



SPAREBANKEN SØR

Q4 2019



Sigve Knutson

WINNER OF SPAREBANKEN SØR ARTIST AWARD, 2018.

Sigve Knutson (b.1991, from Lillesand) has, despite his young age, received a lot of attention for working in an innovative and playful way. His objects are often in a landscape between art, architecture and design. Even though they are reminiscent of sculptures, they are also meant for practical use. All his works are handmade, and tools and methods used reveal themselves as traces in his work.

Knutson is educated at the architect and design college in Oslo and at the Design Academy in Eindhoven in the Netherlands. His career got a kick start in 2017 when his creation ended up on the New York Times list of 16 best things they had seen during the furniture fair in Milano.



Contents

Key figures Group	4
Board of Director's report	5
Income statement	14
Balance sheet	15
Cash flow statement	16
Statement of changes in equity	17
Notes	18
Risk and capital management	31
Quarterly trend in results	32
Key figures Group 2015-2019	33
Calculations	34
Alternative performance measures – APM	35
Declaration in accordance with sections 5-6 of the Norwegian Securities Trading Act	36

Income statement (NOK million)	Q4 2019	Q4 2018	31.12.2019	31.12.2018
Net interest income	523	447	1 926	1 729
Net commission income	91	82	344	318
Net income from financial instruments	-31	-49	24	2
Other operating income	26	3	74	23
Total net income	609	483	2 368	2 072
Total operating expenses before losses	233	255	918	884
Operating profit before losses	376	228	1 450	1 188
Losses on loans, guarantees and unused credit	-3	-44	-17	-36
Profit before taxes	379	272	1 467	1 224
Tax expenses	86	68	342	285
Profit for the period	293	204	1 125	939
Profit as a percentage of average assets				
Net interest income	1.60 %	1.46 %	1.53 %	1.46 %
Net commission income	0.28 %	0.27 %	0.27 %	0.27 %
Net income from financial instruments	-0.09 %	-0.16 %	0.02 %	0.00 %
Other operating income	0.08 %	0.01 %	0.06 %	0.02 %
Total net income	1.87 %	1.58 %	1.88 %	1.75 %
Total operating expenses before losses	0.71 %	0.83 %	0.73 %	0.75 %
Operating profit before losses	1.15 %	0.74 %	1.15 %	1.00 %
Losses on loans, guarantees and unused credit	-0.01 %	-0.14 %	-0.01 %	-0.03 %
Profit before taxes	1.16 %	0.89 %	1.17 %	1.03 %
Tax expenses	0.26 %	0.22 %	0.27 %	0.24 %
Profit for the period	0.90 %	0.67 %	0.89 %	0.79 %
Key figures, income statement				
Return on equity after tax (adjusted for hybrid capital)	9.6 %	7.2 %	9.5 %	8.5 %
Costs as % of income	38.2 %	52.8 %	38.8 %	42.7 %
Costs as % of income, excl. net income from financial instruments	36.4 %	48.0 %	39.2 %	42.7 %
Key figures, balance sheet				
Total assets	129 499	121 125	129 499	121 125
Average total assets	129 600	121 400	125 900	118 600
Net loans to customers			106 334	102 942
Growth in loans as % last 12 mths.			3.3 %	5.6 %
Customer deposits			57 949	56 537
Growth in deposits as % last 12 mths.			2.5 %	1.7 %
Deposits as % of net loans			54.5 %	54.9 %
Equity (incl. hybrid capital)			13 081	11 845
Losses on loans as % of net loans, annualised			-0.01 %	-0.17 %
Gross non-performing loans > 90 days as % of gross loans			0.27 %	0.21 %
Other key figures				
Liquidity reserve (LCR) Group			148 %	190 %
Liquidity reserve (LCR) Group - Euro			1168 %	4727 %
Liquidity reserve (LCR) Parent Bank			140 %	180 %
Common equity tier 1 capital ratio			15.7 %	14.8 %
Tier 1 capital ratio			17.6 %	16.4 %
Total capital ratio			20.3 %	18.7 %
Total common equity tier 1 capital			11 356	10 517
Tier 1 capital ratio			12 767	11 591
Net subordinated capital			14 686	13 096
Leverage ratio			9.3 %	9.1 %
Number of branches			34	34
Number of FTEs in banking operations			429	434
Key figures, equity certificates				
Equity certificate ratio, weighted average over the period	17.2 %	17.9 %	17.2 %	17.9 %
Number of equity certificates issued			15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2.4	1.6	9.3	7.7
Profit/diluted earnings per equity certificate (Group)	3.1	2.2	11.7	10.1
Dividend last year per equity certificate			8.0	6.0
Book equity per equity certificate			128.5	123.2
Price/book value per equity certificate			0.9	0.8
Listed price on Oslo Stock Exchange at end of period			110.0	96.9

General

Sparebanken Sør is an independent financial institution that engages in banking, securities trading and real estate brokerage activities in the Norwegian counties of 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 Q4 2019

- Very good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Net entry on losses on loans
- Year-on-year loan growth of 3.3 percent
- Year-on-year deposit growth of 2.5 percent
- Return on equity after tax of 9.6 percent
- Common equity tier 1 capital ratio of 15.7 percent and leverage ratio of 9.3 percent
- The Board will propose a dividend for 2019 of NOK 8.0 per equity certificate

Highlights in 2019

- All time high profit
- Very good results from ordinary operations
- Positive development in net interest income
- Good results from Frende and Brage
- Efficient operations and low costs
- Net entry on losses on loans
- Return on equity after tax of 9.5 percent

Financial framework conditions

The key interest rate increased on 19 September 2019 from 1.25 percent to 1.50 percent. The reason for the increase was the continued upturn in the Norwegian economy and the fact that the underlying inflation rate has been somewhat higher than the target of 2 percent. Norges Bank has indicated that there most likely will be no further upward adjustment in the key interest rate in the near future.

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

Annual growth in the general public's gross domestic debt (C2) was 5.1 percent at the end of December 2019. Debt growth for households and businesses was 5.0 percent and 4.9 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.

On December 19, 2019, The Ministry of Finance adopted regulations that put into force the EU's capital requirements regulations CRR/CRD IV as of 31 December 2019. This implies, among other things, that the capital requirements for loans to small and medium-sized enterprises (introduction of «SME discount») will be reduced. The proposed regulatory amendment related to the framework for establishing systemic risk buffer requirements has also been adopted. The system risk buffer requirement increases from 3 to 4.5 percent. The Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which means these banks must first meet an increased systemic risk buffer requirement of 4.5 percent for all loans with effect from 31 December 2022.

On December 20, 2019, the bank received a decision on the minimum requirements for the sum of subordinated capital and convertible debt (MREL) from the Financial Supervisory Authority. MREL and internal capitalization are a key element of the Crisis Management Directive (BRRD). The MREL requirement is 33.5 percent of the adjusted risk-weighted commitments based on the bank's balance sheet as of December 31, 2018. Considering available subordinated capital in the bank, the decision entails a requirement for convertible debt of NOK 9.8 billion. The Bank's MREL requirements are effective from March 31, 2020, while the subordinated requirement will be met by December 31, 2022. During the transition period, the Bank should use senior debt with a maturity of more than 1 year, issued before January 1, 2020 to meet the requirement. By March 31, 2020, the Bank will present to the Financial Supervisory Authority a plan for meeting the subordinated debt requirement. The Financial Supervisory Authority will determine the requirement on an annual basis early in the transition period, but indicates a more frequent update ahead.

