



# Q2 2020



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<b>Income statement (NOK million)</b>	<b>Q2 2020</b>	<b>Q2 2019</b>	<b>30.06.2020</b>	<b>30.06.2019</b>	<b>31.12.2019</b>
Net interest income	449	467	974	904	1 926
Net commission income	89	86	159	160	344
Net income from financial instruments	59	5	-10	24	24
Other operating income	56	25	45	31	74
<b>Total net income</b>	<b>653</b>	<b>583</b>	<b>1 168</b>	<b>1 119</b>	<b>2 368</b>
Total operating expenses before losses	240	231	472	460	918
<b>Operating profit before losses</b>	<b>413</b>	<b>352</b>	<b>696</b>	<b>659</b>	<b>1 450</b>
Losses on loans, guarantees and unused credit	46	2	107	5	-17
<b>Profit before taxes</b>	<b>367</b>	<b>350</b>	<b>589</b>	<b>654</b>	<b>1 467</b>
Tax expenses	79	83	137	154	342
<b>Profit for the period</b>	<b>288</b>	<b>267</b>	<b>452</b>	<b>500</b>	<b>1 125</b>
<b>Profit as % of average assets</b>					
Net interest income	1.25 %	1.52 %	1.42 %	1.47 %	1.53 %
Net commission income	0.25 %	0.28 %	0.23 %	0.26 %	0.27 %
Net income from financial instruments	0.16 %	0.02 %	-0.02 %	0.04 %	0.02 %
Other operating income	0.16 %	0.08 %	0.07 %	0.05 %	0.06 %
<b>Total net income</b>	<b>1.82 %</b>	<b>1.90 %</b>	<b>1.70 %</b>	<b>1.82 %</b>	<b>1.88 %</b>
Total operating expenses before losses	0.67 %	0.75 %	0.69 %	0.75 %	0.73 %
<b>Operating profit before losses</b>	<b>1.15 %</b>	<b>1.15 %</b>	<b>1.01 %</b>	<b>1.07 %</b>	<b>1.15 %</b>
Losses on loans, guarantees and unused credit	0.13 %	0.01 %	0.16 %	0.01 %	-0.01 %
<b>Profit before taxes</b>	<b>1.03 %</b>	<b>1.14 %</b>	<b>0.86 %</b>	<b>1.06 %</b>	<b>1.17 %</b>
Tax expenses	0.22 %	0.27 %	0.20 %	0.25 %	0.27 %
<b>Profit for the period</b>	<b>0.80 %</b>	<b>0.87 %</b>	<b>0.66 %</b>	<b>0.81 %</b>	<b>0.89 %</b>
<b>Key figures, income statement</b>					
Return on equity after tax (adjusted for hybrid capital)	8.8 %	9.0 %	6.9 %	8.6 %	9.5 %
Costs as % of income	36.8 %	39.6 %	40.4 %	41.1 %	38.8 %
Costs as % of income, excl. net income from financial instruments	40.4 %	40.0 %	40.1 %	42.0 %	39.2 %
<b>Key figures, balance sheet</b>					
Total assets	141 566	125 697	141 566	125 697	129 499
Average total assets	129 600	124 400	138 000	123 900	125 900
Net loans to customers			109 049	104 964	106 334
Growth in loans as % last 12 mths.			3.9 %	4.4 %	3.3 %
Customer deposits			60 055	59 946	57 949
Growth in deposits as % last 12 mths.			0.2 %	4.7 %	2.5 %
Deposits as % of net loans			55.1 %	57.1 %	54.5 %
Equity (incl. hybrid capital)			13 474	12 200	13 081
Losses on loans as % of net loans, annualised			0.17 %	0.01 %	-0.01 %
Gross non-performing loans > 90 days as % of gross loans			0.24 %	0.32 %	0.27 %
<b>Other key figures</b>					
Liquidity reserve (LCR) Group			126 %	146 %	148 %
Liquidity reserve (LCR) Group - Euro			172 %	3033 %	1168 %
Liquidity reserve (LCR) Parent Bank			152 %	137 %	140 %
Common equity tier 1 capital ratio			15.7 %	15.0 %	15.7 %
Tier 1 capital ratio			17.6 %	16.5 %	17.6 %
Total capital ratio			19.7 %	18.6 %	20.3 %
Total common equity tier 1 capital ratio			11 823	10 900	11 356
Tier 1 capital ratio			13 234	12 011	12 767
Net subordinated capital			14 793	13 564	14 686
Leverage ratio			9.1 %	9.0 %	9.3 %
Number of branches			34	34	34
Number of FTEs in banking operations			436	427	429
<b>Key figures, equity certificates</b>					
Equity certificate ratio, weighted average over the period			17.3 %	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)	2.3	2.2	5.9	4.0	9.3
Profit/diluted earnings per equity certificate (Group)	2.9	2.7	4.5	5.1	11.7
Dividend last year per equity certificate			-	6.0	8.0
Book equity per equity certificate			133.3	122.2	128.5
Price/book value per equity certificate			0.7	0.8	0.9
Listed price on Oslo Stock Exchange at end of period			98.8	95.0	110.0

## Board of Director's report

### General

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

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

### Highlights in Q2 2020

- Efficient operations and low costs
- Very good result from Frende and Brage
- Solid result from the company's estate agency, Sørmeglere
- Net income from financial instruments increased due to changes in the value of the liquidity portfolio
- Negative development in net interest income due to interest rate reductions with effect in the second quarter.
- A continued increase in model-based losses on loans due to the COVID-19 pandemic
- Annualised growth in lending of 5.4 percent
- Annualised growth in deposits of 16.6 percent
- Return on equity after tax of 8.8 percent
- Common equity tier 1 (CET1) ratio of 15.7 percent and Leverage Ratio of 9.1 percent

### Highlights in the 1st half of 2020

- Good result from ordinary operations
- Positive development in net interest income
- Good results from Frende, Brage and Sørmeglere
- Increased model based losses on loans as a result of the Covid-19 pandemic
- Year-on year loan growth of 3.9 percent
- Year-on year deposit growth of 0.2 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
- Return on equity after tax of 6.9 percent

### Financial framework conditions

The Norwegian economy and the financial markets continued to be impacted by the coronavirus epidemic in the second quarter. There is a great deal of uncertainty, both in the financial markets and in the society in general.

On 7 May 2020, the key interest rate was reduced to a record-low 0 percent, on the grounds of the pandemic's impact. The Norwegian economy has since improved, and there has been a gradual re-opening of society. Despite this, uncertainty moving forward remains high. The initiatives taken to limit the spread of the virus have forced a number of companies to remain closed, or scale back their operations.

Norway has room for manoeuvre with regard to economic policy, good welfare arrangements and its banks are financially strong. This puts Norway in an exceptional position to weather the crisis, despite the Norwegian economy being hit by the Covid-19 pandemic and fall in oil prices, at the same time. Reduced borrowing costs could help Norwegian companies and households through a challenging period of lower income. When the measures taken to limit the spread of the coronavirus are eventually reversed and the situation returns to normal, low interest rates could help restart activity more rapidly.

The capital markets are still being affected by Covid-19 and there have been major fluctuations in the market since the middle of 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 three-month F-loans for as long as is deemed appropriate.

The annual growth in the general public's gross domestic debt, C2, stood at 4.5 percent at the close of June 2020. Growth in household and business loans was 4.4 percent and 3.5 percent, respectively.

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

## Earnings

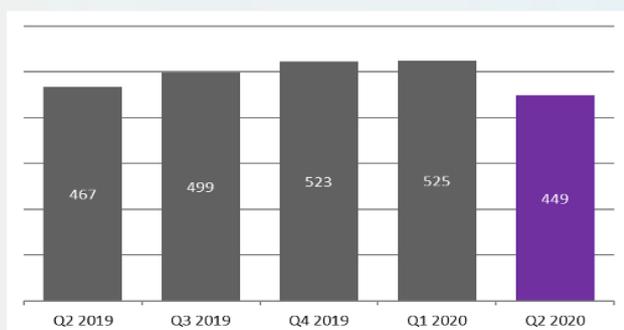
Sparebanken Sør made a profit before tax of NOK 367 million in the second quarter 2020, compared with NOK 350 million in the same period in 2019. This corresponds to an increase of NOK 17 million. The Group achieved a return on equity after tax of 8.8 percent in the second quarter 2020, compared with 9.0 percent in the same period in 2019.

Sparebanken Sør made a profit before tax of NOK 589 million in the first half of 2020, compared with NOK 654 million in the same period in 2019. The return on equity after tax was 6.9 percent in the first half of 2020.

The Group's earnings in the first half of 2020 were strongly affected by the Covid-19 pandemic. The pandemic has resulted in higher model-based losses under the rules provided in IFRS 9. In addition, the pandemic has affected the capital markets with increased risk premiums in the first quarter and declining risk premiums in the second quarter, which overall reduced the contribution to profits made by the Bank's liquidity portfolio in the first half of the year.

## Net interest income

### Quarterly net interest income (NOK million)



Net interest income totalled NOK 449 million in the Q2 2020, compared to NOK 467 million in the Q2 2019, a reduction of NOK 18 million.

Norges Bank has cut the key interest rate from 1.50 percent to a record-low 0 percent. Sparebanken Sør has followed up by notifying a reduction in its lending rate of up to 1.25 percent in the same period. The bank implemented the interest rate change with shortened notice periods, and the bank's customers could benefit from low lending rates in a demanding period. Notice period for change in interest rates is normally 6 weeks, and efficiency for the shortened notice period has in Q2 2020 reduced net interest income by approximately NOK 56 million.

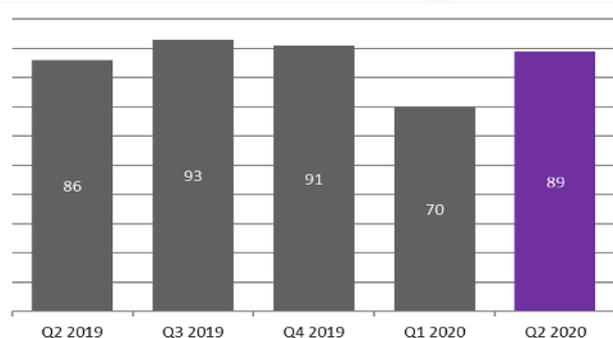
The bank also implemented changes in interest rates on some deposits in the second quarter. Changes in interest rates on deposits must be notified 8 weeks before implementation. The interest rate changes have put pressure on the bank's overall interest margin (lending rate - deposit rate), which has decreased in the second quarter.

