



SPAREBANKEN SØR

Q2 2019



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Income statement (NOK million)	Q2 2019	Q2 2018	30.06.2019	30.06.2018	31.12.2018
Net interest income	467	433	904	858	1 729
Net commission income	86	84	160	158	318
Net income from financial instruments	5	28	24	54	2
Other operating income	25	21	31	23	23
Total net income	583	566	1 119	1 093	2 072
Total operating expenses before losses	231	218	460	430	884
Operating profit before losses	352	348	659	663	1 188
Losses on loans, guarantees and unused credit	2	5	5	5	-36
Profit before taxes	350	343	654	658	1 224
Tax expenses	83	65	154	142	285
Profit for the period	267	278	500	516	939
Profit as a percentage of average assets					
Net interest income	1,52 %	1,48 %	1,47 %	1,49 %	1,46 %
Net commission income	0,28 %	0,29 %	0,26 %	0,27 %	0,27 %
Net income from financial instruments	0,02 %	0,10 %	0,04 %	0,09 %	0,00 %
Other operating income	0,08 %	0,07 %	0,05 %	0,04 %	0,02 %
Total net income	1,90 %	1,93 %	1,82 %	1,89 %	1,75 %
Total operating expenses before losses	0,75 %	0,74 %	0,75 %	0,74 %	0,75 %
Operating profit before losses	1,15 %	1,19 %	1,07 %	1,15 %	1,00 %
Losses on loans, guarantees and unused credit	0,01 %	0,02 %	0,01 %	0,01 %	-0,03 %
Profit before taxes	1,14 %	1,17 %	1,06 %	1,14 %	1,03 %
Tax expenses	0,27 %	0,22 %	0,25 %	0,25 %	0,24 %
Profit for the period	0,87 %	0,95 %	0,81 %	0,89 %	0,79 %
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	9,0 %	10,1 %	8,6 %	9,6 %	8,5 %
Costs as % of income	39,6 %	38,5 %	41,1 %	39,3 %	42,7 %
Costs as % of income, excl. net income from financial instruments	40,0 %	40,5 %	42,0 %	41,4 %	42,7 %
Key figures, balance sheet					
Total assets	125 697	118 479	125 697	118 479	121 125
Average total assets	124 400	117 400	123 900	116 400	118 600
Net loans to customers			104 964	100 529	102 942
Growth in loans as % last 12 mths.			4,4 %	6,2 %	5,6 %
Customer deposits			59 946	57 264	56 537
Growth in deposits as % last 12 mths.			4,7 %	2,8 %	1,7 %
Deposits as % of net loans			57,1 %	57,0 %	55 %
Equity (incl. hybrid capital)			12 200	11 478	11 845
Losses on loans as % of net loans, annualised			0,01 %	0,01 %	-0,17 %
Gross non-performing loans > 90 days as % of gross loans			0,32 %	0,27 %	0,21 %
Other key figures					
Liquidity reserve (LCR) Group			146 %	167 %	159 %
Liquidity reserve (LCR) Group - Euro			3033 %	603 %	4727 %
Liquidity reserve (LCR) Parent Bank			137 %	165 %	180 %
Common equity tier 1 capital ratio, including share of partly owned companies			15,0 %	15,0 %	14,8 %
Tier 1 capital ratio			16,5 %	16,6 %	16,4 %
Total capital ratio			18,6 %	18,9 %	18,5 %
Core equity tier 1 capital ratio			10 900	10 227	10 513
Tier 1 capital ratio			12 011	11 317	11 603
Net total subordinated capital			13 564	12 845	13 134
Leverage ratio			9,0 %	9,1 %	9,1 %
Number of branches			34	34	34
Number of FTEs in banking operations			427	419	434
Key figures, equity certificates					
Equity certificate ratio, weighted average over the period	17,2 %	17,9 %	17,2 %	17,9 %	17,9 %
Number of equity certificates issued			15 663 943	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2,1	2,5	4,0	4,5	7,7
Profit/diluted earnings per equity certificate (Group)	2,7	2,9	5,1	5,5	10,1
Dividend last year per equity certificate			6,0	6,0	6,0
Book equity per equity certificate			122,2	118,9	123,2
Price/book value per equity certificate			0,8	0,8	0,8
Listed price on Oslo Stock Exchange at end of period			95,0	97,2	96,9

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 the Norwegian counties of Aust-Agder, Vest-Agder, Telemark and Rogaland.

Real estate agency activities are conducted through the subsidiary Sørmeglere, while general insurance and life insurance products are supplied through Frende, an insurance company jointly owned by the bank. The bank is also a joint owner of Norne Securities, a securities trading company, and Brage Finans, a provider of leasing products and consumer credit.

Highlights in Q2 2019

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Very low losses on loans
- Year-on-year loan growth of 4.4 percent
- Year-on-year deposit growth of 4.7 percent
- Return on equity after tax of 9.0 percent
- Common equity tier 1 capital ratio of 15.0 percent and leverage ratio of 9.0 percent

Highlights in 1st half of 2019

- Good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Very low level of losses on loans
- Return on equity after tax of 8.6 percent

Financial framework conditions

The key interest rate increased on 20 June 2019 from 1.00 percent to 1.25 percent. The reason for the increase was the continued upturn in the Norwegian economy and the fact that the underlying inflation rate was close to the target of 2 percent. Norges Bank has indicated that there most likely will be a further upward adjustment in the key interest rate within the next year.

Both domestic and foreign capital markets have worked efficiently, providing the Group with access to funding through covered bonds and senior debt in 2019. Credit spreads have been relatively stable in first half of 2019.

Annual growth in the general public's gross domestic debt (C2) was 5.7 percent at the end of June 2019. Debt growth for households and businesses was 5.5 percent and 5.8 percent respectively.

The Ministry of Finance decided to raise the requirement for a countercyclical capital buffer from 2.0 percent to 2.5 percent with effect from 31.12.2019. The increase is in line with the recommendation made by Norges Bank.

In October 2018, The Norwegian Financial Supervisory Authority (NFSA) proposed changes related to regulation and identification of systemically important financial institutions. In May 2019, the Ministry of Finance concluded that the criteria for identifying systemically important banks should not be changed.

The Ministry of Finance subsequently sent out a consultation draft proposing a gradual increase in the systemic risk buffer requirement from today's 3 per cent to 4.5 per cent in 2021. This is to ensure that undesirable reductions in the level of capital in Norwegian banks as a result of the implementation of EU capital requirements regulations for banks (CRR / CRD IV). For Sparebanken Sør, the proposal will increase the requirement of common equity tier 1 capital ratio by 0.5 percentage points by the end of 2019. The introduction of SME discount is expected to have a positive effect of 0.4 percentage points in 2019. An overall effect of SME discount of 1.1 percentage points is expected.

Earnings

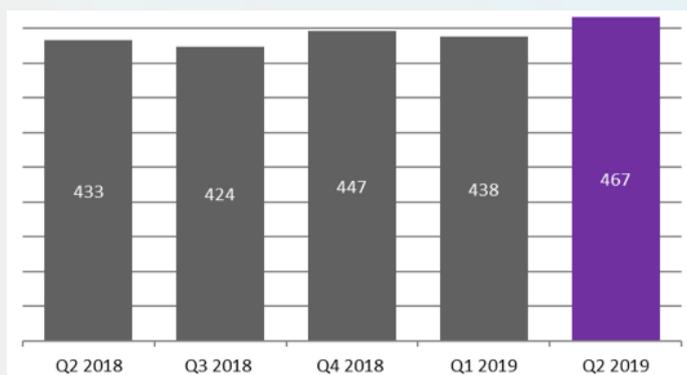
The bank posted a profit before tax of NOK 350 million in Q2 2019, compared to NOK 343 million in the same period in 2018.

The Group's return on equity after tax was 9.0 percent in Q2 2019, compared to 10.1 percent in Q2 2018.

Profit before tax in the first half of 2019 amounted to NOK 654 million, compared to 658 million in the same period in 2018. The return on equity after tax was 8.6 percent in the first half of 2019.

Net interest income

Quarterly net interest income (NOK million)



Net interest income totalled NOK 467 million in Q2 2019, compared to NOK 433 million in Q2 2018.

There has been pressure on lending margins in 2019, especially in the retail market, as a result of an increase in NIBOR. The effect of increased market interest rates was less in the corporate market, where a large proportion of the loans are linked to NIBOR. Increase in market interest rates has also resulted in increased funding costs during the quarter.

Following the rise in the key interest rate in March 2019, the Group raised the interest rates on mortgages, which took fully effect from 7 May 2019 and contributes to increased interest income during the quarter. Deposit margins have been increasing in 2019.

Norges Bank increased the key interest rate again in June 2019, the Group raised the interest rate on loans and some deposits. The change will take full effect from 7 August 2019.

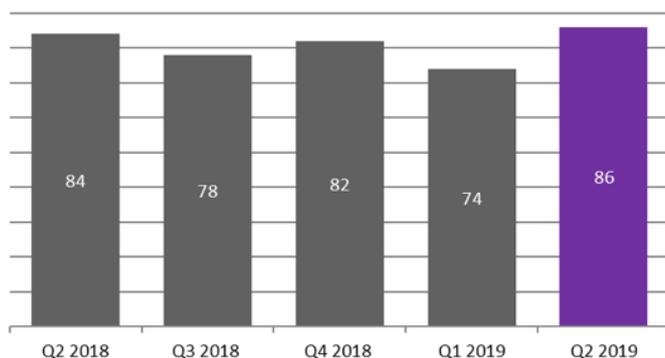
Net interest income as a percentage of average total assets in Q2 2019 was 1.52 percent, up from 1.48 percent in the same period in 2018.

