



# Q1 2020



SPAREBANKEN SØR

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<b>Income statement (NOK million)</b>	<b>Q1 2020</b>	<b>Q1 2019</b>	<b>31.12.2019</b>
Net interest income	525	438	1 926
Net commission income	70	74	344
Net income from financial instruments	-69	20	24
Other operating income	-12	5	74
<b>Total net income</b>	<b>515</b>	<b>537</b>	<b>2 368</b>
Total operating expenses before losses	232	229	918
<b>Operating profit before losses</b>	<b>283</b>	<b>308</b>	<b>1 450</b>
Losses on loans, guarantees and unused credit	61	3	-17
<b>Profit before taxes</b>	<b>221</b>	<b>305</b>	<b>1 467</b>
Tax expenses	58	71	342
<b>Profit for the period</b>	<b>164</b>	<b>234</b>	<b>1 125</b>
<b>Profit as a percentage of average assets</b>			
Net interest income	1.61 %	1.46 %	1.53 %
Net commission income	0.21 %	0.25 %	0.27 %
Net income from financial instruments	-0.21 %	0.07 %	0.02 %
Other operating income	-0.04 %	0.02 %	0.06 %
<b>Total net income</b>	<b>1.58 %</b>	<b>1.79 %</b>	<b>1.88 %</b>
Total operating expenses before losses	0.71 %	0.76 %	0.73 %
<b>Operating profit before losses</b>	<b>0.87 %</b>	<b>1.03 %</b>	<b>1.15 %</b>
Losses on loans, guarantees and unused credit	0.19 %	0.01 %	-0.01 %
<b>Profit before taxes</b>	<b>0.68 %</b>	<b>1.02 %</b>	<b>1.17 %</b>
Tax expenses	0.18 %	0.24 %	0.27 %
<b>Profit for the period</b>	<b>0.50 %</b>	<b>0.78 %</b>	<b>0.89 %</b>
<b>Key figures, income statement</b>			
Return on equity after tax (adjusted for hybrid capital)	5.0 %	8.3 %	9.5 %
Costs as % of income	45.1 %	42.6 %	38.8 %
Costs as % of income, excl. net income from financial instruments	39.8 %	44.2 %	39.2 %
<b>Key figures, balance sheet</b>			
Total assets	142 001	123 873	129 499
Average total assets	129 600	123 400	125 900
Net loans to customers	107 590	102 957	106 334
Growth in loans as % last 12 mths.	4.5 %	4.3 %	3.3 %
Customer deposits	57 658	57 568	57 949
Growth in deposits as % last 12 mths.	0.2 %	4.9 %	2.5 %
Deposits as % of net loans	53.6 %	55.9 %	54.5 %
Equity (incl. hybrid capital)	13 215	11 952	13 081
Losses on loans as % of net loans, annualised	0.23 %	0.01 %	-0.01 %
Gross non-performing loans > 90 days as % of gross loans	0.29 %	0.21 %	0.27 %
<b>Other key figures</b>			
Liquidity reserve (LCR) Group	156 %	180 %	148 %
Liquidity reserve (LCR) Group - Euro	198 %	2807 %	1168 %
Liquidity reserve (LCR) Parent Bank	189 %	168 %	140 %
Common equity tier 1 capital ratio	15.6 %	14.9 %	15.7 %
Tier 1 capital ratio	17.5 %	16.4 %	17.6 %
Total capital ratio	20.0 %	18.5 %	20.3 %
Total common equity tier 1 capital ratio	11 606	10 694	11 356
Tier 1 capital ratio	13 017	11 790	12 767
Net subordinated capital	14 875	13 329	14 686
Leverage ratio	8.9 %	9.0 %	9.3 %
Number of branches	34	34	34
Number of FTEs in banking operations	434	436	429
<b>Key figures, equity certificates</b>			
Equity certificate ratio, weighted average over the period	17.2 %	17.2 %	17.2 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	3.6	1.9	9.3
Profit/diluted earnings per equity certificate (Group)	1.6	2.4	11.7
Dividend last year per equity certificate	-	6.0	8.0
Book equity per equity certificate	130.2	119.4	128.5
Price/book value per equity certificate	0.7	0.8	0.9
Listed price on Oslo Stock Exchange at end of period	86.0	90.2	110.0

## Board of Director's report

### General

Sparebanken Sør is an independent financial institution whose core business is banking, securities trading and acting as a real estate agent in Agder, Rogaland, Vestfold and Telemark.

Estate agent operations are undertaken by the subsidiary Sørmeglere. General and life insurance products are supplied via the insurance company Frende, of which the Bank is a co-owner. The Bank is also a co-owner of the companies Norne Securities, which provides securities trading services, and Brage Finans, which engages in leasing and consumer financing.

### Highlights in the first quarter 2020

- Strong increase in net interest income
- Net income from financial instruments decreased due to changes in the value of the liquidity portfolio
- Efficient operations and low costs
- Higher model-based losses as a result of the Covid-19 pandemic
- 12-month growth in lending of 4.5 percent
- 12-month growth in deposits of 0.2 percent
- Return on equity after tax of 5.0 percent
- Common equity tier 1 (CET1) ratio of 15.6 percent and Leverage Ratio of 8.9 percent
- As a result of the current Covid-19 pandemic, a decision relating to the payment of dividends has been postponed until the autumn of 2020.

### Financial framework conditions

Norway's economy and financial markets have been severely affected by the ongoing Covid-19 pandemic, which has also affected the Bank's operations since mid-March.

The key interest rate was cut twice in March, from 1.5 percent to a record-low 0.25 percent, on the grounds of the pandemic's impact. The situation in which the Norwegian economy finds itself has worsened and the level of uncertainty is considerable. The initiatives taken to limit the spread of the virus have forced a number of companies to close down or scale back their operations. Many employees have been temporarily laid off (furloughed) and unemployment has risen. The prospect of a weakening in the global economy has resulted in a sharp drop in oil prices. The financial markets are turbulent and the credit mark-ups for market funding have increased. The value of the Norwegian krone (NOK) has weakened considerably.

Norway has room for manoeuvre with regard to economic policy, good welfare arrangements and its banks are financially robust. This puts Norway in an exceptional position to weather the crisis, despite the Norwegian economy being hit by both the Covid-19 pandemic and the drop in oil prices at the same time. Lower borrowing costs could help Norwegian companies and households through a challenging period of lower earnings. When the measures taken to limit the spread of the coronavirus are eventually rolled back and the situation returns to normal, low interest rates could help restart activity more quickly. Norges Bank is not ruling out a further reduction in the key interest rate.

The capital markets are also being affected by Covid-19. There have been major fluctuations in the market since mid-March. In March, Norges Bank made extraordinary F-loans available to the banks, to ensure that the cut in the key interest rate was passed on to money market rates. Norges Bank will offer extraordinary F-loans for as long as it finds expedient.

The Sparebanken Sør Group was well funded at the outset of the crisis, and has not had to issue long-term market financing during the period.

The annual growth in the general public's gross domestic debt, C2, stood at 4.7 percent at the close of March 2019. Growth in household and business loans was 4.7 and 4.0 percent respectively.

On 13 March 2020, the Norwegian Ministry of Finance decided to lower the banks' counter-cyclical capital buffer requirement from 2.5 percent to 1 percent, with immediate effect. This was done to prevent stricter lending practices by the banks from exacerbating the downturn due to Covid-19. Reference is made to the fact that Norwegian banks are profitable and financially sound, and have sufficient capital to bear losses in the event of a sharp setback.

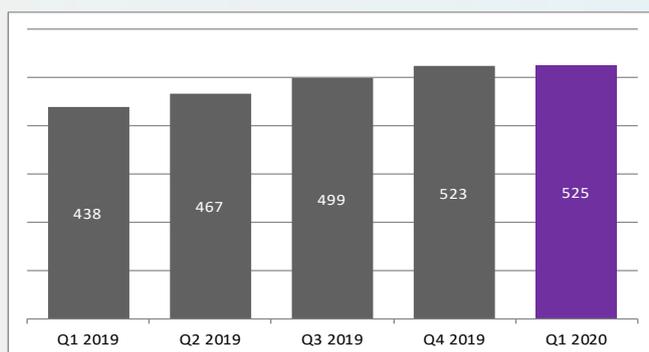
## Financial performance

Sparebanken Sør made a profit before tax of NOK 221 million in the first quarter 2020, compared with NOK 305 million in the same period in 2019. This corresponds to a reduction of NOK 84 million. The Group achieved a return on equity after tax of 5.0 percent in the first quarter 2020, compared with 8.3 percent in the same period in 2019.

The Group's profits in the quarter were strongly affected by the Covid-19 pandemic. The pandemic has led to increased risk mark-ups in the capital markets, which has in turn reduced the contribution to profits made by the Bank's liquidity portfolio. In addition, Covid-19 has resulted in higher model-based losses under the rules provided in IFRS9.

## Net interest income

### Quarterly net interest income (NOK million)



Net interest income totalled NOK 525 million in Q1 2020, compared to NOK 438 million in Q1 2019, an improvement of NOK 87 million. Norges Bank increased its key policy rate three times in 2019 and the interest rate changes have contributed to increased net interest income in recent quarters.

Following the outbreak of the coronavirus pandemic, Norges Bank has cut the key interest rate twice, from 1.50 percent to a record-low 0.25 percent. Sparebanken Sør has followed up by notifying a reduction in its lending rate of up to 0.85 percent.

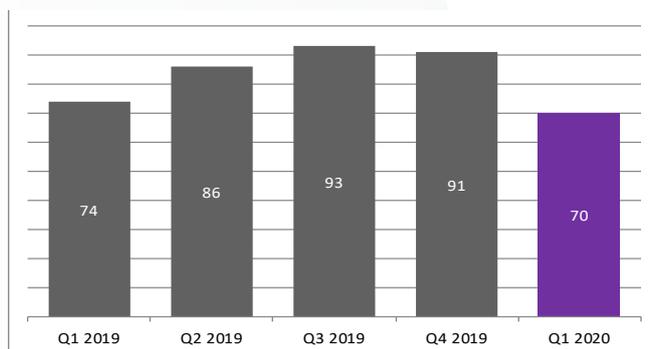
The change in lending rates was brought forward and went into effect as early as 31 March. Sparebanken Sør has also given notice of a reduction in interest paid on deposits of up to 0.8 percent, though this will not come into effect until 26 May. In the wake of the Covid-19 crisis, the difference between market rates and the key interest rate increased. Developments in NIBOR normalised in April, and the impact on the Bank's net financing related to NIBOR will become apparent as time goes by. The lag will nevertheless have a negative impact on the Group's net interest income in the second quarter 2020.

Net interest income as a percentage of the Bank's average total assets came to 1.61 percent in the first quarter 2020, up from 1.46 percent at the same time the year before.

## Board of Director's report

### Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 70 million in the first quarter 2020, compared with NOK 74 million in the first quarter 2019.

Gross commission income in the first quarter 2020 came to NOK 86 million, compared with NOK 88 million in the first quarter 2019.

Commission income	Q1 2020	Q1 2019	Change
Payment services	40	41	-1
Real estate brokerage	24	28	-4
Other commission income	22	19	3
<b>Total</b>	<b>86</b>	<b>88</b>	<b>-2</b>

Gross commission income was slightly down on last year, primarily as a result of lower commission income in the real estate business. This was caused by a slow-down in the residential property market towards the end of March as a result of the coronavirus situation. There was an increase in commission income relating to other products.

