



Q1
2018



SPAREBANKEN SØR

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Income statement (NOK million)	Q1 2018	Q1 2017	31.12.2017
Net interest income	425	401	1 679
Net commission income	74	71	312
Net income from financial instruments	26	14	88
Other operating income	2	4	18
Total net income	527	490	2 097
Total operating expenses	212	199	811
Profit before losses on loans	315	291	1 286
Losses on loans and guarantees	0	15	20
Profit before taxes	315	276	1 266
Tax expenses	77	66	282
Profit for the period	238	210	984
Income statement as percentage of average assets			
Net interest income	1.49 %	1.54 %	1.53 %
Net commission income	0.26 %	0.27 %	0.28 %
Net income from financial instruments	0.09 %	0.05 %	0.08 %
Other operating income	0.01 %	0.02 %	0.02 %
Total net income	1.85 %	1.88 %	1.92 %
Total operating expenses	0.75 %	0.76 %	0.74 %
Profit before losses on loans	1.11 %	1.12 %	1.17 %
Losses on loans and guarantees	0.00 %	0.06 %	0.02 %
Profit before taxes	1.11 %	1.06 %	1.16 %
Tax expenses	0.27 %	0.25 %	0.26 %
Profit for the period	0.84 %	0.81 %	0.90 %
Key figures, income statement			
Return on equity after tax	9.1 %	8.7 %	9.7 %
Cost as % of income	40.2 %	40.6 %	38.7 %
Cost as % of income, ex net income from financial instruments	42.3 %	41.8 %	40.4 %
Balance sheet			
Total assets	116 319	105 895	114 310
Average total assets	115 300	105 680	109 500
Net loans to customers	98 690	92 632	97 518
Growth in loans as %, last 12 mths.	6.5 %	3.8 %	7.2 %
Customers deposits	54 899	52 788	55 580
Growth in deposits as %, last 12 mths.	4.0 %	8.4 %	7.8 %
Deposits as % of net loans	55.6 %	57.0 %	57.0 %
Equity	11 233	9 947	11 108
Losses on loans as % of net loans, annualised	0.00 %	0.06 %	0.02 %
Gross defaulted loans over 90 days as % of gross loans	0.32 %	0.26 %	0.28 %
Other key figures			
Liquidity reserve (LCR) (Group)	165 %	114 %	139 %
Common equity tier 1 capital ratio	15.2 %	14.3 %	15.1 %
Common equity tier 1 capital ratio, when including share of partially owned companies	15.0 %	14.3 %	14.9 %
Tier 1 capital ratio	16.8 %	15.3 %	16.7 %
Total capital ratio	18.9 %	17.2 %	18.9 %
Common equity tier 1 capital	10 079	9 101	9 890
Tier 1 capital	11 153	9 726	10 965
Net total primary capital	12 535	10 904	12 347
Leverage ratio	9.2 %	8.8 %	9.2 %
Number of branches	34	33	34
Number of man-years in banking activity	427	431	432
Key figures, Equity certificates			
Equity certificate ratio, weighted average over the period	17.9 %	18.7 %	18.7 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	1.9	1.9	8.9
Profit/diluted earnings per equity certificate (Group)	2.6	2.4	11.2
Dividend last year per equity certificate	6.0	6.0	6.0
Book equity per equity certificate	116.1	111.6	120.0
Price/Book value per equity certificate	0.8	0.9	0.9
Listed price on Oslo Stock Exchange at end of period *)	98.6	96.5	104.00

Board of Directors report

General

Sparebanken Sør is an independent financial institution that engages in banking, securities and real estate brokerage activities in the counties of Aust-Agder, Vest-Agder, Telemark and Rogaland.

Real estate agency brokerage is carried out through the subsidiary Sørmeglere, while general insurance and life insurance products are supplied through Frende, an insurance company jointly owned by the bank. The bank is also a joint owner of Norne, a security trading company, and Brage, a supplier of leasing products and consumer credit.