Earnings

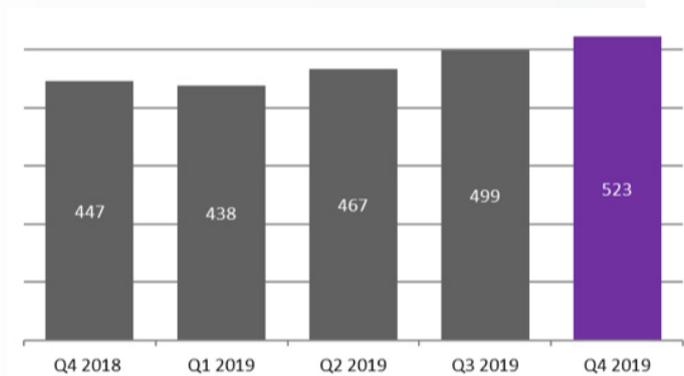
The bank posted a profit before tax of NOK 379 million in Q4 2019, compared to NOK 272 million in the same period in 2018. An increase of NOK 107 million.

The Group's return on equity after tax was 9.6 percent in Q4 2019, compared to 7.2 percent in Q4 2018.

Profit before tax in 2019 amounted to NOK 1 467 million, compared to NOK 1 224 million in 2018. The return on equity after tax was 9.5 percent in 2019, compared to 8.5 percent in 2018.

Net interest income

Quarterly net interest income (NOK million)



Net interest income totalled NOK 523 million in Q4 2019, compared to NOK 447 million in Q4 2018.

Norges Bank has increased the key interest rate three times in 2019 and the bank has responded with increases in lending rates. The last interest rate change was in September and the interest rate change took full effect from 7 November 2019.

The change in interest rates on loans has contributed to increased interest income both in the quarter and for the year. The interest rate hikes on mortgages have been smaller than the NIBOR increase, which has put pressure on lending margins.

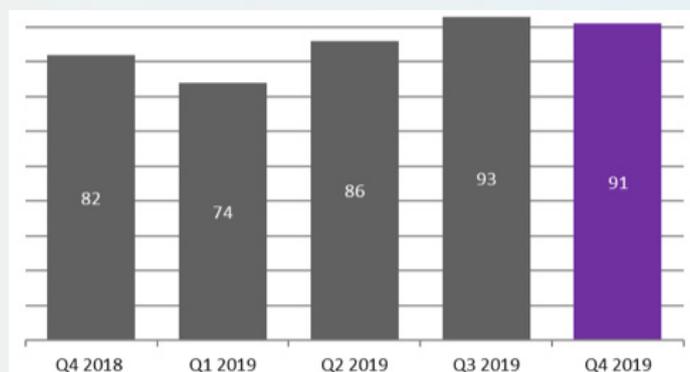
Increased market interest rates (NIBOR) have resulted in increased funding costs. The increase in interest rates on deposits has been moderate and thus led to a positive development in the bank's deposit margins.

Net interest income as a percentage of average total assets in Q4 2019 was 1.60 percent, up from 1.46 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.

Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 91 million in Q4 2019, compared to NOK 82 million in Q4 2018.

Gross commission income in Q4 2019 totalled NOK 109 million, compared to NOK 98 million in Q4 2018.

Commission income	Q4 2019	Q4 2018	Change	2019	2018	Change
Payment services	51	45	6	188	173	15
Real estate brokerage	23	23	0	116	105	11
Other commission income	35	30	5	99	102	-3
Total	109	98	11	403	380	23

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 2018.

Financial instruments

Net income from financial instruments totalled NOK -31 million in Q4 2019, compared to NOK -49 million in the same period in 2018.

Net income from financial instruments	Q4 2019	Q4 2018	Change	2019	2018	Change
Bonds and certificates	-15	-18	3	-23	-33	10
Shares incl. dividends	-2	-3	1	17	45	-28
Fixed rate loans	-0	-29	29	14	-1	15
Securities issued - hedge accounting	-2	-3	1	24	-10	29
Repurchase of issued bonds	-19	-3	-16	-29	-15	-14
Other financial instruments	7	7	0	21	16	10
Total	-31	-49	18	24	2	22

Credit spreads in the bond market increased slightly 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 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

As a part of a strategic effort to offer good, relevant and integrated solutions to the market, Sparebanken Sør increased the ownership interests in Frende Holding AS and Brage Finans AS during 2018 and 2019.

Profit from associated companies amounted to NOK 21 million in Q4 2019, compared to NOK -4 million in the same period in 2018. In 2019, profit from associated companies amounted to NOK 64 million respectively, up from NOK 13 million in 2018.

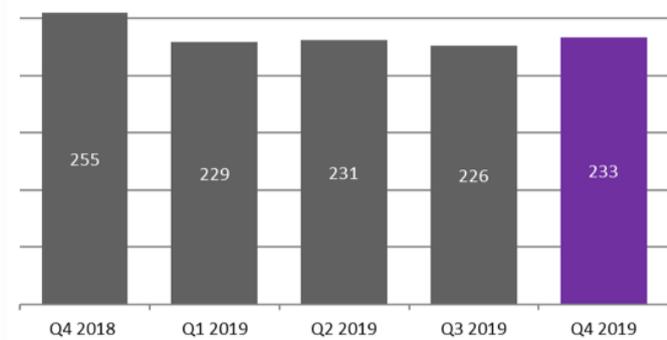
Sparebanken Sør's share of profit from Brage Finans AS resulted in NOK 4.5 million in Q4 2019. The share of profit in 2019 was NOK 23.7 million.

Sparebanken Sør's share of profit from Frende Holding AS amounted to NOK 21.4 million in Q4 2019. The share of profit in 2019 was NOK 65.5 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 Q4 2019 and NOK 20 million in 2019. In addition, an adjustment of NOK -5.2 million was made in Q1 2019.

Operating expenses

Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 233 million in Q4 2019, down from NOK 255 million in the same period in 2018.

Total operating expenses as a percentage of average assets were 0.71 percent (0.83 percent) in Q4 2019. Cost-income ratio was 36.4 percent in the Group (48.0 percent).

Operating expenses in the banking business closed on NOK 206 million in Q4 2019, compared to NOK 224 million in the same period in 2018.

The accounts show an increase in personnel costs and depreciation in 2019. The increase is due to strategic investments through hiring and investment in systems. Operating expenses were extraordinarily high in the fourth quarter of 2018 due to the rehabilitation of the bank's head office and increased pension costs.

Losses and non-performing loans

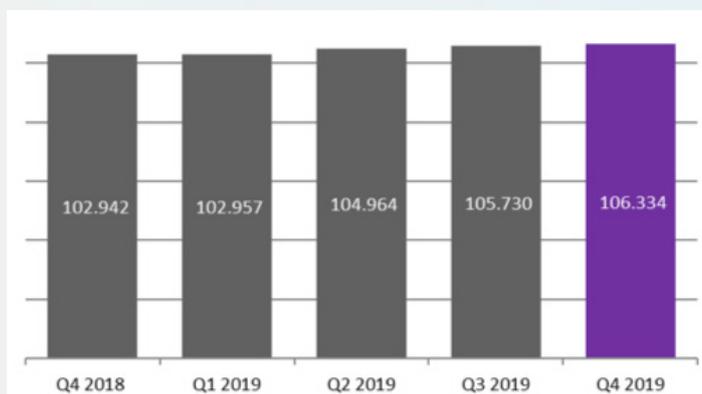
Net losses on loans, totalled a net entry on loans amounted to NOK 3 million in Q4 2019, compared to NOK 44 million in the same period in 2018. Net losses on loans, totalled a net entry on loans amounted to NOK 17 million in 2019, compared to NOK 36 million in 2018.

The Group's impairment losses were calculated at NOK 397 million in Q4 2019, which is equivalent to 0.36 percent of gross loans. The corresponding figures for 2018 were NOK 473 million and 0.46 percent of gross loans.