### Financial instruments

Net income from financial instruments totalled NOK -69 million in the first quarter 2020, compared with NOK 20 million in the same period the year before.

Net income from financial instruments	Q1 2020	Q1 2019	Change
Bonds and certificates	-83	10	-93
Shares incl. dividends	1	8	-7
Fixed rate loans	14	3	11
Securities issued - hedge accounting	-8	2	-10
Repurchase of issued bonds	-5	-9	4
Other financial instruments	12	6	6
<b>Total</b>	<b>-69</b>	<b>20</b>	<b>-89</b>

Credit spreads in the bond market widened substantially during the quarter, which has had a negative effect on results.

The impact on results of hedge accounting applies primarily to changes in the value of basis swaps. Basis swaps are used as an instrument for hedge-accounting fixed-interest liabilities issued in EUR. The value of basis swaps fluctuates as a result of market changes and is recognised in income. These are hedging instruments and, viewed over their entire term, the changes in market value come to zero, provided that the bonds are held to maturity.

### Income from associates

In 2018 and 2019, Sparebanken Sør increased its shareholdings in Frende Holding AS and Brage Finans AS. This was done as part of the Bank's strategic effort to boost the number of relevant, integrated and attractive solutions it can offer its customers.

Income from associates totalled NOK -13.5 million in the first quarter 2020, down from NOK 4 million in the corresponding period in 2019.

Sparebanken Sør's share of the profit/loss in Brage Finans AS came to NOK 5.7 million in the first quarter 2020.

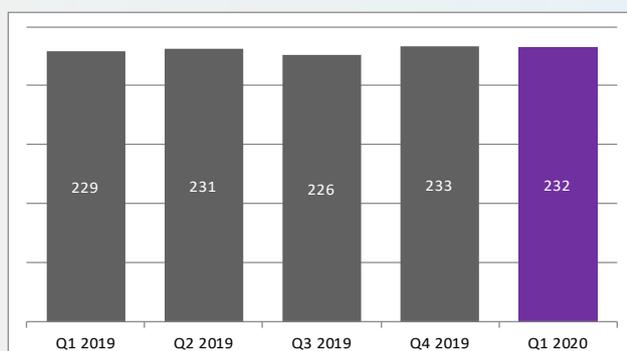
Sparebanken Sør's share of the profit/loss in Frende Holding AS came to NOK -21.9 million in the first quarter 2020.

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

In connection with the purchase of shares in Frende Holding AS in 2018, excess value was identified. This will be amortised over the asset's expected life. The Group has amortised NOK 5 million in excess value in the first quarter 2020.

## Operating expenses

### Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 232 million in Q1 2020, up from NOK 229 million in the same period in 2019.

Operating expenses as a percentage of average total assets came to 0.71 percent in the first quarter 2020, compared with 0.76 percent in the same period last year. Costs as a percentage of consolidated revenues came to 45.1 percent in the quarter, compared with 42.6 percent in the same period last year. Costs as a percentage of revenues, excluding financial instruments, came to 39.8 percent, compared with 44.2 percent in the same period last year.

Expenses in the banking business amounted to NOK 205 million in the first quarter of 2020, compared with NOK 199 million in the same period in 2019.

## Losses and non-performing loans

Net losses on loans, amounted to losses of NOK 61 million in Q1 2020, representing 0,23 percent of gross loans (annualised), compared with a loss of NOK 3 million in Q1 2019.

The loss expenses in Q1 is mainly related to model-calculated loss according to the accounting standard IFRS9, as a result of a negative macro situation. The macro variables used are presented in note 5.

The Covid-19 coronavirus pandemic is affecting a great many business sectors, and the government has implemented an extensive and wide-ranging programme of support measures. The Bank has virtually no direct exposure to the oil sector and associated offshore industries, which have been particularly hard hit by the fall in oil prices. The Bank's indirect exposure to the oil and offshore sectors is also marginal. An estimated 1-2 percent of the tenants in the Bank's commercial property portfolio are linked to this sector. The full force of the Covid-19 crisis hit in mid-March, and at the close of the first quarter no one really knows how badly the Bank's customers will be affected. Although the credit risk in the Bank's client portfolio has increased, the government has instituted massive support measures that will help to reduce the pandemic's negative impacts on customers. In a situation of this kind, applying the loss model set out in IFRS9 is challenging.

## Board of Director's report

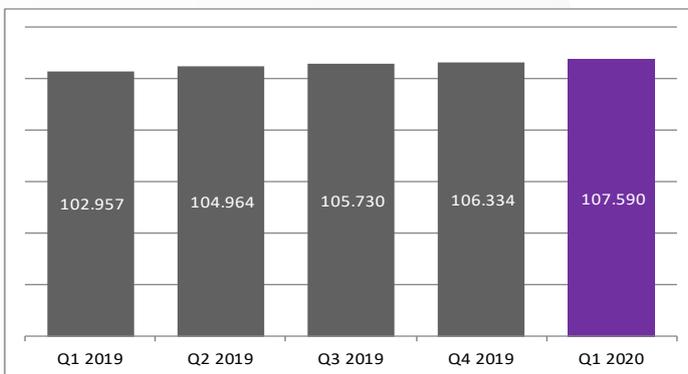
When assessing the loss of expenses in the first quarter, significant use of discretion is required. The assessments related to losses will always be subject to considerable uncertainty. The uncertainty in today's market is considered extreme and affects the assessments made on 31 March 2020. The bank has chosen to adjust model-based losses to try to take into account the authorities comprehensive support measures that the IFRS9 model does not adequately address. The impact of all the measures is difficult to estimate at the present time and will be continuously assessed through 2020.

Total loss allowance for the group amounted to NOK 455 million in the first quarter of 2020, which represented 0.42 percent of gross lending. The corresponding figures in 2019 were 474 million and 0.46 percent of gross lending.

Gross non-performing loans over 90 days were NOK 312 million, which represented 0.29 percent of gross lending. This was higher than the corresponding time in 2019, when gross non-performing loans amounted to NOK 214 million and represented 0.21 percent of gross lending. Gross non-performing loans over 90 days are still at a very low level.

### Loans

Loans NOK million



Over the past 12 months net loans increased by NOK 4.6 billion to a total of NOK 107.6 billion, representing a growth of 4.5 percent. There is a high focus on profitable growth.

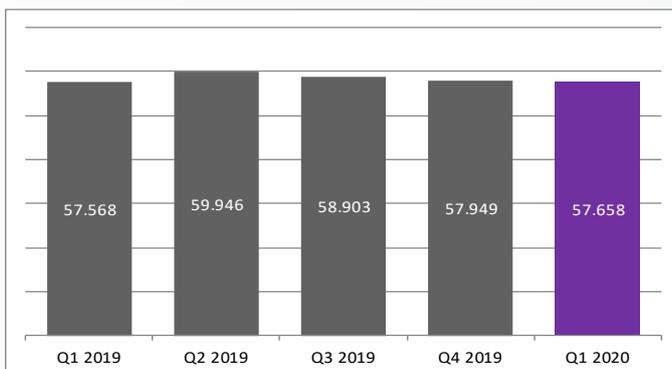
Gross lending to private customers over the past 12 months rose by NOK 2.8 billion, or 4.2 percent, to NOK 70.8 billion.

Gross lending to business customers over the past 12 months rose by NOK 1.7 billion, or 4.9 percent, to NOK 37.0 billion.

Lending to private customers accounted for 66 percent of total lending at the close of the first quarter 2020, the same percentage as at the same point in 2019.

### Deposits

Deposits NOK million



Over the past 12 months, customer deposits increased by NOK 0.1 billion to NOK 57.7 billion, a growth of 0.2 percent.

Deposits from retail customers increased by NOK 1.4 billion to NOK 28.5 billion, a growth of 5.0 percent.

Deposits from business customers have decreased by NOK 1.3 billion, or 4.3 percent, to NOK 29.0 billion. The Bank has seen a reduction in the percentage of large deposits, but has achieved a good increase in ordinary SME deposits.

Sparebanken Sør's deposit-to-loan ratio stood at 53.6 percent at the close of the first quarter 2020, down from 55.9 percent at the same point last year. The decrease is primarily attributable to the absence of larger deposits.

### **Market financing and liquidity portfolio**

The Group has a strong liquidity position. The liquidity buffers are comfortable and the maturity structure for borrowings is well adapted to the Bank's operations. New long-term borrowings are arranged through the issue of covered bonds (OMF) and senior debt. The Group has facilitated long-term financing from the international market through established EMTN programmes.

In total, ordinary market financing at the close of the first quarter 2020 stood at NOK 56.5 billion, 72 percent of which comprised covered bonds (OMF). Long-term financing (term over one year) had an average term of 3.7 years at the close of the quarter.

Sparebanken Sør has availed itself of the extraordinary loan scheme that Norges Bank established in March 2020. As at 31 March 2020, the Bank had NOK 4.5 billion in F-loans in NOK. As at 31 March 2020, the Bank had placed NOK 4.1 billion as F-deposits in Norges Bank.

Debt to credit institutions increased significantly in the first quarter as a result of the bank's use of F-loans. The bank has also received significant cash collateral related to derivative agreements as a result of a weaker Norwegian krone during the quarter. Received collateral amounted to NOK 4.8 billion as at 31 March 2020.

On March 27, 2020, Sparebanken Sør Boligkreditt AS issued a covered bond with a par value of 5.0 billion, which the parent bank purchased. The transaction was completed in order to be able to use the covered bond as collateral for the extraordinary loan arrangement at Norges Bank.

Liquidity in the Norwegian bond market showed signs of improvement towards the end of the first quarter, and the credit spreads have fallen further as the second quarter progresses. Norway's Government Bond Fund has been reinstated. Its mandate is to help boost liquidity and capital in the bond market through the purchase of bonds at market terms and conditions. Norges Bank's money market measures and the Government Bond Fund are expected to help secure a better functioning bond market going forward in 2020.

The Group's portfolio of interest-bearing securities amounted to NOK 19.3 billion per March 31, 2020. The Group's liquidity reserve (LCR) amounted to 156 percent at the same time (189 percent in parent bank).

### **Rating**

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

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

However, Moody's has altered its assessment of future outlook from "stable" to "negative" as a result of the coronavirus crisis and the fall in oil prices. It does, however, take a generally positive view for all Norwegian banks of the government's support measures.

### **Subordinated capital and capital adequacy**

Net own funds (subordinated capital) totalled NOK 14.9 billion. Hybrid capital totalled NOK 1.4 billion and subordinated loans NOK 1.9 billion. At the close of the first quarter 2020, the Sparebanken Sør Group had a CET1 capital ratio of 15.6 percent, a tier 1 capital ratio of 17.5 percent and a (total) capital ratio of 20.0 percent. This calculation is based on the standardised approach to credit risk the Basel II regulations.

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

## Board of Director's report

rules on collaborating groups.

The parent bank had a CET1 capital ratio of 16.4 percent, a tier 1 capital ratio of 18.6 percent and a (total) capital ratio of 21.5 percent at the close of the first quarter 2020.

In 2018, the Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of risk-weighted assets. The requirement is linked to an assessment of risk factors not covered by the Pillar 1 requirements and also includes a new method for calculating capital requirements for partly-owned insurance companies.

