The bonus commissions are calculated each year in December.

## Financial instruments

Net income from financial instruments totalled NOK 37 million in Q4 2020, compared with NOK -31 million in Q4 2019.

Net income from financial instruments	Q4 2020	Q4 2019	Change	2020	2019	Change
Bonds and certificates	-7	-15	8	-45	-23	-22
Shares incl. dividends	-4	-2	-2	8	17	-9
Fixed rate loans	34	0	34	25	14	11
Securities issued - hedge accounting	5	-2	7	40	24	16
Repurchase of issued bonds	0	-19	19	-12	-29	17
Other financial instruments	9	7	2	25	21	4
<b>Total</b>	<b>37</b>	<b>-31</b>	<b>68</b>	<b>40</b>	<b>24</b>	<b>16</b>

The accounting effects linked to hedge accounting are mainly caused by changes in the value of basis swaps. Basis swaps are used to hedge fixed-rate debt issued in euros. The value of basis swaps fluctuates due to market changes, and the fluctuations are recognised in the income statement. These are hedging instruments, and assuming the underlying bonds are held to maturity, the change in market value over the term of the instruments is zero.

## Income from associated companies

In recent years, Sparebanken Sør has increased its ownership interest in Frende Holding AS and Brage Finans AS. In the second quarter, the ownership interest in Frende increased further from 20.2 percent to 21.0 percent. This was done as part of the Bank's strategic focus, of giving our customers relevant, integrated and attractive solutions.

Profit from associates totalled NOK 56.7 million in the Q4 2020, up from NOK 20.9 million in the corresponding period in 2019.

The profit share for 2020 amounted to NOK 135.7 million, up from NOK 64.1 million in 2019, an increase of NOK 71.6 million. The strategic investment in associated companies has contributed to a significant income diversification in 2020.

Sparebanken Sør's share of the profit in Brage Finans AS, totalled NOK 9.7 million in Q4 and NOK 32.7 million in 2020.

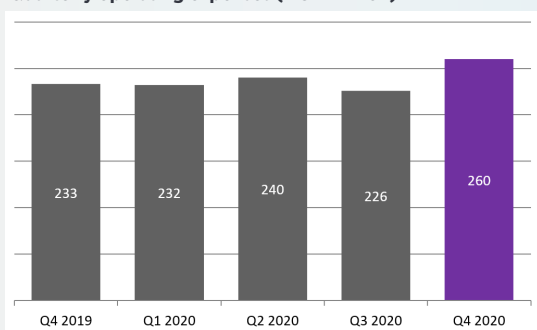
Sparebanken Sør's share of the profit in Frende Holding AS totalled NOK 52.2 million in the Q4 and NOK 116.2 million in 2020.

In connection with the purchase of shares in Frende Holding AS in 2018 and 2020, surplus value was identified. This will be amortised over the asset's expected life. The Group has amortised NOK 5.4 million in excess value in the Q4 and NOK 20.9 million in 2020.

In Q1, a NOK 7.7 million value adjustment was recognised for the Bank's shares in Vipps, which increased the value of its shares in Balder Betaling AS.

## Operating expenses

### Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 260 million in Q4 2020, up from NOK 233 million in the corresponding period in 2019.

Operating expenses as a percentage of average total assets were 0.68 percent (0.71 percent) in Q4 2020. Cost-income ratio was 39.4 percent (38.2 percent).

Expenses in the banking business amounted to NOK 226 million in Q4 2020, compared with NOK 212 million in the same period in 2019.

The operating cost amounted to NOK 958 million in 2020, compared with NOK 918 million in 2019. An increase of NOK 40 million. There has been NOK 15 million in increased costs in the real estate agency, as a result of high activity in 2020. The costs in the banking business increase from NOK 811 million in 2019, to NOK 835 million in 2020. The increase in the banking business is mainly related to strategic digital focus areas.

## Losses and non-performing loans

Net losses on loans, totalled a net entry on loans amounted to NOK 30 million in Q4 2020, compared with a net entry on loans of NOK 3 million in Q4 2019.

Net losses on loans amounted to NOK 83 million in 2020, compared with a net entry on loans of NOK 17 million in 2019.

The loss expense in 2020 is mainly due to a negative macro input in the IFRS9 model based-calculated losses on loans. The macro variables used as input, are presented in note 5. The market situation has been relatively stable and has improved recently, which has resulted in low losses in Q4 2020. Net entry on loans in Q4 2020 is mainly related to one individual commitment.

The Covid-19 pandemic has effected several business sectors, and the government has implemented extensive and wide-ranging support measures. The Bank has virtually no direct exposure to the oil and offshore industries, which are strongly affected by the downturn in oil prices. The Bank's indirect exposure to oil and offshore industries are also low. An estimated 1-2 percent of the tenants in the Bank's real estate portfolio are linked to this sector. The Covid-19 crisis hit by full force in the middle of March 2020, at the end of Q4 the uncertainty regarding the downside for the Banks customers are still unknown. Although the credit risk in the Bank's commercial portfolio has increased, the government has instituted massive support measures that will help to reduce the pandemic's negative impacts on customers.

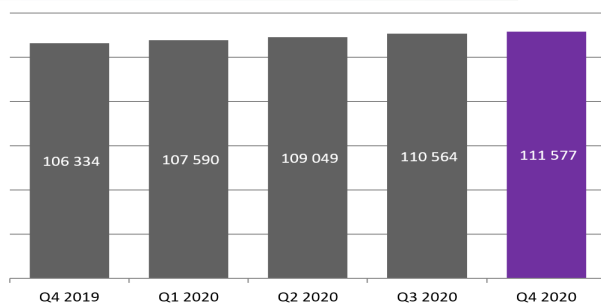
## Board of Director's report

The Group's impairment losses were calculated to NOK 468 million at the end of Q4 2020, which is equivalent to 0.42 percent of gross loans. The corresponding figures for 2019 were NOK 397 million and 0.37 percent of gross loans.

Gross non-performing loans more than 90 days in arrears were NOK 323 million, which represented 0.29 percent of gross loans. This was higher than at the corresponding time in 2019, when gross non-performing loans in arrears amounted to NOK 286 million and represented 0.27 percent of gross loans. Gross non-performing loans over 90 days in arrears are still at a very low level.

### Loans

#### Loans in NOK million



Over the past 12 months net loans increased by NOK 5.2 billion to a total of NOK 111.6 billion, representing a growth of 4.9 percent.

Over the past 12 months, gross loans to retail customers increased by NOK 3.5 billion to NOK 73.7 billion, a growth of 5.0 percent.

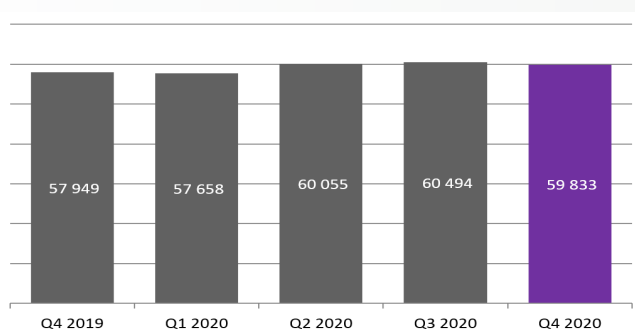
Gross loans to corporate customers increased by NOK 1.8 billion to NOK 38.2 billion over the last 12 months, representing a growth of 5.1 percent.

The increase in gross lending growth is higher than the net lending growth as a result of increased losses on loans in 2020.

Loans to retail customers accounted for 66 percent (66 percent) of total loans at the end of Q4 2020.

### Deposits

#### Deposits in NOK million



Over the past 12 months, customer deposits increased by NOK 1.9 billion to NOK 59.8 billion, a growth of 3.3 percent.

Deposits from retail customers increased by NOK 1.8 billion to NOK 29.8 billion, a growth of 6.3 percent.

Deposits from corporate customers decreased by 0.1 billion to NOK 30.0 billion, a decrease of 0.4 percent.

The bank has chosen to reduce large capital market deposits in 2020, and has had a good increase in smaller, operational



corporate deposits. The decrease in capital market deposits over the past 12 months amounted to NOK 2.5 billion. Adjusted for capital market deposits, deposit growth over the last 12 months was 8.1 percent for the Group and 10.2 percent for corporate customers.

Deposits in percent of net loans were 53.6 percent at the end of Q4 2020, down from 54.5 percent at the same time in 2019. The decrease is primarily attributable a reduced proportion of larger deposits.

### Wholesale funding and liquidity portfolio

The Group's liquidity situation is satisfactory. The liquidity buffers are adequate and the maturity structure of the funding is well adapted to the needs of the business. New long-term funding is established through the issuance of covered bonds, senior debt and senior non-preferred. The Group has also arranged for long-term financing in the international market through established EMTN programs.

At the end of Q4 2020, wholesale funding amounted to NOK 58.9 million, of which 73 percent consisted of covered bonds. Longterm financing (over 1 year maturity) had an average maturity of 3.6 years at the end of the quarter.

Sparebanken Sør has availed itself of the extraordinary loan facility that Norges Bank established in March 2020. As at 31 December 2020, the Bank had NOK 2.5 billion in F-loans.

Liquidity in the Norwegian bond market showed improvement through the last two quarters, and the credit spreads have been stable through Q4 2020.

The Group's portfolio of interest-bearing securities totalled NOK 21.5 billion at the end of Q4 2020. At the same date, the Group's liquidity reserves (LCR) were 173 percent (Parent Bank: 154 percent).

### Rating

Sparebanken Sør has an A1 rating with "Stable Outlook" rated by Moody's.

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

### Subordinated capital and capital adequacy

At the end of Q4 2020, net subordinated capital totalled NOK 14.9 billion. Hybrid capital totalled NOK 13.3 billion and subordinated loans totalled NOK 12.2 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 19.1 percent, tier 1 capital ratio was 17.1 percent and the (total) capital ratio for the Sparebanken Sør Group was 15.7 percent (based on Basel II). Brage Finans AS is proportionally consolidated in accordance with the rules on cooperative groups. The parent bank had a CET1 capital ratio of 16.5 percent, a tier 1 capital ratio of 18.1 percent and a (total) capital ratio of 20.5 percent at the end of Q4 2020.

In accordance with the Capital Requirements Regulation (CRR), loans to clients who develop property with the intention to resell are classified as particularly high-risk exposures. These loans have allocated a risk weighting of 150 percent, in contrast to a risk weighting of 100 percent, as is normally the case for loans to enterprises under the standard method. Projects with irrevocable advance sale agreements will not be regarded as high risk. In its circular 5/2020, the Financial Supervisory Authority of Norway established a requirement for a certificate of completion for a sale to be considered irrevocable. At the start of the year, the Bank decided to adopt the viewpoints stated in a letter from Finance Norway to the Financial Supervisory Authority, as well as various legal assessments, with the result that the Bank will not weight exposures with irrevocable advance sale agreements at 150 percent. At the same time, the Bank also assessed that the lending portfolio for development projects, and the share of loans with irrevocable advance sale agreements should be reported with a capital weighting of 100 percent. This assessment resulted in a reduction in the common equity tier 1 capital requirement of 0.28 percentage points for exposures without irrevocable advance sale agreements.

In 2018, the Pillar 2 requirement for Sparebanken Sør was set to 2.0 percent of risk-weighted assets. 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 relating to the shareholding in Frende Holding AS alone accounts for 0.3 percentage points. The Norwegian Ministry of Finance was intended to assess the group's risk and capital

## Board of Director's report

requirements (SREP) in 2020. As a result of the corona pandemic, the Norwegian Ministry of Finance will not make new Pillar 2 decisions in 2020, unless special circumstances of a significant nature are identified that indicate increased capital requirements. The group has completed this year's ICAAP, and the group's own calculations indicates that the Pillar 2 requirement should be markedly lower, and that this will be down towards 1.5 percent of the risk-weighted assets.

In Q1 2020, the Norwegian Ministry of Finance decided to lower the countercyclical capital buffer requirement from 2.5 percent to 1.0 percent, with immediate effect. The buffer requirement was lowered to prevent stricter lending practices by the banks from intensifying the recession due to Covid-19. Norges bank, which prepares the basis for the decision and advises the Norwegian Ministry of Finance on the capital buffer level, has declared that it do not expect to give advice on increasing the buffer requirement until the first quarter of 2021, at the earliest.