Gross non-performing loans more than 90 days in arrears totalled NOK 286 million, equivalent to 0.27 percent of gross loans. This was higher than the same period in 2018, which amounted to NOK 213 million and 0.21 percent respectively.

Loans

Loans NOK million



Over the past 12 months net loans increased by NOK 3.4 billion to a total of NOK 106.3 billion, representing a growth of 3.3 percent.

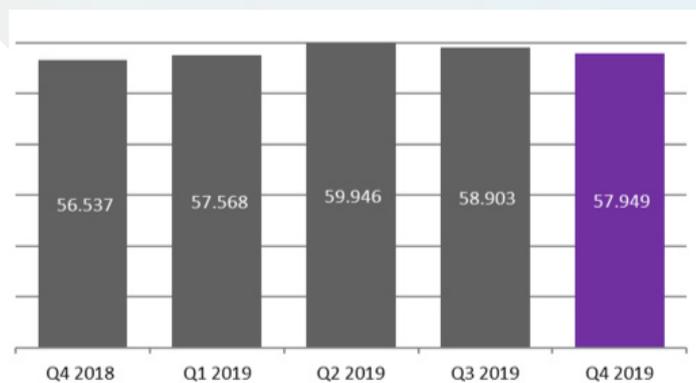
Over the past 12 months, gross loans to retail customers increased by NOK 2.8 billion to NOK 70.1 billion, a growth of 4.2 percent. The growth is lower than the Bank's ambition and the credit growth in Norway. According to analyses, the credit growth in the Bank's main area is lower than on a national basis and that the Group maintains its market shares in the retail market.

Gross loans to corporate customers increased by NOK 0.4 billion to NOK 36.4 billion over the last 12 months, representing a growth of 1.1 percent. There is a high focus on profitable growth in the corporate market, and in addition, the bank has held back a bit in terms of lending in this segment due to uncertainty related to future capital requirements.

Loans to retail customers accounted for 66 percent (65 percent) of total loans at the end of Q4 2019.

Deposits

Deposits NOK million



Over the past 12 months, customer deposits increased by NOK 1.4 billion to NOK 57.9 billion, a growth of 2.5 percent.

Deposits from retail customers increased by NOK 1.3 billion to NOK 28.1 billion, a growth of 4.8 percent.

Deposits from corporate customers increased by 0.1 billion to NOK 29.8 billion, a growth of 0.4 percent. The bank has reduced the proportion of larger deposits in 2019, and had a good increase in smaller, operational-related corporate deposits.

Deposits in percent of net loans were 54.5 percent at the end of Q4 2019, down from 54.9 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 adapted 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 Q4 2019, wholesale funding amounted to NOK 53.4 million, of which 69 percent consisted of covered bonds. Long-term financing (maturity over 1 year) had an average maturity of 3.5 years at the end of the quarter.

The Group's portfolio of interest-bearing securities totalled NOK 19.9 billion at the end of Q4 2019. At the same date, the Group's liquidity reserves (LCR) were 148 percent (Parent Bank: 140 percent).

Rating

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

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 Q4 2019, net subordinated capital totalled NOK 14.7 billion, while hybrid capital was NOK 1.4 billion and subordinated loans totalled NOK 2.0 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.7 percent; the tier 1 capital ratio was 17.6 percent and the (total) capital ratio for the Sparebanken Sør Group was 20.3 percent (based on Basel II). The SME discount was introduced with effect from 31 December 2019 for all small and medium-sized enterprises (SME). The discount means that the capital requirement for SMEs must be reduced by a factor of 23.8 percent. In order to qualify for a reduced capital requirement, the commitments must be a maximum of EUR 1.5 million and the annual sales for the enterprise of a maximum of EUR 50 million. The effect for Sparebanken Sør resulted in a reduction in the calculation basis of NOK 1.9 billion and amounted to an improvement of approximately 0.4 percentage points in CET1.

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

For the Parent Bank, the figures at the end of Q4 2019 were a CET1 capital ratio of 16.0 percent, a tier 1 capital ratio of 18.3 percent and a (total) capital ratio of 21.4 percent.

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 14.5 percent for common equity tier 1 capital, 16.0 percent for tier 1 capital and 18.0 percent for (total) capital. 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 adopted regulations that put into force the EU's capital requirements regulations CRR/CRD IV as of 31 December 2019. The systemic risk buffer requirement is increased from 3 to 4.5 percent. Previously, a gradual introduction of the systemic risk buffer requirement by 2021 has been notified. However, the Ministry of Finance will lay down a transitional rule for banks using the standard method or basic IRB, which means that these banks first have to achieve the increased systemic risk buffer requirement with effect from 31 December 2022. The Group will adapt to the new requirements by 2022, and secure necessary buffers above the minimum requirement.

A significant part of the Groups objective is to maintain a CET1 on par with comparable banks. Sparebanken Sør only, amongst the largest regional banks, uses the standard method in calculating the total capital ratio, and the bank possesses a higher leverage ratio than comparable banks.

Sparebanken Sør has decided to apply to the Financial Supervisory Authority for approval of internal models in calculating capital adequacy (IRB). The process in planning an application for IRB is an area of utmost importance and priority within the bank. However, the process is more comprehensive than estimated, partly as a result of changed requirements from EBA affecting the development and modeling.

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

At the end of Q4 2019, the Group's leverage ratio was 9.3 percent, compared to 9.1 percent at the end of Q4 2018. The bank's capital is considered highly satisfactory.

On December 20, 2019, the bank received a decision on the minimum requirements for the sum of subordinated capital and convertible debt (MREL) from the Financial Supervisory Authority. MREL and internal capitalization are a key element of the Crisis Management Directive (BRRD). The MREL requirement is 33.5 percent of the adjusted risk-weighted loan amount based on the bank's balance sheet as of December 31, 2018. Considering available subordinated capital in the bank, the decision entails a requirement for convertible debt of NOK 9.8 billion. The Bank's MREL requirements are in effect in the decision from March 31, 2020, while the subordinated requirement will be met by December 31, 2022. During the transition period, the Bank may use senior debt with a maturity of more than 1 year, issued before January 1, 2020 to meet the requirement. By March 31, 2020, the Bank will present a plan for meeting the subordinated debt requirement. The Financial Supervisory Authority will determine the requirement on an annual basis early in the transition period, but indicates a more frequent update ahead.

The bank's equity certificates

As of 31 December 2019, the bank had issued 15 663 944 equity certificates. Profit (Group) per equity certificate was NOK 3.1 in Q4 2019 and NOK 11.7 in 2019. The ownership ratio in Q4 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.

The Board of Directors will propose to the Board of Trustees to distribute a dividend for 2019 of NOK 8.0 per equity certificate, which amounts to approximately 69 percent of the Group's earnings per equity certificate. In relation to the share price as at 31 December 2019 of NOK 110.0, this represents a return of 7.3 percent. Additionally, NOK 60 million will be proposed for distribution to the gift fund.

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 2019, the bank had transferred NOK 40.2 billion to Sparebanken Sør Boligkreditt AS, equivalent to 60 percent of all loans to the retail market.

Sørmeglere is the bank's own real estate agency and the leading estate agency business in southern Norway. The agency continues to grow, as of 31. December 2019 the number of FTE's totalled 83 in 17 locations. The result showed a profit of NOK 12 million before tax in 2019, compared to NOK 8.0 million 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 of NOK 129.4 million in Q4 2019, compared to NOK -16.4 million in the same period in 2018. The results for the quarter was positive for both life and injury insurance. Frende posted a profit before tax of NOK 401.8 million in 2019, compared to NOK 44.1 million in 2018.