On 13 March 2020, the Norwegian Ministry of Finance decided to lower the countercyclical capital buffer requirement from 2.5 percent to 1.0 percent, on the advice of Norges Bank. This change was prompted by the Covid-19 coronavirus outbreak and the risk of a sharp downturn in the Norwegian economy. The buffer requirement was lowered to prevent stricter lending practices by the banks from intensifying the downturn due to Covid-19.

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

The Ministry of Finance has adopted regulatory amendments that put the EU Capital Requirements Regulations CRR/CRD IV into effect as at 31 December 2019. The systemic risk buffer requirement will increase from 3 to 4.5 percent. Previously, a gradual introduction of the systemic risk buffer requirement by 2021 was signalled. However, the Ministry of Finance will establish a transitional rule for banks using the standardised or basic IRB approach, which means that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022.

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

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

The Group's Leverage Ratio stood at 8.9 percent at the close of the first quarter 2020, compared with 9.0 percent at the close of the first quarter 2019. The Bank's equity/assets ratio is deemed to be 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 at 31 March 2020, the Bank had issued 15,663,944 equity certificates. Earnings per equity certificate (for the Group) came to NOK 1.60 in the first quarter. The ownership ratio in the first quarter 2020 came to 17.2 percent. Hybrid capital (bond fund loans) classified as equity has been excluded when calculating the ownership ratio.

### **Dividends**

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

Profit will be distributed pro rata between the equity certificate capital (equity certificate holders) and primary capital.

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

The dividend policy is that approximately 50 to 70 percent of the equity certificate holders' share of the year's profit after tax to be distributed as a dividend.

On March 26, 2020, the Board of Directors of Sparebanken Sør proposed to postpone a dividend for the equity certificate for 2019 above the bank's supervisory board. The reason for the delay is the recommendations from the Ministry of Finance, as well as the Financial Supervisory Authority and EBA in connection with the handling of the COVID-19 pandemic. Dividend to the equity certificate holders for 2019 will be subject to new board consideration later in 2020. The Board's decision will then be published and sent to the Bank's Board of Trustees for consideration. The Board of Trustees' meeting will be held on Thursday, October 29, 2020.

### Subsidiaries and partner businesses

The bank's wholly owned subsidiary **Sparebanken Sør Boligkreditt AS** is licensed to issue covered bonds which are used as an instrument in the bank's long-term funding strategy. As of 31 December 2020, the bank had transferred NOK 44.6 billion to Sparebanken Sør Boligkreditt AS, equivalent to 63 percent of all loans to the retail market.

The Bank's own real estate business, **Sørmegleren**, is the absolute leader in its field in Southern Norway. Sørmegleren continues to grow, and now employs 83 people in 17 locations. As at 31 March 2020, Sørmegleren made a loss before tax of NOK 3 million, the same as in the corresponding period last year.

**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.

In the first quarter 2020, Frende Holding AS made a loss before tax of NOK 120.9 million, compared with a profit before tax of NOK 43.7 million in the same period last year. The quarter's financial result reflects several challenging months for the investment portfolio, with major fluctuations in the stock, credit and foreign exchange markets. The company's financial return came to -3.5 percent, which corresponds to a loss of NOK 169 million. Technical performance was relatively good for the time of year, for both the general and life insurance companies.

Frende Skade made a loss before tax of NOK 149.6 million in the first quarter 2020, compared with a profit of NOK 16.7 million in the same period last year. Financial return in the period came to NOK -118.2 million. The company had a total of NOK 2,120 million (NOK 2,046 million) in written premiums, divided between more than 163,000 customers. At the close of the quarter, it had a market share of 3.5 percent. The loss ratio for the quarter stood at 87.7 percent, while the company's combined ratio came to 106.1 percent. The figures for the same quarter last year were 91.1 percent and 109.7 percent respectively. Despite the high frequency of travel insurance claims due to the Covid-19 situation, the company's technical performance was better than in the same quarter last year. This was due to fewer major damage claims and a lower claim rate on other products.

Frende Liv made a profit before tax of NOK 34.9 million in the first quarter 2020, compared with NOK 31.5 million the year before. The risk result for the quarter was one of the best first-quarter results in the company's history. Written premiums, including savings, rose by NOK 64 million to reach NOK 1,011 million at the close of the quarter. The corresponding figures for the first quarter 2019 were NOK 42 million and NOK 947 million respectively.

**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 (Brage) posted a profit before tax amounted to NOK 44.0 million, compared to NOK 33.8 million at the same time in 2019. The result was equivalent to a return on equity of 7.1 percent compared to 7.5 per cent in the same period last year.

At the close of the first quarter 2020, Brage had a gross lending portfolio of NOK 12.4 billion, an increase of NOK 2.4 billion compared with the same period in 2019.

**Norne Securities AS** (17.4 percent shareholding) provides 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** (22.2 percent shareholding) is owned by Sparebanken Sør in conjunction with 14 other savings banks. The

## Board of Director's report

company has a 10.6 percent stake in Vipps AS, and aims to further develop Vipps along with the other co-owners.

### Outlook

Necessary measures to combat the epidemic have had a negative impact on world economic growth. Due to negative growth prospect ahead, oil prices have fallen sharply. The Norwegian economy is thus hit by a crisis with expectations of negative economic growth, reduced industrial investment, increased unemployment, reduced consumption and a possible fall in house prices.

In this situation, and in line with other central banks, Norges Bank has resolutely used monetary policy instruments.

In March, Norges Bank's policy rate was reduced by 1.25 percentage points to 0.25 percent, and the banks have reduced their lending rates. The government has used fiscal policy in parallel with the implementation of special measures aimed at contributing to the maintenance of activity in Norwegian business and industry. Lower lending rates, favorable unemployment benefit schemes and increased flexibility for banks to deviate from strict mortgage lending regulations, will dampen a potential fall in house prices. Sparebanken Sør has to a large extent safeguarded its social role and contributed to the Norwegian government's emergency support measures to benefit the customers.

The effect of the corona epidemic seriously hit the Norwegian financial market in March. The bond market and the market for interest rate and currency derivatives were characterized by considerable liquidity stress for a period, which led to the credit spreads in the bond market rising. To dampen the market turbulence, the Norwegian Central Bank has offered banks extraordinary NOK and USD liquidity loans (F-loans). As a result, money market rates have normalized and the spread level has partly stabilized at a lower level.

Sparebanken Sør has board-approved guidelines that ensure that refinancing in the bond market is normally completed well in advance of final maturity. This has contributed to the bank's solid financing situation. The bank has low risk in the loan portfolio and high loss-absorbing ability in a high equity ratio and good underlying operations. Net interest income is good and the bank is very cost efficient. The first quarter had a negative effect on results related to valuations in the financial balance sheet. However, the bank did not need to realize the securities portfolio during this period.

Residential property prices in the Bank's main markets have shown positive, but modest, growth over several years. The statistics for 2020 show weak growth in house prices in the Bank's market area. Since the end of March, however, there has been a noticeable decrease in the volume of homes being sold. This also applies in the rest of the country. The situation is being closely monitored, but how it will develop going forward is extremely uncertain. The Group's mortgage portfolio is well secured, and the Group is well prepared to respond to any fall in residential property prices. This is substantiated by the stress tests performed.

The group has a requirement for common equity Tier 1 capital, including pillar 2 additions of 2.0 percent, which is 13.0 percent. The Group has a target of common equity Tier 1 capital of 15.3 percent. At the end of Q1 2020, common equity Tier 1 capital was 15.6 percent, well above the regulatory requirement.

The Norwegian Ministry of Finance has adopted regulatory amendments that put the EU Capital Requirements Regulations CRR/CRD IV into effect as at 31 December 2019. The systemic risk buffer requirement will increase from 3 to 4.5 percent. The Ministry of Finance will establish a transitional rule for banks using the standardised or basic IRB approach, which means that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022. The Group will adapt to the new requirements by 2022 and ensure the necessary buffers are above the minimum requirement.

It is the Group's long-term ambition to achieve lending growth higher than credit growth. The Group's goal is to achieve a return on equity of 9 percent.

Return on equity in 2020 will be affected by loss assessments and developments in the macroeconomic situation through the year. Loss provisions in the first quarter have been calculated in accordance with the rules provided in IFRS 9, and rest on a long-term perspective. The impact of the Norwegian government's emergency support measures and developments in the macroeconomic situation are uncertain, and further impairment losses in 2020 are not considered improbable. Developments in the capital markets are hard to predict. Turbulence and spread changes will affect financial instruments measured at fair value.

In line with the adopted strategy, the bank will closely monitor costs and long-term value creation. The bank's investments in technology will continue, and contribute to cost-effective operations, as well as enable the efficiency of the office structure. Together

with good quality in the credit work, this will contribute to continued profitable growth and development for Sparebanken Sør.

### Events after the reporting period

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

**Kristiansand, 7 May 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

## Income statement

PARENT BANK			NOK million			GROUP		
31.12.	Q1	Q1				Q1	Q1	Q1
2019	2019	2020		Notes	2020	2019	2019	
1 543	342	444	Interest income at amortised cost	4	922	739	3 305	
1 148	263	301	Interest income at fair value through profit and loss	4	145	107	487	
1 172	270	329	Interest expenses	4	542	408	1 866	
<b>1 519</b>	<b>335</b>	<b>415</b>	<b>Net interest income</b>		<b>525</b>	<b>438</b>	<b>1 926</b>	
365	80	83	Commission income		86	88	403	
59	14	16	Commission expenses		16	14	59	
<b>306</b>	<b>66</b>	<b>67</b>	<b>Net commission income</b>		<b>70</b>	<b>74</b>	<b>344</b>	
11	-	237	Dividend		2	-	6	
47	37	-62	Net income from other financial instruments		-71	20	18	
<b>58</b>	<b>37</b>	<b>175</b>	<b>Net income from financial instruments</b>		<b>-69</b>	<b>20</b>	<b>24</b>	
64	4	-14	Income from associated companies		-14	4	64	
8	2	2	Other operating income		2	2	10	
<b>72</b>	<b>6</b>	<b>-12</b>	<b>Total other income</b>		<b>-12</b>	<b>5</b>	<b>74</b>	
<b>1 954</b>	<b>444</b>	<b>646</b>	<b>Total net income</b>		<b>515</b>	<b>537</b>	<b>2 368</b>	
438	106	106	Wages and other personnel expenses		130	131	533	
37	9	10	Depreciation, amortization and impairment of non-current assets		10	9	37	
336	83	88	Other operating expenses		92	89	348	
<b>811</b>	<b>198</b>	<b>204</b>	<b>Total operation expenses before losses</b>		<b>232</b>	<b>229</b>	<b>918</b>	
<b>1 143</b>	<b>246</b>	<b>442</b>	<b>Operating profit before losses</b>		<b>283</b>	<b>308</b>	<b>1 450</b>	
-21	3	56	Losses on loans, guarantees and undrawn credit	4	61	3	-17	
<b>1 164</b>	<b>243</b>	<b>386</b>	<b>Profit before taxes</b>	<b>2</b>	<b>221</b>	<b>305</b>	<b>1 467</b>	
261	56	40	Tax expenses		58	71	342	
<b>904</b>	<b>187</b>	<b>346</b>	<b>Profit for the period</b>		<b>164</b>	<b>234</b>	<b>1 125</b>	
			Minority interests		0	0	0	
<b>904</b>	<b>187</b>	<b>346</b>	<b>Majority interests</b>		<b>164</b>	<b>234</b>	<b>1 125</b>	
60	12	18	Attributable to additional Tier 1 capital holders		18	12	60	
844	175	328	Attributable to ECC-holders and to the primary capital		146	222	1 065	
<b>904</b>	<b>187</b>	<b>346</b>	<b>Profit for the period</b>		<b>164</b>	<b>234</b>	<b>1 125</b>	
9.3	1.9	3.6	Profit/diluted earnings per equity certificate (in whole NOK)		1.6	2.4	11.7	
			<b>Other comprehensive income</b>					
			Items that may be reclassified to profit or loss					
			Change in value, basis swaps		17	-16	-4	
0		0	Change in value, customer mortgages					
0		0	Tax effect		-4	4	1	
<b>0</b>	<b>0.0</b>	<b>0</b>	<b>Total other comprehensive income</b>		<b>12</b>	<b>-12</b>	<b>-3</b>	
<b>904</b>	<b>187</b>	<b>346</b>	<b>Comprehensive income for the period</b>		<b>176</b>	<b>222</b>	<b>1 122</b>	
			Minority interests		0	0	1	
			<b>Majority interests</b>		<b>176</b>	<b>222</b>	<b>1 121</b>	
9.3	1.9	3.6	Comprehensive income/diluted earnings per equity certificate		1.7	2.3	11.7	