Net interest income as a percentage of the Bank's average total assets in the second quarter of 2020 was 1.25 percent, down from 1.52 percent in the same period in 2019. As a result of turmoil in the financial market during the corona pandemic, the total assets has increased significantly. This mainly applies financial derivatives and collateral received used for derivative contracts. In addition, the bank has used the F-loan facility in Norges Bank. The increase in total assets explains approx. 10 basis points of the fall in net interest income, as a percentage of total average assets.

## Board of Director's report

### Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 89 million in Q2 2020, compared with NOK 86 million in the second quarter 2019.

Gross commission income in Q2 2020 totalled NOK 102 million, compared to NOK 100 million in Q2 2019.

Commission income	Q2 2020	Q2 2019	Change	1st half of 2020	1st half of 2019	Change
Payment services	38	44	-6	78	87	-9
Real estate brokerage	42	34	8	66	61	5
Other commission income	23	22	1	45	40	5
<b>Total</b>	<b>102</b>	<b>100</b>	<b>2</b>	<b>188</b>	<b>188</b>	<b>0</b>

Gross commission income increased from last year, primarily as a result of increased commission income from real estate brokerage. There has been a decrease in commission income from payment services in Q2, which is mainly due to the loss of currency exchange income related to reduced use of credit cards abroad. This was due to less travelling by the banks customers as a result of the COVID-19 situation. On the other hand, there is an increase in commission income related to other products.

### Financial instruments

Net income from financial instruments totalled NOK 59 million in the Q2 2020, compared to NOK 5 million in Q2 2019. The increase is mainly due to changes in the value of the bank's liquidity portfolio because of reduced credit spreads in the bond market.

Net income from financial instruments	Q2 2020	Q2 2019	Change	1st half of 2020	1st half of 2019	Change
Bonds and certificates	45	-3	48	-39	7	-45
Shares incl. dividends	6	1	5	7	8	-1
Fixed rate loans	-18	-12	-6	-4	-9	5
Securities issued - hedge accounting	28	12	16	20	13	7
Repurchase of issued bonds	-6	-	-6	-10	-9	-1
Other financial instruments	3	7	-4	16	13	2
<b>Total</b>	<b>59</b>	<b>5</b>	<b>54</b>	<b>-10</b>	<b>24</b>	<b>-34</b>

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

### Income from associated companies

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

Sparebanken Sør bought 57 936 shares for NOK 29.1 million in Frende Holding AS. The purchase price amounted to NOK 517.71 per share corresponding to a value of the company of NOK 3.5 billion. Following the transaction, Sparebanken Sør owns 21.0 percent of Frende Holding AS, valued at NOK 736.6 million. The book value of the shares in Frende Holding AS amounted to NOK 485.9 million at the end of the quarter. The transaction reveals an excess value of NOK 250.7 million, corresponding to NOK 2.8 per equity certificate.

Profit from associates totalled NOK 52.1 million in Q2 2020, up from NOK 23 million in the corresponding period in 2019.

Sparebanken Sør's share of the profit in Brage Finans AS totalled NOK 7.9 million in Q2 and NOK 13.6 million in the first half of 2020.

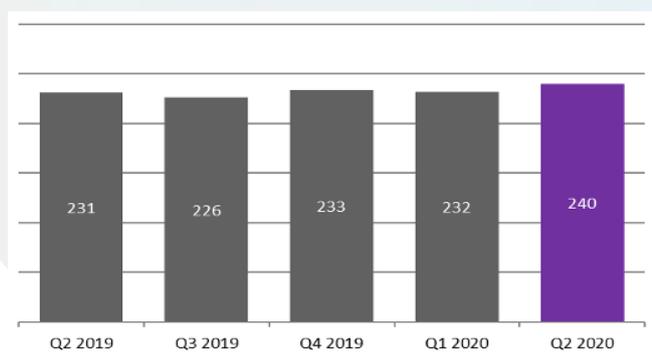
Sparebanken Sør's share of the profit in Frende Holding AS totalled NOK 49.3 million in Q2 and NOK 27.4 million in the first half of 2020.

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 Q2 and NOK 10 million in the first half of 2020.

In Q1, a NOK 7.7 million value adjustment was recognised for the Bank's shares in Vipps, which increased the value of its shares in Balder Betaling AS in the first quarter. No value adjustment was made in Q2.

## Operating expenses

### Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 240 million in Q2 2020, up from NOK 231 million in the same period in 2019.

Operating expenses as a percentage of average total assets were 0.67 percent in Q2. Cost-income ratio was 36.8 percent (39.6 percent). Cost-income ratio excluding financial instruments were 40.4 percent (40.0 percent).

Expenses in the banking business amounted to NOK 208 million in Q2 2020, compared to NOK 201 million in the same period in 2019.

## Losses and non-performing loans

Net losses on loans, amounted to losses of NOK 46 million in Q2 2020, representing 0.17 percent of gross loans (annualised), compared with a loss of NOK 2 million in Q2 2019. Net losses on loans amounted to NOK 107 million in the first half of the year, compared with NOK 5 million in the same period last year.

The loss expenses in the Q2 and first half of 2020 is mainly related to model based calculated losses on loans according to the accounting standard IFRS9, due to a negative macro input. The macro variables used are presented in note 5.

The Covid-19 pandemic is affecting several business sectors, and the government has implemented extensive and wide-ranging support measures. The Bank has virtually no direct exposure to the oil and offshore industries, which are strongly affected by the downturn in oil prices. The Bank's indirect exposure to oil and offshore industries are low. An estimated 1–2 percent of the tenants in the Bank's real estate commercial property portfolio are linked to this sector.

## Board of Director's report

The Covid-19 crisis hit by full force in the middle of March 2020, at the end of Q2 the uncertainty regarding the downside for the Banks customers are still unknown. 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.

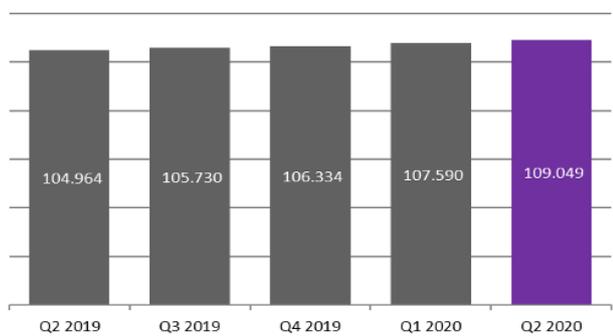
When assessing the loan loss expenses in Q2, significant use of discretion regarding the macro-parameters has been required. The assessments related to losses on loans will always be subject to considerable uncertainty. The market uncertainty is still high and affects the assessments made on 30 June 2020.

The Group's impairment losses were calculated at NOK 495 million in Q2 2019, which is equivalent to 0.45 percent of gross loans. The corresponding figures for 2019 were NOK 436 million and 0.41 percent of gross loans.

Gross non-performing loans over 90 days in arrears were NOK 267 million, which represented 0.24 percent of gross loans. This was lower compared to the same time in 2019, when gross non-performing loans in arrears amounted to NOK 333 million and represented 0.32 percent of gross loans lending. Gross non-performing loans over 90 days in arrears are still at a very low level.

### Loans

#### Loans NOK million



Over the past 12 months net loans increased by NOK 4.1 billion to a total of NOK 109.0 billion, representing a growth of 3.9 percent. Profitable growth is prioritised by the bank.

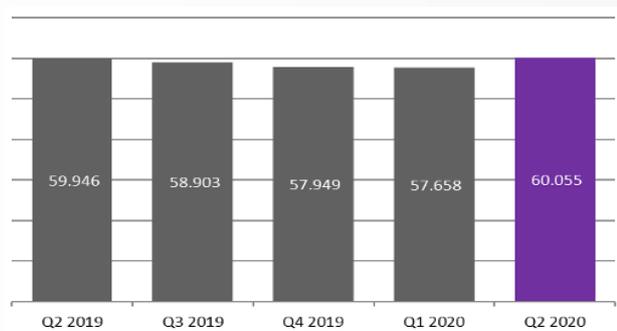
Over the past 12 months, gross loans to retail customers increased by NOK 2.4 billion to NOK 71.9 billion, a growth of 3.4 percent.

Gross loans to corporate customers increased by NOK 1.8 billion to NOK 37.5 billion over the last 12 months, representing a growth of 5.1 percent.

Loans to retail customers accounted for 66 percent (66 percent) of total loans at the end of Q2 2020.

### Deposits

#### Deposits NOK million



Over the past 12 months, customer deposits increased by NOK 1.1 billion to NOK 60.1 billion, a growth of 0.2 percent.

Deposits from retail customers increased by NOK 1.8 billion to NOK 30.3 billion, a growth of 6.2 percent.

Deposits from corporate customers decreased by 1.7 billion to NOK 29.5 billion, a decrease of 5.4 percent.

The bank has reduced the proportion of larger deposits in 2020, and had a good increase in smaller, operational corporate deposits.

Deposits in percent of net loans were 55.1 percent at the end of Q2 2020, down from 57.1 percent at the same time in 2019. The decrease is primarily attributable to the reduced portion of larger deposits.

### **Wholesale funding and liquidity portfolio**

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

At the end of Q2 2020, wholesale funding amounted to NOK 56.3 billion, of which 73 percent consisted of covered bonds. Long-term financing (over 1 year maturity) had an average maturity of 3.3 years at the end of the quarter.

Sparebanken Sør has availed itself of the extraordinary loan facility that Norges Bank established in March 2020. As at 30 June 2020, the Bank had NOK 2.5 billion in F-loans, and the Bank had placed NOK 2.0 billion as F-deposits in Norges Bank.

By the end of Q1 2020, Sparebanken Sør Boligkreditt AS issued a covered bond of 5.0 billion, purchased by the parent bank. The transaction was completed in order to use the covered bond as collateral for the extraordinary loan arrangement at Norges Bank. On May 20, an additional covered bond of 5 billion was issued, with the parent bank purchasing NOK 2.5 billion.

Liquidity in the Norwegian bond market showed signs of improvement through the second quarter, and the credit spreads have fallen. The Norwegian State Bond Fund has been re-established, and its mandate is to help increase liquidity and capital in the bond market through the purchase of bonds at market terms. Norges Bank's money market measures and the Government Bond Fund contributed to a more well functioning bond market.

The Group's portfolio of interest-bearing securities totalled NOK 21.1 billion at the end of Q2 2020 (152 percent in parent bank). The Group's liquidity reserve (LCR) amounted to 126 percent per June 30, 2020 (152 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, also have a triple A (Aaa) rating from Moody's.

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

At the end of Q2 2020, net subordinated capital totalled NOK 14.8 billion. Hybrid capital totalled NOK 1.4 billion and subordinated loans totalled NOK 1.6 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.7 percent, the tier 1 capital ratio was 17.6 percent and the (total) capital ratio for the Sparebanken Sør Group was 19.7 percent (based on Basel II).