Frende Skade posted a profit before tax of NOK 267.0 million in, compared to NOK 9.3 million in 2018. The company possesses a total portfolio of insurances of NOK 2 111 million (1 994 million), broken down by 164 000 customers. The market share was 3.5 percent by the end of Q3 2019. The loss ratio was 77.4 percent (81.5 percent) at 31.12.2019, and the combined ratio was 96.0 percent (100.5 percent). Frende Skade posted a return on equity of 17 percent (0 percent) for the year.

Frende Liv posted a profit before tax of NOK 155.0 million in 2019, compared to NOK 40.4 million in 2018. The total insurance portfolio excluding savings amounted to NOK 568 million at the end of 2019, compared to NOK 530 million at the end of 2018, a growth of NOK 38 million. Frende Liv posted a return on equity of 28.8 percent (8.4 percent) for the year.

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 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.

Brage Finans AS posted a profit before tax of NOK 44.7 million in Q4 2019, compared to NOK 23.7 million in Q4 2018.

Profit before tax in 2019 totalled NOK 168.2 million, compared to NOK 93.9 million in 2018. The result was equivalent to a return on equity of 8.0 percent compared to 7.6 percent last year.

At the end of 2019, Brage Finans AS had a gross loan portfolio of NOK 12.0 billion, an increase of NOK 2.7 billion compared the end of 2018.

Norne Securities AS (17.4 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 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.

Balder Betaling AS (22 percent shareholding) is owned by Sparebanken Sør together with 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 Director's is satisfied with the Group's financial performance in Q4 2019. Interest rate changes have been implemented which has resulted in an increase in the net interest income. The Bank is positioned to deliver good results in 2020. The prospects for the Norwegian economy and for Sparebanken Sør in the near future seems good.

Housing prices in the bank's main markets have shown a positive, but modest trend for several years. The Q4 2019 statistics showed a slightly increase in housing prices in the bank's market area. Mortgage loans on housing are well secured, and the Group is well positioned to absorb fall in house prices. This is also supported by stress tests that have been carried out.

On 19 September 2019, Norges Bank decided to raise the key interest rate from 1.25 percent to 1.50 percent and remained unchanged in Q4. The central bank's forecasts indicate that the key interest rate will remain unchanged in the near future.

The Group's common equity tier 1 capital requirement, including the new Pillar 2 add-on of 2.0 percent, is 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 Q4 2019 the CET1 capital ratio was 15.7 percent, which allows market adjustments.

The Ministry of Finance has adopted regulations that put into force the EU's capital requirements regulations CRR / CRD IV as of 31 December 2019. The systemic risk buffer requirement increased from 3 to 4.5 percent. The Ministry of Finance will lay down a transitional rule for banks using the standard method or basic IRB, which means these banks must first meet an increased systemic risk buffer requirement with effect from 31 December 2022. The Group will adapt the new requirements by 2022, as well as secure necessary buffers above the minimum requirement.

The Group has a long-term ambition for lending growth in excess of C2, and a target on return on equity of 9 percent.

Based on the composition of the bank's loan portfolio, economic trends and local market conditions, losses on lending are expected to remain low in 2020.

In line with adopted strategy, the bank will pay high attention to costs and long-term creation of values. 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 31 December 2019 that affect the quarterly financial statements.

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.	31.12.	Q4	Q4			Q4	Q4	31.12.	31.12.
2018	2019	2018	2019		Noter	2019	2018	2019	2018
1 291	1 543	342	314	Interest income at amortised cost	3	912	728	3 305	2 778
1 012	1 148	264	420	Interest income at fair value through profit and loss	3	142	98	487	367
951	1 172	257	321	Interest expenses	3	530	379	1 866	1 416
1 352	1 519	349	413	Net interest income	3	523	447	1 926	1 729
346	365	93	106	Commission income		109	98	403	380
62	59	16	18	Commission expenses		18	16	59	62
283	306	77	88	Net commission income		91	82	344	318
16	11	-	-	Dividend		-	-	6	7
19	47	-41	(13)	Net income from other financial instruments		-31	-49	18	-5
35	58	-41	(13)	Net income from financial instruments		-31	-49	24	2
13	64	-4	21	Income from associated companies		21	-4	64	13
9	8	2	3	Other operating income		5	7	10	10
22	72	-2	24	Total other income		26	3	74	23
1 692	1 954	383	512	Total net income		609	483	2 368	2 072
415	438	121	114	Wages and other personnel expenses		138	144	533	499
29	37	8	12	Depreciation, amortization and impairment of non-current assets		11	10	37	30
338	336	98	86	Other operating expenses		84	101	348	355
782	811	227	212	Total operation expenses before losses		233	255	918	884
910	1 143	156	300	Operating profit before losses		376	228	1 450	1 188
-33	-21	-44	-5	Losses on loans, guarantees and undrawn credit	4	-3	-44	-17	-36
943	1 164	200	305	Profit before taxes	2	379	272	1 467	1 224
212	261	50	69	Tax expenses		86	68	342	285
731	904	150	236	Profit for the period		293	204	1 125	939
				Minority interests		0	1	0	1
731	904	150	236	Majority interests		293	203	1 125	938
56	60	12	14	Attributable to additional Tier 1 capital holders		14	12	60	56
675	844	138	222	Attributable to ECC-holders and to the primary capital		279	191	1 064	883
731	904	150	236	Resultat for regnskapsåret		293	203	1 124	939
7.7	9.3	1.6	2.4	Profit/diluted earnings per equity certificate (in whole NOK)		3.1	2.2	11.7	10.1
				Other comprehensive income					
				Items that may be reclassified to profit or loss					
				Change in value, basis swaps		1	-4	-4	-20
0	0	0	0	Change in value, customer mortgages					
0	0	0	0	Tax effect		0	-1	1	5
0	0	0	0	Total other comprehensive income		1	-5	-3	-15
731	903	150	236	Comprehensive income for the period		294	199	1 122	924
				Minority interests		1	1	1	1
				Majority interests		293	198	1 121	923
7.7	9.3	1.6	2.4	Comprehensive income/diluted earnings per equity certificate		3.1	2.1	11.7	9.9

Balance sheet

PARENT BANK		NOK million		GROUP	
31.12.	31.12.			31.12.	31.12.
2018	2019	ASSETS	Notes	2019	2018
1 287	462	Cash and receivables from central banks		462	1 288
3 010	4 063	Loans to credit institutions		182	119
64 263	66 185	Net loans to customers	4.5.6.8.10	106 334	102 942
17 691	16 807	Bonds and certificates	10	19 916	14 598
369	189	Shares	10	190	370
197	251	Financial derivatives	10.11	757	619
1 858	1 858	Shareholding in group companies			
584	968	Shareholding in associated companies		968	584
22	27	Intangible asstes		27	22
387	426	Property, plant and equipment		458	413
90	107	Other assets		205	171
89 758	91 344	TOTAL ASSETS	2.10	129 499	121 125
LIABILITIES AND EQUITY CAPITAL					
2 261	2 192	Liabilites to credit institutions		1 793	1 918
56 546	57 963	Deposits from customers	2.7.10	57 949	56 537
18 027	16 707	Liabilities related to issue of securities	10.12	53 430	48 323
179	213	Financial derivatives	10.11	423	179
223	284	Payable taxes		361	309
288	387	Other liabilities		425	328
61	43	Provisions for commitments		43	61
51	49	Deferred tax		24	21
1 604	1 971	Subordinated loan capital	10.12	1 971	1 604
79 240	79 809	Total liabilities		116 418	109 280
1 603	1 604	Equity certificate capital	13	1 604	1 603
1 075	1 375	Hybrid capital		1 375	1 075
7 840	8 556	Other equity		10 102	9 167
10 518	11 535	Total equity	9	13 081	11 845
89 758	91 344	TOTAL LIABILITIES AND EQUITY	2.10	129 499	121 125