PARENT BANK			NOK million	GROUP			
31.12.	Q1	Q1			Q1	Q1	31.12.
2019	2019	2020	ASSETS	Notes	2020	2019	2019
462	486	4 708	Cash and receivables from central banks		4 708	486	462
4 063	4 492	6 085	Loans to credit institutions		2 314	1 155	182
66 185	64 092	63 014	Net loans to customers	2,6,7,8,10,11	107 590	102 957	106 334
16 807	16 397	21 504	Bonds and certificates	11	19 349	17 022	19 916
189	185	172	Shares	11	172	186	190
251	278	1 324	Financial derivatives	11,12	6 193	533	757
1 858	1 858	1 857	Shareholding in group companies		-	-	
968	886	955	Shareholding in associated companies		955	886	968
27	25	30	Intangible asstes		30	25	27
			Deferred tax benefit		7	6	
426	432	428	Property, plant and equipment		462	459	458
107	65	123	Other assets		223	157	205
<b>91 344</b>	<b>89 196</b>	<b>100 198</b>	<b>TOTAL ASSETS</b>	<b>2,11</b>	<b>142 001</b>	<b>123 873</b>	<b>129 499</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>							
2 192	2 300	11 197	Liabilites to credit institutions		11 105	2 144	1 793
57 963	57 578	57 665	Deposits from customers	2,9,11	57 658	57 568	57 949
16 707	16 236	16 070	Liabilities related to issue of securities	11,13	56 508	49 639	53 430
213	168	838	Financial derivatives	11,12	838	168	423
284	184	250	Payable taxes		304	254	361
387	442	382	Other liabilities		428	483	425
43	61	41	Provisions for commitments		41	61	43
49	34	13	Deferred tax		-	-	24
1 971	1 604	1 905	Subordinated loan capital	11,13	1 905	1 604	1 971
<b>79 809</b>	<b>78 607</b>	<b>88 359</b>	<b>Total liabilities</b>		<b>128 786</b>	<b>111 921</b>	<b>116 418</b>
1 623	1 603	1 749	Equity certificate capital	14	1 749	1 603	1 623
1 375	1 075	1 375	Hybrid capital		1 375	1 075	1 375
8 537	7 911	8 715	Other equity		10 091	9 274	10 083
<b>11 535</b>	<b>10 589</b>	<b>11 839</b>	<b>Total equity</b>	<b>3,14</b>	<b>13 215</b>	<b>11 952</b>	<b>13 081</b>
<b>91 344</b>	<b>89 196</b>	<b>100 198</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,11</b>	<b>142 001</b>	<b>123 873</b>	<b>129 499</b>

## Cash flow statement

PARENT BANK			NOK million	GROUP		
31.12.	Q1	Q1		Q1	Q1	31.12.
2019	2019	2020		2020	2019	2019
2 662	578	719	Interest received	1 116	866	3 749
-1 185	-145	-159	Interest paid	-459	-346	-1 840
334	74	334	Other payments received	86	69	346
-770	-204	-240	Operating expenditure	-257	-248	-898
13	2	3	Loan recoveries	3	3	13
-225	-112	-111	Tax paid for the period	-153	-145	-289
-28	-10	-11	Gift expenditure	-11	-10	-28
1 404	920	-422	Change in customer deposits	-416	919	1 399
-1 921	182	3 285	Change in loans to customers	-1 144	-13	-3 382
0	-1 482	0	Change in loans to credit institutions	0	-1 036	0
-15	76	4 503	Change in deposits from credit institutions	4 936	227	-108
<b>269</b>	<b>-121</b>	<b>7 901</b>	<b>Net cash flow from operating activities</b>	<b>3 701</b>	<b>286</b>	<b>-1 038</b>
20 016	6 445	3 454	Payments received, securities	3 854	1 934	12 258
-18 948	-5 133	-8 208	Payments made, securities	-3 353	-4 329	-17 380
3			Payments received, sale of property, plant and equipment		0	3
-37	-12	-15	Payments made, purchase of property, plant and equipment	-15	-12	-40
-293	-104		Investments in subsidiaries and associated companies	0	-104	-293
-12	-24	-1 210	Change in other assets	-5 650	101	-108
<b>729</b>	<b>1 172</b>	<b>-5 979</b>	<b>Net cash flow from investing activities</b>	<b>-5 164</b>	<b>-2 410</b>	<b>-5 560</b>
-1 053	0	-2 022	Change in loans to credit institutions	-2 132	0	-63
-54	-37	4 500	Change in deposits from credit institutions	4 374	0	-17
3 600	0	0	Payments received, bond debt	0	4 860	16 063
-4 815	-1 728	-1 445	Payments made, bond debt	-1 910	-3 161	-10 867
-154	-12	-18	Payments made, dividends and interest on hybrid capital	-18	-12	-154
500	0	0	Issue of subordinated loan capital	0	0	500
-134	0	-66	Buyback of subordinated loan capital	-66	0	-134
-13	-63	1 375	Change in other assets	5 461	-353	144
300		0	Issue of hybrid capital	0	0	300
<b>-1 823</b>	<b>-1 852</b>	<b>2 324</b>	<b>Net cash flow from financing activities</b>	<b>5 709</b>	<b>1 322</b>	<b>5 772</b>
<b>-825</b>	<b>-801</b>	<b>4 246</b>	<b>Net change in liquid assets</b>	<b>4 246</b>	<b>-802</b>	<b>-826</b>
1 287	1 287	462	Cash and cash equivalents as at 1 Jan	462	1 288	1 288
<b>462</b>	<b>486</b>	<b>4 708</b>	<b>Cash and cash equivalents at end of period</b>	<b>4 708</b>	<b>486</b>	<b>462</b>

# 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	
<b>Balance 31.12.2018</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>62</b>	<b>1 421</b>	<b>1</b>	<b>11 845</b>
Dividend distributed for 2018							-94		-94
Profit Q1 2019				12			221		233
Interest paid, hybrid capital				-12					-12
Other comprehensive income							-12		-12
Allocated gift fund						-9			-9
<b>Balance 31.03.2019</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>53</b>	<b>1 537</b>	<b>1</b>	<b>11 952</b>
Profit Q1 - Q4 2019			20	48	639	60	125		892
Interest paid, hybrid capital				-48					-48
Issuance of hybrid capital				300					300
Trading of own equity certificates			1						1
Other comprehensive income							8		8
Allocated gift fund						-25			-25
Other changes					1		1	0	2
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 323</b>	<b>88</b>	<b>1 671</b>	<b>1</b>	<b>13 081</b>
Change in dividend 2019			125				-125		0
Profit Q1 2020				18			146		164
Interest paid, hybrid capital				-18					-18
Other comprehensive income							12		12
Allocated gift fund						-23			-23
<b>Balance 31.03.2020</b>	<b>783</b>	<b>451</b>	<b>515</b>	<b>1 375</b>	<b>8 323</b>	<b>65</b>	<b>1 703</b>	<b>1</b>	<b>13 215</b>
PARENT BANK									
<b>Balance 31.12.2018</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>62</b>	<b>94</b>	<b>0</b>	<b>10 518</b>
Dividend distributed for 2018							-94		-94
Profit Q1 2019				12			174		186
Interest paid, hybrid capital				-12					-12
Other comprehensive income									0
Allocated gift fund						-9			-9
<b>Balance 31.03.2019</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>53</b>	<b>174</b>	<b>0</b>	<b>10 589</b>
Profit Q1 - Q4 2019			20	48	639	60	-50		718
Interest paid, hybrid capital				-48					-48
Issuance of hybrid capital				300					300
Other comprehensive income			0						0
Allocated gift fund					1	-25			-24
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 323</b>	<b>88</b>	<b>125</b>	<b>0</b>	<b>11 535</b>
Change in dividend 2019			125				-125		0
Profit Q1 2020				18			328		346
Interest paid, hybrid capital				-18					-18
Other comprehensive income							-1		-1
Allocated gift fund						-23			-23
<b>Balance 31.03.2020</b>	<b>783</b>	<b>451</b>	<b>514</b>	<b>1 375</b>	<b>8 323</b>	<b>65</b>	<b>327</b>	<b>0</b>	<b>11 839</b>

## 1. ACCOUNTING POLICIES

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

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

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

## 2. SEGMENT REPORTING

	BANKING BUSINESS					31.03.2020
Report per segment			Undistrib. and	Total banking		
Income statement (NOK million)	RM	CM	elimin.	business	Sørmegleren	Total
Net interest and commission income	300	213	13	525	0	525
Net other operating income	41	18	-95	-36	25	-11
Operating expenses	90	24	91	205	27	232
<b>Profit before losses per segment</b>	<b>251</b>	<b>207</b>	<b>-173</b>	<b>285</b>	<b>-3</b>	<b>283</b>
Losses on loans and guarantees	8	127	-74	61		61
<b>Profit before tax per segment</b>	<b>243</b>	<b>81</b>	<b>-99</b>	<b>224</b>	<b>-3</b>	<b>221</b>
Net loans to customers	71 805	35 480	304	107 590		107 590
Other assets			34 340	34 340	72	34 412
<b>Total assets per segment</b>	<b>71 805</b>	<b>35 480</b>	<b>34 644</b>	<b>141 929</b>	<b>72</b>	<b>142 001</b>
Deposits from customers	30 618	22 766	4 274	57 658		57 658
Other liabilities	41 187	12 714	17 155	71 057	72	71 129
<b>Total liabilities per segment</b>	<b>71 805</b>	<b>35 480</b>	<b>21 429</b>	<b>128 714</b>	<b>72</b>	<b>128 786</b>
Equity			13 215	13 215		13 215
<b>Total liabilities and equity per segment</b>	<b>71 805</b>	<b>35 480</b>	<b>34 644</b>	<b>141 929</b>	<b>72</b>	<b>142 001</b>