The Group met the capital requirements of, respectively, 13.0 percent for CET1, 14.5 percent for tier 1 capital and 16.5 percent for total capital by a solid margin. The Group's internal target is a CET1 capital ratio of 15.3 percent.

The Ministry of Finance has adopted regulatory amendments that put the EU Capital Requirements Regulations CRR/CRD IV into effect as at 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 standardised or basic IRB approach, which means that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022. Through solid operations, the Group will comply with the new requirements by 2022, as well as secure 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 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 ratio than the other regional banks. Sparebanken Sør has implemented a process 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 Group's Leverage Ratio stood at 8.9 percent at the close of the fourth quarter 2020, compared with 9.3 percent at the close of the fourth quarter 2019. The Bank's capital adequacy is highly satisfactory.

On 18 December 2020, the bank received a decision on the minimum requirement for the sum of subordinated capital and convertible debt (MREL) from the Financial Supervisory Authority of Norway. MREL and internal recapitalisation is a key element of the Bank Recovery and Resolution Directive (BRRD). The MREL requirement is 32.0 percent of the adjusted risk-weighted exposure amount based on the bank's balance sheet as of 31 December 2019. The Group will fulfil this requirement by 1 January 2021. The requirement for subordinated capital must be met by 1 January 2024, and can be phased in, as the Group, up to this point, can include unsecured senior bond debt with a remaining term of at least one year in its fulfilment of the minimum requirement. A phase-in of subordinated loan capital must be linear, so that the Group, during 2021, will phase in at least 1/3 of the remaining need for subordinate capital during the 2021-2023 phase-in period, calculated as of 31 December 2020.

On 24 June 2020, Sparebanken Sør was the first Norwegian bank to issue a senior non-preferred bond (Tier 3) with a nominal value of NOK 1 billion with a maturity of 5 years. The bank extended the loan by NOK 1 billion in the third quarter of 2020, and issued another 1 billion in January 2021.

### The bank's equity certificates

As of 31 December 2020, the Bank had issued 15,663,944 equity certificates. Earnings per equity certificate (for the Group) was NOK 3.6 in Q4 and NOK 11.3 in 2020. The ownership ratio in Q4 2020 was 17.3 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

### Dividends

Sparebanken Sør will, through good, stable and profitable operations, ensure that equity certificate owners achieve competitive returns in the form of dividends and increased value of equity certificates.

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

When determining annual dividends, the bank's capital adequacy requirements must be met, including government requirements for capital adequacy, investor expectations, and the bank's strategic plans.

The aim is for 50 to 70 percent of the equity certificate owners' share of the net profit to be distributed as dividends.

On 15 December 2020, the European Systemic Risk Board (ESRB) published its recommendations on bank dividends and other distributions. The Financial Supervisory Authority followed up with a letter to the Ministry of Finance, and recommended a maximum of 25 percent of the cumulative net profit for 2019 and 2020 for distribution. It was also recommended that Norwegian banks should not pay previously agreed dividends before the results for 2020 were available, and that assessments should be especially prudent.

On 20 January 2021, the Ministry of Finance published a press release, stating that the banks should show caution when distributing dividends from now on. The Ministry states that it expects Norwegian banks, which applying a prudent assessment and based on ESRB's recommendation determine a basis for distributions, to keep total distributions within a maximum 30 percent of the cumulative net profit for 2019 and 2020 until 30 September 2021. Distributions include all dividends from shares and equity certificates, customer dividends, gifts, and repurchases of equity instruments.

The Bank deferred dividends to equity certificate owners for 2019, but allocated NOK 40 million to the gift fund. The Group's net cumulative profit for 2019 and 2020, including hybrid capital totals NOK 2,090 million. Dividends for 2019 and proposed dividends for 2020, in addition to gift allocations, total NOK 299 million, which corresponds to 14.3 percent of the cumulative results.

The bank's solvency is considered highly satisfactory, with an unweighted common tier 1 capital ratio (leverage ratio) of 8.9 percent at the end of the fourth quarter 2020.

The Board proposes that the board of trustees distribute a dividend of NOK 14 per equity certificate for 2020. This includes withheld dividends of NOK 8 for 2019, or approximately 69 percent of the Group's profit per equity certificate in 2019. The proposed dividend for 2020 is NOK 6 per equity certificate, or approximately 53 percent of the Group's profit per equity certificate. In addition, there is a proposal to allocate NOK 40 million for the gift fund in 2020.

The proposed dividend presupposes an application to the Financial Supervisory Authority of Norway, as the equalisation fund will be charged approximately NOK 55 million.

### Subsidiaries and partner businesses

The bank's wholly owned subsidiary **Sparebanken Sør Boligkreditt AS** is licensed to issue covered bonds which are used as an instrument in the bank's long-term funding strategy. As of 31 December 2020, the bank had transferred NOK 48.9 billion to Sparebanken Sør Boligkreditt AS, equivalent to 66 percent of all loans to the retail market.

The Bank's own real estate business, **Sørmeglere**, is the absolute leader in its field in Southern Norway. Sørmeglere continues to grow, and now employs 92 people in 18 locations. As of 31 December 2020, Sørmeglere made a profit before tax of NOK 25.2 million, compared with NOK 12.0 million in the corresponding period last year. The corona situation resulted in a demanding start to 2020, for the real estate agency. The activity has recently increased significantly, and the profit before tax in Q4 2020 amounted to NOK 3.8 million, up from 0.2 million in the same periode in 2019.

**Frende Holding AS** (21.0 percent shareholding) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provide general insurance and life insurance to retail and corporate customers.

## Board of Director's report

Frede Holding AS posted a profit before tax in Q4 of NOK 317.1 million, up from 129.4 million in the same periode in 2019.

Profit before tax in 2020 totalled NOK 721.6 million, compared with NOK 401.8 million in 2019. Frende Holding AS had a return on equity of 32.2 percent in 2020, compared with 23.2 percent in 2019.

In 2020, the insurance-technical result in Skade was significantly better than in 2019. Risk-profit in the life insurance company was lower in 2020 compared with 2019, but still better than the years 2015 to 2018. Together with good financial returns and non-recurring effects from the sale of the pension portfolio, this has been the best annual result in the company's history.

Frende Skade posted a profit before tax of NOK 390.0 million in 2020, compared with NOK 263.3 million in 2019. The company had a total of NOK 2 141 million (NOK 2 111 million) in written premiums, divided between more than 158 000 customers. The market share by the end of Q4 was 3.1 percent. In 2020, the loss ratio stood at 70.3 percent (77.4 percent), while the company's combined ratio came to 88.0 percent (96.2 percent). There are fewer major damage claims in 2020 compared with 2019.

Frende Liv made a profit before tax of NOK 354.3 million in 2020, compared with NOK 158.0 million in 2019. It has been a good risk result in 2020, and positive non-recurring effects related to the sale of the pension portfolio. The pension portfolio in Liv was sold to Nordea Liv in Q4 2020. Frende Liv had a return on equity of 43.1 percent (28.8 percent) in 2020.

**Brage Finans AS** (20.8 percent shareholding) is a financing company that offers leasing and vendor's lien 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.

In Q4 2020, Brage Finans AS (Brage) continue to make good results, had growth in the loan portfolio and a solid capital adequacy ratio. Profit before tax in Q4 amounted to NOK 62.6 million, compared with NOK 44.7 million in Q4 2019. The profit results in a return on equity of 9.1 percent, up from 8.0 percent in 2019.

Brage Finans AS achieved a profit before tax of NOK 221.7 million in 2020, compared with NOK 168.2 million in 2019. The profit a return on equity of 8.6 percent (8.0 percent) in 2020.

At the end of Q4 2020, Brage had a gross lending portfolio of NOK 14.1 billion, an increase of NOK 2.1 billion compared with the same period in 2019.

**Norne Securities AS** (17.1 percent shareholding) provides online trading, traditional brokerage and corporate finance services.

Norne has further enhanced its role as Norway's leading advisor and facilitator regarding equity certificates in Norwegian saving banks. The company has further concentrated its business in two market areas: online stock and fund trading related to the retail market, and Corporate Finance and Investment Advice to the corporate market and professional investors.

**Balder Betaling AS** (22.2 percent shareholding) is owned by Sparebanken Sør in conjunction with 14 other savings banks. The company has a 10.6 percent stake in Vipps AS, and aims to further develop Vipps along with the other co-owners.

### Outlook

The coronavirus pandemic had a significant impact on society in 2020. In March, authorities implemented extreme containment measures both domestically and globally to prevent the spread of infection. This had a negative impact on the Norwegian economy and on our trade partners. Throughout the summer and autumn months, society gradually began returning to some sort of normality. The Norwegian Government's use of monetary policy instruments appears to have had a positive effect on the economy. The situation for the Norwegian economy has improved, and the financial markets have become more stable. In early 2021, infection rates have again begun to rise, leading to stricter infection control measures. Vaccines have now arrived and vaccinations have slowly begun. Economic growth is expected to pick up in 2021, but the situation is still uncertain.

Sparebanken Sør's board of directors has adopted guidelines that ensure that refinancing in the bond market is normally undertaken well before the date of maturity. This policy has contributed to the Bank's solid financial position. The Bank has a low risk in its lending portfolio and a considerable loss-absorbing capacity due to a high equity ratio. The Bank operates in a remarkably cost-effective manner and the underlying operations are good.

Residential property prices in the bank's main markets have shown a positive, though moderate development over several years. Statistics for the fourth quarter of 2020 indicate a very positive growth in housing prices in the bank's market area. Activity in the housing market, which was very low in March and April, increased significantly in the last two quarters. This development is being closely monitored, and there is still major uncertainty regarding future developments. Nevertheless, the group's mortgage loans are still well secured, and the group is well equipped to deal with a potential fall in housing prices. This is supported by implemented stress tests.

The group has a requirement for tier 1 capital requirement, including a Pillar 2 addition of 2.0 percent, which constitutes 13.0 percent. The group aims to achieve common equity tier 1 capital ratio of 15.3 percent. By the end of the fourth quarter of 2020, the common equity tier 1 capital ratio was 15.7 percent, well over regulatory requirements.

The Ministry of Finance has adopted regulatory amendments that enacted the EU Capital Requirements Regulations CRR/CRD IV as of 31 December 2019. The systemic risk buffer requirement has been increased from 3 to 4.5 percent. The Ministry of Finance will present a transitional rule for banks using the standard method or the IRB foundation. This means that these banks will not meet 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 are above the minimum requirement. The Ministry of Finance has held a consultation process in conjunction with the implementation of the amendments to the EU's banking regulations, "the banking package". The amendments are expected to be implemented in mid-2021, and this will have significance for the capital requirements for loans to SMEs, which in turn is expected to have a positive effect on the Bank's capital adequacy.

The group has a long-term ambition for lending growth to surpass credit growth. The group aims to achieve a net return on equity of 9 percent after tax.

Return on equity for 2021 will be affected by loss allowances on loans and the development of the macro picture over the course of the year. Loss allowances on loans provisions as of 31 December are calculated according to the rules of IFRS9, based on a long-term perspective. The effect of the Government's package of measures and the development of the macro picture is still uncertain.

The bank, in accordance with the adopted strategy, is highly focused on costs and long-term value creation. The bank's investments in technology will continue, and will contribute toward cost-efficient operations. It will also enable streamlining of the branch structure. Along high-quality work on credit processes, this will contribute toward profitable growth and development for Sparebanken Sør.

### Events after the reporting period

There have been no significant events after December 31, 2020 that affect the quarterly accounts.