*Net interest income adjusted for accounting changes, commission income, other income and cost-adjusted for conversion of the pension scheme. See also the appendix for details of calculation.

Board of Director's Report

Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 86 million in Q2 2019, compared to NOK 84 million in Q2 2018.

Gross commission income in Q2 2019 totalled NOK 100 million, compared to NOK 98 million in Q2 2018.

Commission income	Q2 2019	Q2 2018	Change	1st half 2019	1st half 2018	Change
Payment services	44	42	2	86	83	3
Real estate brokerage	34	33	1	61	53	8
Other commission income	22	23	-1	40	49	-9
Total	100	98	2	187	185	2

There has been increased income from payment services and real estate brokerage. There has been a reduction in other commission income. This is mainly due to a non-recurring transfer of NOK 5 million linked to commission from the sale of life insurance in Q1 2018.

Financial instruments

Net income from financial instruments totalled NOK 5 million in Q2 2019, compared to NOK 28 million in the same period in 2018. Q2 2018 was strongly influenced by the merger between Vipps AS, BankAxept AS and BankID Norge AS. The merger resulted in a total value adjustment of the shares of NOK 37 million in the second quarter of 2018.

Net income from financial instruments	Q2 2019	Q2 2018	Change	1st half 2019	1st half 2018	Change
Bonds and certificates	-3	-7	4	7	-3	10
Shares incl. dividends	1	50	-49	8	49	-41
Fixed rate loans	-12	4	-16	-9	19	-28
Securities issued - hedge accounting	12	-13	25	13	-10	24
Repurchase of issued bonds	-	-7	7	-9	-10	0
Other financial instruments	7	2	5	13	9	4
Total	5	28	-23	24	54	-30

Credit spreads in the bond market been relatively stable during the quarter.

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.

Associated companies

The strategic commitment through increased ownership interests in Frende Holding AS and Brage Finans AS has resulted in very positive effect on earnings in Q2 2019. Net income from associated companies amounted to NOK 23 million in Q2 2019.

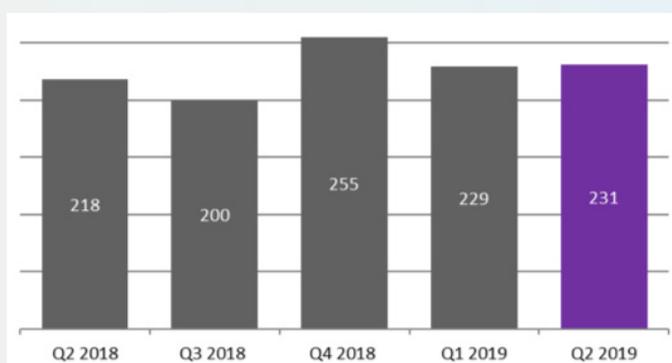
Sparebanken Sør shareholdings in Brage Finans AS is 20.8 percent. Sparebanken Sør's share of profit was NOK 6.9 million in Q2 2019. The share of profit from first half of 2019 was NOK 12.4 million. Brage Finans AS was not classified as an associated company in 2018.

Sparebanken Sør's share of profit from Frende Holding AS amounted to NOK 21.1 million in Q2 2019. The share of profit in first half of 2019 was NOK 24.4 million.

In connection with the purchase of shares in Frende Holding AS in 2018, excess values were identified which should be amortized over the expected lifetime. The Group has depreciated the excess value by NOK 5 million in Q2 2019 and NOK 10 million in first half of 2019.

Operating expenses

Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 231 million in Q2 2019, compared to NOK 218 million in the same period in 2018.

Total operating expenses as a percentage of average assets were 0.75 percent (0.74 percent) in Q2 2019. Cost-income ratio was 39.6 percent in the Group (38.5 percent).

Operating expenses in the banking business closed on NOK 201 million in Q2 2019, compared to NOK 191 million in the same period in 2018. The increase of NOK 10 million is divided into increased wage costs and increased depreciation, both as a result of strategic initiatives.

The bank has also changed practice related to payroll payments. Earlier, 1.5 monthly wages were paid in December. As of January 1, 2019, equal pay is paid each month. This gives an increase in the wage cost in the second quarter of NOK 3 million and NOK 6 million in the first half of 2019. The change will result in a correspondingly lower wage cost in Q4.

The bank expects operating expenses in 2019 to be at the same level as in 2018.

Losses and non-performing loans

Net losses on loans totalled NOK 2 million in Q2 2019, equivalent to 0.01 percent of net loans. Net losses on loans totalled NOK 5 million in the same period in 2018.

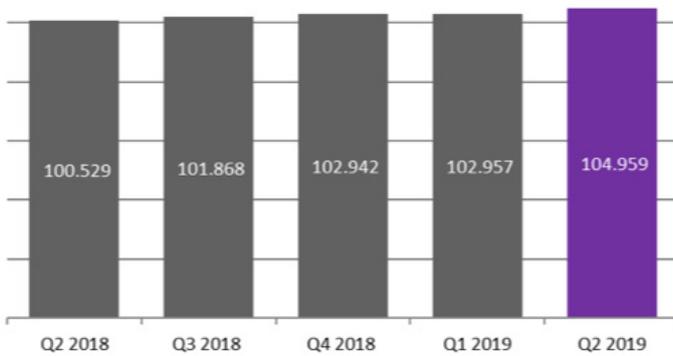
The Group's impairment losses were calculated at NOK 436 million in Q2 2019, which is equivalent to 0.41 percent of gross loans. The corresponding figures for 2018 were NOK 559 million and 0.56 percent of gross loans.

Gross non-performing loans more than 90 days in arrears totalled NOK 333 million, which is equivalent to 0.32 percent of gross loans. This is higher than Q2 2018, which amounted to NOK 270 million and 0.27 percent respectively.

Board of Director's Report

Loans

Loans NOK million



Over the past 12 months net loans increased by NOK 4.5 billion to a total of NOK 105 billion, representing a growth of 4.4 percent.

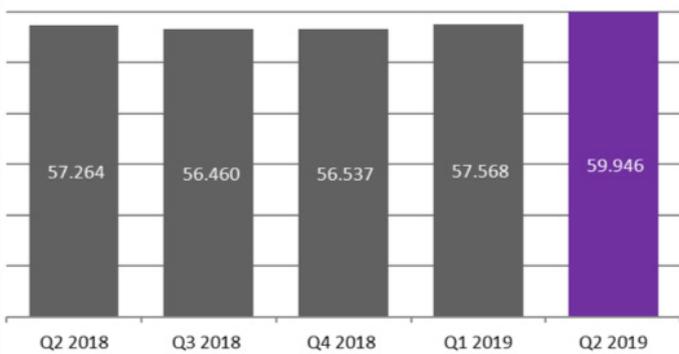
Over the past 12 months, gross loans to retail customers rose by NOK 3.8 billion to NOK 69.5 billion, a rate of growth of 5.8 percent.

Gross loans to corporate customers rose by NOK 0.5 billion to NOK 35.6 billion over the last 12 months, representing a rate of growth of 1.3 percent. There has been lower growth in lending to corporate customers the last year. This is because the bank has been somewhat hesitant as a result of continued uncertainty related to future capital requirements.

Loans to retail customers accounted for 66 percent (65 percent) of total loans at the end of Q2 2019.

Deposits

Deposits NOK million



Over the past 12 months, customer deposits rose by NOK 2.7 billion to NOK 59.9 billion, a growth rate of 4.7 percent.

Deposits from retail customers increased by NOK 1.1 billion to NOK 28.5 billion, a growth rate of 4.0 percent.

Deposits from corporate customers rose by 1.5 billion to NOK 31.2 billion, a growth rate of 4.9 percent.

Deposits in percent of net loans were 57.1 percent at the end of Q2 2019, up from 57.0 percent at the same time in 2018.

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-adjusted to the needs of the business. New long-term funding is established through the issuance of covered bonds and senior debt. The Group has also arranged for long-term financing from the international market through established EMTN programs.

At the end of Q2 2019, wholesale funding amounted to NOK 49.2 billion, of which 67 percent was sourced through covered bonds and 84 percent through long-term financing.

The Group's portfolio of interest-bearing securities totalled NOK 17.0 billion at the end of Q2 2019. At the same date, the Group's liquidity reserves (LCR) were 146 percent (Parent Bank: 137 percent).

Rating

Sparebanken Sør has an A1 rating with "Stable Outlook". The rating outlook was adjusted from "Negative" to "Stable" in June 2019.

It is now clear that The Norwegian Financial Supervisory Authority (NFSA) will set MREL requirements for the largest Norwegian banks during 2019, and it has also been clarified that there will be no changes in which banks are defined as systemically important.

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

Subordinated capital and capital adequacy

At the end of Q2 2019, net subordinated capital totalled NOK 13.6 billion, while hybrid capital was NOK 1.1 billion and subordinated loans totalled NOK 1.6 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.0 percent; the tier 1 capital ratio was 16.5 percent and the (total) capital ratio for the Sparebanken Sør Group was 18.6 percent (based on Basel II).

Sparebanken Sør has a 20.8 percent shareholding in Brage Finans. The company is proportionally consolidated in accordance with the rules on cooperative groups.

For the Parent Bank, the figures at the end of Q2 2019 were a CET1 capital ratio of 15.2 percent, a tier 1 capital ratio of 16.9 percent and a (total) capital ratio of 19.4 percent.