Highlights in Q1 2018

- Good results from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments
- Efficient operations and low costs
- New model implemented for calculating loss allowances on loans
- No net losses on loans
- Year-on-year loan growth of 6.5 percent
- Year-on-year deposit growth of 4.0 percent
- Return on equity after tax of 9.1 percent
- Common equity tier 1 capital ratio of 15.2 percent and leverage ratio of 9.2 percent

Financial framework conditions

The key interest rate remained at 0.50 percent in Q1 2018, and Norges Bank decided to keep the key interest rate unchanged at its most recent monetary policy meeting in March. Norges Bank has signalled a probable increase in the key interest rate during the second half of 2018.

In the reporting period, both domestic and foreign capital markets have functioned efficiently, and credit spreads remained stable, providing the Group with easy access to funding through covered bonds held by Sparebanken Sør Boligkreditt AS.

At the end of March, the annual growth in the general public's gross domestic debt (C2) was 6.3 percent, while debt growth for households and industry amounted to 6.0 percent and 7.3 percent respectively.

Income statement

The bank posted a profit before tax of NOK 315 million in Q1 2018, compared with NOK 276 million in the same period in 2017.

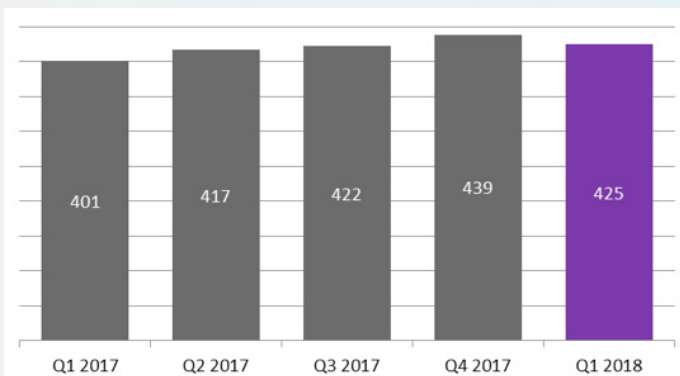
The Group also returned a solid profit before tax thanks to an increase in net interest income, low costs and no losses on loans.

The profit from ordinary operations (*) for Q1 2018 show an increase of NOK 10 million on the comparable prior-year quarter.

The return on equity after tax in Q1 2018 closed on 9.1 percent, compared with 8.7 percent in Q1 2017. The Group is well-capitalised and has a common equity tier 1 capital ratio of 15.2 percent and a leverage ratio of 9.2 percent. 80 percent of the profit after tax has been included in common equity tier 1 capital.

Net interest income

Quarterly net interest (NOK million)



At NOK 425 million, net interest income in Q1 2018 was up NOK 24 million (6 percent) on the Q1 2017 figure of NOK 401 million. The increase in net interest income is mainly attributable to the loan growth in the period.

The market interest rate increased in Q1 2018, resulting in lower margins on loans to customers, in particular in the retail market. However, margins in the corporate market, where 80 percent of the loan portfolio is linked to NIBOR, were less affected.

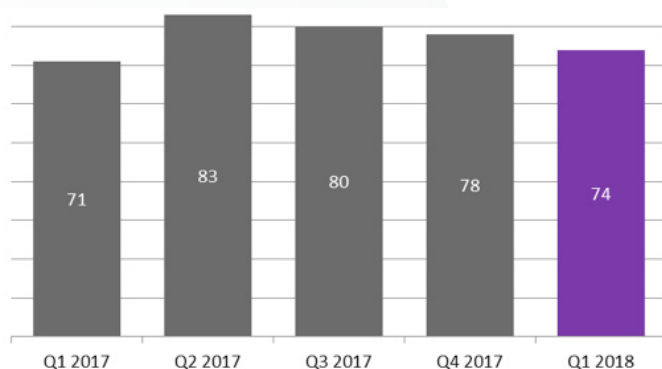
Hybrid capital (bond loans) has been reclassified as equity. Consequently, interest on hybrid capital of NOK 11.5 million was classified as an appropriation of profits in the reporting period (NOK 10.3 million in Q1 2017).

*) Net interest income adjusted for changes in accounting policies, commission income, other income and costs adjusted for pensions. See also the appendix for details on calculations.

Board of Directors report

Commission income

Quarterly net commission income (NOK million)



Net commission income amounted to NOK 74 million in Q1 2018, compared with NOK 71 million in Q1 2017, while gross commission income closed on NOK 87 million, compared with NOK 84 million in Q1 2017. The increase is mainly attributable to a non-recurring transfer linked to commissions from the sale of life insurance.