### Kristiansand, 10 February 2021

Stein A. Hannevik  
Chairman

Inger Johansen  
Deputy Chairman

Mette Ramfjord Harv

Knut Ruhaven Sæthre

Merete Steinvåg Østby

Erik Edvard Tønnesen

Jan Erling Tobiassen  
Employee representative

Gunnhild Tveiten Golid  
Employee representative

Geir Bergskaug  
CEO

## Income statement

PARENT BANK				NOK million		GROUP			
31.12.	31.12.	Q4	Q4			Q4	Q4	31.12.	31.12.
2019	2020	2019	2020	Notes	2020	2019	2020	2019	2020
1 543	1 431	314	268	Interest income at amortised cost	4	601	912	2 833	3 305
1 148	796	420	180	Interest income at fair value through profit and loss	4	83	142	434	487
1 172	824	321	130	Interest expenses	4	216	530	1 354	1 866
<b>1 519</b>	<b>1 404</b>	<b>413</b>	<b>318</b>	<b>Net interest income</b>	<b>4</b>	<b>467</b>	<b>523</b>	<b>1 914</b>	<b>1 926</b>
365	350	106	100	Commission income		117	109	409	403
59	62	18	21	Commission expenses		21	18	62	59
<b>306</b>	<b>288</b>	<b>88</b>	<b>80</b>	<b>Net commission income</b>		<b>97</b>	<b>91</b>	<b>347</b>	<b>344</b>
11	265	-	23	Dividend		23	0	25	6
47	33	-13	13	Net income from other financial instruments		14	- 31	15	18
<b>58</b>	<b>297</b>	<b>-13</b>	<b>36</b>	<b>Net income from financial instruments</b>		<b>37</b>	<b>- 31</b>	<b>40</b>	<b>24</b>
64	136	21	57	Income from associated companies		57	21	136	64
8	11	3	5	Other operating income		2	5	7	10
<b>72</b>	<b>147</b>	<b>24</b>	<b>62</b>	<b>Total other income</b>		<b>59</b>	<b>26</b>	<b>143</b>	<b>74</b>
<b>1 954</b>	<b>2 136</b>	<b>512</b>	<b>495</b>	<b>Total net income</b>		<b>659</b>	<b>609</b>	<b>2 444</b>	<b>2 368</b>
438	445	114	115	Wages and other personnel expenses		151	138	552	533
37	42	12	13	Depreciation, amortization and impairment of non-current assets		13	11	43	37
336	348	86	98	Other operating expenses		96	84	363	348
<b>811</b>	<b>835</b>	<b>212</b>	<b>226</b>	<b>Total operation expenses before losses</b>		<b>260</b>	<b>233</b>	<b>958</b>	<b>918</b>
<b>1 143</b>	<b>1 301</b>	<b>300</b>	<b>269</b>	<b>Operating profit before losses</b>		<b>399</b>	<b>376</b>	<b>1 486</b>	<b>1 450</b>
- 21	81	-5	- 31	Losses on loans, guarantees and undrawn credit	5	- 30	- 3	83	- 17
<b>1 164</b>	<b>1 220</b>	<b>305</b>	<b>300</b>	<b>Profit before taxes</b>	<b>2</b>	<b>430</b>	<b>379</b>	<b>1 403</b>	<b>1 467</b>
261	200	69	59	Tax expenses		90	86	307	342
<b>904</b>	<b>1 021</b>	<b>236</b>	<b>241</b>	<b>Profit for the period</b>		<b>339</b>	<b>293</b>	<b>1 096</b>	<b>1 125</b>
				Minority interests		1	0	2	0
<b>904</b>	<b>1 021</b>	<b>236</b>	<b>241</b>	<b>Majority interests</b>		<b>339</b>	<b>293</b>	<b>1 094</b>	<b>1 125</b>
60	69	14	13	Attributable to additional Tier 1 capital holders		13	14	69	60
844	952	222	228	Attributable to ECC-holders and to the primary capital		326	279	1 025	1 065
<b>904</b>	<b>1 021</b>	<b>236</b>	<b>241</b>	<b>Profit for the period</b>		<b>339</b>	<b>293</b>	<b>1 094</b>	<b>1 125</b>
9.3	10.5	2.4	2.5	Profit/diluted earnings per equity certificate (in whole NOK)		3.6	3.1	11.3	11.7
				<i>Other comprehensive income</i>					
				Items that may be reclassified to profit or loss					
				Change in value, basis swaps		- 2	1	- 7	-4
0	0	0	-1	Change in value, customer mortgages					
0	0	0	0	Tax effect		1	0	2	1
<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>Total other comprehensive income</b>		<b>- 2</b>	<b>1</b>	<b>- 5</b>	<b>-3</b>
<b>904</b>	<b>1 021</b>	<b>236</b>	<b>240</b>	<b>Comprehensive income for the period</b>		<b>338</b>	<b>294</b>	<b>1 091</b>	<b>1 122</b>
				Minority interests			1		1
				<b>Majority interests</b>		<b>338</b>	<b>293</b>	<b>1 091</b>	<b>1 121</b>
9.3	10.5	2.4	2.5	Comprehensive income/diluted earnings per equity certificate		3.6	3.1	11.3	11.7

PARENT BANK		NOK million		GROUP	
31.12.	31.12.			31.12.	31.12.
2019	2020	ASSETS	Notes	2020	2019
462	1 148	Cash and receivables from central banks		1 148	462
4 063	10 936	Loans to credit institutions		2 460	182
66 185	62 724	Net loans to customers	6,7,8,10,11	111 577	106 334
16 807	18 329	Bonds and certificates	11	21 543	19 916
189	166	Shares	11	166	190
251	907	Financial derivatives	11,12	3 415	757
1 858	2 111	Shareholding in group companies			
968	1 134	Shareholding in associated companies		1 134	968
27	41	Intangible asstes		47	27
426	430	Property, plant and equipment		461	458
107	96	Other assets		174	205
<b>91 344</b>	<b>98 022</b>	<b>TOTAL ASSETS</b>	<b>2,11</b>	<b>142 126</b>	<b>129 499</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>					
2 192	6 765	Liabilites to credit institutions		6 435	1 793
57 963	59 883	Deposits from customers	2,9,11	59 833	57 949
16 707	14 149	Liabilities related to issue of securities	11,13	56 885	53 430
213	687	Financial derivatives	11,12	687	423
284	272	Payable taxes		373	361
387	406	Other liabilities		457	425
43	38	Provisions for commitments		38	43
49	29	Deferred tax		10	24
	2 002	Senior non-preferred	11,13	2 002	
1 971	1 653	Subordinated loan capital	11,13	1 653	1 971
<b>79 809</b>	<b>85 886</b>	<b>Total liabilities</b>		<b>128 374</b>	<b>116 418</b>
1 623	1 749	Equity certificate capital	14	1 749	1 623
1 375	1 075	Hybrid capital		1 075	1 375
8 537	9 312	Other equity		10 928	10 083
<b>11 535</b>	<b>12 136</b>	<b>Total equity</b>	<b>3,14</b>	<b>13 752</b>	<b>13 081</b>
<b>91 344</b>	<b>98 022</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,11</b>	<b>142 126</b>	<b>129 499</b>

Kristiansand, 10 February 2021

Stein A. Hannevik  
Chairman

Inger Johansen  
Deputy Chairman

Mette Ramfjord Harv

Knut Ruhaven Sæthre

Merete Steinvåg Østby

Erik Edvard Tønnesen

Jan Erling Tobiassen  
Employee representative

Gunnhild Tveiten Golid  
Employee representative

Geir Bergskaug  
CEO

## Cash flow statement

PARENT BANK		NOK million	GROUP	
31.12. 2019	31.12. 2020		31.12. 2020	31.12. 2019
2 662	2 250	Interest received	3 278	3 749
- 1 185	-792	Interest paid	-1 345	- 1 840
334	622	Other payments received	383	346
- 770	-763	Operating expenditure	-873	- 898
13	12	Loan recoveries	12	13
- 225	-279	Tax paid for the period	-350	- 289
- 28	-28	Gift expenditure	-28	- 28
1 404	1 929	Change in customer deposits	1 893	1 399
- 1 921	3 435	Change in loans to customers	-5 285	- 3 382
- 15	2 002	Change in deposits from credit institutions	1 830	- 108
<b>269</b>	<b>8 388</b>	<b>Net cash flow from operating activities</b>	<b>-485</b>	<b>- 1 038</b>
20 016	44 944	Payments received, securities	37 651	12 258
- 18 948	-46 482	Payments made, securities	-39 295	-17 380
3	11	Payments received, sale of property, plant and equipment	14	3
- 37	-62	Payments made, purchase of property, plant and equipment	-70	- 40
- 293	-286	Investments in subsidiaries and associated companies	-29	- 293
- 12	-664	Change in other assets	-2 257	- 108
<b>729</b>	<b>-2 539</b>	<b>Net cash flow from investing activities</b>	<b>-3 987</b>	<b>- 5 560</b>
- 1 053	-6 873	Change in loans to credit institutions	-2 278	- 63
- 54	2 500	Change in deposits from credit institutions	2 374	- 17
3 600	0	Payments received, bond debt	5 000	16 063
- 4 815	-2 959	Payments made, bond debt	-3 724	- 10 867
- 154	-69	Payments made, dividends and interest on hybrid capital	-69	- 154
0	2 000	Issue of senior non-preferred	2 000	0
500	350	Issue of subordinated loan capital	350	500
- 134	-666	Buyback of subordinated loan capital	-666	- 134
- 13	854	Change in other assets	2 471	144
300		Issue of hybrid capital		300
	-300	Deduction of hybrid capital	-300	
<b>- 1 823</b>	<b>-5 163</b>	<b>Net cash flow from financing activities</b>	<b>5 158</b>	<b>5 772</b>
<b>- 825</b>	<b>686</b>	<b>Net change in liquid assets</b>	<b>686</b>	<b>- 826</b>
1 287	462	Cash and cash equivalents as at 1 Jan	462	1 288
<b>462</b>	<b>1 148</b>	<b>Cash and cash equivalents at end of period</b>	<b>1 148</b>	<b>462</b>



# Statement of change in equity

GROUP NOK million	Dividend								TOTAL
	Equity certificates	Premium fund	Equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
<b>Balance 31.12.2018</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>62</b>	<b>1 421</b>	<b>1</b>	<b>11 845</b>
Dividend distributed for 2018							-94		-94
Profit 31.12.2019			20	60	639	60	347	-	1 125
Interest paid, hybrid capital				-60					-60
Issuance of hybrid capital				300					300
Other comprehensive income							-4		-4
Trading of own equity certificates	0		1						1
Allocated gift fund						-34			-34
Other changes					1		1		1
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 322</b>	<b>88</b>	<b>1 671</b>	<b>1</b>	<b>13 081</b>
Change in dividend 2019			125				-125		-
Profit 31.12.2020				69			1 023	2	1 094
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				-310					-310
Issuance of hybrid capital				10					10
Other comprehensive income							-5		-5
Trading of own equity certificates						-1			-1
Allocated gift fund						-49			-49
Other changes								1	1
<b>Balance 31.12.2020</b>	<b>783</b>	<b>451</b>	<b>514</b>	<b>1 075</b>	<b>8 321</b>	<b>40</b>	<b>2 564</b>	<b>4</b>	<b>13 752</b>
PARENT BANK									
<b>Balance 31.12.2018</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>62</b>	<b>94</b>	<b>-</b>	<b>10 518</b>
Dividend distributed for 2018							-94		-94
Profit 31.12.2019			20	60	639	60	125		904
Interest paid, hybrid capital				-60					-60
Issuance of hybrid capital				300					300
Other comprehensive income						0			0
Trading of own equity certificates	0		-0		-0				-
Allocated gift fund						-34			-34
Other changes			0		1				1
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 323</b>	<b>88</b>	<b>125</b>	<b>-</b>	<b>11 535</b>
Change in dividend 2019			125				-125		-
Profit 31.12.2020				69			952		1 021
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				-310					-310
Issuance of hybrid capital				10					10
Other comprehensive income						-1			-1
Trading of own equity certificates						-1			-1
Allocated gift fund						-49			-49
Other changes							-0		-0
<b>Balance 31.12.2020</b>	<b>783</b>	<b>451</b>	<b>514</b>	<b>1 075</b>	<b>8 321</b>	<b>40</b>	<b>952</b>	<b>-</b>	<b>12 136</b>

## 1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRS), including IAS 34. Unless otherwise specified, the accounting policies applied are the same as those applied in the annual financial statements for 2019.