In July 2018, the bank received the Financial Supervisory Authority's assessment and decision regarding the Pillar 2 requirements. The assessment was made in conjunction with the capital appreciation process (SREP) for 2018, and the Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of the risk-weighted assets. This requirement is related to an assessment of risk factors not covered by the Pillar 1 requirements, and also includes a new method of calculating capital requirements associated with partly owned insurance companies. The capital requirement relating to the shareholding in Frende Holding AS alone accounts for 0.3 percentage points.

The Group met the respective capital requirements for financial institutions of 14.0 percent for common equity tier 1 capital, 15.5 percent for tier 1 capital and 17.5 percent for (total) capital.

The Ministry of Finance decided in December 2018 to increase the countercyclical capital buffer by 0.5 percent with effect from 31 December 2019. At the year-end, the group has an ambition common equity tier 1 (CET1) capital ratio of 15.3 percent.

The Ministry of Finance has also sent out a consultation draft, which proposes an increase in the systemic risk buffer requirement of 1.5 percent in the period from 2019 to 2021. For banks using the standard method, a gradual increase is proposed, if the proposal is adopted, it means for Sparebanken Sør that the requirement for CET1 capital ratio increases by 0.5 percent from 31 December 2019. The introduction of the SME discount is expected to positively effect the CET1 capital ratio by 0.4 percent through a reduced calculation basis. The net effect for 2019 is thus expected to be low, an estimate of 0.1 percent.

The Group will adapt to new requirements and secure necessary buffers above the minimum requirement.

Board of Director's Report

One of the bank's key goals is to achieve a CET1 capital ratio at least equal to comparable banks. Sparebanken Sør is the only one of the major regional banks to apply the standard method in calculating capital adequacy. Sparebanken Sør decided to initiate a process to request approval from Finanstilsynet to apply the internal ratings-based approach (IRB). The bank aims to submit the application by the end of 2020.

At the end of Q2 2019, the Group's leverage ratio was 9.0 percent, compared to 9.1 percent at the end of Q2 2018. The bank's capital is considered highly satisfactory.

The bank's equity certificates

As of 30 June 2019, the bank had issued 15 663 944 equity certificates. Profit (Group) per equity certificate was NOK 2.7 in Q2 2019 and NOK 5.1 for first half of 2019. The ownership ratio in Q2 2019 was 17.2 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Dividends

Sparebanken Sør aims to ensure that its equity certificate owners achieve a competitive return in terms of dividends and returns on their equity certificates as a result of sound, stable and profitable operations.

Surpluses are distributed between the equity certificate capital (equity certificate owners) and the subordinated capital in accordance with the owner's share of equity.

In determining the annual dividend, Sparebanken Sør takes into account the bank's capital requirements, including regulatory requirements, investors' expectations and the bank's strategic plans.

The bank aims to distribute 50-70% of the equity certificate holders' share of earnings after tax as dividend.

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 30 June 2019, the bank had transferred NOK 38.3 billion to Sparebanken Sør Boligkreditt AS, equivalent to 54 percent of all loans to the retail market.

Sørmegleren is the bank's own real estate agency and the leading estate agency business in southern Norway. The agency continues to grow, as of 30. June 2019 the number of FTE's totalled 80 in 16 locations.. The result after first half of 2019 showed a profit of NOK 1 million before tax, compared to NOK 2.4 million in the same period in 2018.

Frende Holding AS (20.2 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.

Frende Holding AS posted a profit NOK 179.8 million (NOK 10.7 million) in the first half of the year. The second quarter of 2019 showed a profit before tax of NOK 136.0 million (NOK 58.6 million). The good quarterly result is linked to good insurance technical development, in addition to a good return on financial assets.

Frende Skade posted a profit before tax NOK 116.2 million (NOK -49.8 million) in the first half of the year. The profit before tax for the second quarter was NOK 99.4 million (NOK 16.4 million). The company possesses a total portfolio of NOK 2 083 million (1 900 million), broken down by 165 000 customers. The market share increased to 3.5 percent by the end of Q1 2019.

The loss ratio was 81 percent in the first half of 2019 (89.4 percent), and the combined ratio was 98.5 percent (108.1 percent). In the second quarter, the claims ratio was 71.2 percent, which is significantly better than the corresponding quarter in 2018 at 82.3 percent. The claims frequency development for popular products such as car, property and travel insurance has been good, especially in the second quarter.

Frende Liv posted a profit before tax of NOK 72.9 million (NOK 62.9 million) in the first half of 2019. The profit before tax for the second quarter was NOK 41.4 million (NOK 44.2 million). Risk results from the first half of 2019 were somewhat lower than last year, while net income from finance contributed to a better half-year result than 2018.

In the first half-year, the financial result amounted to NOK 42.0 million (NOK 9.9 mill.), while for the second quarter seen in isolation, financial items made a contribution of NOK 15.2 million (NOK 6.9 mill.)

The total insurance portfolio increased by NOK 41 million in the first half of 2019. At the end of Q2 it amounted to NOK 960 million (NOK 872 million).

Brage Finans AS (20.8 percent shareholding) is a financing company that offers leasing and loans secured by the purchased objects in the corporate and retail market. The company headquarter is located to Bergen and there are branches in Ålesund, Stavanger and Kristiansand. Distribution of the products is provided mainly through owner banks and retailers, in addition to the company's own organisation.

In the first half of 2019 Brage Finans AS (Brage) posted a profit before tax of NOK 78.0 million, compared to NOK 42.8 million in the same period last year. The profit growth was as high as 82 per cent. The result was equivalent to a return on equity of 9.0 percent compared to 7.8 percent in the first half of 2018.

At the end of Q2 2019, Brage Finans AS had a gross loan portfolio of NOK 10.7 billion, an increase of NOK 2.8 billion (36 percent) compared to the first half of 2018.

Norne Securities AS (17.6 percent shareholding) is an investment firm offering online trading, traditional brokerage and corporate finance services.

Norne further enhanced its role as Norway's leading adviser 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 percent shareholding) is owned by Sparebanken Sør together with the 14 other savings banks. The company has a 10.6 percent shareholding in Vipps AS and aims to develop the Vipps mobile payment application further together with its other shareholders.

Outlook

The Board of Directors is satisfied with the Group's financial performance in Q2 2019. There has been pressure on lending margins over time. Interest rate changes have been implemented and new interest rate changes have been notified. The bank is well positioned to attain good results in 2019. The prospects for the Norwegian economy and for Sparebanken Sør in the near future seem good.

Housing prices in the bank's main markets have shown a positive, but modest trend for several years. The Q2 2019 statistics showed positive growth in housing prices in the bank's market area. Mortgage loans on housing are well secured, and the Group is well positioned to absorb any fall in house prices. This view is also supported by the stress tests that have been carried out.

On 20 June 2019 Norges Bank decided to raise the key interest rate from 1.00 percent to 1.25 percent. The central bank's forecasts indicate that the key interest rate will be raised further the next year.

The Group's common equity tier 1 capital requirement, including the new Pillar 2 add-on of 2.0 percent, is 14.0 percent. With effect from 31 December 2019 the Ministry of Finance decided in December 2018 to increase the countercyclical capital buffer by 0.5 percent, and the Group's common equity tier 1 capital requirement will rise to 14.5 percent. At the year-end, the group has an ambition on common equity tier 1 (CET1) capital ratio of 15.3 percent. At the end of Q2 2019 the CET1 capital ratio was 15.0 percent. The Bank will adjust to its ambition, by the end of the year, through ordinary operations.

Board of Director's Report

In June 2019, The Ministry of Finance sent out a consultation draft proposing a gradual increase in the systemic risk buffer requirement from today's 3 per cent to 4.5 per cent in 2021. The proposal will increase the requirement of common equity tier 1 capital ratio by 0.5 percentage points by the end of 2019. Sparebanken Sør's target on CET1 at year-end has not taken into account the proposal for increased systemic risk buffer, or the effect of the SME discount. Preliminary calculation of the SME discount is 1.1 percent. The effect of the SME discount is estimated at 0.4 percent. The net effect in 2019 is estimated at 0.1 percent.

The Group has a long-term ambition of a growth in lending in excess of credit growth, and has set a target return on equity of 9 percent.

With effect from 1 January 2018, the Group has applied the new IFRS 9 standard, which has impacted calculation of the Group's impairment losses on loans. The Group has to make provisions for expected loan losses and this is expected to result in greater fluctuations in loan losses going forward. Based on the composition of the bank's loan portfolio, economic trends and local market conditions, net losses are expected to remain low in 2019.

In line with its strategic focus on costs and long-term value creation, the bank will continue to invest in technology in order to contribute to cost-effective operations and streamlining of the branch structure. This, together with high quality in customer credit assessments, will contribute to the continued profitable growth and development of Sparebanken Sør.

Events after the reporting period

No events have been reported since 30 June 2019 that affect the quarterly financial statements.