	BANKING BUSINESS					31.03.2019
Report per segment			Undistrib. and	Total banking		
Income statement (NOK million)	RM	CM	elimin.	business	Sørmegleren	Total
Net interest and commission income	249	173	16	438	0	438
Net other operating income	43	15	13	71	28	99
Operating expenses	97	24	77	199	30	229
<b>Profit before losses per segment</b>	<b>195</b>	<b>164</b>	<b>-48</b>	<b>311</b>	<b>-3</b>	<b>308</b>
Losses on loans and guarantees	0	-2	6	3		3
<b>Profit before tax per segment</b>	<b>196</b>	<b>166</b>	<b>-54</b>	<b>307</b>	<b>-3</b>	<b>305</b>
Net loans to customers	68 866	34 175	-84	102 957		102 957
Other assets			20 847	20 847	69	20 915
<b>Total assets per segment</b>	<b>68 866</b>	<b>34 175</b>	<b>20 763</b>	<b>123 804</b>	<b>69</b>	<b>123 873</b>
Deposits from customers	29 343	22 322	5 903	57 568		57 568
Other liabilities	39 523	11 853	2 908	54 284	69	54 353
<b>Total liabilities per segment</b>	<b>68 866</b>	<b>34 175</b>	<b>8 811</b>	<b>111 852</b>	<b>69</b>	<b>111 921</b>
Equity			11 952	11 952		11 952
<b>Total liabilities and equity per segment</b>	<b>68 866</b>	<b>34 175</b>	<b>20 763</b>	<b>123 804</b>	<b>69</b>	<b>123 873</b>

## 3. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12. 2019	31.03. 2019	31.03. 2020		31.03. 2020	31.03. 2019	31.12. 2019
11 535	10 589	11 839	<b>Total equity</b>	13 215	11 952	13 081
			<b>Tier 1 capital</b>			
-1 375	-1 075	-1 375	Equity not eligible as common equity tier 1 capital	-1 375	-1 075	-1 375
-245	-130	-44	Share of profit not eligible as common equity tier 1 capital	-44	-127	-245
-27	-25	-30	Deductions for intangible assets and deferred tax assets	-30	-25	-27
-44	-23	-46	Deductions for additional value adjustments	-32	-23	-27
			Proportion of common equity tier 1 capital from Brage Finans AS	366	293	374
			Deductions for internal eliminations from Brage Finans AS	-380	-301	-374
-104		-111	Other deductions	-114		-51
9 740	9 336	10 233	<b>Total common equity tier 1 capital</b>	11 606	10 694	11 356
			<b>Other tier 1 capital</b>			
1 375	1 075	1 375	Hybrid capital	1 375	1 075	1 375
			Proportion of tier 1 capital Brage Finans AS	36	21	36
0	0	0	Deductions from other tier 1 capital	0	0	0
11 115	10 411	11 608	<b>Total tier 1 capital</b>	13 017	11 790	12 767
			<b>Additional capital supplementary to tier 1 capital</b>			
1 971	1 604	1 900	Subordinated loan capital	1 900	1 604	1 971
			Proportion of net subordinated capital Brage Finans AS	49	35	49
-101	-100	-91	Deductions from additional capital	-91	-100	-101
1 870	1 504	1 809	<b>Total additional capital</b>	1 858	1 539	1 919
12 985	11 915	13 417	<b>Net subordinated capital</b>	14 875	13 329	14 686
			<b>Minimum requirement for subordinated capital Basel II calculated according to standard method</b>			
2	3	10	Engagements with local and regional authorities	10	3	2
70	69	93	Engagements with institutions	63	37	34
218	180	299	Engagements with enterprises	302	182	224
415	452	400	Engagements with mass market	499	544	520
3 029	3 057	2 937	Engagements secured in property	4 206	4 167	4 167
92	79	100	Engagements which have fallen due	108	84	98
2	2	1	Engagements which are high risk	1	2	2
384	382	492	Engagements in covered bonds	105	97	107
334	328	331	Engagements in collective investment funds	188	181	184
49	48	51	Engagements, other	58	50	49
4 595	4 600	4 714	<b>Capital requirements for credit and counterparty risk</b>	5 540	5 347	5 387
1	1	1	<b>Capital requirements for position, currency and product risk</b>	1	1	1
259	259	268	<b>Capital requirements for operational risk</b>	325	312	313
1	0	3	<b>CVA addition</b>	3	0	1
0	0		<b>Deductions from the capital requirement</b>	0	0	0
4 856	4 860	4 986	<b>Total minimum requirement for subordinated capital</b>	5 869	5 660	5 702
60 702	60 744	62 326	Risk-weighted balance (calculation basis)	73 341	70 754	71 275
			Proportionate share of calculation basis Brage Finans AS	2 179	1 898	2 112
			Deductions for internal eliminations Brage Finans AS	-969	-770	-955
			Risk weighted balance after proportionate consolidation	74 551	71 882	72 432
16.0 %	15.4 %	16.4 %	<b>Common equity tier 1 capital ratio, %</b>	15.6%	14.9 %	15.7 %
18.3 %	17.1 %	18.6 %	<b>Ter 1 capital ratio, %</b>	17.5%	16.4 %	17.6 %
21.4 %	19.6 %	21.5 %	<b>Total capital ratio, %</b>	20.0%	18.5 %	20.3 %
8.5 %	8.1 %	7.8 %	<b>Leverage ratio</b>	8.9 %	9.1 %	9.3 %

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

#### 4. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			Interest income	GROUP		
31.12. 2019	Q1 2019	Q1 2020	NOK million	Q1 2020	Q1 2019	31.12. 2019
			Interest income from financial instruments at amortised cost			
92	20	30	Interest on receivables from credit institutions	7	5	24
1 452	323	414	Interest on loans given to customers	915	733	3 281
<b>1 543</b>	<b>342</b>	<b>444</b>	<b>Total interest from financial instruments at amortised cost</b>	<b>922</b>	<b>739</b>	<b>3 305</b>
			Interest income from financial instruments at fair value			
165	40	39	Interest on loans given to customers (fixed rate loans)	39	40	166
305	73	89	Interest on certificates and bonds	107	66	321
<b>470</b>	<b>113</b>	<b>128</b>	<b>Total interest from financial instruments at fair value via profit or loss</b>	<b>145</b>	<b>107</b>	<b>487</b>
			Interest income from financial instruments at fair value via OCI			
677	150	173	Interest on loans given to customers (mortgages)			
<b>677</b>	<b>150</b>	<b>173</b>	<b>Total interest from financial instruments at fair value via OCI</b>			
<b>2 691</b>	<b>605</b>	<b>745</b>	<b>Total interest income</b>	<b>1 067</b>	<b>845</b>	<b>3 792</b>

PARENT BANK			Interest expenses	GROUP		
31.12. 2019	Q1 2019	Q1 2020	NOK million	Q1 2020	Q1 2019	31.12. 2019
			Interest expenses from financial instruments at amortised cost			
38	8	13	Interest on liabilities to credit institutions	13	8	38
692	155	187	Interest on customer deposits	187	155	691
345	85	100	Interest on issued securities	311	223	1 036
49	11	16	Interest on subordinated loans	16	11	49
47	10	13	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	15	10	52
<b>1 172</b>	<b>270</b>	<b>329</b>	<b>Interest expenses from financial instruments at amortised cost</b>	<b>542</b>	<b>408</b>	<b>1 866</b>
<b>1 172</b>	<b>270</b>	<b>329</b>	<b>Total interest expenses</b>	<b>542</b>	<b>408</b>	<b>1 866</b>

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

Provisions for loss allowances and loss expense for the period are calculated according to the new accounting standard IFRS9 and are based on expected credit loss (ECL) using the 3-stage model described in Note 7 of the 2019 financial statements.

As a result of COVID 19, the macro picture has changed significantly in Q1 2020 and the Group's loss provision is based on new assumptions.

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

	2020	2021	2022	2023	2024
Housing price %	-3.5	-2.0	0.0	1.0	2.7
Housing price region %	-3.5	-2.0	0.0	1.0	2.7
Unemployment %	5.0	5.4	4.0	3.8	3.8
Oil prices, \$	42.8	44.4	48.4	51.0	51.0
Key interest rate	0.3	0.5	0.9	0.9	0.9
Import-weighted exchange rate	115.3	113.4	111.3	110.0	110.0

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

In addition, a great deal of uncertainty attaches to future unemployment rates and the determination of this parameter is also material to the Group's impairment losses under the IFRS9 model.

Below are sensitivity analyses related to the parameters that the Group considers to be most significant in today's situation.

Group		31.03.2020			
Loan loss provisions		10 percent reduction	20 percent reduction	30 percent reduction	1 percent increase in
NOK million		in collateral	in collateral	in collateral	unemployment
- Loan loss provisions, CM		59	127	205	9
- Loan loss provisions, RM		15	32	53	5
<b>Total</b>		<b>73</b>	<b>159</b>	<b>258</b>	<b>14</b>

Parent bank		31.03.2020			
Loan loss provisions		10 percent reduction	20 percent reduction	30 percent reduction	1 percent increase in
NOK million		in collateral	in collateral	in collateral	unemployment
- Loan loss provisions, CM		59	127	205	9
- Loan loss provisions, RM		5	19	30	3
<b>Total</b>		<b>64</b>	<b>145</b>	<b>236</b>	<b>12</b>

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

The Bank has elected to add a further NOK 75 million to the underlying model-based losses in an attempt to reflect the government's wide-ranging support measures, something the IFRS9 model fails to do satisfactorily. The impact of all the government measures is hard to estimate at the present time, and will be assessed continuously through 2020.

PARENT BANK			NOK million	GROUP		
31.12. 2019	31.03. 2019	31.03. 2020		31.03. 2020	31.03. 2019	31.12. 2019
			<b>Loss expense on loans during the period</b>			
-6	-6	47	Period's change inn write-downs stage 1	49	-5	-5
31	10	72	+Period's change inn write-downs stage 2	72	10	33
-89	0	14	+Period's change inn write-downs stage 3	16	0	-89
41	0	1	+ Period's confirmed loss	1	0	41
18	1	0	+ Recognised as interest income	0	1	18
13	2	3	- Period's recoveries relating to previous losses	3	2	13
-1	1	0	+Change in write downs on guaranties	0	1	-1
0	0	-75	+ Corrections related to government support measures	-75	0	0
<b>-21</b>	<b>3</b>	<b>56</b>	<b>= Loss expenses during the period</b>	<b>61</b>	<b>3</b>	<b>-17</b>

## Notes

GROUP	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Overrule	Total
<b>NOK million</b>					
<b>Provisions for loan losses as at 01.01.2020</b>	39	126	231		396
Transfers					
<b>Transferred to stage 1</b>	<b>24</b>	<b>-23</b>	<b>-2</b>		<b>0</b>
Transferred to stage 2	-2	4	-2		0
<b>Transferred to stage 3</b>	<b>0</b>	<b>-1</b>	<b>1</b>		<b>0</b>
Losses on new loans	9	16	1		26
Losses on deducted loans	-3	-10	-8		-21
Losses on older loans and other changes	22	86	20	-75	53
<b>Provisions for loan losses as at 31.03.2020</b>	<b>88</b>	<b>199</b>	<b>242</b>	<b>-75</b>	<b>455</b>
Provisions for loan losses	70	185	237	-75	417
Provisions for guarantees and undrawn credits	18	14	5		37
<b>Total provision for losses as at 31.03.2020</b>	<b>88</b>	<b>199</b>	<b>242</b>	<b>-75</b>	<b>455</b>