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

The parent bank had a CET1 capital ratio of 16.6 percent, a tier 1 capital ratio of 18.8 percent and a (total) capital ratio of 21.2 percent at the close of Q2 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. The capital requirement related to the shareholding in Frende Holding AS alone, accounts for 0.3 percentage points. The Norwegian Ministry of Finance intended to assess the group's risk and capital requirements (SREP) in 2020. As a result of the corona pandemic, the Norwegian Ministry of Finance will not make new Pillar 2 decisions in the second half of 2020, unless special circumstances of a significant nature are identified that indicate increased capital requirements.

## Board of Director's report

The group has completed this year's ICAAP, and the group's own calculations indicates that the Pillar 2 requirement should be markedly lower, and that this will be down towards 1.5 percent of the risk-weighted assets.

In Q1 2020, the Norwegian Ministry of Finance decided to lower the countercyclical capital buffer requirement from 2.5 percent to 1.0 percent, with immediate effect. The buffer requirement was lowered to prevent stricter lending practices by the banks from intensifying the recession due to Covid-19.

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.

Through solid operations, the group will comply with the new requirements by 2022, as well as secure necessary buffers above the minimum requirement.

An important part of the Group's objective is that the common equity tier 1 capital ratio should be on par with that of comparable banks. Of the major regional banks, only Sparebanken Sør uses the standard method for the calculation of capital adequacy, and today the Bank has a higher leverage ratio than the other regional banks. Sparebanken Sør has 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 Group's Leverage Ratio stood at 9.1 percent at the close of Q2 2020, compared to 9.0 percent at the same time in 2019. The Bank's capital adequacy 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 January 1, 2024.

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. The Bank has presented to the Financial Supervisory Authority 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. On 24 June 2020, Sparebanken Sør was the first Norwegian bank to issue a senior non-preferred bond (Tier 3) with a nominal value of NOK 1 billion with a maturity of 5 years.

### **The bank's equity certificates**

As at 30 June 2020, the Bank had issued 15,663,944 equity certificates. Earnings per equity certificate (for the Group) came to NOK 2.9 in the second quarter and NOK 4.5 for the first half of 2020. The ownership ratio in the second quarter 2020 came to 17.3 percent. Hybrid capital 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 aim is for 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 proposed to postpone a dividend payout for the equity certificate for 2019, to the above the Board of Trustees. 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 considerations 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 30 June 2020, the bank had transferred NOK 46.0 billion to Sparebanken Sør Boligkreditt AS, equivalent to 63 percent of all loans to the retail market.

The Bank's own real estate business, **Sørmeglere**, is the absolute leader in its field in Southern Norway. Sørmeglere continues to grow, and now employs 85 people in 17 locations. As at 30 June 2020, Sørmeglere made a loss before tax of NOK 6.8 million, compared with NOK 2.5 million in the corresponding period last year. It was a demanding start to 2020 for the real estate business as a result of the corona situation. Activity has increased significantly recently, and the profit before tax in the second quarter amounted to NOK 10.3 million.

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

In the first half of 2020, Frende Holding AS made a profit before tax of NOK 191.9 million, compared to a profit before tax of NOK 179.8 million in the same period last year. Profit before tax in Q2 totalled NOK 312.8 million (NOK 136.0 million). Both Frende Skadeforsikring AS and Frende livsforsikring AS had a good technical result during the quarter. The investment result has improved significantly from the previous quarter.

Financial results in the first half of 2020 showed a profit of NOK 14.2 million (NOK 135.4 million). The second quarter contributed with a profit of NOK 188.8 million (NOK 48.2 million) isolated.

Frende Skade made a profit before tax of NOK 64.8 million in the first half of 2020, compared to NOK 116.2 million in the same period last year. Profit for Q2 totalled NOK 214.4 million (NOK 94.4 million) The company had a total of NOK 2.122 million (NOK 2.083 million) in written premiums, divided between more than 161,000 customers. The market share by the end of Q2 was 3.4 percent. The loss ratio for the first half of the year stood at 78.6 percent, while the company's combined ratio came to 95.2 percent. Isolated in the second quarter, the loss ratio is 69.4 percent, down from 71.2 percent in the second quarter last year. There are fewer major damage claims compared to 2019, while the claims frequency is above previous years' level. Increased injury frequency is mainly related to COVID 19, and a large number of travel insurance claims.

Frende Liv made a profit before tax of NOK 139.0 million in the first half of 2020, compared with NOK 72.9 million the year before. Profit for Q2 was NOK 104.1 million (NOK 41.4 million). It has been a good risk result in the first half of the year, and the second quarter in isolation is one of the best quarterly results the company has had. Written premiums, including savings, was NOK 1,014 million (960 million) at the close of the first half of the year.

## Board of Director's report

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

In the second quarter of 2020, Brage Finans AS (Brage) continued to grow. The company had a growth in the loan portfolio and a solid capital adequacy ratio. Profit before tax in Q2 amounted to NOK 53.6 million, compared to NOK 44.0 million in Q2 2019. The result corresponded to a return on equity of 8.3 percent against 8.9 percent in the same period last year.

In the first half of the year, Brage achieved a profit before tax of NOK 97.5 million, compared with NOK 77.9 million in the same period last year.

At the end of the second quarter 2020, Brage had a gross lending portfolio of NOK 13.0 billion, an increase of NOK 2.4 billion compared with the same period in 2019.

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

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

### Outlook

The coronavirus epidemic had a major impact on society throughout the first six months of the year. Both international and national authorities, have implemented stringent measures to prevent the spread of infection. This adversely affected the Norwegian economy and our trading partners. There has been a gradual easing of restriction in the second quarter. The government's monetary policy instruments seems to have had a good effect on the economy. The Norwegian economy has improved and the financial markets are more stable. 2020 is expected to be characterised by low interest rates, low productivity, higher unemployment and oil price fluctuations. Growth in the Norwegian economy is expected to be low in 2020.

The Norwegian authorities point out that setbacks and increased restrictions cannot be ruled out. The government and health authorities are closely monitoring the rise in infections. Globally, the curve of infections is still pointing upwards. The international and Norwegian economies continues to be subject to a high level of uncertainty. This will impact Sparebanken Sør in the months to come and the bank are focusing on helping customers to mitigate the effects of the crisis.

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

Residential property prices in the Bank's main markets have shown positive, but modest, growth over several years. The statistics for the second quarter 2020 show positive growth in house prices in the Bank's market area. Activities in the housing market, which were extremely low in March and April, rallied at the end of the second quarter. The situation is being closely monitored, but developments continues to be subject to a high level of uncertainty. The Group's mortgage portfolio is well collateralised, and the Group is well prepared to respond to any decrease in residential property prices. The stress tests performed substantiate this.

The Group has a Tier 1 capital requirement of 13.0 percent, including pillar 2-additions of 2.0 percent. The Group has a Tier 1 capital target of 15.3 percent. At the end of the second quarter 2020, the Bank's Tier 1 capital was 15.7 percent, well above the regulatory authorities' requirement.

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

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

The return on equity in 2020 will be affected by loss assessments and developments in the macroeconomic situation throughout the year. Loss provisions, as of 30 June, have been calculated in accordance with the rules provided in IFRS9, and are based on a long-term perspective. The impact of the Norwegian government's measures to support and developments in the macroeconomic situation are uncertain.

In accordance with its adopted strategy, the Bank will pay close attention to costs and long-term value creation. The Bank's investments in technology will continue to contribute to cost-effective operations and make it possible to improve the efficiency of the branch structure. This, together with good quality credit management, will contribute to continued profitable growth and development for Sparebanken Sør.

### Events after the reporting period

There have been no significant events after 30 June 2020 that affect the quarterly accounts.

### Kristiansand, 14 August 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.	30.06.	30.06.	Q2	Q2			Q2	Q2	30.06.	30.06.	31.12.
2019	2019	2020	2019	2020		Notes	2020	2019	2020	2019	2019
1 543	710	955	368	339	Interest income at amortised cost	4	720	794	1 642	1 532	3 305
1 148	545	365	282	237	Interest income at fair value through profit and loss	4	108	114	253	221	487
1 172	548	559	279	230	Interest expenses	4	379	441	920	849	1 866
<b>1 519</b>	<b>706</b>	<b>761</b>	<b>371</b>	<b>346</b>	<b>Net interest income</b>	<b>4</b>	<b>449</b>	<b>467</b>	<b>974</b>	<b>904</b>	<b>1 926</b>
365	165	166	86	83	Commission income		102	100	188	188	403
59	28	29	14	13	Commission expenses		13	14	29	28	59
<b>306</b>	<b>138</b>	<b>137</b>	<b>72</b>	<b>70</b>	<b>Net commission income</b>		<b>89</b>	<b>86</b>	<b>159</b>	<b>160</b>	<b>344</b>
11	11	242	11	-	Dividend		0	6	2	6	6
47	27	6	-9	73	Net income from other financial instruments		59	-1	-12	18	18
<b>58</b>	<b>38</b>	<b>248</b>	<b>2</b>	<b>73</b>	<b>Net income from financial instruments</b>		<b>59</b>	<b>5</b>	<b>-10</b>	<b>24</b>	<b>24</b>
64	27	39	23	52	Income from associated companies		52	23	39	27	64
8	4	4	2	2	Other operating income		4	2	6	4	10
<b>72</b>	<b>31</b>	<b>43</b>	<b>25</b>	<b>54</b>	<b>Total other income</b>		<b>56</b>	<b>25</b>	<b>45</b>	<b>31</b>	<b>74</b>
<b>1 954</b>	<b>913</b>	<b>1 188</b>	<b>470</b>	<b>543</b>	<b>Total net income</b>		<b>653</b>	<b>583</b>	<b>1 168</b>	<b>1 119</b>	<b>2 368</b>
438	213	216	108	109	Wages and other personnel expenses		137	133	267	265	533
37	17	19	9	10	Depreciation, amortization and impairment of non-current assets		10	9	20	17	37
336	167	175	84	87	Other operating expenses		93	89	185	178	348
<b>811</b>	<b>398</b>	<b>411</b>	<b>200</b>	<b>206</b>	<b>Total operation expenses before losses</b>		<b>240</b>	<b>231</b>	<b>472</b>	<b>460</b>	<b>918</b>
<b>1 143</b>	<b>516</b>	<b>778</b>	<b>270</b>	<b>337</b>	<b>Operating profit before losses</b>		<b>413</b>	<b>352</b>	<b>696</b>	<b>659</b>	<b>1 450</b>
-21	4	104	2	48	Losses on loans, guarantees and undrawn credit	5	46	2	107	5	-17
<b>1 164</b>	<b>512</b>	<b>674</b>	<b>268</b>	<b>289</b>	<b>Profit before taxes</b>	<b>2</b>	<b>367</b>	<b>350</b>	<b>589</b>	<b>654</b>	<b>1 467</b>
261	113	93	56	53	Tax expenses		79	83	137	154	342
<b>904</b>	<b>399</b>	<b>581</b>	<b>212</b>	<b>236</b>	<b>Profit for the period</b>		<b>288</b>	<b>267</b>	<b>452</b>	<b>500</b>	<b>1 125</b>
					Minority interests		0	0	0	0	0
<b>904</b>	<b>399</b>	<b>581</b>	<b>212</b>	<b>236</b>	<b>Majority interests</b>		<b>288</b>	<b>267</b>	<b>452</b>	<b>500</b>	<b>1 125</b>
60	33	43	21	25	Attributable to additional Tier 1 capital holders		25	21	43	33	60
844	366	539	191	211	Attributable to ECC-holders and to the primary capital		263	246	409	467	1 065
<b>904</b>	<b>399</b>	<b>581</b>	<b>212</b>	<b>236</b>	<b>Profit for the period</b>		<b>288</b>	<b>267</b>	<b>452</b>	<b>500</b>	<b>1 125</b>
9.3	4.0	5.9	2.2	2.3	Profit/diluted earnings per equity certificate (in whole NOK)		2.9	2.7	4.5	5.1	11.7
					<b>Other comprehensive income</b>						
					<i>Items that may be reclassified to profit or loss</i>						
					Change in value, basis swaps		2	16	10	0	-4
0					Change in value, customer mortgages						
0					Tax effect		-1	-4	-3	0	1
<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>Total other comprehensive income</b>		<b>2</b>	<b>12</b>	<b>8</b>	<b>-</b>	<b>-3</b>
<b>904</b>	<b>399</b>	<b>581</b>	<b>212</b>	<b>236</b>	<b>Comprehensive income for the period</b>		<b>289</b>	<b>279</b>	<b>460</b>	<b>500</b>	<b>1 122</b>
					Minority interests		0	0	0	0	1
					<b>Majority interests</b>		<b>289</b>	<b>279</b>	<b>460</b>	<b>500</b>	<b>1 121</b>
9.3	4.0	5.9	2.2	2.3	Comprehensive income/diluted earnings per equity certificate		2.9	2.8	4.6	5.1	11.7