There are no new standards applicable for 2020 that have had a material impact on the financial statements.

A tax rate of 25 percent has been used when preparing the quarterly accounts.

### Discretionary assessments, estimates and assumptions

With the preparation of the financial statements, the management makes discretionary assessment, estimates and assumptions that affects the accounting policies and financial records. Please refer to the annual financial statements for 2019 (Note 2 – Discretionary assessments, estimates and assumptions) for further details.

The financial item losses on loans and undrawn credit, is subject to a significant degree of discretionary assessments. In 2020, this has been a particularly challenging, due to the ongoing Covid-19 situation, leading to turmoil and fluctuations in the financial market. Models used to calculate future credit losses contains forward-looking macro data, and in events of major changes to the economy, the current models and parameters must be changed accordingly.

Macro parameters and measures that have been used as input in the loss model is presented in note 5.

## 2. SEGMENT REPORTING

	BANKING BUSINESS			31.12.2020		
Report per segment			Undistrib.	Total banking	Sørmegleren	Total
Income statement (NOK million)	RM	CM	and elimin.	business		
Net interest and commission income	1 166	826	-79	1 914	0	1 914
Net other operating income	177	74	131	382	149	531
Operating expenses	408	105	321	835	124	958
<b>Profit before losses per segment</b>	<b>935</b>	<b>795</b>	<b>-269</b>	<b>1 461</b>	<b>25</b>	<b>1 486</b>
Losses on loans and guarantees	1	85	-3	83		83
<b>Profit before tax per segment</b>	<b>934</b>	<b>709</b>	<b>-266</b>	<b>1 377</b>	<b>25</b>	<b>1 403</b>
Net loans to customers	74 994	36 420	163	111 577		111 577
Other assets			30 444	30 444	105	30 549
<b>Total assets per segment</b>	<b>74 994</b>	<b>36 420</b>	<b>30 607</b>	<b>142 021</b>	<b>105</b>	<b>142 126</b>
Deposits from customers	32 287	24 546	2 999	59 833		59 833
Other liabilities	42 706	11 874	13 855	68 436	105	68 541
<b>Total liabilities per segment</b>	<b>74 994</b>	<b>36 420</b>	<b>16 855</b>	<b>128 269</b>	<b>105</b>	<b>128 374</b>
Equity			13 752	13 752		13 752
<b>Total liabilities and equity per segment</b>	<b>74 994</b>	<b>36 420</b>	<b>30 607</b>	<b>142 021</b>	<b>105</b>	<b>142 126</b>

## BANKING BUSINESS

31.12.2019

Report per segment						
Income statement (NOK million)	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest and commission 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
<b>Profit before losses per segment</b>	<b>915</b>	<b>732</b>	<b>-210</b>	<b>1 437</b>	<b>12</b>	<b>1 450</b>
Losses on loans and guarantees	2	-52	33	-17		-17
<b>Profit before tax per segment</b>	<b>913</b>	<b>784</b>	<b>-243</b>	<b>1 454</b>	<b>12</b>	<b>1 467</b>
Net loans to customers	71 182	35 113	39	106 334		106 334
Other assets			23 093	23 093	73	23 166
<b>Total assets per segment</b>	<b>71 182</b>	<b>35 113</b>	<b>23 132</b>	<b>129 426</b>	<b>73</b>	<b>129 499</b>
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
<b>Total liabilities per segment</b>	<b>71 182</b>	<b>35 113</b>	<b>10 051</b>	<b>116 345</b>	<b>73</b>	<b>116 418</b>
Equity			13 081	13 081		13 081
<b>Total liabilities and equity per segment</b>	<b>71 182</b>	<b>35 113</b>	<b>23 131</b>	<b>129 426</b>	<b>73</b>	<b>129 499</b>

## 4. INTEREST INCOME AND INTEREST EXPENSES

		NOK million	GROUP	
31.12.2019 (1)	31.12.2020		31.12.2020 (1)	31.12.2019 (2)
<b>11 535</b>	<b>12 136</b>	<b>Total equity</b>	<b>13 752</b>	<b>13 081</b>
<b>0</b>	<b>0</b>	<b>Tier 1 capital</b>	<b>0</b>	<b>0</b>
-1 375	-1 075	Equity not eligible as common equity tier 1 capital	-1 111	-1 375
-245	-219	Share of profit not eligible as common equity tier 1 capital	-219	-245
-27	-41	Deductions for intangible assets and deferred tax assets	-48	-27
-44	-42	Deductions for additional value adjustments	-31	-27
0	0	Proportion of common equity tier 1 capital from Brage Finans AS	0	374
0	0	Deductions for internal eliminations from Brage Finans AS	0	-374
-104	-113	Other deductions	-138	-51
<b>9 740</b>	<b>10 646</b>	<b>Total common equity tier 1 capital</b>	<b>12 204</b>	<b>11 356</b>
<b>0</b>	<b>0</b>	<b>Other tier 1 capital</b>	<b>0</b>	<b>0</b>
1 375	1 075	Hybrid capital	1 111	1 375
0	0	Proportion of tier 1 capital Brage Finans AS	0	36
0	0	Deductions from other tier 1 capital	0	0
<b>11 115</b>	<b>11 721</b>	<b>Total tier 1 capital</b>	<b>13 315</b>	<b>12 767</b>
<b>0</b>	<b>0</b>	<b>Additional capital supplementary to tier 1 capital</b>	<b>0</b>	<b>0</b>
1 971	1 600	Subordinated loan capital	1 649	1 971
0	0	Proportion of net subordinated capital Brage Finans AS	0	49
-101	-100	Deductions from additional capital	-100	-101
<b>1 870</b>	<b>1 500</b>	<b>Total additional capital</b>	<b>1 549</b>	<b>1 919</b>
<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>
<b>12 985</b>	<b>13 221</b>	<b>Net subordinated capital</b>	<b>14 864</b>	<b>14 686</b>
<b>Minimum requirement for subordinated capital Basel II calculated according to standard method</b>				
2	2	Engagements with local and regional authorities	2	2
70	153	Engagements with institutions	41	34
218	306	Engagements with enterprises	413	224
415	383	Engagements with mass market	572	520
3 029	2 768	Engagements secured in property	4 159	4 167
92	82	Engagements which have fallen due	90	98
2	326	Engagements which are high risk	326	2
384	449	Engagements in covered bonds	107	107
334	385	Engagements in collective investment funds	140	184
49	45	Engagements, other	51	49
<b>4 595</b>	<b>4 899</b>	<b>Capital requirements for credit and counterparty risk</b>	<b>5 901</b>	<b>5 387</b>
<b>1</b>	<b>1</b>	<b>Capital requirements for position, currency and product risk</b>	<b>1</b>	<b>1</b>
<b>259</b>	<b>268</b>	<b>Capital requirements for operational risk</b>	<b>334</b>	<b>313</b>
<b>1</b>	<b>2</b>	<b>CVA addition</b>	<b>2</b>	<b>1</b>
<b>0</b>	<b>0</b>	<b>Deductions from the capital requirement</b>	<b>0</b>	<b>0</b>
<b>4 856</b>	<b>5 170</b>	<b>Total minimum requirement for subordinated capital</b>	<b>6 238</b>	<b>5 702</b>
<b>0</b>				
60 702	64 620	Risk-weighted balance (calculation basis)	77 980	71 275
		Proportionate share of calculation basis Brage Finans AS	0	2 112
		Deductions for internal eliminations Brage Finans AS	0	-955
		Risk weighted balance after proportionate consolidation	77 980	72 432
16.0 %	16.5 %	Common equity tier 1 capital ratio, %	15.7 %	15.7 %
18.3 %	18.1 %	Tier 1 capital ratio, %	17.1 %	17.6 %
21.4 %	20.5 %	Total capital ratio, %	19.1 %	20.3 %
8.5 %	8.1 %	Leverage ratio	8.9 %	9.3 %

(1) Brage Finans AS is proportionately consolidated in the Group's capital adequacy reporting from Q4 2020.

(2) Following a proposal from the board of directors, the Supervisory Board decided at its meeting of 26 March 2020 to pay a dividend NOK 0 to equity certificate holders for 2019. The original proposal was for a dividend payout of NOK 125 million. The decision had a positive impact on capital adequacy as at 31 December 2019. For the Group (parent bank), the CET1 capital ratio rose from 15.7 (16.0) percent to 15.9 (16.3) percent, the tier 1 capital ratio rose from 17.5 (18.3) percent to 17.8 (18.5) percent, the (total) capital ratio rose from 20.3 (21.4) percent to 20.5 (21.6) percent, while the leverage ratio rose from 9.3 (8.5) percent to 9.4 (8.6) percent.

#### 4. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK				Interest income	GROUP			
31.12	31.12	Q4	Q4		Q4	Q4	31.12	31.12
2019	2020	2019	2020	NOK million	2020	2019	2020	2019
<i>Interest income from financial instruments at amortised cost</i>								
92	68	25	14	Interest on receivables from credit institutions	2	8	13	24
1 452	1 363	289	254	Interest on loans given to customers	599	903	2 820	3 281
<b>1 543</b>	<b>1 431</b>	<b>314</b>	<b>268</b>	<b>Total interest from financial instruments at amortised cost</b>	<b>601</b>	<b>912</b>	<b>2 833</b>	<b>3 305</b>
<i>Interest income from financial instruments at fair value</i>								
165	175	42	43	Interest on loans given to customers (fixed rate loans)	43	42	175	166
305	231	85	29	Interest on certificates and bonds	40	99	259	321
<b>470</b>	<b>406</b>	<b>127</b>	<b>72</b>	<b>Total interest from financial instruments at fair value through profit or loss</b>	<b>83</b>	<b>142</b>	<b>434</b>	<b>487</b>
<i>Interest income from financial instruments at fair value through OCI</i>								
677	390	293	109	Interest on loans given to customers (mortgages)				
<b>677</b>	<b>390</b>	<b>293</b>	<b>109</b>	<b>Total interest from financial instruments at fair value through OCI</b>				
<b>2 691</b>	<b>2 227</b>	<b>734</b>	<b>448</b>	<b>Total interest income</b>	<b>684</b>	<b>1 053</b>	<b>3 267</b>	<b>3 792</b>

PARENT BANK				Interest expenses	GROUP			
31.12	31.12	Q4	Q4		Q4	Q4	31.12	31.12
2019	2020	2019	2020	NOK million	2020	2019	2020	2019
<i>Interest expenses from financial instruments at amortised cost</i>								
38	37	12	7	Interest on liabilities to credit institutions	6	12	36	38
692	447	191	65	Interest on customer deposits	65	190	447	691
345	233	92	33	Interest on issued securities	118	301	758	1 036
49	54	14	13	Interest on subordinated loans	13	14	54	49
47	53	12	13	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	14	13	59	52
<b>1 172</b>	<b>824</b>	<b>321</b>	<b>130</b>	<b>Interest expenses from financial instruments at amortised cost</b>	<b>216</b>	<b>530</b>	<b>1 354</b>	<b>1 866</b>
<b>1 172</b>	<b>824</b>	<b>321</b>	<b>130</b>	<b>Total interest expenses</b>	<b>216</b>	<b>530</b>	<b>1 354</b>	<b>1 866</b>

#### 5. LOSSES ON LOANS, GUARANTEES AND UNDRAWN CREDITS

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 of the 2019 financial statements.

As a result of COVID 19, the macro situation has changed significantly in 2020. In Q3 and Q4 2020, there have been improvements in several parameters. The Group's loss provision as at 31. december 2020 is based on new assumptions.

The Group has updated the macro variables in the IFRS9 model and the following macro variables have been used when calculating impairment losses, as of December 31 2020.