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

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

PARENT BANK	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Overrule	Total
<b>NOK million</b>					
<b>Provisions for loan losses as at 01.01.2020</b>	37	120	230		387
Transfers					
<b>Transferred to stage 1</b>	<b>22</b>	<b>-21</b>	<b>-2</b>		<b>0</b>
Transferred to stage 2	-2	4	-2		0
<b>Transferred to stage 3</b>	<b>0</b>	<b>-1</b>	<b>1</b>		<b>0</b>
Losses on new loans	8	16	1		25
Losses on deducted loans *	-3	-10	-7		-20
Losses on older loans and other changes	23	82	19	-75	48
<b>Provisions for loan losses as at 31.03.2020</b>	<b>84</b>	<b>191</b>	<b>241</b>	<b>-75</b>	<b>440</b>
Provisions for loan losses	66	177	236	-75	403
Provisions for losses on guarantees and undrawn credits	18	14	5		37
<b>Total provision for losses as at 31.03.2020</b>	<b>84</b>	<b>191</b>	<b>241</b>	<b>-75</b>	<b>440</b>

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

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

## 6. NON-PERFORMING LOANS

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

PARENT BANK			NOK million	GROUP		
31.12. 2019	31.03. 2019	31.03. 2020		31.03. 2020	31.03. 2019	31.12. 2019
276	205	286	Gross non-performing loans > 90 days	312	214	286
763	703	843	Other non performing loans	875	695	787
<b>1 039</b>	<b>908</b>	<b>1 129</b>	<b>Total non-performing loans (step 3)</b>	<b>1 186</b>	<b>909</b>	<b>1 073</b>
230	327	241	Impairment losses in stage 3	242	332	231
<b>809</b>	<b>581</b>	<b>888</b>	<b>Net non-performing loans</b>	<b>944</b>	<b>577</b>	<b>842</b>
22.1 %	36.0 %	21.3 %	Provisioning non-performing loans	20.4 %	36.5 %	21.5 %
<b>0.41 %</b>	<b>0.32 %</b>	<b>0.45 %</b>	<b>Gross non-performing loans &gt; 90 days in % of gross loans</b>	<b>0.29 %</b>	<b>0.21 %</b>	<b>0.27 %</b>

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

PARENT BANK				NOK million	GROUP					
Stage 1	Stage 2	Stage 3	Over- rule*	Total impairment losses as of 31.03.20		Total impairment losses as of 31.03.20	Over- rule*	Stage 3	Stage 2	Stage 1
5	13	36		55	Retail customers	72		38	25	9
0	0	0		0	Public administration	0		0	0	0
1	2	0		3	Primary industry	3		0	2	1
9	4	5		18	Manufacturing industry	18		5	4	9
18	32	70		120	Real estate development	119		69	31	18
2	5	16		23	Building and construction industry	23		16	5	2
38	100	55		192	Property management	190		54	98	38
1	3	26		29	Transport	29		25	3	1
3	17	20		40	Retail trade	39		20	17	3
0	5	2		7	Hotel and restaurants	7		2	5	0
1	2	0		3	Housing cooperatives	3		0	2	1
2	4	10		15	Financial/commercial services	15		10	4	2
5	4	2		11	Social services	11		2	4	5
			-75	-75	Undistributed	-75	-75			
<b>84</b>	<b>191</b>	<b>241</b>	<b>-75</b>	<b>440</b>	<b>Total impairment losses on loans, guarantees and undrawn credit</b>	<b>455</b>	<b>-75</b>	<b>242</b>	<b>199</b>	<b>88</b>
66	177	236	-75	403	Impairment losses on lending	417	-75	237	185	70
18	14	5		37	Impairment losses on unused credits and guarantees	37		5	14	18
<b>84</b>	<b>191</b>	<b>241</b>	<b>-75</b>	<b>440</b>	<b>Total impairment losses</b>	<b>455</b>	<b>-75</b>	<b>242</b>	<b>199</b>	<b>88</b>

\* As a result of the present crisis, considerable uncertainty attaches to loss estimates. Model-based losses take account of the negative macroeconomic situation, but not the government's support measures directly. Management has therefore assessed these losses using its best professional judgement, and the figures in the column represent management's discretionary overruling of the loss model to take account of the government's support measures.

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

Calculated losses as at 31 March 2020 are based on the different stages in the loss model.

## 8. MIGRATION OF GROSS LOANS

NOK million Gross loans	Amortised cost			Gross loans	Fair value	GROUP Total gross loans incl accrued interest
	Stage 1	Stage 2	Stage 3			
<b>Gross loans as at 01/01/2020</b>	<b>89 466</b>	<b>10 710</b>	<b>839</b>	<b>101 016</b>	<b>5 689</b>	<b>106 704</b>
Transferred to stage 1	1 752	-1 729	-23	0		0
Transferred to stage 2	-2 390	2 410	-21	0		0
Transferred to stage 3	-164	-72	235	-0		-0
Net change on present loans	432	27	1	460		92
New loans	12 051	681	9	12 741	276	13 188
Derecognised loans	-10 376	-1 335	-44	-11 756	-419	-11 977
Change in value during the period					-1	
<b>Gross loans as at 31/03/2020</b>	<b>90 772</b>	<b>10 692</b>	<b>998</b>	<b>102 462</b>	<b>5 545</b>	<b>108 007</b>

NOK million Gross loans	Amortised cost			Gross loans	Fair value	GROUP Total gross loans incl accrued interest
	Stage 1	Stage 2	Stage 3			
<b>Gross loans as at 01/01/2019</b>	<b>86 297</b>	<b>10 411</b>	<b>978</b>	<b>97 686</b>	<b>5 714</b>	<b>103 400</b>
Transferred to stage 1	1 072	-1 013	-59	-0	-	-0
Transferred to stage 2	-1 188	1 177	11	0	-	0
Transferred to stage 3	0	-25	25	0	-	0
Net change on present loans	-478	-387	2	-864	-	-864
New loans	10 049	1 072	-51	11 069	127	11 196
Derecognised loans	-8 832	-1 153	-33	-10 018	-296	-10 314
Change in value during the period				-	-4	-4
<b>Gross loans as at 31/03/2019</b>	<b>86 919</b>	<b>10 081</b>	<b>874</b>	<b>97 874</b>	<b>5 541</b>	<b>103 415</b>

NOK million Gross loans	Amortised cost	Fair value through other comprehensive income	Fair value	PARENT BANK Total gross loans incl accrued interest
<b>Gross loan as at 01/01/2020</b>	<b>39 106</b>	<b>21 751</b>	<b>5 689</b>	<b>66 545</b>
Transferred to stage 1	0	-	0	0
Transferred to stage 2	0	0	0	0
Transferred to stage 3	-0	-	-	0
Net change on present loans	504	169	-	672
New loans	2 323	3 369	276	5 968
Derecognised loans	-2 232	-7 118	-419	-9 769
Change in value during the period			-1	-1
<b>Gross loan as at 31/03/2020</b>	<b>39 701</b>	<b>18 171</b>	<b>5 545</b>	<b>63 417</b>

NOK million Gross loans	Amortised cost	Fair value through other comprehensive income	Fair value	PARENT BANK Total gross loans incl accrued interest
<b>Gross loan as at 01/01/2019</b>	<b>38 095</b>	<b>20 905</b>	<b>5 714</b>	<b>64 713</b>
Transferred to stage 1	-	-	0	0
Transferred to stage 2	0	-	-0	-0
Transferred to stage 3	-	0	-	0
Net change on present loans	-186	-164	-	-350
New loans	2 736	4 687	127	7 550
Derecognised loans	-3 468	-3 604	-296	-7 368
Change in value during the period			-4	-4
<b>Gross loan as at 31/03/2019</b>	<b>37 177</b>	<b>21 823</b>	<b>5 541</b>	<b>64 541</b>

## 9. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.19	31.03.19	31.03.20		31.03.2020	31.03.2019	31.12.2019
28 084	27 114	28 477	Retail customers	28 478	27 115	28 074
9 325	12 106	8 486	Public administration	8 486	12 107	9 326
561	593	726	Primary industry	726	593	561
1 923	1 451	1 902	Manufacturing industry	1 902	1 451	1 923
566	626	556	Real estate development	547	614	561
1 117	897	1 204	Building and construction industry	1 204	897	1 117
3 066	2 944	3 007	Property management	3 007	2 944	3 066
645	406	582	Transport	582	406	645
1 032	886	1 005	Retail trade	1 005	886	1 032
152	125	117	Hotel and restaurant	117	125	152
186	208	184	Housing cooperatives	184	208	186
5 075	4 595	5 087	Financial/commercial services	5 087	4 595	5 075
6 202	5 500	6 178	Social services	6 179	5 500	6 202
29	128	153	Accrued interests	153	128	29
<b>57 963</b>	<b>57 578</b>	<b>57 665</b>	<b>Total deposits from customers</b>	<b>57 658</b>	<b>57 568</b>	<b>57 949</b>

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

## 10. LOANS TO CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.19	31.03.19	31.03.20		31.03.2020	31.03.2019	31.12.2019
30 034	29 061	26 942	Retail customers	70 773	67 924	70 126
498	483	531	Public administration	531	483	499
1 157	978	1 079	Primary industry	1 141	979	1 159
795	947	911	Manufacturing industry	941	947	796
4 855	4 403	5 624	Real estate development	5 575	4 356	4 836
1 386	1 514	1 358	Building and construction industry	1 546	1 515	1 388
17 239	17 572	17 089	Property management	17 100	17 581	17 257
677	650	561	Transport	633	650	678
1 093	1 146	1 546	Retail trade	1 622	1 147	1 098
274	304	317	Hotel and restaurant	339	304	275
1 248	1 191	1 281	Housing cooperatives	1 281	1 192	1 249
1 872	1 172	842	Financial/commercial services	984	1 173	1 874
5 242	4 973	5 172	Social services	5 323	4 976	5 248
173	148	164	Accrued interests	217	189	222
<b>66 545</b>	<b>64 541</b>	<b>63 417</b>	<b>Total gross loans</b>	<b>108 007</b>	<b>103 415</b>	<b>106 704</b>
360	449	403	Impairment losses on lending	417	458	370
<b>66 185</b>	<b>64 092</b>	<b>63 014</b>	<b>Total net loans</b>	<b>107 590</b>	<b>102 957</b>	<b>106 334</b>

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

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

## 11. FAIR VALUES OF FINANCIAL INSTRUMENTS

### Classification of financial instruments

Financial instruments are classified at different levels.

#### Level 1:

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

#### Level 2:

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

#### Level 3:

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

For a more detailed description, see Note 22 Fair value of financial instruments in the 2019 annual financial statements.