Cash flow statement

PARENT BANK		NOK million	GROUP	
31.12. 2018	31.12. 2019		31.12. 2019	31.12. 2018
2 417	2 662	Interest received	3 749	3 258
-1 059	-1 185	Interest paid	-1 840	-1 518
348	334	Other payments received	346	380
-716	-770	Operating expenditure	-898	-823
8	13	Loan recoveries	13	8
-225	-225	Tax paid for the period	-289	-291
-27	-28	Gift expenditure	-28	-27
954	1 404	Change in customer deposits	1 399	958
2 286	-1 921	Change in loans to customers	-3 382	-5 464
0	0	Change in loans to credit institutions	0	0
246	-15	Change in deposits from credit institutions	-108	-41
4 232	269	Net cash flow from operating activities	-1 038	-3 560
15 353	20 016	Payments received, securities	12 258	17 414
-20 473	-18 948	Payments made, securities	-17 380	-18 568
6	3	Payments received, sale of property, plant and equipment	3	11
-50	-37	Payments made, purchase of property, plant and equipment	-40	-51
-246	-293	Investments in subsidiaries and associated companies	-293	-246
-474	-12	Change in other assets	-108	-3
-5 884	729	Net cash flow from investing activities	-5 560	-1 443
506	-1 053	Change in loans to credit institutions	-63	117
1 039	-54	Change in deposits from credit institutions	-17	1 055
3 900	3 600	Payments received, bond debt	16 063	13 770
-3 656	-4 815	Payments made, bond debt	-10 867	-10 052
-150	-154	Payments made, dividends and interest on hybrid capital	-154	-150
600	500	Issue of subordinated loan capital	500	600
-400	-134	Buyback of subordinated loan capital	-134	-400
-43	-13	Change in other assets	144	208
	300	Issue of hybrid capital	300	
1 796	-1 823	Net cash flow from financing activities	5 772	5 148
144	-825	Net change in liquid assets	-826	145
1 143	1 287	Cash and cash equivalents as at 1 Jan	1 288	1 143
1 287	462	Cash and cash equivalents at end of period	462	1 288

Statement of changes in equity

GROUP NOK million	Dividend								TOTAL
	Equity certificates	Premium fund	Equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31.12.2017	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 31.12.2018			27	56	514	40	302	1	940
Interest paid, hybrid capital				-56					-56
Other comprehensive income							-15		-15
Allocated gift fund						-39			-39
Other changes							1	-1	0
Balance 31.12.2018	783	451	369	1 075	7 683	62	1 421	1	11 845
Dividend distributed for 2018							-94		-94
Profit 31.12.2019				60			1 064	1	1 125.0
Interest paid, hybrid capital				-60					-60.0
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
Balance 31.12.2019	783	451	370	1 375	7 684	28	2 388	2	13 081
PARENT BANK									
Balance 31.12.2017	783	451	341	1 075	7 165	61	94	0	9 970
Dividend distributed for 2017							-94		-94
Accounting effects on transition to IFRS 9			1		4				5
Profit 31.12.2018			27	56	514	40	94	0	731
Interest paid, hybrid capital				-56					-56
Other comprehensive income									0
Allocated gift fund						-39			-39
Balance 31.12.2018	783	451	369	1 075	7 683	62	94	0	10 518
Dividend distributed for 2018							-94		-94
Profit 31.12.2019				60			844		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				0
Allocated gift fund						-34			-34
Other changes			0		1				1
Balance 31.12.2019	783	451	370	1 375	7 684	28	844	0	11 535

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. Please refer to Note 38 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.

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

2. SEGMENT REPORTING

BANKING BUSINESS

31.12.2019

Report per segment	Undistrib. and			Total banking		
Income statement (NOK million)	RM	CM	elimin.	business	Sørmeqleren	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
Profit before losses per segment	915	732	-210	1 437	12	1 450
Losses on loans and guarantees	2	-52	33	-17		-17
Profit before tax per segment	913	784	-243	1 454	12	1 467
Net loans to customers	71 182	35 113	39	106 334		106 334
Other assets			23 093	23 093	73	23 166
Total assets per segment	71 182	35 113	23 132	129 426	73	129 499
Deposits from customers	30 164	22 399	5 386	57 949		57 949
Other liabilities	41 018	12 714	4 664	58 396	73	58 469
Total liabilities per segment	71 182	35 113	10 051	116 345	73	116 418
Equity			13 081	13 081		13 081
Total liabilities and equity per segment	71 182	35 113	23 131	129 426	73	129 499

BANKING BUSINESS

31.12.2018

Report per segment	Undistrib. and			Total banking		
Income statement (NOK million)	RM	CM	elimin.	business	Sørmeqleren	Total
Net interest and commission income	1 000	686	43	1 729	0	1 729
Net other operating income	194	73	-33	234	109	343
Operating expenses	383	99	301	783	101	884
Profit before losses per segment	811	660	-291	1 180	8	1 188
Losses on loans and guarantees	12	-25	-23	-36		-36
Profit before tax per segment	799	685	-269	1 216	8	1 224
Net loans to customers	68 206	34 819	-84	102 942		102 942
Other assets			18 115	18 115	67	18 183
Total assets per segment	68 206	34 819	18 032	121 057	67	121 125
Deposits from customers	28 719	21 208	6 610	56 537		56 537
Other liabilities	39 488	13 611	-423	52 676	67	52 744
Total liabilities per segment	68 206	34 819	6 187	109 213	67	109 280
Equity			11 845	11 845		11 845
Total liabilities and equity per segment	68 206	34 819	18 032	121 058	67	121 125

3. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK		Interest income	GROUP	
31.12. 2018	31.12. 2019	NOK million	31.12. 2019	31.12. 2018
<i>Interest income from financial instruments at amortised cost</i>				
75	92	Interest on receivables from credit institutions	24	10
1 217	1 452	Interest on loans given to customers	3 281	2 768
1 291	1 543	Total interest from financial instruments at amortised cost	3 305	2 778
<i>Interest income from financial instruments at fair value</i>				
150	165	Interest on loans given to customers (fixed rate loans)	166	150
198	305	Interest on certificates and bonds	321	217
348	470	Total interest from financial instruments at fair value via profit or loss	487	367
<i>Interest income from financial instruments at fair value via OCI</i>				
664	677	Interest on loans given to customers (mortgages)		
664	677	Total interest from financial instruments at fair value via OCI		
2 303	2 691	Total interest income	3 792	3 145
PARENT BANK		Interest expenses	GROUP	
31.12. 2018	31.12. 2019	NOK million	31.12. 2019	31.12. 2018
<i>Interest expenses from financial instruments at amortised cost</i>				
19	38	Interest on liabilities to credit institutions	38	19
547	692	Interest on customer deposits	691	543
305	345	Interest on issued securities	1 036	774
41	49	Interest on subordinated loans	49	41
39	47	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	52	39
951	1 172	Interest expenses from financial instruments at amortised cost	1 866	1 416
951	1 172	Total interest expenses	1 866	1 416

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 in the 2018 annual financial statements.

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

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

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

* 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

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. These are presented on their own line. All commitments in Stage-3 are defined as non-performing.

PARENT BANK		NOK Million	GROUP	
31.12.18	31.12.19		31.12.19	31.12.18
213	276	Gross non-performing loans > 90 days	286	213
783	763	Other non performing loans	786	797
996	1 039	Total non-performing loans (stage 3)	1 072	1 010
330	230	Impairment losses in stage 3	231	335
666	809	Net non-performing loans	841	675
33.1 %	22.1 %	Provisioning non-performing loans	21.5 %	33.2 %
0.33 %	0.41 %	Gross non-performing loans > 90 days in % of gross loans	0.27 %	0.21 %

6. IMPAIRMENT LOSSES BY SECTOR, INDUSTRY AND STAGE

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

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

Calculated losses as at 31.12.2019 based on the different stages in the model.