	2020	2021	2022	2023	2024
Housing price %	4.4	6.7	2.4	1.8	1.8
Housing price region %	3.4	5.7	1.4	0.8	0.8
Unemployment %	5.5	4.5	3.8	3.7	3.7
Oil prices, USD	41.7	49.6	48.6	48.2	48.2
Policy rate	0.4	0.0	0.3	0.8	0.8
Import-weighted exchange rate	115.0	111.8	111.1	110.7	110.7

Establishing macro variables involves a part of the discretion, as no one knows how large and long lasting the effects of the crisis will be. Sparebanken Sør has to a large extent collateralized mortgages on real estate and the determination of these parameters for housing prices (including real estate) is considered to be the parameters that have the most significant effect on LGD (loss given default).

In addition, a great deal of uncertainty attaches to future unemployment rates and the determination of this parameter is also material to the Group's impairment losses under the IFRS 9 model.

Sensitivity analyses related to the parameters that the Group considers to be most significant in today's situation, are reproduced in the table below.

GROUP		31.12.2020			
Loan loss provisions NOK million		10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 percent increase in unemployment
Loan loss provisions. CM		53	117	193	11
Loan loss provisions. RM		11	25	41	9
<b>Total</b>		<b>64</b>	<b>142</b>	<b>234</b>	<b>20</b>

PARENT BANK		31.12.2020			
Loan loss provisions NOK million		10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 percent increase in unemployment
Loan loss provisions. CM		53	116	193	11
Loan loss provisions. RM		5	12	20	5
<b>Total</b>		<b>58</b>	<b>128</b>	<b>213</b>	<b>16</b>

The authorities have implemented a number of measures to counteract the negative economic effects of COVID-19. Several of these measures have a direct impact on the Group's credit risk. The loss model is not suitable for estimating losses with such comprehensive measures aimed directly at the bank's customers.

		NOK million		GROUP	
31.12.2019	31.12.2020	Loss expense on loans during the period		31.12.2020	31.12.2019
-6	58	Period's change in write-downs stage 1		61	-5
31	26	+Period's change in write-downs stage 2		23	33
-89	-3	+Period's change in write-downs stage 3		-2	-89
41	8	+ Period's confirmed loss		8	41
18	4	+ Recognised as interest income		4	18
13	12	- Period's recoveries relating to previous losses		12	13
-1	-1	+ Change in write-downs an guarantees		-1	-1
<b>-21</b>	<b>81</b>	<b>Loss expenses during the period</b>		<b>83</b>	<b>-17</b>

GROUP	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK million</b>				
<b>Provisions for loan losses as at 01.01.2020</b>	<b>39</b>	<b>126</b>	<b>231</b>	<b>397</b>
<b>Transfers</b>				
Transferred to stage 1	37	-32	-5	0
Transferred to stage 2	-4	15	-11	0
Transferred to stage 3	0	-2	2	0
Losses on new loans	40	38	30	108
Losses on deducted loans *	-9	-26	-41	-77
Losses on older loans and other changes	-2	31	11	40
<b>Provisions for loan losses as at 31.12.2020</b>	<b>101</b>	<b>149</b>	<b>218</b>	<b>468</b>
Provisions for loan losses	87	129	213	429
Provisions for guarantees and undrawn credits	13	21	5	39
<b>Total provision for losses as at 31.12.2020</b>	<b>101</b>	<b>149</b>	<b>218</b>	<b>468</b>

\*Losses on deducted loans relates to losses on loans redeemed.

The tables also include impairment losses on off-balance items (unused credit and guarantees). These are presented as other liabilities in the balance sheet.

PARENT BANK	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK million</b>				
<b>Provisions for loan losses as at 01.01.2020</b>	<b>37</b>	<b>120</b>	<b>230</b>	<b>387</b>
<b>Transfers</b>				
Transferred to stage 1	35	-30	-5	0
Transferred to stage 2	-4	15	-11	0
Transferred to stage 3	0	-2	2	0
Losses on new loans	36	37	30	103
Losses on deducted loans *	-9	-24	-41	-74
Losses on older loans and other changes	0	30	11	40
<b>Provisions for loan losses as at 31.12.2020</b>	<b>94</b>	<b>145</b>	<b>217</b>	<b>457</b>
Provisions for loan losses	81	125	213	418
Provisions for losses on guarantees and undrawn credits	13	21	5	39
<b>Total provision for losses as at 31.12.2020</b>	<b>94</b>	<b>145</b>	<b>217</b>	<b>457</b>

\*Losses on deducted loans relates to losses on loans redeemed or transferred between the bank and Sparebanken Sør Boligkreditt AS.

The tables also include impairment losses on off-balance items (unused credit and guarantees). These are presented as other liabilities in the balance sheet.

## Notes

## GROUP

	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK million</b>				
<b>Provisions for loan losses as at 01.01.2019</b>	<b>45</b>	<b>94</b>	<b>335</b>	<b>473</b>
<b>Transfers</b>				
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
<b>Provisions for loan losses as at 31.12.2019</b>	<b>39</b>	<b>126</b>	<b>231</b>	<b>397</b>
Provisions for loan losses	32	111	228	370
Provisions for guarantees and undrawn credits	8	15	4	27
<b>Total provision for losses as at 31.12.2019</b>	<b>39</b>	<b>126</b>	<b>231</b>	<b>397</b>

\*Losses on deducted loans relates to losses on loans redeemed.

The tables also include impairment losses on off-balance items (unused credit and guarantees). These are presented as other liabilities in the balance sheet.

## PARENT BANK

	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK million</b>				
<b>Provisions for loan losses as at 01.01.2019</b>	<b>44</b>	<b>91</b>	<b>330</b>	<b>466</b>
<b>Transfers</b>				
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
<b>Provisions for loan losses as at 31.12.2019</b>	<b>37</b>	<b>120</b>	<b>230</b>	<b>387</b>
Provisions for loan losses	29	105	226	360
Provisions for losses on guarantees and undrawn credits	8	15	4	27
<b>Total provision for losses as at 31.12.2019</b>	<b>37</b>	<b>120</b>	<b>230</b>	<b>387</b>

\* Losses on deducted loans relates to losses on loans redeemed.

The tables also include impairment losses on off-balance items (unused credit and guarantees). These are presented as other liabilities in the balance sheet.



## 6. NON-PERFORMING LOANS

All commitments in stage 3 are defined as non-performing loans. Non-performing loans are defined as commitments where part of the engagement has been overdrawn or had arrears for more than 90 days and the amount exceeds NOK 1 000.

PARENT BANK		NOK million	GROUP	
31.12.19	31.12.20		31.12.20	31.12.19
276	300	Gross non-performing loans > 90 days	323	286
763	661	Other non-performing loans	687	787
<b>1 039</b>	<b>961</b>	<b>Total non-performing loans (step 3)</b>	<b>1 009</b>	<b>1 073</b>
230	217	Impairment losses in stage 3	218	231
<b>809</b>	<b>744</b>	<b>Net non-performing loans</b>	<b>791</b>	<b>842</b>
22.1 %	22.6 %	Provisioning non-performing loans	21.6 %	21.5 %
<b>0.41 %</b>	<b>0.48 %</b>	<b>Gross non-performing loans in % of gross loans</b>	<b>0.29 %</b>	<b>0.27 %</b>

## 7. IMPAIRMENT LOSSES BY SECTOR, INDUSTRY AND STAGE

Impairment losses by sector and industry.

PARENT BANK				NOK million	GROUP			
Stage 1	Stage 2	Stage 3	Total impairment losses as of 31.12.2020		Total impairment losses as of 31.12.2020	Stage 3	Stage 2	Stage 1
5	7	28	40	Retail customers	53	29	13	11
0	0	0	0	Public administration	0	0	0	0
1	1	3	5	Primary Industry	5	3	1	1
3	8	4	15	Manufacturing industry	15	4	8	3
17	27	52	95	Real estate development	95	52	26	17
3	7	12	23	Building and construction industry	23	12	7	3
49	75	89	213	Property management	212	89	73	49
1	0	1	2	Transport	2	1	0	1
4	8	13	26	Retail trade	26	13	8	4
1	2	2	5	Hotel and restaurants	5	2	2	1
2	2	0	4	Housing cooperatives	4	0	2	2
2	3	12	17	Financial/commercial services	17	12	3	2
7	4	2	13	Social services	13	2	4	7
<b>94</b>	<b>145</b>	<b>217</b>	<b>457</b>	<b>Total impairment losses on loans, guarantees and undrawn credit</b>	<b>468</b>	<b>218</b>	<b>149</b>	<b>101</b>
81	125	213	418	Impairment losses on lending	429	213	129	87
13	21	5	39	Impairment losses on unused credits and guarantees	39	5	21	13
<b>94</b>	<b>145</b>	<b>217</b>	<b>457</b>	<b>Total impairment losses</b>	<b>468</b>	<b>218</b>	<b>149</b>	<b>101</b>

As a result of the corona pandemic, losses were overruled by NOK 75 million in the first quarter. This was based on the significant uncertainty associated with the macroeconomic situation, as well as the effects of the authorities' support measures that the IFRS9 model did not address satisfactorily. In the second quarter, the override was reversed and there is no manual adjustments on losses as of 31.12.2020.

Industries are presented based on official industrial codes and are grouped as the Group reports these internally.

## 8. MIGRATION OF GROSS LOANS

NOK million GROSS LOANS	Amortised cost				Fair value	GROUP Total gross loans incl. accrued interest
	Stage 1	Stage 2	Stage 3	Gross loans		
<b>Gross loans as at 01.01.2020</b>	<b>89 267</b>	<b>10 710</b>	<b>1 038</b>	<b>101 016</b>	<b>5 689</b>	<b>106 704</b>
Transferred to stage 1	2 730	-2 694	-36	-0	0	-0
Transferred to stage 2	-2 873	2 897	-23	-0	0	-0
Transferred to stage 3	-128	-102	230	0	0	0
Net change on present loans	1 945	-276	-76	1 593	0	1 269
New loans	30 844	2 449	43	33 335	1 251	34 671
Derecognised loans	-26 035	-3 286	-193	-29 513	-1 380	-30 637
Change in value during the period	0	0	0		16	0
<b>Gross loans as at 31.12.2020</b>	<b>95 750</b>	<b>9 697</b>	<b>983</b>	<b>106 431</b>	<b>5 576</b>	<b>112 007</b>

NOK million GROSS LOANS	Amortised cost				Fair value	GROUP Total gross loans incl. accrued interest
	Stage 1	Stage 2	Stage 3	Gross loans		
<b>Gross loans as at 1.1.2019</b>	<b>86 297</b>	<b>10 411</b>	<b>978</b>	<b>97 686</b>	<b>5 714</b>	<b>103 400</b>
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
<b>Gross loan as at 31.12.2019</b>	<b>89 267</b>	<b>10 710</b>	<b>1 038</b>	<b>101 016</b>	<b>5 689</b>	<b>106 704</b>

NOK million GROSS LOANS	Amortised cost	Fair value through other comprehensive income	Fair value	PARENT BANK Total gross loans incl. accrued interest
Transferred to stage 1	-0	0	0	-0
Transferred to stage 2	0	0	0	0
Transferred to stage 3	0	0	0	-
Net change on present loans	3 687	-476	-	3 211
New loans	5 768	8 112	1 251	15 131
Derecognised loans	-7 729	-12 652	-1 380	-21 761
Change in value during the period			16	16
<b>Gross loan as at 31.12.2020</b>	<b>40 832</b>	<b>16 735</b>	<b>5 576</b>	<b>63 142</b>

NOK million GROSS LOANS	Amortised cost	Fair value through other comprehensive income	Fair value	PARENT BANK Total gross loans incl. accrued interest
Transferred to stage 1	0	0	0	0
Transferred to stage 2	0	0	0	0
Transferred to stage 3	0	0	0	0
Net change on present loans	50	-449	0	-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
<b>Gross loan as at 31.12.2019</b>	<b>39 106</b>	<b>21 751</b>	<b>5 689</b>	<b>66 545</b>

## 9. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.2019	31.12.2020		31.12.2020	31.12.2019
28 084	29 834	Retail customers	29 836	28 074
9 325	9 078	Public administration	9 079	9 326
561	660	Primary industry	660	561
1 923	1 474	Manufacturing industry	1 474	1 923
566	709	Real estate development	655	561
1 117	1 402	Building and construction industry	1 402	1 117
3 066	3 031	Property management	3 031	3 066
645	595	Transport	595	645
1 032	1 541	Retail trade	1 542	1 032
152	214	Hotel and restaurant	214	152
186	189	Housing cooperatives	189	186
5 075	4 303	Financial/commercial services	4 303	5 075
6 202	6 832	Social services	6 832	6 202
29	20	Accrued interests	20	29
<b>57 963</b>	<b>59 883</b>	<b>Total deposits from customers</b>	<b>59 833</b>	<b>57 949</b>

The breakdown is based on official industry codes and corresponds to the Groups internal reporting.