Kristiansand, 8 August 2019

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO

PARENT BANK					NOK million		GROUP				
31.12.	30.06.	30.06.	Q2	Q2		Q2	Q2	30.06.	30.06.	31.12.	
2018	2018	2019	2018	2019	Notes	2019	2018	2 019	2018	2018	
1 291	574	710	296	368	Interest income at amortised cost	3	794	697	1 532	1 359	2 778
1 012	545	545	280	282	Interest income at fair value through profit and loss	3	114	93	221	174	367
951	452	548	235	279	Interest expenses	3	441	357	849	675	1 416
1 352	667	706	341	371	Net interest income	3	467	433	904	858	1 729
346	166	165	82	86	Commission income		100	98	188	185	380
62	27	28	14	14	Commission expenses		14	14	28	27	62
283	139	138	68	72	Net commission income		86	84	160	158	318
16	16	11	16	11	Dividend		6	7	6	7	7
19	67	27	40	(9)	Net income from other financial instruments		-1	21	18	47	-5
35	83	38	56	2	Net income from financial instruments		5	28	24	54	2
13	18	27	18	23	Income from associated companies		23	18	27	18	13
9	5	4	3	2	Other operating income		2	3	4	5	10
22	23	31	21	25	Total other income		25	21	31	23	23
1 692	912	913	486	470	Total net income		583	566	1 119	1 093	2 072
415	196	213	99	108	Wages and other personnel expenses		133	123	265	240	499
29	14	17	7	9	Depreciation, amortization and impairment of non-current assets		9	7	17	14	30
338	165	167	82	84	Other operating expenses		89	88	178	176	355
782	375	398	188	200	Total operation expenses before losses		231	218	460	430	884
910	537	516	298	270	Operating profit before losses		352	348	659	663	1 188
-33	6	4	7	2	Losses on loans, guarantees and undrawn credit	4	2	5	5	5	-36
943	531	512	291	268	Profit before taxes	2	350	343	654	658	1 224
212	108	113	49	56	Tax expenses		83	65	154	142	285
731	423	399	242	212	Profit for the period		267	278	500	516	939
					Minority interests		0	0	0	0	1
731	423	399	242	212	Majority interests		267	278	500	516	938
7,7	4,5	4,0	2,5	2,2	Profit/diluted earnings per equity certificate (in whole NOK)		2,7	2,9	5,1	5,5	10,1
					Other comprehensive income						
					Items that may be reclassified to profit or loss						
					Change in value, basis swaps		16	-7	0	-12	-20
0	0	0	0	0	Change in value, customer mortgages						0
0	0	0	0	0	Tax effect		-4	2	(0)	3	5
0	0	0	0	0	Total other comprehensive income		12	-5	0	-9	-15
731	423	399	242	212	Comprehensive income for the period		279	273	500	507	924
					Minority interests		0	0	0	0	1
					Majority interests		279	273	500	507	923
7,7	4,5	4,0	2,5	2,2	Comprehensive income/diluted earnings per equity certificate		2,8	2,9	5,1	5,4	9,9

Balance sheet

PARENT BANK			NOK million	GROUP			
31.12	30.6	30.6			30/6	30/6	31/12
2018	2018	2019	ASSETS	Notes	2019	2018	2018
1 287	803	1 021	Cash and receivables from central banks		1 021	803	1 288
3 010	4 036	3 645	Loans to credit institutions		139	162	119
64 263	66 562	66 738	Net loans to customers	4,5,6,8,10	104 964	100 529	102 942
17 691	13 758	16 067	Bonds and certificates	10	17 146	15 375	14 598
369	648	181	Shares	10	182	648	370
197	135	284	Financial derivatives	10,11	631	236	619
1 858	1 856	1 858	Shareholding in group companies				
584	62	919	Shareholding in associated companies		919	62	584
22	23	31	Deferred tax		31	23	22
			Intangible asstes				
387	399	435	Property, plant and equipment		461	421	413
90	124	115	Other assets		202	220	171
89 758	88 406	91 294	TOTAL ASSETS	2,10	125 697	118 479	121 125
			LIABILITIES AND EQUITY CAPITAL				
2 261	1 010	2 113	Liabilites to credit institutions		1 839	898	1 918
56 546	57 270	59 964	Deposits from customers	2,7,10	59 946	57 264	56 537
18 027	17 645	16 024	Liabilities related to issue of securities	10,12	49 211	46 389	48 323
179	147	164	Financial derivatives	10,11	164	314	179
223	167	133	Payable taxes		185	205	309
288	288	431	Other liabilities		483	339	328
61	59	60	Provisions for commitments		60	59	61
51	36	29	Deferred tax		4	9	21
1 604	1 524	1 605	Subordinated loan capital	10,12	1 605	1 524	1 604
79 240	78 146	80 523	Total liabilities		113 497	107 001	109 280
1 603	1 576	1 604	Equity certificate capital	13	1 604	1 576	1 603
1 075	1 075	1 075	Hybrid capital		1 075	1 075	1 075
7 840	7 609	8 092	Other equity		9 521	8 827	9 167
10 518	10 260	10 771	Total equity	9	12 200	11 478	11 845
89 758	88 406	91 294	TOTAL LIABILITIES AND EQUITY	2,10	125 697	118 479	121 125

PARENT BANK			NOK million	GROUP		
31.12.	30.06.	30.06.		30.06.	30.06.	31.12.
2018	2018	2019		2019	2018	2018
2 417	1 256	1 227	Interest received	1 761	1 707	3 258
-1 059	-602	-300	Interest paid	-631	-861	-1 518
348	175	164	Other payments received	177	176	380
-716	-392	-347	Operating expenditure	-451	-448	-823
8	5	3	Loan recoveries	3	5	8
-225	-178	-112	Tax paid for the period	-145	-249	-291
-27	-16	-19	Gift expenditure	-19	-16	-27
954	1 677	3 190	Change in customer deposits	3 181	1 684	958
2 286	-6	-2 479	Change in loans to customers	-2 022	-3 054	-5 464
506	-520	-635	Change in deposits from credit institutions	20	74	117
246	36	-117	Change in loans from credit institutions	1	-4	-41
4 738	1 435	575	Net cash flow from operating activities	1 875	-986	-3 443
15 353	9 028	8 564	Payments received, securities	4 308	10 084	17 414
-20 473	-10 135	-6 921	Payments made, securities	-6 842	-12 001	-18 568
6		0	Payments received, sale of property, plant and equipment	0	8	11
-50	-20	-25	Payments made, purchase of property, plant and equipment	-25	-21	-51
-246	-605	-241	Investments in subsidiaries and associated companies	-241	-5	-246
-474	119	-17	Change in other assets	-83	293	-3
-5 884	-1 613	1 360	Net cash flow from investing activities	-2 883	-1 642	-1 443
1 039	0	-31	Change in loans to credit institutions	-80	0	1 055
3 900	2 913	0	Change in deposits from credit institutions	4 860	7 768	13 770
-3 656	-2 902	-1 931	Payments received, bond debt	-3 746	-5 070	-10 052
-150	-126	-127	Payments made, bond debt	-127	-127	-150
			Payments made, dividends and interest on hybrid capital			0
			Issue of hybrid capital			0
600	250	0	Buyback of hybrid capital	0	250	600
-400	-130	0	Issue of subordinated loan capital	0	-130	-400
-43	-167	-112	Change in other assets	-166	-403	208
1 290	-162	-2 201	Net cash flow from financing activities	741	2 288	5 031
144	-340	-266	Net change in liquid assets	-267	-340	145
1 143	1 143	1 287	Cash and cash equivalents as at 1 Jan	1 288	1 143	1 143
1 287	803	1 021	Cash and cash equivalents at end of period	1 021	803	1 288

Statement of changes in equity

GROUP NOK million	Divided								TOTAL
	Equity certificates	Premium fund	equalization- fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31 Dec. 2017	783	451	341	1 075	7 165	61	1 230	2	11 108
Dividend distributed for 2017							-94	-1	-95
Accounting effects on transition to IFRS 9			1		4		-3		2
Profit Q1 2018				32			484		516
Interest on hybrid capital				-32					-32
Other comprehensive income							-9		-9
Allocated gift fund						-12			-12
Balance 30.06.2018	783	451	342	1 075	7 169	49	1 608	1	11 478
Profit 1.4-31.12.2018			27	24	514	40	-182		423
Buy back of hybrid capital				-24					-24
Issuance of hybrid capital									0
Other comprehensive income							-6		-6
Allocated gift fund						-27			-27
Other changes							1		1
Balance 31 Dec. 2018	783	451	369	1 075	7 683	62	1 421	1	11 845
Dividend distributed for 2018							-94		-94
Profit Q1 2019				33			467		500
Interest on hybrid capital				-33					-33
Other comprehensive income							0		0
Trading of own equity certificates	0		0		0				1
Allocated gift fund						-19			-19
Balance 30.06.2019	783	451	369	1 075	7 683	43	1 794	1	12 200
PARENT BANK									
Balance 31 Dec. 2017	783	451	341	1 075	7 165	61	94	0	9 970
Dividend distributed for 2017							-94		-94
Accounting effects on transition to IFRS 9			1		4				5
Profit Q1 2018				32			391		423
Interest on hybrid capital				-32					-32
Other comprehensive income									0
Allocated gift fund						-12			-12
Balance 30.06.2018	783	451	342	1 075	7 169	49	391	0	10 260
Profit 1.4-31.12.2018			27	24	514	40	-297		308
Buy back of hybrid capital				-24					-24
Issuance of hybrid capital									0
Other comprehensive income									0
Allocated gift fund						-27			-27
Balance 31 Dec. 2018	783	451	369	1 075	7 683	62	94	0	10 518
Dividend distributed for 2018							-94		-94
Profit Q1 2019				33			366		399
Interest on hybrid capital				-33					-33
Other comprehensive income									0
Trading of own equity certificates	0		0		0				0
Allocated gift fund						-19			-19
Balance 30.06.2019	783	451	369	1 075	7 683	43	366	0	10 771

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 2018.

The bank changed the accounting principle for leases on 1 January 2019, where IFRS 16 leases have replaced IAS 17 leases. Refer to Note 40 of the 2018 annual financial statements for more detailed descriptions of the accounting effects of the transition to the new standard.