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			31.03.2020	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
4 708		4 708		Cash and receivables from central banks	4 708		4 708	
6 085		6 085		Loans to credit institutions	2 314		2 314	
39 312			39 312	Net loans to customers (floating interest rate)	102 044			102 044
<b>Assets recognized at fair value</b>								
5 545			5 545	Net loans to customers (fixed interest rate)	5 545			5 545
18 156			18 156	Net loans to customers (mortgages)				
21 504		21 504		Bonds and certificates	19 349		19 349	
172	4		168	Shares	172	4		168
1 324		1 324		Financial derivatives	6 193		6 193	
<b>96 806</b>	<b>4</b>	<b>33 620</b>	<b>63 181</b>	<b>Total financial assets</b>	<b>140 325</b>	<b>4</b>	<b>32 563</b>	<b>107 757</b>
<b>Liabilities recognized at amortised cost</b>								
11 197		11 197		Liabilities to credit institutions	11 105		11 105	
57 665			57 665	Deposits from customers	57 658			57 658
16 070		15 642		Liabilities from issuance of securities	56 508		56 011	
1 905		1 802		Subordinated loan capital	1 905		1 802	
<b>Liabilities recognized at fair value</b>								
838		838		Financial derivatives	838		838	
<b>87 674</b>	<b>0</b>	<b>29 479</b>	<b>57 665</b>	<b>Total financial liabilities</b>	<b>128 014</b>	<b>0</b>	<b>69 756</b>	<b>57 658</b>

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

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			31.03.2019	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
486		486		Cash and receivables from central banks	486		486	
4 492		4 492		Loans to credit institutions	1 155		1 155	
37 612			37 612	Net loans to customers (floating interest rate)	97 416			97 416
<b>Assets recognized at fair value</b>								
5 541			5 541	Net loans to customers (fixed interest rate)	5 541			5 541
20 939			20 939	Net loans to customers (mortgages)				
16 397		16 397		Bonds and certificates	17 022		17 022	
185	5		180	Shares	186	5		181
278		278		Financial derivatives	533		533	
<b>85 930</b>	<b>5</b>	<b>21 653</b>	<b>64 272</b>	<b>Total financial assets</b>	<b>122 339</b>	<b>5</b>	<b>19 196</b>	<b>103 138</b>
<b>Liabilities recognized at amortised cost</b>								
2 300		2 300		Liabilities to credit institutions	2 144		2 144	
57 578			57 578	Deposits from customers	57 568			57 568
16 236		16 321		Liabilities from issuance of securities	49 639		49 824	
1 604		1 613		Subordinated loan capital	1 604		1 613	
<b>Liabilities recognized at fair value</b>								
168		168		Financial derivatives	168		168	
<b>77 886</b>	<b>0</b>	<b>20 402</b>	<b>57 578</b>	<b>Total financial liabilities</b>	<b>111 123</b>	<b>0</b>	<b>53 749</b>	<b>57 568</b>

**Movement level 3**

## GROUP

NOK million	Net loans to customers	Of which credit risk	Shares
<b>Recognized value as at 01/01/2019</b>	<b>5 714</b>	<b>-1</b>	<b>365</b>
Acquisitions Q1	127		106
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-4	4	8
Disposals Q1	-296		
Reclassified as associated company			-298
<b>Recognized value as at 31/03/2019</b>	<b>5 541</b>	<b>3</b>	<b>181</b>
Acquisitions Q2, Q3 and Q4	979		8
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	19	10	-6
Disposals Q2, Q3 and Q4	-850		
Reclassified as associated company			<b>0</b>
<b>Recognized value as at 31/12/2019</b>	<b>5 689</b>	<b>13</b>	<b>184</b>
Acquisitions Q1	276		13
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-1	1	-2
Disposals Q1	-419		
Reclassified as associated company			-26
<b>Recognized value as at 31/03/2020</b>	<b>5 545</b>	<b>14</b>	<b>168</b>

## PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares
<b>Recognized value as at 01/01/2019</b>	<b>26 607</b>	<b>-1</b>	<b>365</b>
Acquisitions Q1	173		106
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-4	4	8
Disposals Q1	-296		
Reclassified as associated company			-298
<b>Recognized value as at 31/03/2019</b>	<b>26 480</b>	<b>3</b>	<b>180</b>
Acquisitions Q2, Q3 and Q4	1 773		8
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	19	10	-6
Disposals Q2, Q3 and Q4	-850		
Reclassified as associated company			0
<b>Recognized value as at 31/12/2019</b>	<b>27 422</b>	<b>13</b>	<b>183</b>
Acquisitions Q1	-3 301		13
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-1	1	-2
Disposals Q1	-419		
Reclassified as associated company			-26
<b>Recognized value as at 31/03/2020</b>	<b>23 701</b>	<b>14</b>	<b>168</b>

**Sensitivity analysis**

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

## GROUP / PARENT BANK

NOK million	31.03.2020	31.03.2019	31.12.2019
Loans to customers	20	17	19
- of which loans to corporate market (CM)	3	4	3
- of which loans to retail market (RM)	17	13	16

## 12. FINANCIAL DERIVATIVES, COLLATERAL RECEIVED AND OFFSETTING

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

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

Assets and liabilities are not offset in the balance sheet because the transactions are usually not settled on a net basis, but can be offset if certain events occur. The assets and liabilities are presented in the table below.

GROUP					31.03.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	6 193	226	5 967	-4 823	1 144
Derivatives - liabilities	-838	-226	-612	587	-25
<b>Net</b>	<b>5 354</b>	<b>0</b>	<b>5 354</b>	<b>-4 235</b>	<b>1 119</b>

GROUP					31.03.2019
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	533	127	406		406
Derivatives - liabilities	-168	-127	-41		-41
<b>Net</b>	<b>365</b>	<b>0</b>	<b>365</b>		<b>365</b>

PARENT BANK					31.03.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	1 324	226	1 098	-551	547
Derivatives - liabilities	-838	-226	-612	587	-25
<b>Net</b>	<b>486</b>	<b>0</b>	<b>486</b>	<b>36</b>	<b>521</b>

PARENT BANK					31.03.2019
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	278	61	217		217
Derivatives - liabilities	-168	-61	-107		-107
<b>Net</b>	<b>110</b>	<b>0</b>	<b>110</b>		<b>110</b>

The Group reclassified the presentation of the received collateral as of 01/01/2020. Previously received/paid collateral was presented in the line financial derivatives. Received collateral is now presented as debt to credit institutions and paid collateral is presented as deposits from credit institutions. Comparative figures have not been restated.

### 13. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

#### Debt securities - Group

NOK million	31.03.2020	31.03.2019	31.12.2019
Bonds, nominal value	55 597	49 234	52 977
Value adjustments	769	253	273
Accrued interest	142	151	180
<b>Debt incurred due to issuance of securities</b>	<b>56 508</b>	<b>49 639</b>	<b>53 430</b>

#### Change in debt securities - Group

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.03.2020
Bonds, nominal value	52 977	0	-1 910	4 530	55 597
Value adjustments	273			496	769
Accrued interest	180			-38	142
<b>Debt incurred due to issuance of securities</b>	<b>53 430</b>	<b>0</b>	<b>-1 910</b>	<b>4 988</b>	<b>56 508</b>

#### Debt securities – Parent bank

NOK Million	31.03.2020	31.03.2019	31.12.2019
Bonds, nominal value	15 712	16 105	16 672
Value adjustments	247	9	-47
Accrued interest	110	122	82
<b>Debt incurred due to issuance of securities</b>	<b>16 070</b>	<b>16 236</b>	<b>16 707</b>

#### Change in debt securities - Parent bank

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.03.2020
Bonds, nominal value	16 672	0	-1 445	486	15 712
Value adjustments	-47			294	247
Accrued interest	82			28	110
<b>Debt incurred due to issuance of securities</b>	<b>16 707</b>	<b>0</b>	<b>-1 445</b>	<b>807</b>	<b>16 070</b>

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

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.03.2020
Subordinated loans	1 966	0	-66		1 900
Accrued interest	5			0	5
<b>Total subordinated loan capital</b>	<b>1 971</b>	<b>0</b>	<b>-66</b>	<b>0</b>	<b>1 905</b>

#### 14. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 31/03/2020 were as follows:

	NUMBER	SHARE OF		NUMBER	SHARE OF
NAME	OF EC	EC-CAP. %	NAME	OF EC	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.	649 610	4,15	12. Carl Krogh Arnet	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	300 000	1,92	15. Artel AS	82 131	0,52
6. Øyhovden Invest AS	257 900	1,65	16. Pak Invest AS	72 942	0,47
7. Otterlei Group AS	240 642	1,54	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. K.T. Brøvig Invest AS	65 639	0,42
<b>Total - 10 largest certificate holders</b>	<b>10 815 441</b>	<b>69,05</b>	<b>Total - 20 largest certificate holders</b>	<b>11 645 329</b>	<b>74,34</b>

As of 01/01/2020, the ownership ratio was 17.2 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

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

## Risk and capital management

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

### **Credit risk**

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

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

### **Market risk**

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

### **Liquidity risk**

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

### **Operational risk**

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

### **Business risk**

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

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

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Net interest income	525	523	499	467	438
Net commission income	70	91	93	86	74
Net income from financial instruments	-69	-31	31	5	20
Other operating income	-12	26	17	25	5
<b>Total net income</b>	<b>515</b>	<b>609</b>	<b>640</b>	<b>583</b>	<b>537</b>
Total operating expenses before losses	232	233	226	231	229
<b>Operating profit before losses</b>	<b>283</b>	<b>376</b>	<b>414</b>	<b>352</b>	<b>308</b>
Losses on loans, guarantees and undrawn credits	61	-3	-19	2	3
<b>Profit before taxes</b>	<b>221</b>	<b>379</b>	<b>433</b>	<b>350</b>	<b>305</b>
Tax expenses	58	86	102	83	71
<b>Profit for the period</b>	<b>164</b>	<b>293</b>	<b>331</b>	<b>267</b>	<b>234</b>

**Profit as % of average assets**

Net interest income	1.61 %	1.60 %	1.57 %	1.52 %	1.46 %
Net commission income	0.21 %	0.28 %	0.29 %	0.28 %	0.25 %
Net income from financial instruments	-0.21 %	-0.09 %	0.10 %	0.02 %	0.07 %
Other operating income	-0.04 %	0.08 %	0.05 %	0.08 %	0.02 %
<b>Total net income</b>	<b>1.58 %</b>	<b>1.87 %</b>	<b>2.01 %</b>	<b>1.90 %</b>	<b>1.79 %</b>
Total operating expenses before losses	0.71 %	0.71 %	0.71 %	0.75 %	0.76 %
<b>Operating profit before losses</b>	<b>0.87 %</b>	<b>1.15 %</b>	<b>1.30 %</b>	<b>1.15 %</b>	<b>1.03 %</b>
Losses on loans, guarantees and undrawn credit	0.19 %	-0.01 %	-0.06 %	0.01 %	0.01 %
<b>Profit before taxes</b>	<b>0.68 %</b>	<b>1.16 %</b>	<b>1.36 %</b>	<b>1.14 %</b>	<b>1.02 %</b>
Tax expenses	0.18 %	0.26 %	0.32 %	0.27 %	0.24 %
<b>Profit for the period</b>	<b>0.50 %</b>	<b>0.90 %</b>	<b>1.04 %</b>	<b>0.87 %</b>	<b>0.78 %</b>

**Key figures, income statement**

Return on equity after tax (adjusted for hybrid capital)	5.0 %	9.6 %	11.2 %	9.0 %	8.3 %
Costs as % of income	45.1 %	38.2 %	35.3 %	39.6 %	42.6 %
Costs as % of income, excl. net income from financial instruments	39.8 %	36.4 %	37.1 %	40.0 %	44.2 %