## 10. LOANS TO CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.2019	31.12.2020		31.12.2020	31.12.2019
30 034	25 956	Retail customers	73 662	70 126
498	567	Public administration	567	499
1 157	1 181	Primary industry	1 272	1 159
795	806	Manufacturing industry	861	796
4 855	4 146	Real estate development	4 104	4 836
1 386	1 365	Building and construction industry	1 623	1 388
17 239	19 270	Property management	19 303	17 257
677	507	Transport	590	678
1 093	1 288	Retail trade	1 395	1 098
274	369	Hotel and restaurant	399	275
1 248	1 281	Housing cooperatives	1 281	1 249
1 872	864	Financial/commercial services	1 094	1 874
5 242	5 428	Social services	5 707	5 248
173	112	Accrued interests	147	222
<b>66 545</b>	<b>63 142</b>	<b>Total gross loans</b>	<b>112 007</b>	<b>106 704</b>
360	418	Impairment losses on lending	429	370
<b>66 185</b>	<b>62 724</b>	<b>Total net loans</b>	<b>111 577</b>	<b>106 334</b>

\*Impairment losses on lending relate only to loans to customers and do not include impairment losses on unused credit and guarantees. Impairment losses in this note are not comparable to other figures relating to losses.

The breakdown is based on official industry codes and corresponds to the Group's internal reporting.

## 11. FAIR VALUES OF FINANCIAL INSTRUMENTS

### Classification of financial instruments

Financial instruments are classified at different levels.

#### Level 1:

Includes financial assets and liabilities measured using unadjusted observable market values. This includes listed shares, derivatives traded via active marketplaces and other securities with quoted market values.

#### Level 2:

Instruments measured using techniques in which all assumptions (all inputs) are based on directly or indirectly observable market data. Such values may be obtained from external market players or reconciled against external market players offering these types of services.

#### Level 3:

Instruments measured using techniques in which at least one essential assumption cannot be supported by observable market values. This category includes investments in unlisted companies and fixed-rate loans where no required market information is available.

For a more detailed description, see Note 22 Fair value of financial instruments in the 2019 Annual Financial Statements.

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			31.12.2020	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
1 148		1 148		Cash and receivables from central banks	1 148		1 148	
10 936		10 936		Loans to credit institutions	2 460		2 460	
40 419			40 419	Net loans to customers (floating interest rate)	106 002			106 002
<b>Assets recognized at fair value</b>								
5 575			5 575	Net loans to customers (fixed interest rate)	5 575			5 575
16 729			16 729	Net loans to customers (mortgages)				
18 329		18 329		Bonds and certificates	21 543		21 543	
166	7		160	Shares	166	7		160
907		907		Financial derivatives	3 415		3 415	
<b>94 209</b>	<b>7</b>	<b>31 319</b>	<b>62 883</b>	<b>Total financial assets</b>	<b>140 311</b>	<b>7</b>	<b>28 567</b>	<b>111 737</b>
<b>Liabilities recognized at amortised cost</b>								
6 765		6 765		Liabilities to credit institutions	6 435		6 435	
59 883			59 883	Deposits from customers	59 833			59 833
14 149		14 151		Liabilities from issue of securities	56 885		56 961	
2 002		2 024		Senior non-preferred	2 002		2 024	
1 653		1 318		Subordinated loan capital	1 653		1 318	
<b>Liabilities recognized at fair value</b>								
687		687		Financial derivatives	687		687	
<b>85 140</b>	<b>-</b>	<b>24 946</b>	<b>59 883</b>	<b>Total financial liabilities</b>	<b>127 496</b>	<b>-</b>	<b>67 426</b>	<b>59 833</b>

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			31.12.2019	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
462		462		Cash and receivables from central banks	462		462	
4 063		4 063		Loans to credit institutions	182		182	
38 764			38 764	Net loans to customers (floating interest rate)	100 645			100 645
<b>Assets recognized at fair value</b>								
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	
<b>87 958</b>	<b>6</b>	<b>21 584</b>	<b>66 368</b>	<b>Total financial assets</b>	<b>127 841</b>	<b>6</b>	<b>21 318</b>	<b>106 518</b>
<b>Liabilities recognized at amortised cost</b>								
2 192		2 192		Liabilities to credit institutions	1 793		1 793	
57 963			57 963	Deposits from customers	57 949			57 949
16 707		16 709		Liabilities from issue of securities	53 430		53 427	
1 971		1 981		Subordinated loan capital	1 971		1 981	
<b>Liabilities recognized at fair value</b>								
213		213		Financial derivatives	423		423	
<b>79 046</b>	<b>0</b>	<b>21 095</b>	<b>57 963</b>	<b>Total financial liabilities</b>	<b>115 565</b>	<b>0</b>	<b>57 623</b>	<b>57 949</b>

**Movement level 3**

## GROUP

NOK million	Net loans to customers	Of which credit risk	Shares
<b>Recognized value as at 01.01.2019</b>	<b>5 714</b>	<b>-1</b>	<b>365</b>
Acquisitions 2019	1 106		114
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		
Reclassified as associated company	-		-298
<b>Recognized value as at 31.12.2019</b>	<b>5 689</b>	<b>13</b>	<b>183</b>
Acquisitions 2020	1 251		51
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	16	16	1 809
Disposals 2020	-1 380		-1 883
Reclassified as associated company	-		
<b>Recognized value as at 31.12.2020</b>	<b>5 576</b>	<b>29</b>	<b>160</b>

## PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares
<b>Recognized value as at 01.01.2019</b>	<b>26 607</b>	<b>-1</b>	<b>365</b>
Acquisitions 2019	1 946		114
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		
Reclassified as associated company	-		-298
<b>Recognized value as at 31.12.2019</b>	<b>27 422</b>	<b>13</b>	<b>183</b>
Acquisitions 2020	-3 754		51
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	16	16	1 809
Disposals 2020	-1 380		-1 883
Reclassified as associated company	-		
<b>Recognized value as at 31.12.2020</b>	<b>22 304</b>	<b>29</b>	<b>160</b>

**Sensitivity analysis**

Changes in value as a result of a change in credit spread of 10 basis points.

## GROUP / PARENT BANK

NOK million	31.12.2020	31.12.2019
Loans to customers	20	19
- of which loans to corporate market (CM)	2	3
- of which loans to retail market (RM)	18	16

## 12. FINANCIAL DERIVATIVES, COLLATERAL RECEIVED AND OFFSETTING

Sparebanken Sør and Sparebanken Sør Boligkreditt AS have agreements that regulate counterparty risk and netting of derivatives.

ISDA agreements have been concluded with financial counterparties where a supplementary agreement has been signed with regard to collateral (CSA). Through the agreements, the Group has the right to offset balances if certain events occur. The amounts are not offset in the balance sheet due to the fact that the transactions are normally a gross settlement. Sparebanken Sør (parent bank) has also entered into an agreement on clearing derivatives where the counterparty risk is transferred to a central counterparty (clearing house) that calculates the need of collateral. The assets and liabilities are presented in the table below.

GROUP						31.12.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net	
Derivatives - assets	3 415	290	3 125	-2 157	968	
Derivatives - liabilities	-687	-290	-397	472	74	
<b>Net</b>	<b>2 728</b>	<b>0</b>	<b>2 728</b>	<b>-1 686</b>	<b>1 042</b>	

GROUP						31.12.2019
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net	
Derivatives - assets	757	422	335		335	
Derivatives - liabilities	-422	-422	0		0	
<b>Net</b>	<b>335</b>	<b>0</b>	<b>335</b>		<b>335</b>	

PARENT BANK						31.12.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net	
Derivatives - assets	907	290	617	-236	381	
Derivatives - liabilities	-687	-290	-397	472	74	
<b>Net</b>	<b>219</b>	<b>0</b>	<b>219</b>	<b>236</b>	<b>455</b>	

PARENT BANK						31.12.2019
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net	
Derivatives - assets	251	162	89		89	
Derivatives - liabilities	-212	-162	-50		-50	
<b>Netto</b>	<b>39</b>	<b>0</b>	<b>39</b>		<b>39</b>	

The Group reclassified the presentation of the received collateral as of 01.01.2020. Previously received/paid collateral was presented in the line financial derivatives. Received collateral is now presented as debt to credit institutions and paid collateral area is presented as deposits from credit institutions. Comparative figures have not been restated.

### 13. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

#### Debt securities Group

NOK million	31.12.2020	31.12.19
Bonds, nominal value	55 989	52 977
Value adjustments	735	273
Accrued interest	161	180
<b>Debt incurred due to issuance of securities</b>	<b>56 885</b>	<b>53 430</b>

#### Change in debt securities - Group

NOK million	31.12.19	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	52 977	5 000	-3 724	1 736	55 989
Value adjustments	273			462	735
Accrued interest	180			-18	161
<b>Debt incurred due to issuance of securities</b>	<b>53 430</b>	<b>5 000</b>	<b>-3 724</b>	<b>2 180</b>	<b>56 885</b>

#### Debt securities - Parent bank

NOK Million	31.12.2020	31.12.19
Bonds, nominal value	13 899	16 672
Value adjustments	184	-47
Accrued interest	66	82
<b>Debt incurred due to issuance of securities</b>	<b>14 149</b>	<b>16 707</b>

#### Change in debt securities - Parent bank

NOK million	31.12.19	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	16 672	0	-2 959	186	13 899
Value adjustments	-47			231	184
Accrued interest	82			-16	66
<b>Debt incurred due to issuance of securities</b>	<b>16 707</b>	<b>0</b>	<b>-2 959</b>	<b>401</b>	<b>14 149</b>

#### Change in subordinated capital – Parent bank and Group

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Subordinated loans	1 966	350	-666		1 650
Accrued interest	5			-2	3
<b>Total subordinated loan capital</b>	<b>1 971</b>	<b>350</b>	<b>-666</b>	<b>-2</b>	<b>1 653</b>

#### Change in non-preferred senior debt – Parent bank and Group

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Non-preferred senior debt	0	2 000	0	0	2 000
Value adjustments	0			2	2
Accrued interest	0			0	0
<b>Total non-preferred senior debt</b>	<b>0</b>	<b>2 000</b>	<b>0</b>	<b>2</b>	<b>2 002</b>



#### 14. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 31.12.2020 were as follows:

	<b>Number of EC</b>	<b>Share of EC-CAP. %</b>		<b>Number of EC</b>	<b>Share of EC-CAP. %</b>
<b>NAME</b>			<b>NAME</b>		
1. Sparebankstiftelsen Sparebanken Sør	7.988.679	51,00	11. Carl Krogh Arnet	100.000	0,64
2. EIKA utbytte VPF c/o Eika kapitalforv.	723.017	4,62	12. Ottersland AS	100.000	0,64
3. Arendal Kom. pensjonskasse	450.000	2,87	13. MP Pensjon PK	85.523	0,55
4. Pareto Invest AS	417.309	2,66	14. Lombard Int Assurance S.A.	82.131	0,52
5. Glastad Capital AS	300.000	1,92	15. Apriori Holding AS	72.575	0,46
6. Hamjern Invest AS	279.388	1,78	16. Varodd AS	70.520	0,45
7. Wenaasgruppen AS	186.000	1,19	17. Geir Bergskaug	66.239	0,42
8. Gumpen Bileiendom AS	174.209	1,11	18. Birkenes Sparebank	66.000	0,42
9. Allumgården AS	151.092	0,96	19. K.T. Brøvig Invest AS	65.639	0,42
10. Catilina Invest AS	105.872	0,68	20. Profond AS	60.104	0,38
<b>Totalt - 10 største eierne</b>	<b>10.775.566</b>	<b>68,79</b>	<b>Totalt - 20 største eierne</b>	<b>11.544.297</b>	<b>73,70</b>

As of 1 January 2020, the ownership ratio was 17.2 percent. Hybrid capital, classified as equity, has been excluded when calculating the ownership ratio. As of 31 December 2020, the ownership ratio was 17.3 percent.