PARENT BANK			NOK million	GROUP			
31.12.	30.06.	30.06.			30.06.	30.06.	31.12.
2019	2019	2020	ASSETS	Notes	2020	2019	2019
462	1 021	2 599	Cash and receivables from central banks		2 599	1 021	462
4 063	3 645	6 516	Loans to credit institutions		2 059	139	182
66 185	66 738	63 089	Net loans to customers	2,6,7,8,10,11	109 049	104 964	106 334
16 807	16 067	21 767	Bonds and certificates	11	21 092	17 146	19 916
189	181	178	Shares	11	178	182	190
251	284	1 320	Financial derivatives	11,12	4 802	631	757
1 858	1 858	1 857	Shareholding in group companies				
968	919	1 038	Shareholding in associated companies		1 038	919	968
27	31	35	Intangible asstes		35	31	27
		1	Deferred tax benefit		18		
426	435	431	Property, plant and equipment		463	461	458
107	115	119	Other assets		233	202	205
<b>91 344</b>	<b>91 294</b>	<b>98 950</b>	<b>TOTAL ASSETS</b>	<b>2,11</b>	<b>141 566</b>	<b>125 697</b>	<b>129 499</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>							
2 192	2 113	7 392	Liabilites to credit institutions		7 265	1 839	1 793
57 963	59 964	60 070	Deposits from customers	2,9,11	60 055	59 946	57 949
16 707	16 024	15 091	Liabilities related to issue of securities	11,13	56 284	49 211	53 430
213	164	942	Financial derivatives	11,12	942	164	423
284	133	316	Payable taxes		388	185	361
387	431	450	Other liabilities		517	483	425
43	60	39	Provisions for commitments		39	60	43
49	29	0	Deferred tax		0	4	24
		999	Senior non-preferred		999		
1 971	1 605	1 602	Subordinated loan capital	11,13	1 602	1 605	1 971
<b>79 809</b>	<b>80 523</b>	<b>86 902</b>	<b>Total liabilities</b>		<b>128 092</b>	<b>113 497</b>	<b>116 418</b>
1 623	1 604	1 749	Equity certificate capital	14	1 749	1 604	1 623
1 375	1 075	1 375	Hybrid capital		1 375	1 075	1 375
8 537	8 092	8 924	Other equity		10 350	9 521	10 083
<b>11 535</b>	<b>10 771</b>	<b>12 048</b>	<b>Total equity</b>	<b>3,14</b>	<b>13 475</b>	<b>12 200</b>	<b>13 081</b>
<b>91 344</b>	<b>91 294</b>	<b>98 950</b>	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,11</b>	<b>141 566</b>	<b>125 697</b>	<b>129 499</b>

## Cash flow statement

PARENT BANK			NOK million	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020		30.06. 2020	30.06. 2019	31.12. 2019
2 662	1 227	1 346	Interest received	1 896	1 761	3 749
-1 185	-300	-299	Interest paid	-734	-631	-1 840
334	164	433	Other payments received	212	177	346
-770	-347	-373	Operating expenditure	-421	-451	-898
13	3	4	Loan recoveries	4	3	13
-225	-112	-111	Tax paid for the period	-153	-145	-289
-28	-19	-15	Gift expenditure	-15	-19	-28
1 404	3 190	1 894	Change in customer deposits	1 893	3 181	1 399
-1 921	-2 479	3 117	Change in loans to customers	-2 651	-2 022	-3 382
0	-635	0	Change in loans to credit institutions	0	20	0
-15	-117	2 698	Change in deposits from credit institutions	1 096	1	-108
<b>269</b>	<b>575</b>	<b>8 694</b>	<b>Net cash flow from operating activities</b>	<b>1 127</b>	<b>1 875</b>	<b>-1 038</b>
20 016	8 564	9 468	Payments received, securities	10 720	4 308	12 258
-18 948	-6 921	-14 479	Payments made, securities	-11 966	-6 842	-17 380
3	0	1	Payments received, sale of property, plant and equipment	3	0	3
-37	-25	-16	Payments made, purchase of property, plant and equipment	-19	-25	-40
-293	-241	-30	Investments in subsidiaries and associated companies	-30	-241	-293
-12	-17	-1 211	Change in other assets	-4 246	-83	-108
<b>729</b>	<b>1 360</b>	<b>-6 267</b>	<b>Net cash flow from investing activities</b>	<b>-5 538</b>	<b>-2 883</b>	<b>-5 560</b>
-1 053	0	-2 454	Change in loans to credit institutions	-1 877	0	-63
-54	-31	2 500	Change in deposits from credit institutions	4 374	-80	-17
3 600	0	0	Payments received, bond debt	2 500	4 860	16 063
-4 815	-1 931	-2 246	Payments made, bond debt	-3 011	-3 746	-10 867
-154	-127	-43	Payments made, dividends and interest on hybrid capital	-43	-127	-154
		1 000	Issue of senior non-preferred	1 000	0	0
500	0	0	Issue of subordinated loan capital		0	500
-134	0	-366	Buyback of subordinated loan capital	-366	0	-134
-13	-112	1 319	Change in other assets	3 971	-166	144
300	0		Issue of hybrid capital		0	300
<b>-1 823</b>	<b>-2 201</b>	<b>-290</b>	<b>Net cash flow from financing activities</b>	<b>6 548</b>	<b>741</b>	<b>5 772</b>
<b>-825</b>	<b>-266</b>	<b>2 317</b>	<b>Net change in liquid assets</b>	<b>2 137</b>	<b>-267</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>1 021</b>	<b>2 599</b>	<b>Cash and cash equivalents at end of period</b>	<b>2 599</b>	<b>1 021</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 Q2 2019				33			467		500
Interest paid, hybrid capital				-33					-33
Other comprehensive income									0
Trading of own equity certificates									1
Allocated gift fund							-19		-19
<b>Balance 30.06.2019</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>43</b>	<b>1 794</b>	<b>1</b>	<b>12 200</b>
Profit 1/7 - 31/12/2019			20	27	639	60	-120	0	626
Interest paid, hybrid capital				-27					-27
Issuance of hybrid capital				300					300
Trading of own equity certificates			1				0		0
Other comprehensive income							-4		-4
Allocated gift fund							-15		-15
Other changes					1		1		1
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 323</b>	<b>88</b>	<b>1 671</b>	<b>1</b>	<b>13 081</b>
Change in dividend 2019			125				-125		0
Profit Q2 2020				43			409		452
Interest paid, hybrid capital				-43					-43
Other comprehensive income							10		10
Allocated gift fund							-25		-25
<b>Balance 30.06.2020</b>	<b>783</b>	<b>451</b>	<b>514</b>	<b>1 375</b>	<b>8 323</b>	<b>63</b>	<b>1 965</b>	<b>1</b>	<b>13 475</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 Q2 2019				33			366		399
Interest paid, hybrid capital				-33					-33
Other comprehensive income									0
Allocated gift fund							-19		-19
<b>Balance 30.06.2019</b>	<b>783</b>	<b>451</b>	<b>369</b>	<b>1 075</b>	<b>7 683</b>	<b>43</b>	<b>366</b>	<b>0</b>	<b>10 771</b>
Profit 1/7 - 31/12/2019			20	27	639	60	-241	0	505
Interest paid, hybrid capital				-27					-27
Issuance of hybrid capital				300					300
Other comprehensive income			0						0
Allocated gift fund							-15		-15
Other changes			0		1				1
<b>Balance 31.12.2019</b>	<b>783</b>	<b>451</b>	<b>389</b>	<b>1 375</b>	<b>8 323</b>	<b>88</b>	<b>125</b>	<b>0</b>	<b>11 535</b>
Change in dividend 2019			125				-125		0
Profit Q2 2020				43			538		581
Interest paid, hybrid capital				-43					-43
Other comprehensive income									0
Allocated gift fund							-25		-25
<b>Balance 30.06.2020</b>	<b>783</b>	<b>451</b>	<b>514</b>	<b>1 375</b>	<b>8 323</b>	<b>63</b>	<b>538</b>	<b>0</b>	<b>12 048</b>