**Key figures, balance sheet**

Total assets	142 001	129 499	125 836	125 697	123 873
Average total assets	129 600	129 600	126 200	124 400	123 400
Net loans to customers	107 590	106 334	105 730	104 964	102 957
Growth in loans as %, last 12 mths.	4.5 %	3.3 %	3.8 %	4.4 %	4.3 %
Customer deposits	57 658	57 949	58 903	59 946	57 568
Growth in deposits as %, last 12 mths.	0.2 %	2.5 %	4.3 %	4.7 %	4.9 %
Deposits as % of net loans	53.6 %	54.5 %	55.7 %	57.1 %	55.9 %
Equity (incl. hybrid capital)	13 215	13 081	12 511	12 200	11 952
Losses on loans as % of net loans, annualised	0.23 %	-0.01 %	-0.07 %	0.01 %	0.01 %
Gross non-performing loans (over 90 days)					
<b>as % of gross lending</b>	<b>0.29 %</b>	<b>0.27 %</b>	<b>0.28 %</b>	<b>0.32 %</b>	<b>0.21 %</b>

**Other key figures**

Liquidity reserves (LCR), Group	156 %	148 %	164 %	146 %	180 %
Liquidity reserves (LCR), Group- EUR	198 %	1168 %	3503 %	3033 %	2807 %
Liquidity reserves (LCR), Parent Bank	189 %	140 %	141 %	137 %	168 %
Common equity tier 1 capital ratio	15.6 %	15.7 %	15.1 %	15.0 %	14.9 %
Tier 1 capital ratio	17.5 %	17.6 %	16.6 %	16.5 %	16.4 %
Total capital ratio	20.0 %	20.3 %	18.7 %	18.6 %	18.5 %
Common equity tier 1 capital	11 606	11 356	11 140	10 900	10 694
Tier 1 capital	13 017	12 767	12 252	12 011	11 790
Net subordinated capital	14 875	14 686	13 805	13 564	13 329
Leverage ratio	8.9 %	9.3 %	9.1 %	9.0 %	9.0 %
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	434	429	429	427	436

**Key figures, equity certificates**

Equity certificate ratio	17.2 %	17.2 %	17.2 %	17.2 %	17.2 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit per equity certificate (Parent Bank)	3.6	2.4	2.8	2.2	1.9
Profit per equity certificate (Group)	1.6	3.1	3.5	2.7	2.4
Dividend last year per equity certificate (Parent Bank)	0.0	8.0	6.0	6.0	6.0
Book equity per equity certificate	130.2	128.5	125.6	122.1595276	119.4
Price/book value per equity certificate	0.7	0.9	0.8	0.8	0.8
Listed price on Oslo Stock Exchange at end of period	86.0	110.0	95.0	94.5	90.2

## Key figures Group 2015-2019

	31.12. 2019	31.12. 2018	31.12. 2017	31.12. 2016	31.12. 2015
<b>Income statement (NOK million)</b>					
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
<b>Total net income</b>	<b>2 368</b>	<b>2 072</b>	<b>2 097</b>	<b>2 110</b>	<b>1 792</b>
Total operating expenses before losses	918	884	811	787	817
<b>Operating profit before losses</b>	<b>1 450</b>	<b>1 188</b>	<b>1 286</b>	<b>1 323</b>	<b>975</b>
Losses on loans and guarantees	-17	-36	20	50	97
<b>Profit before taxes</b>	<b>1 467</b>	<b>1 224</b>	<b>1 266</b>	<b>1 273</b>	<b>878</b>
Tax expenses	342	285	282	284	231
<b>Profit for the period</b>	<b>1 125</b>	<b>939</b>	<b>984</b>	<b>989</b>	<b>647</b>
<b>Profit as a percentage of average assets</b>					
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 %
<b>Total net income</b>	<b>1.88 %</b>	<b>1.75 %</b>	<b>1.92 %</b>	<b>2.01 %</b>	<b>1.83 %</b>
Total operating expenses before losses	0.73 %	0.75 %	0.74 %	0.75 %	0.83 %
<b>Operating profit before losses</b>	<b>1.15 %</b>	<b>1.00 %</b>	<b>1.17 %</b>	<b>1.26 %</b>	<b>0.99 %</b>
Losses on loans and guarantees	-0.01 %	-0.03 %	0.02 %	0.05 %	0.10 %
<b>Profit before taxes</b>	<b>1.17 %</b>	<b>1.03 %</b>	<b>1.16 %</b>	<b>1.21 %</b>	<b>0.90 %</b>
Tax expenses	0.27 %	0.24 %	0.26 %	0.27 %	0.24 %
<b>Profit for the period</b>	<b>0.89 %</b>	<b>0.79 %</b>	<b>0.90 %</b>	<b>0.94 %</b>	<b>0.66 %</b>
<b>Key figures, income statement</b>					
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 %
<b>Key figures, balance sheet</b>					
Total assets	129 499	121 125	114 310	105 455	101 334
Average total assets	125 900	118 600	109 500	104 950	98 000
Net loans to customers	106 334	102 942	97 518	90 928	88 387
Grows in loans as %, last 12 mths.	3.3 %	5.6 %	7.2 %	2.9 %	9.2 %
Customer deposits	57 949	56 537	55 580	51 562	48 349
Growth in deposits as %, last 12 mths.	2.5 %	1.7 %	7.8 %	6.6 %	0.2 %
Deposits as % of net loans	54.5 %	54.9 %	57.0 %	56.7 %	54.7 %
Equity (incl. hybrid capital)	13 081	11 845	11 108	10 051	8 263
Losses on loans as % of net loans, annualised	-0.01 %	-0.17 %	0.02 %	0.05 %	0.11 %
Gross non-performing loans (over 90 days) as % of gross lending	0.27 %	0.21 %	0.28 %	0.30 %	0.47 %
<b>Other key figures</b>					
Liquidity reserves (LCR), Group	148 %	159 %	139 %	128 %	108 %
Liquidity reserves (LCR), Group- EUR	1168 %	4727 %	3105 %		
Likviditetsreserve (LCR), Parent Bank	140 %	180 %	134 %	119 %	71 %
Common equity tier 1 capital ratio	15.7 %	14.8 %	14.9 %	14.7 %	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
<b>Key figures, equity certificates</b>					
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

\* Excl. negativ goodwill.

	Q1 2020	Q4 2019	Q2 2019	Q2 2019	Q1 2019	31.12. 2019
<b>NOK million</b>						
<b>Return on equity adjusted for hybrid capital</b>						
Profit after tax	164	293	331	267	233	1 125
Interest on hybrid capital	-18	-14	-13	-21	-12	-60
<b>Profit after tax, incl. interest on hybrid capital</b>	<b>146</b>	<b>279</b>	<b>318</b>	<b>246</b>	<b>221</b>	<b>1 065</b>
Opening balance, equity	13 081	12 511	12 200	11 952	11 845	11 845
Opening balance, hybrid capital	-1 375	-1 075	-1 075	-1 075	-1 075	-1 075
<b>Opening balance, equity excl. hybrid capital</b>	<b>11 706</b>	<b>11 436</b>	<b>11 125</b>	<b>10 877</b>	<b>10 770</b>	<b>10 770</b>
Closing balance, equity	13 215	13 081	12 511	12 200	11 952	13 081
Closing balance, hybrid capital	-1 375	-1 375	-1 075	-1 075	-1 075	-1 375
<b>Closing balance, equity excl. hybrid capital</b>	<b>11 840</b>	<b>11 706</b>	<b>11 436</b>	<b>11 125</b>	<b>10 877</b>	<b>11 706</b>
Average equity	13 148	12 796	12 356	12 076	11 899	12 463
<b>Average equity excl. Hybrid capital</b>	<b>11 773</b>	<b>11 571</b>	<b>11 281</b>	<b>11 001</b>	<b>10 824</b>	<b>11 238</b>
Return on equity	5.0 %	9.1 %	10.6 %	8.9 %	7.9 %	9.0 %
<b>Return on equity, excl. hybrid capital</b>	<b>5.0 %</b>	<b>9.6 %</b>	<b>11.2 %</b>	<b>9.0 %</b>	<b>8.3 %</b>	<b>9.5 %</b>
<b>Net interest income, incl. interest on hybrid capital</b>						
Net interest income, incl. interest on hybrid capital	525	523	499	467	437	1 926
Interest on hybrid capital	-18	-14	-13	-21	-12	-60
<b>Net interest income, incl. interest on hybrid capital</b>	<b>507</b>	<b>509</b>	<b>486</b>	<b>446</b>	<b>425</b>	<b>1 866</b>
Average total assets	129 600	129 600	126 200	124 400	123 400	125 900
<b>As percentage of total assets</b>	<b>1.57 %</b>	<b>1.56 %</b>	<b>1.53 %</b>	<b>1.44 %</b>	<b>1.40 %</b>	<b>1.48 %</b>
<b>Profit from ordinary operations (adjusted earnings)</b>						
Net interest income, incl. interest on hybrid capital	507	509	486	446	425	1 866
Net commission income	70	91	93	86	74	344
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps))	-14	21	16	23	4	64
Other operating income	2	5	1	2	2	10
Operating expenses	232	233	226	231	229	918
<b>Profit from ordinary operations (adjusted earnings), before tax</b>	<b>334</b>	<b>393</b>	<b>370</b>	<b>326</b>	<b>275</b>	<b>1 366</b>
<b>Profit excl. Finance and adjusted for non-recurring items</b>						
Net interest income, incl. hybrid capital	507	509	486	446	425	1 866
Net commission income	70	91	93	86	74	344
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	-14	21	16	23	4	64
Other operating income	2	5	1	2	2	10
Operating expenses	232	233	226	231	229	918
Losses on loans, guarantees and undrawn credits	61	-3	-19	2	3	-17
<b>Profit excl. Finance and adjusted for non-recurring items</b>	<b>273</b>	<b>396</b>	<b>389</b>	<b>324</b>	<b>272</b>	<b>1 383</b>
Tax (25 %)	68	99	97	81	68	346
<b>Ordinary operations /adjusted earnings after losses and tax</b>	<b>204</b>	<b>297</b>	<b>292</b>	<b>243</b>	<b>204</b>	<b>1 037</b>
Average equity, excl. hybrid capital	11 773	11 571	11 281	11 001	10 824	11 238
<b>Return on equity, profit excl. Finance and adjusted for non-recurring items</b>	<b>7.0 %</b>	<b>10.2 %</b>	<b>10.3 %</b>	<b>8.9 %</b>	<b>7.6 %</b>	<b>9.2 %</b>
<b>Average interest rates/margins</b>						
Average lending rate RM (return)	3.31 %	3.26 %	3.09 %	2.90 %	2.79 %	
Average lending rate CM (return)	4.11 %	4.03 %	3.86 %	3.66 %	3.49 %	
Average deposit rate RM	1.11 %	1.03 %	0.94 %	0.91 %	0.88 %	
Average deposit rate CM	1.41 %	1.49 %	1.37 %	1.30 %	1.14 %	
Average 3-month NIBOR	1.67 %	1.84 %	1.63 %	1.46 %	1.29 %	
Lending margin RM (lending rate - 3-month NIBOR)	1.64 %	1.42 %	1.46 %	1.44 %	1.50 %	
Lending margin CM (lending rate - 3-month NIBOR)	2.44 %	2.19 %	2.23 %	2.20 %	2.20 %	
Deposit margin RM (3-month NIBOR - deposit rate)	0.56 %	0.81 %	0.69 %	0.55 %	0.41 %	
Deposit margin CM (3-month NIBOR - deposit rate)	0.26 %	0.35 %	0.26 %	0.16 %	0.15 %	

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.

## Alternative performance measures – APM

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





**SPAREBANKEN SØR**