The equity certificate capital amounted to NOK 783 197 200 distributed over 15 663 944 equity certificates, each with a nominal value of NOK 50. At the reporting date, Sparebanken Sør owned none of its own equity certificates.

## Risk and capital management

The Group's risk management procedures ensure that the Group's risk exposure is known at all times and are instrumental in helping the Group to achieve its strategic objectives and comply with legal and regulatory requirements. Governing targets are established for the Group's overall risk level and each specific risk area, and systems are in place to calculate, manage and control risk. The aim of capital management is to ensure that the Group has an acceptable tier 1 capital ratio, is financially stable and achieves a satisfactory return commensurate with its risk profile. The Group's total capital ratio and risk exposure are monitored through periodic reports.

### **Credit risk**

Credit risk is defined as the risk of loss due to customers or counterparties failing to meet their obligations. One of the key risk factors relating to Sparebanken Sør's operations is credit risk. Future changes in the bank's losses will also be impacted by general economic trends. This makes the granting of credit and associated processes one of the most important areas for the bank's risk management.

Credit risk is managed through the Group's strategy and policy documents, credit routines, credit processes, scoring models and authority mandates.

### **Market risk**

Market risk generally arises from the Group's unhedged transactions in the interest rate, currency and equity markets. Such risk can be divided into interest rate risk, currency risk, share risk and spread risk, and relates to changes in results caused by fluctuations in interest rates, market prices and/or exchange rates. The Board of Directors establishes guidelines and limits for managing market risk.

### **Liquidity risk**

Liquidity risk relates to Sparebanken Sør's ability to finance its lending growth and fulfil its loan obligations subject to market conditions. Liquidity risk also includes risk of the financial markets that the Group wishes to use ceasing to function. The Board of Directors establishes guidelines and limits for the management of liquidity risk.

### **Operational risk**

Operational risk is defined as the risk of losses resulting from inadequate or failing internal processes, procedures or systems, human error or malpractice, or external events. Examples of operational risk include undesirable actions and events such as IT systems failure, money laundering, corruption, embezzlement, insider dealing, fraud, robbery, threats against employees, breaches of authority and breaches of established routines, etc.

### **Business risk**

Business risk is defined as the risk of unexpected fluctuations in revenue based on factors other than credit risk, liquidity risk, market risk and operational risk. This risk could, for example, derive from regulatory amendments or financial or monetary policy measures, including changes in fiscal and currency legislation, which could have a negative impact on the business.

All risk at Sparebanken Sør must be subject to active and satisfactory management, based on objectives and limits for risk exposure and risk tolerance established by the Board of Directors.

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
<b>Profit (NOK million)</b>					
Net interest income	467	472	449	525	523
Net commission income	97	91	89	70	91
Net income from financial instruments	37	14	59	-69	-31
Other operating income	59	40	56	-12	26
<b>Total net income</b>	<b>659</b>	<b>617</b>	<b>653</b>	<b>515</b>	<b>609</b>
Total operating expenses before losses	260	226	240	232	233
<b>Operating profit before losses</b>	<b>399</b>	<b>391</b>	<b>413</b>	<b>283</b>	<b>376</b>
Losses on loans, guarantees and undrawn credits	-30	6	46	61	-3
<b>Profit before taxes</b>	<b>430</b>	<b>384</b>	<b>367</b>	<b>221</b>	<b>379</b>
Tax expenses	90	80	79	58	86
<b>Profit for the period</b>	<b>339</b>	<b>304</b>	<b>288</b>	<b>164</b>	<b>293</b>

**Profit as % of average assets**

Net interest income	1,29 %	1,32 %	1,25 %	1,61 %	1,60 %
Net commission income	0,27 %	0,25 %	0,25 %	0,21 %	0,28 %
Net income from financial instruments	0,10 %	0,04 %	0,16 %	-0,21 %	-0,09 %
Other operating income	0,16 %	0,11 %	0,16 %	-0,04 %	0,08 %
<b>Total net income</b>	<b>1,83 %</b>	<b>1,72 %</b>	<b>1,82 %</b>	<b>1,58 %</b>	<b>1,87 %</b>
Total operating expenses before losses	0,72 %	0,63 %	0,67 %	0,71 %	0,71 %
<b>Operating profit before losses</b>	<b>1,11 %</b>	<b>1,09 %</b>	<b>1,15 %</b>	<b>0,87 %</b>	<b>1,15 %</b>
Losses on loans, guarantees and undrawn credit	-0,08 %	0,02 %	0,13 %	0,19 %	-0,01 %
<b>Profit before taxes</b>	<b>1,19 %</b>	<b>1,07 %</b>	<b>1,02 %</b>	<b>0,68 %</b>	<b>1,16 %</b>
Tax expenses	0,25 %	0,22 %	0,22 %	0,18 %	0,26 %
<b>Profit for the period</b>	<b>0,94 %</b>	<b>0,85 %</b>	<b>0,80 %</b>	<b>0,50 %</b>	<b>0,90 %</b>

**Key figures, income statement**

Return on equity after tax (adjusted for hybrid capital)	10,4 %	9,6 %	8,8 %	5,0 %	9,6 %
Costs as % of income	39,4 %	36,6 %	36,8 %	45,1 %	38,2 %
Costs as % of income, excl. net income from financial instruments	41,7 %	37,5 %	40,4 %	39,8 %	36,4 %

**Key figures, balance sheet**

Total assets	142 126	146 227	141 566	142 001	129 499
Average total assets	143 700	142 400	142 000	129 600	129 600
Net loans to customers	111 577	110 564	109 049	107 590	106 334
Growth in loans as %, last 12 mths.	4,9 %	4,6 %	3,9 %	4,5 %	3,3 %
Customer deposits	59 833	60 494	60 055	57 658	57 949
Growth in deposits as %, last 12 mths.	3,3 %	2,7 %	0,2 %	0,2 %	2,5 %
Deposits as % of net loans	53,6 %	54,7 %	55,1 %	53,6 %	54,5 %
Equity (incl. hybrid capital)	13 752	13 750	13 474	13 215	13 081
Losses on loans as % of net loans, annualised	0,07 %	0,02 %	0,17 %	0,23 %	-0,01 %
Gross non-performing loans (over 90 days) as % of gross lending	0,29 %	0,29 %	0,24 %	0,29 %	0,27 %

**Other key figures**

Liquidity reserves (LCR), Group	173 %	152 %	126 %	156 %	148 %
Liquidity reserves (LCR), Group- EUR	107 %	106 %	172 %	198 %	1168 %
Liquidity reserves (LCR), Parent Bank	154 %	147 %	152 %	189 %	140 %
Common equity tier 1 capital ratio	15,7 %	15,7 %	15,7 %	15,6 %	15,7 %
Tier 1 capital ratio	17,1 %	17,5 %	17,6 %	17,5 %	17,6 %
Total capital ratio	19,1 %	19,6 %	19,7 %	20,0 %	20,3 %
Common equity tier 1 capital	12 204	12 029	11 823	11 606	11 356
Tier 1 capital	13 315	13 440	13 234	13 017	12 767
Net subordinated capital	14 864	14 989	14 793	14 875	14 686
Leverage ratio	8,9 %	8,8 %	9,1 %	8,9 %	9,3 %
Number of branches	35	35	34	34	34
Number of FTEs in banking operations	442	440	436	434	429

**Key figures, equity certificates**

Equity certificate ratio	17,3 %	17,3 %	17,3 %	17,2 %	17,2 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit per equity certificate (Parent Bank)	2,5	2,0	2,3	3,6	2,4
Profit per equity certificate (Group)	3,6	3,2	2,9	1,6	3,1
Dividend last year per equity certificate (Parent Bank)	14,0	0,0	0,0	0,0	0,0
Book equity per equity certificate	140,0	136,4	133,3	130,2	128,5
Price/book value per equity certificate	0,82	0,75	0,74	0,66	0,86
Listed price on Oslo Stock Exchange at end of period	114,5	102,5	98,8	86,0	110,0

## Key figures Group 2016-2020

Income statement (NOK million)	31.12. 2020	31.12. 2019	31.12. 2018	31.12. 2017	31.12. 2016
Net interest income	1 914	1 926	1 729	1 679	1 565
Net commission income	347	344	318	312	293
Net income from financial instruments	40	24	2	88	224
Other operating income	143	74	23	18	28
<b>Total net income</b>	<b>2 444</b>	<b>2 368</b>	<b>2 072</b>	<b>2 097</b>	<b>2 110</b>
Total operating expenses before losses	958	918	884	811	787
<b>Operating profit before losses</b>	<b>1 486</b>	<b>1 450</b>	<b>1 188</b>	<b>1 286</b>	<b>1 323</b>
Losses on loans and guarantees	83	- 17	- 36	20	50
<b>Profit before taxes</b>	<b>1 403</b>	<b>1 467</b>	<b>1 224</b>	<b>1 266</b>	<b>1 273</b>
Tax expenses	307	342	285	282	284
<b>Profit for the period</b>	<b>1 096</b>	<b>1 125</b>	<b>939</b>	<b>984</b>	<b>989</b>
<b>Profit as a percentage of average assets</b>					
Net interest income	1,36 %	1,53 %	1,46 %	1,53 %	1,49 %
Net commission income	0,25 %	0,27 %	0,27 %	0,28 %	0,28 %
Net income from financial instruments	0,03 %	0,02 %	0,00 %	0,08 %	0,21 %
Other operating income	0,10 %	0,06 %	0,02 %	0,02 %	0,03 %
<b>Total net income</b>	<b>1,74 %</b>	<b>1,88 %</b>	<b>1,75 %</b>	<b>1,92 %</b>	<b>2,01 %</b>
Total operating expenses before losses	0,68 %	0,73 %	0,75 %	0,74 %	0,75 %
<b>Operating profit before losses</b>	<b>1,06 %</b>	<b>1,15 %</b>	<b>1,00 %</b>	<b>1,17 %</b>	<b>1,26 %</b>
Losses on loans and guarantees	0,06 %	-0,01 %	-0,03 %	0,02 %	0,05 %
<b>Profit before taxes</b>	<b>1,00 %</b>	<b>1,17 %</b>	<b>1,03 %</b>	<b>1,16 %</b>	<b>1,21 %</b>
Tax expenses	0,22 %	0,27 %	0,24 %	0,26 %	0,27 %
<b>Profit for the period</b>	<b>0,78 %</b>	<b>0,89 %</b>	<b>0,79 %</b>	<b>0,90 %</b>	<b>0,94 %</b>
<b>Key figures, income statement</b>					
Return on equity after tax (adjusted for hybrid capital)	8,4 %	9,5 %	8,5 %	9,7 %	11,3 %
Costs as % of income	39,2 %	38,8 %	42,7 %	38,7 %	37,3 %
Costs as % of income, excl. net income from financial instruments	39,9 %	39,2 %	42,7 %	40,4 %	41,7 %
<b>Key figures, balance sheet</b>					
Total assets	142 126	129 499	121 125	114 310	105 455
Average total assets	140 400	125 900	118 600	109 500	104 950
Net loans to customers	111 577	106 334	102 942	97 518	90 928
Grows in loans as %, last 12 mths.	4,9 %	3,3 %	5,6 %	7,2 %	2,9 %
Customer deposits	59 833	57 949	56 537	55 580	51 562
Growth in deposits as %, last 12 mths.	3,3 %	2,5 %	1,7 %	7,8 %	6,6 %
Deposits as % of net loans	53,6 %	54,5 %	54,9 %	57,0 %	56,7 %
Equity (incl. hybrid capital)	13 752	13 081	11 845	11 108	10 051
Losses on loans as % of net loans, annualised	-0,11 %	-0,01 %	-0,17 %	0,02 %	0,05 %
Gross non-performing loans (over 90 days) as % of gross lending	0,29 %	0,27 %	0,21 %	0,28 %	0,30 %
<b>Other key figures</b>					
Liquidity reserves (LCR), Group	173 %	148 %	159 %	139 %	128 %
Liquidity reserves (LCR), Group- EUR	107 %	1168 %	4727 %	3105 %	
Liquidity reserves (LCR), Parent Bank	154 %	140 %	180 %	134 %	119 %
Common equity tier 1 capital ratio	15,7 %	15,7 %	14,8 %	14,9 %	14,7 %
Tier 1 capital ratio	17,1 %	17,6 %	16,6 %	16,7 %	16,0 %
Total capital ratio	19,1 %	20,3 %	18,7 %	18,9 %	17,9 %
Common equity tier 1 capital	12 204	11 356	10 517	9 890	9 114
Tier 1 capital	13 315	12 767	11 591	10 965	9 939
Net total primary capital	14 864	14 686	13 096	12 347	11 121
Leverage ratio	8,9 %	9,3 %	9,1 %	9,2 %	8,6 %
Number of branches	35	34	34	34	34
Number of FTEs in banking operations	442	429	434	432	439
<b>Key figures, equity certificates</b>					
Equity certificate ratio before profit distribution	17,3 %	17,2 %	17,9 %	18,7 %	17,5 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit per equity certificate (Parent Bank)	10,5	9,3	7,7	8,9	8,5
Profit per equity certificate (Group)	11,3	11,7	10,1	11,2	10,7
Dividend last year per equity certificate (Parent Bank)	14,0	0,0	6,0	6,0	6,0
Book equity per equity certificate	140,0	128,5	123,2	120,0	115,2
Price/book value per equity certificate	0,8	0,9	0,8	0,9	0,8
Listed price on Oslo Stock Exchange at end of period	114,5	110,0	96,9	104,0	91,3