# Notes

## 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			30.06.2020		
Report per segment			Undistrib.	Total banking		
Income statement (NOK million)	RM	CM	and elimin.	business	Sørmegleren	Total
Net interest and commission income	583	440	-49	974	0	974
Net other operating income	82	36	10	128	66	194
Operating expenses	206	51	157	414	59	472
<b>Profit before losses per segment</b>	<b>458</b>	<b>425</b>	<b>-195</b>	<b>689</b>	<b>7</b>	<b>696</b>
Losses on loans and guarantees	2	105	1	107		107
<b>Profit before tax per segment</b>	<b>457</b>	<b>321</b>	<b>-196</b>	<b>582</b>	<b>7</b>	<b>589</b>
Net loans to customers	72 965	35 874	209	109 049		109 049
Other assets			32 422	32 422	95	32 517
<b>Total assets per segment</b>	<b>72 965</b>	<b>35 874</b>	<b>32 632</b>	<b>141 471</b>	<b>95</b>	<b>141 566</b>
Deposits from customers	32 832	24 551	2 672	60 055		60 055
Other liabilities	40 133	11 323	16 485	67 942	95	68 037
<b>Total liabilities per segment</b>	<b>72 965</b>	<b>35 874</b>	<b>19 158</b>	<b>127 997</b>	<b>95</b>	<b>128 092</b>
Equity			13 475	13 475		13 475
<b>Total liabilities and equity per segment</b>	<b>72 965</b>	<b>35 874</b>	<b>32 632</b>	<b>141 471</b>	<b>95</b>	<b>141 566</b>

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

## 3. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020		30.06. 2020	30.06. 2019	31.12. 2019
11 535	10 771	12 048	<b>Total equity</b>	13 475	12 201	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	-101	-80	Share of profit not eligible as common equity tier 1 capital	-80	-101	-245
-27	-31	-35	Deductions for intangible assets and deferred tax assets	-35	-31	-27
-44	-22	-48	Deductions for additional value adjustments	-32	-24	-27
			Proportion of common equity tier 1 capital from Brage Finans AS	381	305	374
			Deductions for internal eliminations from Brage Finans AS	-387	-304	-374
-104	-104	-110	Other deductions	-124	-71	-51
<b>9 740</b>	<b>9 438</b>	<b>10 400</b>	<b>Total common equity tier 1 capital</b>	<b>11 823</b>	<b>10 900</b>	<b>11 356</b>
			<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	36	36
0	0		Deductions from other tier 1 capital		0	0
<b>11 115</b>	<b>10 513</b>	<b>11 775</b>	<b>Total tier 1 capital</b>	<b>13 234</b>	<b>12 011</b>	<b>12 767</b>
			<b>Additional capital supplementary to tier 1 capital</b>			
1 971	1 604	1 600	Subordinated loan capital	1 600	1 604	1 971
			Proportion of net subordinated capital Brage Finans AS	59	49	49
-101	-100	-100	Deductions from additional capital	-100	-100	-101
<b>1 870</b>	<b>1 504</b>	<b>1 500</b>	<b>Total additional capital</b>	<b>1 559</b>	<b>1 553</b>	<b>1 919</b>
<b>12 985</b>	<b>12 017</b>	<b>13 275</b>	<b>Net subordinated capital</b>	<b>14 793</b>	<b>13 564</b>	<b>14 686</b>
			<b>Minimum requirement for subordinated capital Basel II calculated according to standard method</b>			
2	3	4	Engagements with local and regional authorities	4	3	2
70	61	100	Engagements with institutions	56	30	34
218	220	286	Engagements with enterprises	295	223	224
415	443	389	Engagements with mass market	492	553	520
3 029	3 139	2 964	Engagements secured in property	4 283	4 197	4 167
92	82	93	Engagements which have fallen due	100	85	98
2	2	1	Engagements which are high risk	1	2	2
384	381	514	Engagements in covered bonds	107	99	107
334	334	341	Engagements in collective investment funds	193	174	184
49	39	42	Engagements, other	46	51	49
<b>4 595</b>	<b>4 704</b>	<b>4 734</b>	<b>Capital requirements for credit and counterparty risk</b>	<b>5 577</b>	<b>5 417</b>	<b>5 387</b>
<b>1</b>	<b>1</b>	<b>1</b>	<b>Capital requirements for position, currency and product risk</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>259</b>	<b>259</b>	<b>268</b>	<b>Capital requirements for operational risk</b>	<b>325</b>	<b>313</b>	<b>313</b>
<b>1</b>	<b>0</b>	<b>3</b>	<b>CVA addition</b>	<b>3</b>	<b>0</b>	<b>1</b>
<b>0</b>	<b>0</b>	<b>0</b>	<b>Deductions from the capital requirement</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>4 856</b>	<b>4 964</b>	<b>5 006</b>	<b>Total minimum requirement for subordinated capital</b>	<b>5 906</b>	<b>5 731</b>	<b>5 702</b>
60 702	62 045	62 572	Risk-weighted balance (calculation basis)	73 821	71 636	71 275
			Proportionate share of calculation basis Brage Finans AS	2 260	2 036	2 112
			Deductions for internal eliminations Brage Finans AS	-971	-777	-955
			Risk weighted balance after proportionate consolidation	75 110	72 895	72 432
16.0 %	15.2 %	16.6 %	Common equity tier 1 capital ratio, %	15.7 %	15.0 %	15.7 %
18.3 %	16.9 %	18.8 %	Tier 1 capital ratio, %	17.6 %	16.5 %	17.6 %
21.4 %	19.4 %	21.2 %	Total capital ratio, %	19.7 %	18.6 %	20.3 %
8.5 %	8.0 %	8.0 %	Leverage ratio	9.1 %	9.0 %	9.3 %

Following a proposal from the board of directors, the Supervisory Board decided at its meeting of 26 March 2020 to pay a dividend of 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.

PARENT BANK			Interest income	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020	NOK million	30.06 2020	30.06 2019	31.12. 2019
			<i>Interest income from financial instruments at amortised cost</i>			
92	41	44	Interest on receivables from credit institutions	10	9	24
1 452	669	911	Interest on loans given to customers	1 631	1 523	3 281
<b>1 543</b>	<b>710</b>	<b>955</b>	<b>Total interest from financial instruments at amortised cost</b>	<b>1 641,5</b>	<b>1 532</b>	<b>3 305</b>
			<i>Interest income from financial instruments at fair value</i>			
165	79	72	Interest on loans given to customers (fixed rate loans)	72	79	166
305	145	167	Interest on certificates and bonds	181	142	321
<b>470</b>	<b>225</b>	<b>239</b>	<b>Total interest from financial instruments at fair value via profit or loss</b>	<b>252,9</b>	<b>221</b>	<b>487</b>
			<i>Interest income from financial instruments at fair value via OCI</i>			
677	320	126	Interest on loans given to customers (mortgages)			
<b>677</b>	<b>320</b>	<b>126</b>	<b>Total interest from financial instruments at fair value via OCI</b>			
<b>2 691</b>	<b>1 255</b>	<b>1 320</b>	<b>Total interest income</b>	<b>1 894</b>	<b>1 753</b>	<b>3 792</b>

PARENT BANK			Interest expenses	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020	NOK million	30.06 2020	30.06 2019	31.12. 2019
			<i>Interest expenses from financial instruments at amortised cost</i>			
38	17	24	Interest on liabilities to credit institutions	23	17	38
692	320	313	Interest on customer deposits	313	320	691
345	168	167	Interest on issued securities	525	468	1 036
49	23	29	Interest on subordinated loans	29	23	49
47	20	27	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	30	20	52
<b>1 172</b>	<b>548</b>	<b>559</b>	<b>Interest expenses from financial instruments at amortised cost</b>	<b>920</b>	<b>849</b>	<b>1 866</b>
<b>1 172</b>	<b>548</b>	<b>559</b>	<b>Total interest expenses</b>	<b>920</b>	<b>849</b>	<b>1 866</b>

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

Provisions for loss allowances and loss expense for the period are calculated according to the new accounting standard IFRS 9 and are based on expected credit loss (ECL) using the 3-stage model described in Note 7 of the 2019 financial statements.

As a result of COVID 19, the macro situation changed significantly in Q2 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 June 30 2020.

	2020	2021	2022	2023	2024
Housing price %	3.5	4.0	2.9	2.2	2.2
Housing price region %	3.5	4.0	2.9	2.2	2.2
Unemployment %	6.0	4.7	4.3	4.1	4.1
Oil prices, USD	39.5	41.7	44.1	46.2	46.2
Key interest rate	0.4	0.0	0.1	0.5	0.5
Import-weighted exchange rate	115.0	110.0	110.0	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 collateralised mortgages on real estate and the determination of these parameters for housing prices (including real estate) is considered to be the parameters that have the most significant effect on LGD (loss given default).

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

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

#### Group 30.06.2020

Loan loss provisions NOK million	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 percent increase in unemployment
- Loan loss provisions, CM	55	121	199	13
- Loan loss provisions, RM	12	28	47	11
<b>Total</b>	<b>67</b>	<b>149</b>	<b>246</b>	<b>24</b>

#### Parent bank 30.06.2020

Loan loss provisions NOK million	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 percent increase in unemployment
- Loan loss provisions, CM	55	120	198	13
- Loan loss provisions, RM	7	16	26	6
<b>Total</b>	<b>62</b>	<b>136</b>	<b>224</b>	<b>19</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.

PARENT BANK			NOK million	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020	Loss expense on loans during the period	30.06. 2020	30.06. 2019	31.12. 2019
-6	-5	30	Period's change in write-downs stage 1	32	-4	-5
31	16	61	+Period's change in write-downs stage 2	60	16	33
-89	-48	12	+Period's change in write-downs stage 3	13	-48	-89
41	35	4	+ Period's confirmed loss	4	35	41
18	9	2	+ Recognised as interest income	2	9	18
13	3	4	- Period's recoveries relating to previous losses	5	3	13
-1	0	0	+ Change in write-downs on guarantees	0	0	-1
<b>-21</b>	<b>4</b>	<b>104</b>	<b>= Loss expenses during the period</b>	<b>107</b>	<b>5</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	Total
<b>NOK MILLION</b>				
<b>Provisions for loan losses as at 01.01.2020</b>	<b>39</b>	<b>126</b>	<b>231</b>	<b>397</b>
Transfers				
Transferred to stage 1	30	-26	-4	0
Transferred to stage 2	-5	7	-2	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	13	28	22	63
Losses on deducted loans	-5	-17	-19	-41
Losses on older loans and other changes	-1	70	7	76
<b>Provisions for loan losses as at 30.06.2020</b>	<b>71</b>	<b>187</b>	<b>237</b>	<b>495</b>
Provisions for loan losses	62	159	232	453
Provisions for guarantees and undrawn credits	9	28	5	42
<b>Total provision for losses as at 30.06.2020</b>	<b>71</b>	<b>187</b>	<b>237</b>	<b>495</b>

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

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

## PARENT BANK

	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK MILLION</b>				
<b>Provisions for loan losses as at 01.01.2020</b>	<b>37</b>	<b>120</b>	<b>230</b>	<b>387</b>
Transfers				
Transferred to stage 1	27	-23	-4	0
Transferred to stage 2	-5	7	-2	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	12	27	22	60
Losses on deducted loans	-5	-16	-19	-39
Losses on older loans and other changes	1	66	6	73
<b>Provisions for loan losses as at 30.06.2020</b>	<b>66</b>	<b>180</b>	<b>236</b>	<b>483</b>
Provisions for loan losses	57	152	231	441
Provisions for guarantees and undrawn credits	9	28	5	52
<b>Total provision for losses as at 30.06.2020</b>	<b>66</b>	<b>180</b>	<b>236</b>	<b>483</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.