There are no other new standards applicable for 2019 that have had a material impact on the financial statements.

The ordinary tax rate of 25 percent has been used to calculate tax payable.

2. SEGMENT REPORTING

	BANKING BUSINESS			30.06.2019		
Report per segment			Undistrib.	Total banking		
Income statement (NOK million)	RM	CM	and elimin.	business	Sørmeqleren	Total
Net interest and commission income	509	359	35	904	0	904
Net other operating income	90	33	31	154	61	215
Operating expenses	192	51	158	401	60	460
Profit before losses per segment	408	342	-91	658	1	659
Losses on loans and guarantees	-1	-8	14			5
Profit before tax per segment	408	350	-105	653	1	654
Net loans to customers	70 484	34 578	-98	104 964		104 964
Other assets			20 658	20 658	75	20 733
Total assets per segment	70 484	34 578	20 560	125 622	75	125 697
Deposits from customers	30 669	23 665	5 612	59 946		59 946
Other liabilities	39 814	10 913	2 749	53 476	75	53 551
Total liabilities per segment	70 484	34 578	8 361	113 422	75	113 497
Equity			12 200	12 200		12 200
Total liabilities and equity per segment	70 484	34 578	20 561	125 622	75	125 697

	BANKING BUSINESS			30.06.2018		
Report per segment			Undistrib.	Total banking		
Income statement (NOK million)	RM	CM	and elimin.	business	Sørmeqleren	Total
Net interest and commission income	494	343	22	858	0	858
Net other operating income	94	35	52	181	54	235
Operating expenses	186	49	143	378	52	430
Profit before losses per segment	402	328	-69	661	2	663
Losses on loans and guarantees	4	1	0	5		5
Profit before tax per segment	398	327	-69	656	2	658
Net loans to customers	66 562	33 881	85	100 529		100 529
Other assets			17 874	17 874	76	17 950
Total assets per segment	66 562	33 881	17 959	118 403	76	118 479
Deposits from customers	29 444	22 057	5 763	57 264		57 264
Other liabilities	37 118	11 824	718	49 661	76	49 737
Total liabilities per segment	66 562	33 881	6 481	106 925	76	107 001
Equity			11 478	11 478		11 478
Total liabilities and equity per segment	66 562	33 881	17 959	118 403	76	118 479

3. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			Interest income	GROUP		
31.12. 2018	30.06. 2018	30.06. 2019	NOK million	30.06. 2019	30.06. 2018	31.12. 2018
			Interest income from financial instruments at amortised cost			
75	35	41	Interest on receivables from credit institutions	9	5	10
1 217	684	669	Interest on loans given to customers	1 523	1 355	2 768
1 291	719	710	Total interest from financial instruments at amortised cost	1 532	1 359	2 778
			Interest income from financial instruments at fair value			
150	72	79	Interest on loans given to customers (fixed rate loans)	79	72	150
198	90	145	Interest on certificates and bonds	142	101	217
348	162	225	Total interest from financial instruments at fair value via profit or loss	221	174	367
			Interest income from financial instruments at fair value via OCI			
664	238	320	Interest on loans given to customers (mortgages)			
664	238	320	Total interest from financial instruments at fair value via OCI			
2 303	1 119	1 255	Total interest income	1 753	1 533	3 145

PARENT BANK			Interest expenses	GROUP		
31.12. 2018	30.06. 2018	30.06. 2019	NOK million	30.06. 2019	30.06. 2018	31.12. 2018
			Interest expenses from financial instruments at amortised cost			
19	7	17	Interest on liabilities to credit institutions	17	6	19
547	264	320	Interest on customer deposits	320	264	543
305	142	168	Interest on issued securities	468	365	774
41	19	23	Interest on subordinated loans	23	19	41
39	20	20	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	20	20	39
951	452	548	Interest expenses from financial instruments at amortised cost	849	675	1 416
951	452	548	Total interest expenses	849	675	1 416

4. LOSSES ON LOANS, GUARANTEES AND UNDRAWN CREDITS

Provisions for losses on loans and losses for the period have been calculated in accordance with the accounting principles in IFRS 9 and are based on expected credit losses (ECL), applying the three-stage method described in Note 7 to the 2018 annual financial statements.

PARENT BANK			NOK million	GROUP		
31.12.18	30.06.18	30.06.19	Loss expense on loans during the period	30.06.19	30.06.18	31.12.18
-3	-1	-5	Period's change in write-downs stage 1	-4	-1	-3
-3	0	16	+Period's change in write-downs stage 2	16	0	-7
-44	-12	-48	+Period's change in write-downs stage 3	-48	-14	-43
22	26	35	+ Period's confirmed loss	35	26	22
4	-2	9	+ Recognised as interest income	9	3	4
8	5	3	- Period's recoveries relating to previous losses	3	5	8
-1	0	0	+Change in write downs on guaranties	0	-4	-1
-33	6	4	Loss expenses during the period	5	5	-36

PARENT BANK

	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
NOK million				
Provisions for loan losses as at 01/01/2019	45	94	335	473
Transfers				
Transferred to stage 1	66	-13	-53	0
Transferred to stage 2	-2	6	-4	0
Transferred to stage 3	0	-3	3	0
Losses on new loans	14	26	12	52
Losses on deducted loans *	-10	-18	-17	-45
Losses on older loans and other changes	-73	14	14	-45
Provisions for loan losses as at 30/06/2019	39	106	290	436
Provisions for loan losses	31	100	287	418
Provisions for losses on guarantees and undrawn credits	8	6	4	18
Total provision for losses as at 30/06/2019	39	106	290	436

*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.

GROUP

	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
NOK million				
Provisions for loan losses as at 01/01/2019	44	91	330	466
Transfers				
Transferred to stage 1	64	-11	-53	0
Transferred to stage 2	-2	6	-4	0
Transferred to stage 3	0	-3	3	0
Losses on new loans	13	25	12	51
Losses on deducted loans	-10	-17	-17	-43
Losses on older loans and other changes	-71	12	15	-44
Provisions for loan losses as at 30/06/2019	38	104	287	429
Provisions for loan losses	30	97	283	411
Provisions for guarantees and undrawn credits	8	6	4	18
Total provision for losses as at 30/06/2019	38	104	287	429

*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.

5. NON-PERFORMING LOANS

All commitments in Stage-3 are defined as non-performing. Commitments where part of the engagement has been overdrawn or had arrears above NOK. 1,000 for more than 90 days are presented on their own line.

PARENT BANK			NOK Million	GROUP		
31.12.18	30.06.18	30.06.19		30.06.19	30.06.18	31.12.18
213	270	333	Gross non-performing loans > 90 days	333	270	213
783	828	777	Other non performing loans	791	854	797
996	1 098	1 109	Total non-performing loans (step 3)	1 123	1 124	1 010
330	405	287	Impairment losses in stage 3	287	410	335
666	693	822	Net non-performing loans	836	714	675
33,1 %	36,9 %	25,9 %	Provisioning non-performing loans	25,6 %	36,5 %	33,2 %
0,33 %	0,40 %	0,49 %	Gross non-performing loans in % of gross loans	0,32 %	0,27 %	0,21 %

6. IMPAIRMENT LOSSES BY SECTOR, INDUSTRY AND STAGE

PARENT BANK				NOK million		GROUP			
Stage 1	Stage 2	Stage 3	Total impairment losses as of 30.06.2019			Total impairment losses as of 30.06.2019	Stage 3	Stage 2	Stage 1
3	10	35	48	Retail customers		57	36	16	5
0	0	0	0	Public administration		0	0	0	0
0	1	1	2	Primary industry		2	1	1	0
2	1	11	14	Manufacturing industry		14	11	1	2
8	12	54	73	Real estate development		73	54	11	8
1	2	73	76	Building and construction industry		76	73	2	1
17	67	70	155	Property management		154	71	66	17
1	0	18	20	Transport		20	18	0	1
1	4	13	18	Retail trade		18	13	4	1
0	0	0	1	Hotel and restaurants		1	0	0	0
1	1	0	1	Housing cooperatives		1	0	1	1
1	3	9	13	Financial/commercial services		13	9	3	1
3	2	3	8	Social services		8	3	2	2
38	104	287	429	Total impairment losses on loans, guarantees and unused credit		436	287	108	40
30	97	283	410	Impairment losses on lending		418	32	102	284
8	6	4	18	Impairment losses on unused credits an guarantees		18	8	6	4
38	104	287	429	Total impairment losses		436	40	108	287

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

Calculated losses as at 30/06/2019 based on the different stages in the model.