NOK million

Group	Stage	Commitment	In %	Calculated loss	In %
Corporate market	1	34 030	28.8 %	34	8.5 %
	2	6 936	5.9 %	109	27.5 %
	3	824	0.7 %	197	49.5 %
Corporate market total		41 790	35.3 %	340	85.6 %
Retail market	1	70 971	60.0 %	6	1.4 %
	2	5 323	4.5 %	17	4.2 %
	3	248	0.2 %	35	8.8 %
Retail customers total		76 543	64.7 %	57	14.4 %

NOK million

Parent bank	Stage	Commitment	In %	Calculated loss	In %
Corporate market	1	34 026	45.4 %	34	8.8 %
	2	6 936	9.3 %	110	28.4 %
	3	824	1.1 %	196	50.7 %
Corporate market total		41 786	55.7 %	340	87.8 %
Retail market	1	29 618	39.5 %	3	0.8 %
	2	3 339	4.5 %	10	2.7 %
	3	215	0.3 %	34	8.7 %
Retail customers total		33 172	44.3 %	47	12.2 %

7. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.18	31.12.19		31.12.19	31.12.18
26 797	28 084	Retail customers	28 074	26 798
10 072	9 325	Public administration	9 326	10 073
442	561	Primary industry	561	442
1 672	1 923	Manufacturing industry	1 923	1 672
519	566	Real estate development	561	507
978	1 117	Building and construction industry	1 117	978
2 892	3 066	Property management	3 066	2 892
598	645	Transport	645	598
1 005	1 032	Retail trade	1 032	1 005
147	152	Hotel and restaurant	152	147
207	186	Housing cooperatives	186	207
5 176	5 075	Financial/commercial services	5 075	5 176
6 026	6 202	Social services	6 202	6 026
16	29	Accrued interests	29	16
56 546	57 963	Total deposits from customers	57 949	56 537

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	31.12.19		31.12.19	31.12.18
28 575	30 034	Retail customers	70 126	67 282
550	498	Public administration	499	551
947	1 157	Primary industry	1 159	948
971	795	Manufacturing industry	796	972
4 756	4 855	Real estate development	4 836	4 663
1 516	1 386	Building and construction industry	1 388	1 518
18 019	17 239	Property management	17 257	18 039
668	677	Transport	678	669
1 051	1 093	Retail trade	1 098	1 052
301	274	Hotel and restaurant	275	301
1 095	1 248	Housing cooperatives	1 249	1 096
1 150	1 872	Financial/commercial services	1 874	1 151
4 978	5 242	Social services	5 248	4 983
135	173	Accrued interests	222	173
64 713	66 545	Total gross loans	106 704	103 400
450	360	Impairment losses on lending *	370	458
64 263	66 185	Total net loans	106 334	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	31.12.19		31.12.19	31.12.18
10 518	11 535	Total equity	13 081	11 845
		Tier 1 capital		
-1 075	-1 375	Equity not eligible as common equity tier 1 capital	-1 375	-1 075
-189	-245	Share of profit not eligible as common equity tier 1 capital	-245	-189
-22	-27	Deductions for intangible assets and deferred tax assets	-27	-22
-24	-44	Deductions for additional value adjustments	-27	-21
		Proportion of common equity tier 1 capital from Brage Finans AS	374	184
		Deductions for internal eliminations from Brage Finans AS	-374	-187
-37	-104	Other deductions	-51	-21
9 171	9 740	Total common equity tier 1 capital	11 356	10 514
		Other tier 1 capital		
1 075	1 375	Hybrid capital	1 375	1 075
		Proportion of tier 1 capital Brage Finans AS	36	15
0	0	Deductions from other tier 1 capital	0	0
10 246	11 115	Total tier 1 capital	12 767	11 604
		Additional capital supplementary to tier 1 capital		
1 604	1 971	Subordinated loan capital	1 971	1 604
		Proportion of net subordinated capital Brage Finans AS	49	27
-99	-101	Deductrions from additional capital	-101	-99
1 505	1 870	Total additional capital	1 919	1 532
11 751	12 985	Net subordinated capital	14 686	13 135
		Minimum requirement for subordinated capital Basel II calculated according to standard method		
3	2	Engagements with local and regional authorities	2	3
51	70	Engagements with institutions	34	20
148	218	Engagements with enterprises	224	150
452	415	Engagements with mass market	520	537
3 104	3 029	Engagements secured in property	4 167	4 213
76	92	Engagements which are matured	98	80
2	2	Engagements which are high risk	2	2
403	384	Engagements in covered bonds	107	86
299	334	Engagements in collective investment funds	184	151
49	49	Engagements. other	49	62
4 587	4 595	Capital requirements for credit and counterparty risk	5 387	5 304
1	1	Capital requirements for position, currency and product risk	1	1
240	259	Capital requirements for operational risk	313	298
0	1	CVA addition	1	0
0	0	Deductions from the capital requirement	0	0
4 828	4 856	Total minimum requirement for subordinated capital	5 702	5 603
60 354	60 702	Risk-weighted balance (calculation basis)	71 275	70 036
		Porportionate share of calculation basis Brage Finans AS	2 112	1 336
		Deductions for internal eliminations Brage Finans AS	-955	-484
		Risk weighted balance after porportionate consolidation	72 432	70 888
15.2 %	16.0 %	Common equity tier 1 capital ratio. %	15.7 %	14.8 %
17.0 %	18.3 %	Tier 1 capital ratio. %	17.6 %	16.4 %
19.5 %	21.4 %	Total capital ratio. %	20.3 %	18.5 %
7.9 %	8.5 %	Leverage ratio	9.3 %	9.1 %

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			31.12.2019	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortised cost								
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
Assets recognized at fair value								
5 689			5 689	Net loans to customers (fixed interest rate)	5 689			5 689
21 733			21 733	Net loans to customers (mortgages)				
16 807		16 807		Bonds and certificates	19 916		19 916	
189	6		183	Shares	190	6		184
251		251		Financial derivatives	757		757	
87 958	6	21 584	66 368	Total financial assets	127 841	6	21 318	106 518
Liabilities recognized at amortised cost								
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	
Liabilities recognized at fair value								
213		213		Financial derivatives	423		423	
79 046	0	21 095	57 963	Total financial liabilities	115 565	0	57 623	57 949

PARENT BANK				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

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 2018	1 334		66
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-69	1	45
Disposals 2018	-1 867		-13
Reclassified as associated company			-300
Recognized value as at 31.12.2018	5 714	-1	365
Acquisitions 2019	1 106		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		
Reclassified as associated company			-298
Recognized value as at 31.12.2019	5 689	13	184

PARENT BANK

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

Sensitivity analysis

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

GROUP/ PARENT BANK

NOK million	31.12.2019	31.12.2018
Loans to customers	19	18
- of which loans to corporate market (CM)	3	4
- of which loans to retail market (RM)	16	14

11. OFFSETTING

	31.12.2019	31.12.2019 (1)	31.12.2018	31.12.2018 (1)
NOK million		Net presented		Net presented
Assets				
Financial derivatives	757	335	619	447
Liabilities				
Financial derivatives	422	0	179	7

	31.12.2019	31.12.2019 (1)	31.12.2018	31.12.2018 (1)
NOK million		Net presented		Net presented
Assets				
Financial derivatives	251	89	197	118
Liabilities				
Financial derivatives	212	50	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	31.12.2019	31.12.2018
Bonds, nominal value	52 977	47 969
Value adjustments	273	170
Accrued interest	180	184
Debt incurred due to issuance of securities	53 430	48 323