GROUP	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK MILLION</b>				
<b>Provisions for loan losses as at 01.01.2019</b>	<b>45</b>	<b>94</b>	<b>335</b>	<b>473</b>
Transfers				
Transferred to stage 1	66	-13	-53	0
Transferred to stage 2	-2	6	-4	0
Transferred to stage 3	0	-3	3	0
Losses on new loans	14	26	12	52
Losses on deducted loans *	-10	-18	-17	-45
Losses on older loans and other changes	-72	16	11	-45
<b>Provisions for loan losses as at 30.06.2019</b>	<b>40</b>	<b>108</b>	<b>287</b>	<b>436</b>
Provisions for loan losses	32	102	284	418
Provisions for guarantees and undrawn credits	8	6	4	18
<b>Total provision for losses as at 30.06.2019</b>	<b>40</b>	<b>108</b>	<b>287</b>	<b>436</b>

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

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

PARENT BANK	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
<b>NOK MILLION</b>				
<b>Provisions for loan losses as at 01.01.2019</b>	<b>44</b>	<b>91</b>	<b>330</b>	<b>466</b>
Transfers				
Transferred to stage 1	64	-11	-53	0
Transferred to stage 2	-2	6	-4	0
Transferred to stage 3	0	-3	3	0
Losses on new loans	13	25	12	51
Losses on deducted loans*	-10	-17	-17	-43
Losses on older loans and other changes	-71	12	15	-44
<b>Provisions for loan losses as at 30.06.2019</b>	<b>38</b>	<b>104</b>	<b>287</b>	<b>429</b>
Provisions for loan losses	30	97	283	411
Provisions for guarantees and undrawn credits	8	6	4	18
<b>Total provision for losses as at 30.06.2019</b>	<b>38</b>	<b>104</b>	<b>287</b>	<b>429</b>

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

## 6. NON-PERFORMING LOANS

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

PARENT BANK			NOK million	GROUP		
31.12. 2019	30.06. 2019	30.06. 2020		30.06. 2020	30.06. 2019	31.12. 2019
276	333	245	Gross non-performing loans > 90 days	267	333	286
763	777	783	Other non-performing loans	816	791	787
<b>1 039</b>	<b>1 109</b>	<b>1 028</b>	<b>Total non-performing loans (step 3)</b>	<b>1 083</b>	<b>1 123</b>	<b>1 073</b>
230	287	236	Impairment losses in stage 3	237	287	231
<b>809</b>	<b>822</b>	<b>792</b>	<b>Net non-performing loans</b>	<b>846</b>	<b>836</b>	<b>842</b>
22.1 %	25.9 %	22.9 %	Provisioning non-performing loans	21.9 %	25.6 %	21.5 %
<b>0.41 %</b>	<b>0.49 %</b>	<b>0.39 %</b>	<b>Gross non-performing loans in % of gross loans</b>	<b>0.24 %</b>	<b>0.32 %</b>	<b>0.27 %</b>

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

Broken down by sectors and industries

PARENT BANK				NOK million	GROUP			
Stage 1	Stage 2	Stage 3	Total impairment losses 30.06.2020		Total impairment losses 30.06.2020	Stage 3	Stage 2	Stage 1
4	10	32	46	Retail customers	61	33	20	8
0	0	0	0	Public administration	0	0	0	0
1	1	0	2	Primary industry	2	0	1	1
2	14	4	20	Manufacturing industry	20	4	13	2
13	46	65	123	Real estate development	122	65	45	13
1	5	16	22	Building and construction industry	22	16	5	2
34	87	63	184	Property management	183	62	85	35
0	1	28	30	Transport	30	28	1	0
3	8	14	25	Retail trade	25	14	8	3
1	1	2	4	Hotel and restaurants	4	2	1	1
1	1	0	2	Housing cooperatives	2	0	1	1
1	2	11	15	Financial/commercial services	15	11	2	1
4	3	2	9	Social services	9	2	3	4
<b>66</b>	<b>180</b>	<b>236</b>	<b>483</b>	<b>Total impairment losses on loans, guarantees and undrawn credit</b>	<b>495</b>	<b>237</b>	<b>187</b>	<b>71</b>
57	152	231	441	Impairment losses on lending	453	232	159	62
9	28	5	42	Impairment losses on unused credits and guarantees	42	5	28	9
<b>66</b>	<b>180</b>	<b>236</b>	<b>483</b>	<b>Total impairment losses</b>	<b>495</b>	<b>237</b>	<b>187</b>	<b>71</b>

As a result of the corona pandemic, losses were overruled by NOK 75 million in the first quarter. This was based on the significant uncertainty associated with the macro-economic situation, as well as the effects of the authorities' support measures that the IFRS9 model did not address satisfactorily. In the second quarter, the overrule was reversed and there is no manual adjustments on losses as of 30.06.2020.

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

## 8. MIGRATION OF GROSS LOANS

NOK million	Amortised cost				Fair value	GROUP
	Stage 1	Stage 2	Stage 3	Gross loans		
<b>GROSS LOANS</b>						<b>Total gross loans incl. accrued interest</b>
<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	2 121	-2 086	-35	-	-	-
Transferred to stage 2	-2 757	2 782	-26	0	-	0
Transferred to stage 3	-150	-65	215	0	-	0
Net change on present loans	-171	60	-12	-123	-	-512
New loans	20 504	1 276	109	21 889	657	22 705
Derecognised loans	-16 426	-2 202	-119	-18 747	-865	-19 395
Change in value during the period	-	-	-	-	-15	-
<b>Gross loans as at 30.06.2020</b>	<b>92 588</b>	<b>10 475</b>	<b>972</b>	<b>104 035</b>	<b>5 467</b>	<b>109 502</b>

NOK million	Amortised cost				Fair value	GROUP
	Stage 1	Stage 2	Stage 3	Gross loans		
<b>GROSS LOANS</b>						<b>Total gross loans incl. accrued interest</b>
<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	1 492	-1 454	-38	-0	-	-0
Transferred to stage 2	-1 193	1 195	-1	0	-	0
Transferred to stage 3	-3	-49	52	-	-	-
Net change on present loans	-760	-413	-16	-1 189	-	-1 189
New loans	15 790	1 744	202	17 736	272	18 008
Derecognised loans	-12 606	-1 560	-80	-14 247	-581	-14 828
Change in value during the period	-	-	-	-	-9	-9
<b>Gross loans as at 30.06.2019</b>	<b>89 016</b>	<b>9 875</b>	<b>1 097</b>	<b>99 987</b>	<b>5 396</b>	<b>105 383</b>

NOK million	Amortised cost	Fair value through other comprehensive income		Fair value	PARENT BANK
<b>GROSS LOANS</b>					<b>Total gross loans incl. accrued interest</b>
<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	-0
Transferred to stage 2	-		-	0	0
Transferred to stage 3	-		-	-	-
Net change on present loans	724		-158	-	565
New loans	4 335		6 101	816	11 253
Derecognised loans	-4 077		-9 719	-649	-14 445
Change in value during the period	-		-	-389	-389
<b>Gross loan as at 30.06.2020</b>	<b>40 088</b>		<b>17 975</b>	<b>5 467</b>	<b>63 529</b>

NOK million	Amortised cost	Fair value through other comprehensive income		Fair value	PARENT BANK
<b>GROSS LOANS</b>					<b>Total gross loans incl. accrued interest</b>
<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	0	0
Transferred to stage 2	0		-	-0	-0
Transferred to stage 3	-		-	-	-
Net change on present loans	-180		-188	-	-369
New loans	5 198		7 901	272	13 371
Derecognised loans	-4 898		-5 078	-581	-10 557
Change in value during the period	-		-	-9	-9
<b>Gross loan as at 30.06.2019</b>	<b>38 214</b>		<b>23 539</b>	<b>5 396</b>	<b>67 149</b>

## 9. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.19	30.06.19	30.06.20		30.06.20	30.06.19	31.12.19
28 084	28 504	30 285	Retail customers	30 287	28 505	28 074
9 325	11 143	9 406	Public administration	9 407	11 143	9 326
561	599	684	Primary industry	684	599	561
1 923	2 017	1 277	Manufacturing industry	1 277	2 017	1 923
566	594	611	Real estate development	592	573	561
1 117	984	1 282	Building and construction industry	1 282	984	1 117
3 066	3 247	3 214	Property management	3 215	3 247	3 066
645	509	485	Transport	485	509	645
1 032	935	1 350	Retail trade	1 350	935	1 032
152	133	198	Hotel and restaurant	198	133	152
186	197	191	Housing cooperatives	191	197	186
5 075	5 042	4 247	Financial/commercial services	4 247	5 043	5 075
6 202	5 816	6 598	Social services	6 598	5 816	6 202
29	244	242	Accrued interests	242	244	29
<b>57 963</b>	<b>59 964</b>	<b>60 070</b>	<b>Total deposits from customers</b>	<b>60 055</b>	<b>59 946</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	30.06.19	30.06.20		30.06.20	30.06.19	31.12.19
30 034	31 334	27 016	Retail customers	71 895	69 545	70 126
498	515	525	Public administration	525	515	499
1 157	1 062	1 094	Primary industry	1 181	1 065	1 159
795	986	965	Manufacturing industry	1 014	987	796
4 855	4 309	5 734	Real estate development	5 687	4 262	4 836
1 386	1 524	1 364	Building and construction industry	1 599	1 525	1 388
17 239	17 575	17 309	Property management	17 331	17 588	17 257
677	685	558	Transport	636	685	678
1 093	1 163	1 375	Retail trade	1 485	1 163	1 098
274	280	335	Hotel and restaurant	365	280	275
1 248	1 262	1 238	Housing cooperatives	1 239	1 263	1 249
1 872	1 145	775	Financial/commercial services	996	1 146	1 874
5 242	5 147	5 122	Social services	5 394	5 152	5 248
173	164	122	Accrued interests	155	206	222
<b>66 545</b>	<b>67 149</b>	<b>63 530</b>	<b>Total gross loans</b>	<b>109 502</b>	<b>105 383</b>	<b>106 704</b>
360	411	441	Impairment losses on lending	453	418	370
<b>66 185</b>	<b>66 738</b>	<b>63 089</b>	<b>Total net loans</b>	<b>109 049</b>	<b>104 964</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.