NOK million

Group	Stage	Commitment	In %	Calculated loss	In %
Corporate customers	1	34 058	29,1 %	35	8,0 %
	2	6 091	5,2 %	94	21,6 %
	3	880	0,8 %	252	57,7 %
Corporate customers total		41 030	35,1 %	381	87,3 %
Retail customers	1	70 626	60,4 %	6	1,3 %
	2	5 108	4,4 %	14	3,3 %
	3	243	0,2 %	35	8,1 %
Retail customers total		75 977	64,9 %	55	12,7 %
Total		117 007	100,0 %	436	100,0 %

NOK million

Parent bank	Stage	Commitment	In %	Calculated loss	In %
Corporate market	1	34 054	45,0 %	35	8,1 %
	2	6 091	8,0 %	94	22,0 %
	3	880	1,2 %	252	58,7 %
Corporate market total		41 026	54,2 %	381	88,8 %
Retail market	1	31 081	41,1 %	3	0,8 %
	2	3 352	4,4 %	10	2,2 %
	3	229	0,3 %	35	8,2 %
Retail customers total		34 661	45,8 %	48	11,2 %
Total		75 687	100,0 %	429	100,0 %

7. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.18	30.06.18	30.06.19		30.06.19	30.06.18	31.12.18
26 797	27 415	28 504	Retail customers	28 505	27 416	26 798
10 072	10 608	11 143	Public administration	11 143	10 609	10 073
442	462	599	Primary industry	599	462	442
1 672	1 770	2 017	Manufacturing industry	2 017	1 770	1 672
519	569	594	Real estate development	573	560	507
978	926	984	Building and construction industry	984	926	978
2 892	2 877	3 247	Property management	3 247	2 877	2 892
598	467	509	Transport	509	467	598
1 005	963	935	Retail trade	935	963	1 005
147	141	133	Hotel and restaurant	133	141	147
207	203	197	Housing cooperatives	197	203	207
5 176	4 310	5 042	Financial/commercial services	5 043	4 311	5 176
6 026	6 445	5 816	Social services	5 816	6 445	6 026
16	115	244	Accrued interests	244	115	16
56 546	57 270	59 964	Total deposits from customers	59 946	57 264	56 537

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

8. LOANS TO CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.18	30.06.18	30.06.19		30.06.19	30.06.18	31.12.18
28 575	31 750	31 334	Personkunder	69 545	65 729	67 282
550	418	515	Offentlig	515	418	551
947	879	1 062	Primærnæring	1 065	879	948
971	1 157	986	Industri	987	1 157	972
4 756	4 426	4 309	Utvikling av eiendom	4 262	4 379	4 663
1 516	1 653	1 524	Oppføring av bygninger	1 525	1 654	1 518
18 019	17 429	17 575	Eiendomsdrift	17 588	17 435	18 039
668	675	685	Transport	685	675	669
1 051	1 129	1 163	Varehandel	1 163	1 130	1 052
301	306	280	Hotell og restaurant	280	306	301
1 095	1 284	1 262	Borettslag	1 263	1 285	1 096
1 150	1 059	1 145	Forretningsmessig tjenesteyting	1 146	1 060	1 151
4 978	4 778	5 147	Sosial tjenesteyting	5 152	4 779	4 983
135	146	164	Opptjente renter	206	180	173
64 713	67 088	67 149	Sum brutto utlån	105 383	101 066	103 400
450	526	411	Nedskrivninger på utlån	418	537	458
64 263	66 562	66 738	Sum netto utlån	104 964	100 529	102 942

*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.

9. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12.18	30.06.18	30.06.19		30.06.19	30.06.18	31.12.18
10 518	10 260	10 771	Total equity	12 201	11 478	11 845
			Tier 1 capital			
-1 075	-1 075	-1 075	Equity not eligible as common equity tier 1 capital	-1 075	-1 075	-1 075
-189	-68	-101	Share of profit not eligible as common equity tier 1 capital	-101	-68	-189
-22	-23	-31	Deductions for intangible assets and deferred tax assets	-31	-23	-22
-24	-20	-22	Deductions for additional value adjustments	-24	-22	-21
			Proportion of common equity tier 1 capital from Brage Finans AS	305	149	184
			Deductions for internal eliminations from Brage Finans AS	-304	-158	-187
-37	-54	-104	Other deductions	-71	-54	-21
9 171	9 020	9 438	Total common equity tier 1 capital	10 900	10 227	10 514
			Other tier 1 capital			
1 075	1 075	1 075	Hybrid capital	1 075	1 075	1 075
			Proportion of tier 1 capital Brage Finans AS	36	15	15
0	0	0	Deductions from other tier 1 capital	0		0
10 246	10 095	10 513	Total tier 1 capital	12 011	11 317	11 604
			Additional capital supplementary to tier 1 capital			
1 604	1 524	1 604	Subordinated loan capital	1 604	1 524	1 604
			Proportion of net subordinated capital Brage Finans AS	49	26	27
-99	-22	-100	Deductrions from additional capital	-100	-22	-99
1 505	1 502	1 504	Total additional capital	1 553	1 528	1 532
11 751	11 597	12 017	Net subordinated capital	13 564	12 845	13 136
			Minimum requirement for subordinated capital Basel II calculated according to standard method			
3	3	3	Engagements with local and regional authorities	3	3	3
51	67	61	Engagements with institutions	30	12	20
148	165	220	Engagements with enterprises	223	167	150
452	459	443	Engagements with mass market	553	475	537
3 104	3 113	3 139	Engagements secured in property	4 197	4 168	4 213
76	42	82	Engagements which have fallen due	85	42	80
2	0	2	Engagements which are high risk	2	0	2
403	312	381	Engagements in covered bonds	99	92	86
299	204	334	Engagements in collective investment funds	174	53	151
49	50	39	Engagements, other	51	51	62
4 587	4 415	4 704	Capital requirements for credit and counterparty risk	5 417	5 063	5 304
1	1	1	Capital requirements for position, currency and product risk	1	1	1
240	240	259	Capital requirements for operational risk	313	298	298
0	3	0	CVA addition	0	3	0
0	0	0	Deductions from the capital requirement	0	0	0
4 828	4 659	4 964	Total minimum requirement for subordinated capital	5 731	5 365	5 603
60 354	58 236	62 045	Risk-weighted balance (calculation basis)	71 636	67 069	70 036
			Porportionate share of calculation basis Brage Finans AS	2 036	1 103	1 336
			Deductions for internal eliminations Brage Finans AS	-777	-181	-484
			Risk weighted balance after proportonate consolidation	72 895	67 991	70 888
15,2 %	15,5 %	15,2 %	Common equity tier 1 capital ratio, %	15,0 %	15,0 %	14,8 %
17,0 %	17,3 %	16,9 %	Tier 1 capital ratio, %	16,5 %	16,6 %	16,4 %
19,5 %	19,9 %	19,4 %	Total capital ratio, %	18,6 %	18,9 %	18,5 %
7,9 %	8,4 %	8,0 %	Leverage ratio	9,0 %	9,1 %	9,1 %

10. 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 2018 annual financial statements.

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			30.06.2019	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortised cost								
1 021		1 021		Cash and receivables from central banks	486		486	
3 645		3 645		Loans to credit institutions	1 155		1 155	
37 817			37 817	Net loans to customers (floating interest rate)	99 568			99 568
Assets recognized at fair value								
5 396			5 396	Net loans to customers (fixed interest rate)	5 396			5 396
23 525			23 525	Net loans to customers (mortgages)				
16 067		16 067		Bonds and certificates	17 146		17 146	
181	5		176	Shares	182	5		177
284		284		Financial derivatives	631		631	
87 936	5	21 017	66 914	Total financial assets	124 564	5	19 418	105 141
Liabilities recognized at amortised cost								
2 113		2 113		Liabilities to credit institutions	1 839		1 839	
59 964			59 964	Deposits from customers	59 946			59 946
16 024		15 992		Liabilities from issue of securities	49 211		49 276	
1 605		1 608		Subordinated loan capital	1 605		1 608	
Liabilities recognized at fair value								
164		164		Financial derivatives	164		164	
79 870	0	19 877	59 964	Total financial liabilities	112 765	0	52 887	59 946

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

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			30.06.2018	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortised cost								
803		803		Cash and receivables from central banks	803		803	
4 036		4 036		Loans to credit institutions	162		162	
38 189			38 189	Net loans to customers (floating interest rate)	94 843			94 843
Assets recognized at fair value								
5 686			5 686	Net loans to customers (fixed interest rate)	5 686			5 686
22 687			22 687	Net loans to customers (mortgages)				
13 758		13 758		Bonds and certificates	15 375		15 375	
648	4		644	Shares	648	4		644
135		135		Financial derivatives	236		236	
85 942	4	18 732	67 206	Total financial assets	117 753	4	16 576	101 173
Liabilities recognized at amortised cost								
1 010		1 010		Liabilities to credit institutions	898		898	
57 270			57 270	Deposits from customers	57 264			57 264
17 645		17 762		Liabilities from issue of securities	46 389		46 685	
1 524		1 535		Subordinated loan capital	1 524		1 535	
Liabilities recognized at fair value								
147		147		Financial derivatives	314		314	
77 596	0	20 454	57 270	Total financial liabilities	106 389	0	49 432	57 264

Movement level 3

GROUP

NOK million	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2018	6 316	-2	567
Acquisitions Q1 and Q2 2018	647		36
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	18	12	41
Disposals Q1 and Q2 2018	-1 295		-1
Recognized value as at 30.06.2018	5 686	10	643
Acquisitions Q3, and Q4 2018	687		30
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-87	-11	4
Disposals Q3, and Q4 2018	-572		-12
Reclassified as associated company			-300
Recognized value as at 31.12.2018	5 714	-1	365
Acquisitions Q1 and Q2 2019	272		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-9	11	-4
Disposals Q1 and Q2 2019	-581		
Reclassified as associated company			-298
Recognized value as at 30.06.2019	5 396	10	177

PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2018	6 316	-2	567
Reclassification mortgages at fair value	25 002		
Acquisitions Q1 and Q2 2018	647		36
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	18	12	41
Disposals Q1 and Q2 2018	-1 295		-1
Recognized value as at 30.06.2018	30 688	10	643
Acquisitions Q3, and Q4 2018	687		30
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-87	-11	3
Disposals Q3, and Q4 2018	-4 681		-12
Reclassified as associated company			-300
Recognized value as at 31.12.2018	26 607	-1	364
Acquisitions Q1 and Q2 2019	2 904		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-9	11	-4
Disposals Q1 and Q2 2019	-581		
Reclassified as associated company			-298
Recognized value as at 30.06.2019	28 921	10	176

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	30.06.2019	30.06.2018	31.12.2018
Loans to customers	18	17	18
- of which loans to corporate market (CM)	4	4	4
- of which loans to retail market (RM)	14	13	14

11. OFFSETTING

NOK million	GROUP					
	30.06.2019	30.06.2019 (1) Net presented	30.06.2018	30.06.2018 (1) Net presented	31.12.2018	31.12.2018 (1) Net presented
Assets						
Financial derivatives	631	489	236	100	619	447
Liabilities						
Financial derivatives	164	22	314	177	179	7

NOK million	PARENT BANK					
	30.06.2019	30.06.2019 (1) Net presented	30.06.2018	30.06.2018 (1) Net presented	31.12.2018	31.12.2018 (1) Net presented
Assets						
Financial derivatives	284	254	135	94	197	118
Liabilities						
Financial derivatives	164	135	147	106	179	101

(1) Includes assets and liabilities where the bank and the Group have recognised their financial derivatives net for each individual counterparty.