Change in debt securities - Group

NOK million	31.12.2018	Issued	Matured/ redeemed	Other changes in the period	31.12.2019
Bonds, nominal value	47 969	16 063	-10 867	-187	52 977
Value adjustments	170			103	273
Accrued interest	184			-4	180
Debt incurred due to issuance of securities	48 323	16 063	-10 867	-88	53 430

Debt securities - Parent bank

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

Change in debt securities - Parent bank

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

Change in subordinated capital - Parent bank and Group

NOK million	31.12.2018	Issued	Matured/ redeemed	Other changes in the period	31.12.2019
Subordinated loans	1 600	500	-134		1 966
Accrued interest	4			1	5
Total subordinated loan capital	1 604	500	-134	1	1 971

13. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 31 December 2019 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.	640 284	4.09	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	94 499	0.60
5. Glastad Invest AS	368 765	2.35	15. Artel AS	85 523	0.55
6. Bergen Kom. Pensjonskasse	330 659	2.11	16. Profond AS	82 131	0.52
7. Otterlei Group AS	212 000	1.35	17. Apriori Holding AS	76 478	0.49
8. Wenaasgruppen AS	186 000	1.19	18. Varodd AS	72 575	0.46
9. Gumpen Bileiendom AS	174 209	1.11	19. Birkenes Sparebank	70 520	0.45
10. Allumgården AS	151 092	0.96	20. Brøvig Holding AS	66 000	0.42
Total - 10 largest certificate holders	10 918 997	69.71	Total - 20 largest certificate holders	11 781 281	75.21

As of 1 January 2019, the 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.

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)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net interest income	523	499	467	438	447
Net commission income	91	93	86	74	82
Net income from financial instruments	-31	31	5	20	-49
Other operating income	26	17	25	5	3
Total net income	609	640	583	537	483
Total operating expenses before losses	233	226	231	229	255
Operating profit before losses	376	414	352	308	228
Losses on loans, guarantees and undrawn credits	-3	-19	2	3	-44
Profit before taxes	379	433	350	305	272
Tax expenses	86	102	83	71	68
Profit for the period	293	331	267	234	204

Profit as % of average assets

Net interest income	1.60 %	1.57 %	1.52 %	1.46 %	1.46 %
Net commission income	0.28 %	0.29 %	0.28 %	0.25 %	0.27 %
Net income from financial instruments	-0.09 %	0.10 %	0.02 %	0.07 %	-0.16 %
Other operating income	0.08 %	0.05 %	0.08 %	0.02 %	0.01 %
Total net income	1.87 %	2.01 %	1.90 %	1.79 %	1.58 %
Total operating expenses before losses	0.71 %	0.71 %	0.75 %	0.76 %	0.83 %
Operating profit before losses	1.15 %	1.30 %	1.15 %	1.03 %	0.74 %
Losses on loans, guarantees and undrawn credit	-0.01 %	-0.06 %	0.01 %	0.01 %	-0.14 %
Profit before taxes	1.16 %	1.36 %	1.14 %	1.02 %	0.89 %
Tax expenses	0.26 %	0.32 %	0.27 %	0.24 %	0.22 %
Profit for the period	0.90 %	1.04 %	0.87 %	0.78 %	0.67 %

Key figures, income statement

Return on equity after tax (adjusted for hybrid capital)	9.6 %	11.2 %	9.0 %	8.3 %	7.2 %
Costs as % of income	38.2 %	35.3 %	39.6 %	42.6 %	52.8 %
Costs as % of income, excl. net income from financial instruments	36.4 %	37.1 %	40.0 %	44.2 %	48.0 %

Key figures, balance sheet

Total assets	129 499	125 836	125 697	123 873	121 125
Average total assets	129 600	126 200	124 400	123 400	121 400
Net loans to customers	106 334	105 730	104 964	102 957	102 942
Growth in loans as %, last 12 mths.	3.3 %	3.8 %	4.4 %	4.3 %	5.6 %
Customer deposits	57 949	58 903	59 946	57 568	56 537
Growth in deposits as %, last 12 mths.	2.5 %	4.3 %	4.7 %	4.9 %	1.7 %
Deposits as % of net loans	54.5 %	55.7 %	57.1 %	55.9 %	54.9 %
Equity (incl. hybrid capital)	13 081	12 511	12 200	11 952	11 845
Losses on loans as % of net loans, annualised	-0.01 %	-0.07 %	0.01 %	0.01 %	-0.17 %
Gross non-performing loans (over 90 days) as % of gross lending	0.27 %	0.28 %	0.32 %	0.21 %	0.21 %

Other key figures

Liquidity reserves (LCR), Group	148 %	164 %	146 %	180 %	159 %
Liquidity reserves (LCR), Group- EUR	1168 %	3503 %	3033 %	2807 %	4727 %
Liquidity reserves (LCR), Parent Bank	140 %	141 %	137 %	168 %	180 %
Common equity tier 1 capital ratio	15.7 %	15.1 %	15.0 %	14.9 %	14.8 %
Tier 1 capital ratio	17.6 %	16.6 %	16.5 %	16.4 %	16.4 %
Total capital ratio	20.3 %	18.7 %	18.6 %	18.5 %	18.5 %
Common equity tier 1 capital	11 356	11 140	10 900	10 694	10 514
Tier 1 capital	12 767	12 252	12 011	11 790	11 604
Net subordinated capital	14 686	13 805	13 564	13 329	13 135
Leverage ratio	9.3 %	9.1 %	9.0 %	9.0 %	9.1 %
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	429	429	427	436	434

Key figures, equity certificates

Equity certificate ratio	17.2 %	17.2 %	17.2 %	17.2 %	17.9 %
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)	2.4	2.8	2.2	1.9	1.6
Profit per equity certificate (Group)	3.1	3.5	2.7	2.4	2.2
Dividend last year per equity certificate (Parent Bank)	8.0	6.0	6.0	6.0	6.0
Book equity per equity certificate	128.5	125.6	122.2	119.4	123.2
Price/book value per equity certificate	0.9	0.8	0.8	0.8	0.8
Listed price on Oslo Stock Exchange at end of period	110.0	95.0	94.5	90.2	96.9