Recognized value	PARENT BANK			NOK million 30.06.2020	Recognized value	GROUP		
	Level 1	Fair value				Level 1	Fair value	
		Level 2	Level 3			Level 2	Level 3	
<b>Assets recognized at amortised cost</b>								
2 599		2 599		Cash and receivables from central banks	2 599		2 599	
6 516		6 516		Net loans to customers	2 059		2 059	
39 654			39 654	Net loans to customers (floating interest rate)	103 582		103 582	
<b>Assets recognized at fair value</b>								
5 467			5 467	Net loans to customers (fixed interest rate)	5 467		5 467	
17 968			17 968	Net loans to customers (mortgages)				
21 767		21 767		Bonds and certificates	21 092		21 092	
178	6		172	Shares	178	6	172	
1 320		1 320		Financial derivatives	4 802		4 802	
<b>95 469</b>	<b>6</b>	<b>32 202</b>	<b>63 261</b>	<b>Total financial assets</b>	<b>139 779</b>	<b>6</b>	<b>30 552</b>	
<b>Liabilities recognized at amortised cost</b>								
7 392		7 392		Liabilities to credit institutions	7 265		7 265	
60 070			60 070	Deposits from customers	60 055		60 055	
15 091		15 022		Liabilities from issue of securities	56 284		56 215	
999		1 000		Senior non-preferred	999		1 000	
1 602		1 605		Subordinated loan capital	1 602		1 605	
<b>Liabilities recognized at fair value</b>								
942		942		Financial derivatives	942		942	
<b>86 096</b>	<b>0</b>	<b>25 961</b>	<b>60 070</b>	<b>Total financial liabilities</b>	<b>127 148</b>	<b>0</b>	<b>67 028</b>	

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

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			30.06.2019	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
1 021		1 021		Cash and receivables from central banks	486		486	
3 645		3 645		Loans to credit institutions	1 155		1 155	
37 817			37 817	Net loans to customers (floating interest rate)	99 568			99 568
<b>Assets recognized at fair value</b>								
5 396			5 396	Net loans to customers (fixed interest rate)	5 396			5 396
23 525			23 525	Net loans to customers (mortgages)				
16 067		16 067		Bonds and certificates	17 146		17 146	
181	5		176	Shares	182	5		177
284		284		Financial derivatives	631		631	
<b>87 936</b>	<b>5</b>	<b>21 017</b>	<b>66 914</b>	<b>Total financial assets</b>	<b>124 564</b>	<b>5</b>	<b>19 418</b>	<b>105 141</b>
<b>Liabilities recognized at amortised cost</b>								
2 113		2 113		Liabilities to credit institutions	1 839		1 839	
59 964			59 964	Deposits from customers	59 946			59 946
16 024		15 992		Liabilities from issue of securities	49 211		49 276	
1 605		1 608		Subordinated loan capital	1 605		1 608	
<b>Liabilities recognized at fair value</b>								
164		164		Financial derivatives	164		164	
<b>79 870</b>	<b>0</b>	<b>19 877</b>	<b>59 964</b>	<b>Total financial liabilities</b>	<b>112 765</b>	<b>0</b>	<b>52 887</b>	<b>59 946</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 and Q2 2019	272		114
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	-9	11	-4
Disposals Q1 and Q2 2019	-581		
Reclassified as associated company			-298
<b>Recognized value as at 30.06.2019</b>	<b>5 396</b>	<b>10</b>	<b>177</b>
Acquisitions Q3, and Q4 2019	834		0
Of which, transferred from level 1 or 2			
Change in value recognized during the period	24	3	6
Disposals Q3, and Q4 2019	-565		
<b>Reclassified as associated company</b>			<b>0</b>
Recognized value as at 31.12.2019	5 689	13	184
Acquisitions Q1 and Q2 2020	657		46
Of which, transferred from level 1 or 2			
Change in value recognized during the period	-15	-16	-29
Disposals Q1 and Q2 2020	-865		-29
Reclassified as associated company			
<b>Recognized value as at 30.06.2020</b>	<b>5 467</b>	<b>-3</b>	<b>172</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 and Q2 2019	2 904		114
Of which, transferred from level 1 or 2			
Change in value recognized during the period	-9	11	-4
Disposals Q1 and Q2 2019	-581		
Reclassified as associated company			-298
<b>Recognized value as at 30.06.2019</b>	<b>28 921</b>	<b>10</b>	<b>177</b>
Acquisitions Q3, and Q4 2019	-958		0
Of which, transferred from level 1 or 2	0		
Change in value recognized during the period	24	3	6
Disposals Q3, and Q4 2019	-565		
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 and Q2 2020	-3 107		46
Of which, transferred from level 1 or 2			
Change in value recognized during the period	-15	-16	-29
Disposals Q1 and Q2 2020	-865		-29
Reclassified as associated company			
<b>Recognized value as at 30.06.2020</b>	<b>23 435</b>	<b>-3</b>	<b>172</b>

### Sensitivity analysis

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

#### GROUP / PARENT BANK

NOK million	30.06.2020	30.06.2019	31.12.2019
Loans to customers	21	18	19
- of which loans to corporate market (CM)	2	4	3
- of which loans to retail market (RM)	18	14	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. The assets and liabilities are presented in the table below.

GROUP					30.06.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/ received collateral	Net
Derivatives - assets	4 802	385	4 417	-2 967	1 451
Derivatives - liabilities	-942	-385	-557	610	52
<b>Net</b>	<b>3 860</b>	<b>0</b>	<b>3 860</b>	<b>-2 357</b>	<b>1 503</b>

GROUP					30.06.2019
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					30.06.2020
NOK million	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/ received collateral	Net
Derivatives - assets	1 320	385	935	-319	616
Derivatives - liabilities	-942	-385	-557	610	52
<b>Net</b>	<b>378</b>	<b>0</b>	<b>378</b>	<b>290</b>	<b>668</b>

PARENT BANK					30.06.2019
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 area is presented as deposits from credit institutions. Comparative figures have not been restated.

### 13. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

#### Debt securities - Group

NOK million	30.06.2020	30.06.2019	31.12.2019
Bonds, nominal value	55 279	48 613	52 977
Value adjustments	867	431	273
Accrued interest	138	167	180
<b>Debt incurred due to issuance of securities</b>	<b>56 284</b>	<b>49 211</b>	<b>53 430</b>

#### Change in debt securities - Group

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	30.06.2020
Bonds, nominal value	52 977	2 500	-3 011	2 813	55 279
Value adjustments	273			594	867
Accrued interest	180			-41	138
<b>Debt incurred due to issuance of securities</b>	<b>53 430</b>	<b>2 500</b>	<b>-3 011</b>	<b>3 366</b>	<b>56 284</b>

#### Debt securities - Parent bank

NOK million	30.06.2020	30.06.2019	31.12.2019
Bonds, nominal value	14 727	15 897	16 672
Value adjustments	270	7	-47
Accrued interest	94	120	82
<b>Debt incurred due to issuance of securities</b>	<b>15 091</b>	<b>16 024</b>	<b>16 707</b>

#### Change in debt securities - Parent bank

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	30.06.2020
Bonds, nominal value	16 672	0	-2 246	301	14 727
Value adjustments	-47			316	270
Accrued interest	82			12	94
<b>Debt incurred due to issuance of securities</b>	<b>16 707</b>	<b>0</b>	<b>-2 246</b>	<b>630</b>	<b>15 091</b>

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

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	30.06.2020
Subordinated loans	1 966	0	-366		1 600
Accrued interest	5			-3	2
<b>Total subordinated loan capital</b>	<b>1 971</b>	<b>0</b>	<b>-366</b>	<b>-3</b>	<b>1 602</b>

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

NOK million	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	30.06.2020
Non-preferred senior debt	0	1 000	0	0	1 000
Value adjustments	0			-2	-2
Accrued interest	0			0	0
<b>Total non-preferred senior debt</b>	<b>0</b>	<b>1 000</b>	<b>0</b>	<b>-2</b>	<b>999</b>

#### 14. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 30.06.2020 were as follows:

NAME	NUMBER OF EC	SHARE OF EC-CAP. %	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1. Sparebankstiftelsen Sparebanken Sør	7 988 679	51,00	11. Carl Krogh Arnet	100 000	0,64
2. EIKA utbytte VPF c/o Eika kapitalforv.	708 151	4,52	12. Ottersland AS	100 000	0,64
3. Arendal Kom. pensjonskasse	450 000	2,87	13. MP Pensjon PK	85 523	0,55
4. Pareto AS	417 309	2,66	14. Artel AS	82 131	0,52
5. Glastad Invest AS	300 000	1,92	15. Apriori Holding AS	72 575	0,46
6. Hamjern Invest AS	279 388	1,78	16. Pak Invest AS	72 000	0,46
7. Wenaasgruppen AS	186 000	1,19	17. Varodd AS	70 520	0,45
8. Gumpen Bileiendom AS	174 209	1,11	18. Birkenes Sparebank	66 000	0,42
9. Allumgården AS	151 092	0,96	19. K.T. Brøvig Invest AS	65 639	0,42
10. Catilina Invest AS	114 558	0,73	20. Pico AS	64 536	0,41
<b>Totalt - 10 største eierne</b>	<b>10 769 386</b>	<b>68,75</b>	<b>Totalt - 20 største eierne</b>	<b>11 548 310</b>	<b>73,73</b>

As of 1 January 2020, the ownership ratio was 17.2 percent. Hybrid capital classified as equity, has been excluded when calculating the ownership ratio. As of 30 June 2020, the ownership ratio was 17.3 percent.

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

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.