The bank and the Group's counterclaim rights comply with prevailing Norwegian law. The bank and Sparebanken Sør Boligkreditt AS have the right to offset other outstanding balances through ISDA agreements if certain events occur. The amounts have not been offset in the balance sheet because the transactions are generally not settled on a net basis.

12. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities Group

NOK million	30.06.2019	30.06.2018	31.12.2018
Bonds, nominal value	48 613	46 119	47 969
Value adjustments	431	128	170
Accrued interest	167	142	184
Debt incurred due to issuance of securities	49 211	46 389	48 323

Change in debt securities - Group

NOK million	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	30.06.2019
Bonds, nominal value	47 969	4 860	-3 748	-468	48 613
Value adjustments	170			261	431
Accrued interest	184			-17	167
Debt incurred due to issuance of securities	48 323	4 860	-3 748	-224	49 211

Debt securities – Parent bank

NOK Million	30.06.2019	30.06.2018	31.12.2018
Bonds, nominal value	15 897	17 519	17 904
Value adjustments	7	24	13
Accrued interest	120	102	110
Debt incurred due to issuance of securities	16 024	17 645	18 027

Change in debt securities - Parent bank

NOK million	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	30.06.2019
Bonds, nominal value	17 904	0	-1 931	-76	15 897
Value adjustments	13			-6	7
Accrued interest	110			10	120
Debt incurred due to issuance of securities	18 027	0	-1 931	-72	16 024

Change in subordinated loans and hybrid capital - Parent bank and Group

NOK million	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	30.06.2019
Subordinated loans	1 600	0	0		1 600
Accrued interest	4			1	5
Total subordinated loan capital	1 604	0	0	1	1 605

13. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 30 June were as follows:

NAME	Number of EC	Share of EC-CAP. %	NAME	Number of EC	Share of EC-CAP. %
1. Sparebankstiftelsen Sparebanken Sør	7 988 679	51,00	11. Catilina Invest AS	114 558	0,73
2. EIKA utbytte VPF c/o Eika kapitalforv.	602 763	3,85	12. Svenska Handelsbanken AB	100 000	0,64
3. Arendal Kom. pensjonskasse	450 000	2,87	13. Ottersland AS	100 000	0,64
4. Pareto AS	417 309	2,66	14. MP Pensjon PK	85 523	0,55
5. Glastad Invest AS	368 765	2,35	15. Artel AS	82 131	0,52
6. Bergen Kom. Pensjonskasse	340 000	2,17	16. Profond AS	77 115	0,49
7. Otterlei Group AS	268 100	1,71	17. Apriori Holding AS	72 575	0,46
8. Wenaasgruppen AS	186 000	1,19	18. Varodd AS	70 520	0,45
9. Gumpen Bileiendom AS	174 209	1,11	19. Birkenes Sparebank	66 000	0,42
10. Allumgården AS	151 092	0,96	20. Brøvig Holding AS	65 639	0,42
Total - 10 largest certificate holders	10 946 917	69,89	Total - 20 largest certificate holders	11 780 978	75,21

As of 1 January 2019, the weighted average ownership ratio was 17.2 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

At the reporting date, Sparebanken Sør owned none of its own equity certificates. 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.

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.

Profit (NOK million)	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Net interest income	467	438	447	424	433
Net commission income	86	74	82	78	84
Net income from financial instruments	5	20	-49	-3	28
Other operating income	25	5	3	-2	21
Total net income	583	537	483	497	566
Total operating expenses before losses	231	229	255	200	218
Operating profit before losses	352	308	228	297	348
Losses on loans, guarantees and unused credits	2	3	-44	3	5
Profit before taxes	350	305	272	294	343
Tax expenses	83	71	68	75	65
Profit for the period	267	234	204	219	278

Profit as % of average assets

Net interest income	1,52 %	1,46 %	1,46 %	1,40 %	1,48 %
Net commission income	0,28 %	0,25 %	0,27 %	0,26 %	0,29 %
Net income from financial instruments	0,02 %	0,07 %	-0,16 %	-0,01 %	0,10 %
Other operating income	0,08 %	0,02 %	0,01 %	-0,01 %	0,07 %
Total net income	1,90 %	1,79 %	1,58 %	1,64 %	1,93 %
Total operating expenses before losses	0,75 %	0,76 %	0,83 %	0,66 %	0,74 %
Operating profit before losses	1,15 %	1,03 %	0,74 %	0,98 %	1,19 %
Losses on loans, guarantees and unutilized credit	0,01 %	0,01 %	-0,14 %	0,01 %	0,02 %
Profit before taxes	1,14 %	1,02 %	0,89 %	0,97 %	1,17 %
Tax expenses	0,27 %	0,24 %	0,22 %	0,25 %	0,22 %
Profit for the period	0,87 %	0,78 %	0,67 %	0,72 %	0,95 %

Key figures, income statement

Return on equity after tax (adjusted for hybrid capital)	9,0 %	8,3 %	7,2 %	7,8 %	10,1 %
Costs as % of income	39,6 %	42,6 %	52,8 %	40,2 %	38,5 %
Costs as % of income, excl. net income from financial instruments	40,0 %	44,2 %	48,0 %	40,0 %	40,5 %

Key figures, balance sheet

Total assets	125 697	123 873	121 125	121 702	118 479
Average total assets	124 400	123 400	121 400	120 100	117 400
Net loans to customers	104 964	102 957	102 942	101 868	100 529
Growth in loans as %, last 12 mths.	4,4 %	4,3 %	5,6 %	6,1 %	6,2 %
Customer deposits	59 946	57 568	56 537	56 460	57 264
Growth in deposits as %, last 12 mths.	4,7 %	4,9 %	1,7 %	3,4 %	2,8 %
Deposits as % of net loans	57,1 %	55,9 %	54,9 %	55,4 %	57,0 %
Equity (incl. hybrid capital)	12 200	11 952	11 845	11 666	11 478
Losses on loans as % of net loans, annualised	0,01 %	0,01 %	-0,17 %	0,04 %	0,02 %
Gross non-performing loans (over 90 days) as % of gross lending	0,32 %	0,21 %	0,21 %	0,26 %	0,26 %

Other key figures

Liquidity reserves (LCR), Group	146,0 %	180,0 %	159 %	177 %	167 %
Liquidity reserves (LCR), Group- EUR	3033 %	2807 %	4727 %	1820 %	603 %
Liquidity reserves (LCR), Parent Bank	137 %	168 %	180 %	170 %	165 %
Common equity tier 1 capital ratio	15,0 %	14,9 %	14,8 %	14,8 %	15,0 %
Tier 1 capital ratio	16,5 %	16,4 %	16,4 %	16,4 %	16,6 %
Total capital ratio	18,6 %	18,5 %	18,5 %	18,9 %	18,9 %
Common equity tier 1 capital	10 900	10 694	10 513	10 324	10 227
Tier 1 capital	12 011	11 790	11 603	11 414	11 317
Net total primacy capital	13 564	13 329	13 134	13 187	12 845
Leverage ratio	9,0 %	9,0 %	9,1 %	9,0 %	9,1 %
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	427	436	434	431	419

Key figures, equity certificates

Equity certificate ratio before profit distribution	17,2 %	17,2 %	17,9 %	17,9 %	17,9 %
Number of equity certificates issued	15 663 944	15 663 943	15 663 943	15 663 944	15 663 944
Profit per equity certificate (Parent Bank)	2,2	1,9	4,5	4,0	2,5
Profit per equity certificate (Group)	2,7	2,4	5,1	5,1	2,9
Dividend last year per equity certificate (Parent Bank)	6,0	6,0	6,0	6,0	6,0
Book equity per equity certificate	122,2	119,4	123,2	120,9	118,9
Price/book value per equity certificate	0,8	0,8	0,8	0,8	0,8
Listed price on Oslo Stock Exchange at end of period	95,0	90,2	96,9	99,8	97,2