	Q4	Q3	Q2	Q1	Q4	31.12.	31.12
NOK million	2020	2020	2020	2020	2019	2019	2019
<b>Return on equity adjusted for hybrid capital</b>							
Profit after tax	339	304	288	164	293	1 096	1 125
Interest on hybrid capital	-13	-13	-25	-18	-14	-69	-60
<b>Profit after tax, incl. interest on hybrid capital</b>	<b>329</b>	<b>291</b>	<b>263</b>	<b>146</b>	<b>279</b>	<b>1 018</b>	<b>1 065</b>
Opening balance, equity	13 750	13 215	13 215	13 081	12 511	13 081	11 845
Opening balance, hybrid capital	-1 375	-1 375	-1 375	-1 375	-1 075	-1 375	-1 075
<b>Opening balance, equity excl. hybrid capital</b>	<b>12 375</b>	<b>11 840</b>	<b>11 840</b>	<b>11 706</b>	<b>11 436</b>	<b>11 706</b>	<b>10 770</b>
Closing balance, equity	13 752	13 750	13 475	13 215	13 081	13 752	13 081
Closing balance, hybrid capital	-1 075	-1 375	-1 375	-1 375	-1 375	-1 075	-1 375
<b>Closing balance, equity excl. hybrid capital</b>	<b>12 677</b>	<b>12 375</b>	<b>12 100</b>	<b>11 840</b>	<b>11 706</b>	<b>12 677</b>	<b>11 706</b>
Average equity	13 751	13 482	13 345	13 148	12 796	13 416	12 463
<b>Average equity excl. Hybrid capital</b>	<b>12 526</b>	<b>12 107</b>	<b>11 970</b>	<b>11 773</b>	<b>11 571</b>	<b>12 191</b>	<b>11 238</b>
Return on equity	9.8 %	9.0 %	8.7 %	5.0 %	9.1 %	8.2 %	9.0 %
<b>Return on equity, excl. hybrid capital</b>	<b>10.4 %</b>	<b>9.6 %</b>	<b>8.8 %</b>	<b>5.0 %</b>	<b>9.6 %</b>	<b>8.4 %</b>	<b>9.5 %</b>
<b>Net interest income, incl. interest on hybrid capital</b>							
Net interest income, incl. interest on hybrid capital	467	472	449	525	523	1 914	1 926
Interest on hybrid capital	-13	-13	-25	-18	-14	-69	-60
<b>Net interest income, incl. interest on hybrid capital</b>	<b>455</b>	<b>459</b>	<b>424</b>	<b>507</b>	<b>509</b>	<b>1 845</b>	<b>1 866</b>
Average total assets	143 700	142 400	142 000	135 000	129 600	140 400	125 900
<b>As percentage of total assets</b>	<b>1.26 %</b>	<b>1.28 %</b>	<b>1.20 %</b>	<b>1.51 %</b>	<b>1.56 %</b>	<b>1.31 %</b>	<b>1.48 %</b>
<b>Profit from ordinary operations (adjusted earnings)</b>							
Net interest income, incl. interest on hybrid capital	455	459	424	507	509	1 845	1 866
Net commission income	97	91	89	70	91	347	344
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps))	57	40	52	-14	21	136	64
Other operating income	2	-1	4	2	5	7	10
Operating expenses	260	226	240	232	233	958	918
<b>Profit from ordinary operations (adjusted earnings), before tax</b>	<b>350</b>	<b>364</b>	<b>329</b>	<b>334</b>	<b>393</b>	<b>1 377</b>	<b>1 366</b>
<b>Profit excl. Finance and adjusted for non-recurring items</b>							
Net interest income, incl. hybrid capital	455	459	424	507	509	1 845	1 866
Net commission income	97	91	89	70	91	347	344
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	57	40	52	-14	21	136	64
Other operating income	2	-1	4	2	5	7	10
Operating expenses	260	226	240	232	233	958	918
Losses on loans, guarantees and undrawn credits	-30	6	46	61	-3	31	-17
<b>Profit excl. Finance and adjusted for non-recurring items</b>	<b>380</b>	<b>357</b>	<b>283</b>	<b>273</b>	<b>396</b>	<b>1 346</b>	<b>1 383</b>
Tax (25 %)	95	89	71	68	99	336	346
<b>Ordinary operations /adjusted earnings after losses and tax</b>	<b>285</b>	<b>268</b>	<b>212</b>	<b>204</b>	<b>297</b>	<b>1 009</b>	<b>1 037</b>
Average equity, excl. hybrid capital	12 526	12 107	11 970	11 773	11 571	12 191	11 238
<b>Return on equity, profit excl. Finance and adjusted for non-recurring items</b>	<b>9.1 %</b>	<b>8.8 %</b>	<b>7.1 %</b>	<b>7.0 %</b>	<b>10.2 %</b>	<b>8.3 %</b>	<b>9.2 %</b>
<b>Average interest rates/margins</b>							
Average lending rate RM (return)	2,12 %	2,19 %	2,48 %	3,31 %	3,26 %		
Average lending rate CM (return)	2,74 %	2,80 %	3,37 %	4,11 %	4,03 %		
Average deposit rate RM	0,39 %	0,44 %	0,91 %	1,11 %	1,03 %		
Average deposit rate CM	0,47 %	0,44 %	0,70 %	1,41 %	1,49 %		
Average 3-month NIBOR	0,38 %	0,28 %	0,47 %	1,67 %	1,84 %		
Lending margin RM (lending rate - 3-month NIBOR)	1,74 %	1,91 %	2,01 %	1,64 %	1,42 %		
Lending margin CM (lending rate - 3-month NIBOR)	2,36 %	2,52 %	2,90 %	2,44 %	2,19 %		
Deposit margin RM (3-month NIBOR - deposit rate)	-0,01 %	-0,16 %	-0,44 %	0,56 %	0,81 %		
Deposit margin CM (3-month NIBOR - deposit rate)	-0,09 %	-0,16 %	-0,23 %	0,26 %	0,35 %		

The Board of Directors' report and accounting presentations refer to certain adjusted figures, which are not defined by IFRS (Alternative Performance Measures – APM). For definitions of Sparebanken Sør's APM, please refer to next section.

Sparebanken Sør's alternative performance measures (APMs) provide useful information which supplements the financial statements. These measures are not defined under IFRS and may not be directly comparable with other companies' adjusted measures. The APMs are not intended to replace or overshadow any IFRS measures of performance, but have been included to provide a better picture of Sparebanken Sør's underlying operations.

Key financial ratios regulated by IFRS or other legislation are not considered APMs. The same is true of non-financial information. Sparebanken Sør's APMs are presented in the key figures for the Group, in the calculations and in the Board of Directors' report. APMs are shown with comparable figures for earlier periods. All APMs referred to below have been applied consistently over time.

### Sparebanken Sør's APMs and definitions

Measure	Definition
Return on equity (ROE)	ROE provides relevant information on Sparebanken Sør's profitability by measuring the ability to generate profits from the shareholders' investments. ROE is one of the Group's most important financial APMs and is calculated as: Profit after tax for the period (adjusted for interest on hybrid capital) divided by average equity (adjusted for hybrid capital).
Book equity per equity certificate (including dividend)	This key figure provides information on the value of book equity 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 the equity certificate holders' share of the 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/diluted earnings per equity certificate in the period. Profit per equity certificate is calculated by multiplying profit after tax by the equity certificate ratio, divided by the number of equity certificates issued. Diluted earnings per equity certificate is calculated by multiplying majority interests by the equity certificate ratio, divided by the number of equity certificates issued.
Growth in loans as %, last 12 months	Growth in lending over the last 12 months is a performance measure that provides information on the level of activity 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 transferred to SSBK since this better reflects the relevant comparable level of growth. Lending growth is calculated as gross loans incl. loans transferred to SSBK at period-end minus gross loans incl. loans transferred to SSBK as at the same date in the previous year, divided by gross loans incl. loans transferred to SSBK as at the same date.
Growth in deposits as %, last 12 months	Growth in deposits over the last 12 months provides information on the level of activity and growth in the bank's financing of lending activities that is not established in the financial market. Deposit growth is calculated as total deposits at period-end minus total deposits at the same date in the previous year, divided by total deposits at the same date in the previous year.
Cost/income ratio (Expenses as % of income)	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 equity per 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 and is calculated as Sparebanken Sør's closing equity certificate price at the end of the period divided by the book value per equity certificate.
Losses on loans as % of net loans (annualised)	This key figure indicates losses on loans as a percentage of net loans. It is calculated as losses on loans (including losses on loans transferred to SSBK) divided by net loans (including loans transferred to SSBK) at period-end. Where information is disclosed on loan-loss ratios for periods shorter than one year, the ratios are annualised.
Gross non-performing loans (over 90 days) as % of gross loans	This ratio provides relevant information on the bank's credit exposure. It is calculated as total non-performing exposure (over 90 days) divided by total loans, including loans transferred to SSBK, at period-end.
Lending margin (CM and RM)	Measures the group's average margin on loans, calculated as average lending rate in the period less average 3-month NIBOR for the period. The average lending rate is calculated as interest income from loans to customers divided by average loans to customers in the period.
Deposit margin (CM and RM)	Measures the group's average margin on deposits, calculated as the average 3-month NIBOR in the period less average deposit rate in the period. The average deposit rate is calculated as interest expense on customer deposits divided by average deposits from customers in the period.
Average lending rate	See Lending margin (CM and RM) above.
Average deposit rate	See Deposit margin (CM and RM) above.

# Declaration in accordance with sections § 5-6 of the Norwegian Securities Trading Act

The Board of Directors and CEO of Sparebaken Sør hereby confirm that the bank and the group's financial statements for 2019 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall results.

In addition, we confirm that the half-year report provides a true and fair view of the company's development, results and financial position, as well as a description of the most significant risk and uncertainty factors facing the company.

## Kristiansand, 31. December 2020/ 10. February 2021

Stein A. Hannevik  
Chairman

Inger Johansen  
Deputy Chairman

Mette Ramfjord Harv

Knut Ruhaven Sæthre

Merete Steinvåg Østby

Erik Edvard Tønnesen

Jan Erling Tobiassen  
Employee representative

Gunnhild Tveiten Golid  
Employee representative

Geir Bergskaug  
CEO



**SPAREBANKEN SØR**