## Quarterly trend in results

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
<b>Profit (NOK million)</b>					
Net interest income	449	525	523	499	467
Net commission income	89	70	91	93	86
Net income from financial instruments	59	-69	-31	31	5
Other operating income	56	-12	26	17	25
<b>Total net income</b>	<b>653</b>	<b>515</b>	<b>609</b>	<b>640</b>	<b>583</b>
Total operating expenses before losses	240	232	233	226	231
<b>Operating profit before losses</b>	<b>413</b>	<b>283</b>	<b>376</b>	<b>414</b>	<b>352</b>
Losses on loans, guarantees and undrawn credits	46	61	-3	-19	2
<b>Profit before taxes</b>	<b>367</b>	<b>221</b>	<b>379</b>	<b>433</b>	<b>350</b>
Tax expenses	79	58	86	102	83
<b>Profit for the period</b>	<b>288</b>	<b>164</b>	<b>293</b>	<b>331</b>	<b>267</b>

### Profit as % of average assets

Net interest income	1.25 %	1.61 %	1.60 %	1.57 %	1.52 %
Net commission income	0.25 %	0.21 %	0.28 %	0.29 %	0.28 %
Net income from financial instruments	0.16 %	-0.21 %	-0.09 %	0.10 %	0.02 %
Other operating income	0.16 %	-0.04 %	0.08 %	0.05 %	0.08 %
<b>Total net income</b>	<b>1.82 %</b>	<b>1.58 %</b>	<b>1.87 %</b>	<b>2.01 %</b>	<b>1.90 %</b>
Total operating expenses before losses	0.67 %	0.71 %	0.71 %	0.71 %	0.75 %
<b>Operating profit before losses</b>	<b>1.15 %</b>	<b>0.87 %</b>	<b>1.15 %</b>	<b>1.30 %</b>	<b>1.15 %</b>
Losses on loans, guarantees and undrawn credit	0.13 %	0.19 %	-0.01 %	-0.06 %	0.01 %
<b>Profit before taxes</b>	<b>1.03 %</b>	<b>0.68 %</b>	<b>1.16 %</b>	<b>1.36 %</b>	<b>1.14 %</b>
Tax expenses	0.22 %	0.18 %	0.26 %	0.32 %	0.27 %
<b>Profit for the period</b>	<b>0.80 %</b>	<b>0.50 %</b>	<b>0.90 %</b>	<b>1.04 %</b>	<b>0.87 %</b>

### Key figures, income statement

Return on equity after tax (adjusted for hybrid capital)	8.8 %	5.0 %	9.6 %	11.2 %	9.0 %
Costs as % of income	36.8 %	45.1 %	38.2 %	35.3 %	39.6 %
Costs as % of income, excl. net income from financial instruments	40.4 %	39.8 %	36.4 %	37.1 %	40.0 %

### Key figures, balance sheet

Total assets	141 566	142 001	129 499	125 836	125 697
Average total assets	142 000	129 600	129 600	126 200	124 400
Net loans to customers	109 049	107 590	106 334	105 730	104 964
Growth in loans as %, last 12 mths.	3.9 %	4.5 %	3.3 %	3.8 %	4.4 %
Customer deposits	60 055	57 658	57 949	58 903	59 946
Growth in deposits as %, last 12 mths.	0.2 %	0.2 %	2.5 %	4.3 %	4.7 %
Deposits as % of net loans	55.1 %	53.6 %	54.5 %	55.7 %	57.1 %
Equity (incl. hybrid capital)	13 474	13 215	13 081	12 511	12 200
Losses on loans as % of net loans, annualised	0.17 %	0.23 %	-0.01 %	-0.07 %	0.01 %
Gross non-performing loans (over 90 days) as % of gross lending	0.24 %	0.29 %	0.27 %	0.28 %	0.32 %

### Other key figures

Liquidity reserves (LCR), Group	126 %	156 %	148 %	164 %	146 %
Liquidity reserves (LCR), Group- EUR	172 %	198 %	1168 %	3503 %	3033 %
Liquidity reserves (LCR), Parent Bank	152 %	189 %	140 %	141 %	137 %
Common equity tier 1 capital ratio	15.7 %	15.6 %	15.7 %	15.1 %	15.0 %
Tier 1 capital ratio	17.6 %	17.5 %	17.6 %	16.6 %	16.5 %
Total capital ratio	19.7 %	20.0 %	20.3 %	18.7 %	18.6 %
Common equity tier 1 capital	11 823	11 606	11 356	11 140	10 900
Tier 1 capital	13 234	13 017	12 767	12 252	12 011
Net subordinated capital	14 793	14 875	14 686	13 805	13 564
Leverage ratio	9.1 %	8.9 %	9.3 %	9.1 %	9.0 %
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	436	434	429	429	427

### Key figures, equity certificates

Equity certificate ratio	17.3 %	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)	2.3	3.6	2.4	2.8	2.2
Profit per equity certificate (Group)	2.9	1.6	3.1	3.5	2.7
Dividend last year per equity certificate (Parent Bank)	0.0	0.0	8.0	6.0	6.0
Book equity per equity certificate	133.3	130.2	128.5	125.6	122.2
Price/book value per equity certificate	0.74	0.66	0.86	0.76	0.78
Listed price on Oslo Stock Exchange at end of period	98.8	86.0	110.0	95.0	95.0

	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	0.24 %	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

# Calculations

	Q2	Q1	Q4	Q3	Q2	30.06.	30.06.	31.12.
NOK million	2020	2020	2019	2019	2019	2020	2019	2019
<b>Return on equity adjusted for hybrid capital</b>								
Profit after tax	288	164	293	331	267	452	500	1 125
Interest on hybrid capital	-25	-18	-14	-13	-21	-43	-33	-60
<b>Profit after tax, incl. interest on hybrid capital</b>	<b>263</b>	<b>146</b>	<b>279</b>	<b>318</b>	<b>246</b>	<b>409</b>	<b>467</b>	<b>1 065</b>
Opening balance, equity	13 215	13 081	12 511	12 200	11 952	13 081	11 845	11 845
Opening balance, hybrid capital	-1 375	-1 375	-1 075	-1 075	-1 075	-1 375	-1 075	-1 075
<b>Opening 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>	<b>10 770</b>	<b>10 770</b>
Closing balance, equity	13 475	13 215	13 081	12 511	12 200	13 475	12 200	13 081
Closing balance, hybrid capital	-1 375	-1 375	-1 375	-1 075	-1 075	-1 375	-1 075	-1 375
<b>Closing balance, equity excl. hybrid capital</b>	<b>12 100</b>	<b>11 840</b>	<b>11 706</b>	<b>11 436</b>	<b>11 125</b>	<b>12 100</b>	<b>11 125</b>	<b>11 706</b>
Average equity	13 345	13 148	12 796	12 356	12 076	13 278	12 023	12 463
<b>Average equity excl. Hybrid capital</b>	<b>11 970</b>	<b>11 773</b>	<b>11 571</b>	<b>11 281</b>	<b>11 001</b>	<b>11 903</b>	<b>10 948</b>	<b>11 238</b>
Return on equity	8.7 %	5.0 %	9.1 %	10.6 %	8.9 %	6.8 %	8.4 %	9.0 %
<b>Return on equity, excl. hybrid capital</b>	<b>8.8 %</b>	<b>5.0 %</b>	<b>9.6 %</b>	<b>11.2 %</b>	<b>9.0 %</b>	<b>6.9 %</b>	<b>8.6 %</b>	<b>9.5 %</b>
<b>Net interest income, incl. interest on hybrid capital</b>								
Net interest income, incl. interest on hybrid capital	449	525	523	499	467	974	904	1 926
Interest on hybrid capital	-25	-18	-14	-13	-21	-43	-33	-60
<b>Net interest income, incl. interest on hybrid capital</b>	<b>424</b>	<b>507</b>	<b>509</b>	<b>486</b>	<b>446</b>	<b>931</b>	<b>871</b>	<b>1 866</b>
Average total assets	129 600	129 600	129 600	126 200	124 400	138 000	115 300	125 900
<b>As percentage of total assets</b>	<b>1.32 %</b>	<b>1.57 %</b>	<b>1.56 %</b>	<b>1.53 %</b>	<b>1.44 %</b>	<b>1.35 %</b>	<b>1.52 %</b>	<b>1.48 %</b>
<b>Profit from ordinary operations (adjusted earnings)</b>								
Net interest income, incl. interest on hybrid capital	424	507	509	486	446	931	871	1 866
Net commission income	89	70	91	93	86	159	160	344
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps))	52	-14	21	16	23	39	6	64
Other operating income	4	2	5	1	2	6	4	10
Operating expenses	240	232	233	226	231	472	460	918
<b>Profit from ordinary operations (adjusted earnings), before tax</b>	<b>329</b>	<b>334</b>	<b>393</b>	<b>370</b>	<b>326</b>	<b>662</b>	<b>581</b>	<b>1 366</b>
<b>Profit excl. Finance and adjusted for non-recurring items</b>								
Net interest income, incl. hybrid capital	424	507	509	486	446	931	871	1 866
Net commission income	89	70	91	93	86	159	160	344
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	52	-14	21	16	23	39	6	64
Other operating income	4	2	5	1	2	6	4	10
Operating expenses	240	232	233	226	231	472	460	918
Losses on loans, guarantees and undrawn credits	46	61	-3	-19	2	107	5	-17
<b>Profit excl. Finance and adjusted for non-recurring items</b>	<b>283</b>	<b>273</b>	<b>396</b>	<b>389</b>	<b>324</b>	<b>555</b>	<b>570</b>	<b>1 383</b>
Tax (25 %)	71	68	99	97	81	139	143	346
<b>Ordinary operations /adjusted earnings after losses and tax</b>	<b>212</b>	<b>204</b>	<b>297</b>	<b>292</b>	<b>243</b>	<b>416</b>	<b>428</b>	<b>1 037</b>
Average equity, excl. hybrid capital	11 970	11 773	11 571	11 281	11 001	11 903	10 948	11 238
<b>Return on equity, profit excl. Finance and adjusted for non-recurring items</b>	<b>7.1 %</b>	<b>7.0 %</b>	<b>10.2 %</b>	<b>10.3 %</b>	<b>8.9 %</b>	<b>7.0 %</b>	<b>7.9 %</b>	<b>9.2 %</b>
<b>Average interest rates/margins</b>								
Average lending rate RM (return)	2.48 %	3.31 %	3.26 %	3.09 %	2.90 %			
Average lending rate CM (return)	3.37 %	4.11 %	4.03 %	3.86 %	3.66 %			
Average deposit rate RM	0.91 %	1.11 %	1.03 %	0.94 %	0.91 %			
Average deposit rate CM	0.70 %	1.41 %	1.49 %	1.37 %	1.30 %			
Average 3-month NIBOR	0.47 %	1.67 %	1.84 %	1.63 %	1.46 %			
Lending margin RM (lending rate - 3-month NIBOR)	2.01 %	1.64 %	1.42 %	1.46 %	1.44 %			
Lending margin CM (lending rate - 3-month NIBOR)	2.90 %	2.44 %	2.19 %	2.23 %	2.20 %			
Deposit margin RM (3-month NIBOR - deposit rate)	-0.44 %	0.56 %	0.81 %	0.69 %	0.55 %			
Deposit margin CM (3-month NIBOR - deposit rate)	-0.23 %	0.26 %	0.35 %	0.26 %	0.16 %			

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

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

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

## Sparebanken Sør's APMs and definitions

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

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

The Board of Directors and CEO of Sparebaken Sør hereby confirm that the bank and the group's financial statements for Q2 2020 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall results.

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

**Kristiansand, 30 June 2020 / 14 August 2020**

Stein A. Hannevik  
Chairman

Inger Johansen  
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen  
Employee representative

Gunnhild Tveiten Golid  
Employee representative

Geir Bergskaug  
CEO



# SPAREBANKEN SØR