	31.12. 2019	31.12. 2018	31.12. 2017	31.12. 2016	31.12. 2015
Income statement (NOK million)					
Net interest income	1 926	1 729	1 679	1 565	1 544
Net commission income	344	318	312	293	300
Net income from financial instruments	24	2	88	224	-66
Other operating income	74	23	18	28	14
Total net income	2 368	2 072	2 097	2 110	1 792
Total operating expenses before losses	918	884	811	787	817
Operating profit before losses	1 450	1 188	1 286	1 323	975
Losses on loans and guarantees	-17	-36	20	50	97
Profit before taxes	1 467	1 224	1 266	1 273	878
Tax expenses	342	285	282	284	231
Profit for the period	1 125	939	984	989	647
Profit as a percentage of average assets					
Net interest income	1.53 %	1.46 %	1.53 %	1.49 %	1.58 %
Net commission income	0.27 %	0.27 %	0.28 %	0.28 %	0.31 %
Net income from financial instruments	0.02 %	0.00 %	0.08 %	0.21 %	-0.07 %
Other operating income	0.06 %	0.02 %	0.02 %	0.03 %	0.01 %
Total net income	1.88 %	1.75 %	1.92 %	2.01 %	1.83 %
Total operating expenses before losses	0.73 %	0.75 %	0.74 %	0.75 %	0.83 %
Operating profit before losses	1.15 %	1.00 %	1.17 %	1.26 %	0.99 %
Losses on loans and guarantees	-0.01 %	-0.03 %	0.02 %	0.05 %	0.10 %
Profit before taxes	1.17 %	1.03 %	1.16 %	1.21 %	0.90 %
Tax expenses	0.27 %	0.24 %	0.26 %	0.27 %	0.24 %
Profit for the period	0.89 %	0.79 %	0.90 %	0.94 %	0.66 %
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	9.5 %	8.5 %	9.7 %	11.3 %	8.4 %
Costs as % of income	38.8 %	42.7 %	38.7 %	37.3 %	45.6 %
Costs as % of income, excl. net income from financial instruments	39.2 %	42.7 %	40.4 %	41.7 %	44.0 %
Key figures, balance sheet					
Total assets	129 499	121 125	114 310	105 455	101 334
Average total assets	125 900	118 600	109 500	104 950	98 000
Net loans to customers	106 334	102 942	97 518	90 928	88 387
Growth in loans as %, last 12 mths.	3.3 %	5.6 %	7.2 %	2.9 %	9.2 %
Customer deposits	57 949	56 537	55 580	51 562	48 349
Growth in deposits as %, last 12 mths.	2.5 %	1.7 %	7.8 %	6.6 %	0.2 %
Deposits as % of net loans	54.5 %	54.9 %	57.0 %	56.7 %	54.7 %
Equity (incl. hybrid capital)	13 081	11 845	11 108	10 051	8 263
Losses on loans as % of net loans, annualised	-0.01 %	-0.17 %	0.02 %	0.05 %	0.11 %
Gross non-performing loans (over 90 days)					
as % of gross lending	0.27 %	0.21 %	0.28 %	0.30 %	0.47 %
Other key figures					
Liquidity reserves (LCR), Group	148 %	159 %	139 %	128 %	108 %
Liquidity reserves (LCR), Group- EUR	1168 %	4727 %	3105 %		
Likviditetsreserve (LCR), Parent Bank	140 %	180 %	134 %	119 %	71 %
Common equity tier 1 capital ratio (incl. partly owned companies)	15.7 %	14.8 %	14.9 %	14.7 %	12.7 %
Tier 1 capital ratio	17.6 %	16.6 %	16.7 %	16.0 %	13.5 %
Total capital ratio	20.3 %	18.7 %	18.9 %	17.9 %	15.5 %
Common equity tier 1 capital	11 356	10 517	9 890	9 114	7 700
Tier 1 capital	12 767	11 591	10 965	9 939	8 210
Net total primary capital	14 686	13 096	12 347	11 121	9 388
Leverage ratio	9.3 %	9.1 %	9.2 %	8.6 %	7.0 %
Number of branches	34	34	34	34	40
Number of FTEs in banking operations	429	434	432	439	449
Key figures, equity certificates					
Equity certificate ratio before profit distribution	17.2 %	17.9 %	18.7 %	19.8 %	13.5 %
Number of equity certificates issued	15 663 944.0	15 663 944	15 663 944	15 663 944	4 768 674
Profit per equity certificate (Parent Bank)	9.3	7.7	8.9	8.5	10.6
Profit per equity certificate (Group)	11.7	10.1	11.2	10.7	17.6
Dividend last year per equity certificate (Parent Bank)	8.0	6.0	6.0	6.0	9.0
Book equity per equity certificate	128.5	123.2	120.0	115.2	219.0
Price/book value per equity certificate	0.9	0.8	0.9	0.8	0.6
Listed price on Oslo Stock Exchange at end of period	110.0	96.9	104.0	91.3	139.0

	Q4	Q3	Q2	Q1	Q4	31.12.	31.12.
NOK million	2019	2019	2019	2019	2018	2019	2018
Return on equity adjusted for hybrid capital							
Profit after tax	293	331	267	233	204	1 125	939
Interest on hybrid capital	-14	-13	-21	-12	-12	-60	-56
Profit after tax, incl. interest on hybrid capital	279	318	246	221	193	1 065	883
Opening balance, equity	12 511	12 200	11 952	11 845	11 666	11 845	11 108
Opening balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075
Opening balance, equity excl. hybrid capital	11 436	11 125	10 877	10 770	10 591	10 770	10 033
Closing balance, equity	13 081	12 511	12 200	11 952	11 845	13 081	11 845
Closing balance, hybrid capital	-1 375	-1 075	-1 075	-1 075	-1 075	-1 375	-1 075
Closing balance, equity excl. hybrid capital	11 706	11 436	11 125	10 877	10 770	11 706	10 770
Average equity	12 796	12 356	12 076	11 899	11 756	12 463	11 477
Average equity excl. Hybrid capital	11 571	11 281	11 001	10 824	10 681	11 238	10 402
Return on equity	9.1 %	10.6 %	8.9 %	7.9 %	6.9 %	9.0 %	8.2 %
Return on equity, excl. hybrid capital	9.6 %	11.2 %	9.0 %	8.3 %	7.2 %	9.5 %	8.5 %
Net interest income, incl. interest on hybrid capital							
Net interest income	523	499	467	437	447	1 926	1 729
Interest on hybrid capital	-14	-13	-21	-12	-12	-60	-56
Net interest income, incl. interest on hybrid capital	509	486	446	425	435	1 866	1 674
Average total assets	129 600	126 200	124 400	123 400	121 400	125 900	118 600
As percentage of total assets	1.56 %	1.53 %	1.44 %	1.40 %	1.42 %	1.48 %	1.41 %
Profit from ordinary operations (adjusted earnings)							
Net interest income, incl. interest on hybrid capital	509	486	446	425	435	1 866	1 674
Net commission income	91	93	86	74	82	344	318
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps))	21	16	23	4	-4	64	-9
Other operating income	5	1	2	2	7	10	11
Operating expenses	233	226	231	229	255	918	884
Profit from ordinary operations (adjusted earnings), before tax	393	370	326	275	265	1 366	1 110
Profit excl. Finance and adjusted for non-recurring items							
Net interest income, incl. hybrid capital	509	486	446	425	435	1 866	1 674
Net commission income	91	93	86	74	82	344	318
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	21	16	23	4	-4	64	
Other operating income	5	1	2	2	7	10	11
Operating expenses	233	226	231	229	255	918	884
Losses on loans, guarantees and undrawn credits	-3	-19	2	3	-44	-17	-36
Profit excl. Finance and adjusted for non-recurring items	396	389	324	272	309	1 383	1 155
Tax (25 %)	99	97	81	68	77	346	289
Ordinary operations /adjusted earnings after losses and tax	297	292	243	204	232	1 037	866
Average equity, excl. hybrid capital	11 571	11 281	11 001	10 824	10 681	11 238	10 402
Return on equity, profit excl. Finance and adjusted for non-recurring items	10.2 %	10.3 %	8.9 %	7.6 %	8.6 %	9.2 %	8.3 %
Average interest rates/margins							
Average lending rate RM (return)	3.26 %	3.09 %	2.90 %	2.79 %	2.74 %		
Average lending rate CM (return)	4.03 %	3.86 %	3.66 %	3.49 %	3.36 %		
Average deposit rate RM	1.03 %	0.94 %	0.91 %	0.88 %	0.82 %		
Average deposit rate CM	1.49 %	1.37 %	1.30 %	1.14 %	1.12 %		
Average 3-month NIBOR	1.84 %	1.63 %	1.46 %	1.29 %	1.19 %		
Lending margin RM (lending rate - 3-month NIBOR)	1.42 %	1.46 %	1.44 %	1.50 %	1.55 %		
Lending margin CM (lending rate - 3-month NIBOR)	2.19 %	2.23 %	2.20 %	2.20 %	2.17 %		
Deposit margin RM (3-month NIBOR - deposit rate)	0.81 %	0.69 %	0.55 %	0.41 %	0.37 %		
Deposit margin CM (3-month NIBOR - deposit rate)	0.35 %	0.26 %	0.16 %	0.15 %	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 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 Q4 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, 6 February 2020

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO



SPAREBANKEN SØR

Sparebanken Sør Pb. 200, 4662 Kristiansand | www.sor.no | tlf. 38 10 92 00