Key figures Group 2013-2018

Income statement (NOK million)	31.12. 2018	31.12. 2017	31.12. 2016	31.12. 2015	31.12. 2014*	31.12. 2013*
						Proforma
Net interest income	1 729	1 679	1 565	1 544	1 511	1 443
Net commission income	318	312	293	300	284	252
Net income from financial instruments	2	88	224	-66	184	201
Other operating income	23	18	28	14	23	22
Total net income	2 072	2 097	2 110	1 792	2 002	1 918
Total operating expenses before losses	884	811	787	817	834	800
Operating profit before losses	1 188	1 286	1 323	975	1 168	1 118
Losses on loans and guarantees	-36	20	50	97	268	126
Profit before taxes	1 224	1 266	1 273	878	900	992
Tax expenses	285	282	284	231	215	219
Profit for the period	939	984	989	647	685	773
Profit as a percentage of average assets						
Net interest income	1,46 %	1,53 %	1,49 %	1,58 %	1,60 %	1,60 %
Net commission income	0,27 %	0,28 %	0,28 %	0,31 %	0,30 %	0,28 %
Net income from financial instruments	0,00 %	0,08 %	0,21 %	-0,07 %	0,20 %	0,22 %
Other operating income	0,02 %	0,02 %	0,03 %	0,01 %	0,02 %	0,03 %
Total net income	1,75 %	1,92 %	2,01 %	1,83 %	2,12 %	2,13 %
Total operating expenses before losses	0,75 %	0,74 %	0,75 %	0,83 %	0,88 %	0,89 %
Operating profit before losses	1,00 %	1,17 %	1,26 %	0,99 %	1,24 %	1,24 %
Losses on loans and guarantees	-0,03 %	0,02 %	0,05 %	0,10 %	0,28 %	0,14 %
Profit before taxes	1,03 %	1,16 %	1,21 %	0,90 %	0,96 %	1,10 %
Tax expenses	0,24 %	0,26 %	0,27 %	0,24 %	0,23 %	0,24 %
Profit for the period	0,79 %	0,90 %	0,94 %	0,66 %	0,73 %	0,86 %
Key figures, income statement						
Costs as % of income	8,5 %	9,7 %	11,3 %	8,4 %	10,1 %	12,3 %
Costs as % of income, excl. net income from financial instruments	42,7 %	38,7 %	37,3 %	45,6 %	41,7 %	41,7 %
Return on equity after tax (adjusted for hybrid capital)	42,7 %	40,4 %	41,7 %	44,0 %	45,9 %	46,6 %
Key figures, balance sheet						
Total assets	121 125	114 310	105 455	101 334	94 062	93 758
Average total assets	118 600	109 500	104 950	98 000	94 300	90 200
Net loans to customers	102 942	97 518	90 928	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	5,6 %	7,2 %	2,9 %	9,2 %	4,5 %	6,8 %
Customer deposits	56 537	55 580	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	1,7 %	7,8 %	6,6 %	0,2 %	10,3 %	8,3 %
Deposits as % of net loans	54,9 %	57,0 %	56,7 %	54,7 %	59,6 %	56,5 %
Equity (incl. hybrid capital)	11 845	11 108	10 051	8 263	7 157	6 658
Losses on loans as % of net loans, annualised	-0,17 %	0,02 %	0,05 %	0,11 %	0,33 %	0,16 %
Gross non-performing loans (over 90 days) as % of gross lending	0,21 %	0,28 %	0,30 %	0,47 %	0,71 %	0,60 %
Other key figures						
Liquidity reserves (LCR), Group	159,0 %	139,0 %	128,0 %	108,0 %		
Liquidity reserves (LCR), Group- EUR	4727 %	3105 %				
Likviditetsreserve (LCR), Parent Bank	180,0 %	134,0 %	119,0 %	71,0 %		
Common equity tier 1 capital ratio	14,8 %	14,9 %	14,7 %	12,7 %	13,1 %	12,8 %
Tier 1 capital ratio	16,6 %	16,7 %	16,0 %	13,5 %	14,4 %	14,2 %
Total capital ratio	18,7 %	18,9 %	17,9 %	15,5 %	15,1 %	15,1 %
Common equity tier 1 capital	10 517	9 890	9 114	7 700	7 092	6 376
Tier 1 capital	11 591	10 965	9 939	8 210	7 792	7 076
Net total primary capital	13 096	12 347	11 121	9 388	8 170	7 522
Leverage ratio	9,1 %	9,2 %	8,6 %	7,0 %	7,0 %	
Number of branches	34	34	34	40	40	44
Number of FTEs in banking operations	434	432	439	449	454	489
Key figures, equity certificates						
Equity certificate ratio before profit distribution	17,9 %	18,7 %	19,8 %	13,5 %	14,1 %	7,1 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent Bank)	7,7	8,9	8,5	10,6	12,2	10,3
Profit per equity certificate (Group)	10,1	11,2	10,7	17,6	20,3	18,1
Dividend last year per equity certificate (Parent Bank)	6,0	6,0	6,0	9,0	10,0	10,0
Book equity per equity certificate	123,2	120,0	115,2	219,0	212,0	187,0
Price/book value per equity certificate	0,8	0,9	0,8	0,6	0,9	0,8
Listed price on Oslo Stock Exchange at end of period	96,9	104,0	91,3	139,0	196,0	150,0

	Q2	Q1	Q4	Q3	Q2	30.06.	30.06.	31.12.
NOK million	2019	2019	2019	2019	2019	2019	2018	2018
Return on equity adjusted for hybrid capital								
Profit after tax	267	233	204	219	278	500	516	939
Interest on hybrid capital	-21	-12	-12	-12	-20	-33	-32	-56
Profit after tax, incl. interest on hybrid capital	246	221	193	207	258	467	484	884
Opening balance, equity	11 952	11 845	11 666	11 478	11 233	11 845	11 108	11 108
Opening balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075
Opening balance, equity excl. hybrid capital	10 877	10 770	10 591	10 403	10 158	10 770	10 033	10 033
Closing balance, equity	12 200	11 952	11 845	11 666	11 478	12 200	11 478	11 845
Closing balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075
Closing balance, equity excl. hybrid capital	11 125	10 877	10 770	10 591	10 403	11 125	10 403	10 770
Average equity	12 076	11 899	11 756	11 572	11 356	12 023	11 293	11 477
Average equity excl. Hybrid capital	11 001	10 824	10 681	10 497	10 281	10 948	10 218	10 402
Return on equity	8,9 %	7,9 %	6,9 %	7,5 %	9,8 %	8,4 %	9,2 %	8,2 %
Return on equity, excl. hybrid capital	9,0 %	8,3 %	7,2 %	7,8 %	10,1 %	8,6 %	9,6 %	8,5 %
Net interest income, incl. interest on hybrid capital								
Net interest income, incl. interest on hybrid capital	467	437	447	424	433	904	858	1 729
Interest on hybrid capital	-21	-12	-11,5	-12	-20	-33	-32	-56
Net interest income, incl. interest on hybrid capital	446	425	436	412	413	871	826	1 674
Average total assets	124 400	123 400	121 400	117 399	117 400	115 300	116 400	118 600
As percentage of total assets	1,44 %	1,40 %	1,42 %	1,39 %	1,41 %	1,52 %	1,43 %	1,13 %
Profit from ordinary operations (adjusted earnings)								
Net interest income, incl. interest on hybrid capital	446	425	436	412	413	871	826	1 674
Net commission income	86	74	-4	78	84	160	158	318
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps))	23	4	-4	-1	-4	6	-4	-9
Other operating income	2	2	7	-	2	4	5	13
Operating expenses, adjusted for conversion of pension scheme	231	229	255	200	218	460	430	884
Profit from ordinary operations (adjusted earnings), before tax	326	275	180	289	277	581	555	1 112
Profit excl. Finance and adjusted for non-recurring items								
Net interest income, incl. hybrid capital	446	425	436	412	413	871	826	1 674
Net commission income	86	74	-4	78	84	160	158	318
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	23	4	-4	-1	-4	6		
Other operating income	2	2	7	-	2	4	5	13
Operating expenses, adjusted for conversion of pension scheme	231	229	255	200	218	460	430	884
Losses on loans, guarantees and undrawn credits	2	3	-44	3	5	5	5	-36
Profit excl. Finance and adjusted for non-recurring items	324	272	224	286	272	570	554	1 157
Tax (25 %)	81	68	56	72	68	143	139	289
Ordinary operations /adjusted earnings after losses and tax	243	204	168	215	204	428	416	867
Average equity, excl. hybrid capital	11 001	10 824	10 681	10 497	10 281	10 948	10 218	10 402
Return on equity, profit excl. Finance and adjusted for non-recurring items	8,9 %	7,6 %	6,2 %	8,1 %	8,0 %	7,9 %	8,2 %	8,3 %
Average interest rates/margins								
Average lending rate RM (return)	2,90 %	2,79 %	2,74 %	2,62 %	2,65 %			
Average lending rate CM (return)	3,66 %	3,49 %	3,36 %	3,26 %	3,42 %			
Average deposit rate RM	0,91 %	0,88 %	0,82 %	0,81 %	0,81 %			
Average deposit rate CM	1,30 %	1,14 %	1,12 %	1,04 %	1,00 %			
Average 3-month NIBOR	1,46 %	1,29 %	1,19 %	1,06 %	1,07 %			
Lending margin RM (lending rate - 3-month NIBOR)	1,44 %	1,50 %	1,55 %	1,56 %	1,58 %			
Lending margin CM (lending rate - 3-month NIBOR)	2,20 %	2,20 %	2,17 %	2,20 %	2,35 %			
Deposit margin RM (3-month NIBOR - deposit rate)	0,55 %	0,41 %	0,37 %	0,25 %	0,26 %			
Deposit margin CM (3-month NIBOR - deposit rate)	0,16 %	0,15 %	0,07 %	0,02 %	0,07 %			

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 in the previous year.
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 Section 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 half-yearly 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 result.

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

Kristiansand, 8 August 2019

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO



SPAREBANKEN SØR

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