NOK million	Q1 2018	Q1 2017	Change
Payment services	40	39	1
Real estate brokerage	21	24	-3
Others	26	21	5
Total	87	84	3

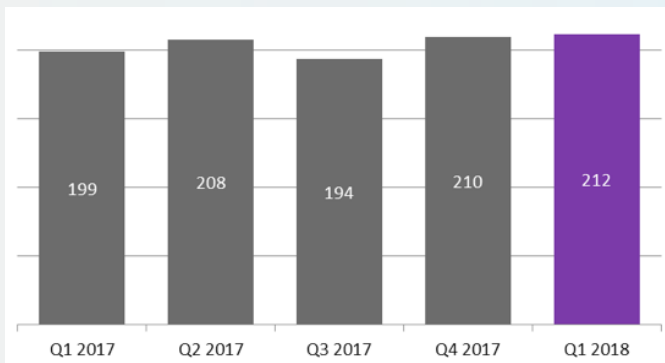
Financial instruments

Net income from financial instruments in Q1 2018 totalled NOK 26 million, compared with NOK 14 million in the corresponding prior-year period. The increase on net income is attributable to gains on the bond portfolio of NOK 4 million, gains on interest and foreign exchange derivatives of NOK 5 million, an increase in fixed interest loans accounts of NOK 15 million and positive accounting effects relating to hedge accounting and other financial derivatives of NOK 4 million. The bank has recognised for NOK 2 million in losses from the buyback of own debt.

The bank did not make any adjustments relating to its shareholdings in Frende, Brage or Norne in the reporting period.

Operating expenses

Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 212 million in Q1 2018, compared with NOK 199 million in Q1 2017. The increase is mainly attributable to an increase in pension costs of NOK 11 million, where pension costs for Q1 2017 were extraordinarily low following the conversion of the bank's collective defined-benefit scheme.

Total operating expenses as a percentage of average assets amounted to 0.75 percent (0.76 percent) in Q1 2018. The consolidated cost-income ratio was 40.2 (40.6 percent) while the cost-income ratio, excl. financial instruments, closed on 42.3 percent (41.8 percent).

Losses and defaulted loans

Net losses on loans in the reporting period amounted to NOK 0 million, which is equivalent to 0.00 percent of net loans. The corresponding figures for 2017 were NOK 15 million and 0.06 percent respectively.

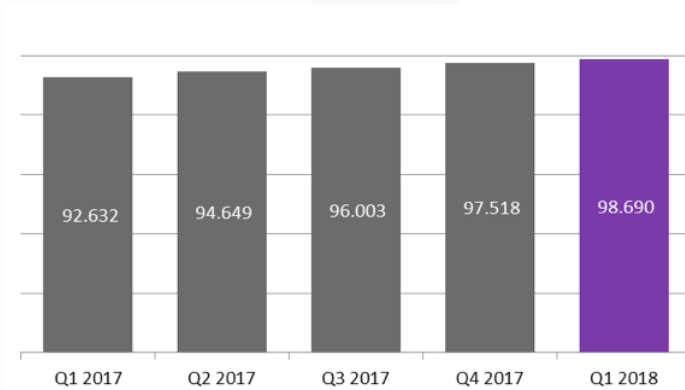
Effective 1 January 2018, IFRS 9 – Financial Instruments replaced IAS 39 – Financial Instruments; Recognition and Measurement. Under the new standard, the Group applies an expected loss model to calculate losses on loans. Please refer to Note 38 of the 2017 annual financial statements for further details on the effects of the transition. The Group's impairment losses at Q1 2018 are based on the new model, and there were no material accounting effects in the period. At the end of Q1 2018, the Group's expected losses were calculated at NOK 562 million, which is equivalent to 0.55 percent of gross loans.

Gross non-performing loans totalled NOK 321 million, which equates to 0.32 percent of gross loans. The corresponding figures for Q1 2017 were NOK 241 million and 0.26 percent respectively.

Board of Directors report

Loans

Loans (NOK million)



During the past 12 months, net loans increased by NOK 6.1 billion (6.5 percent) to a total of NOK 98.7 billion.

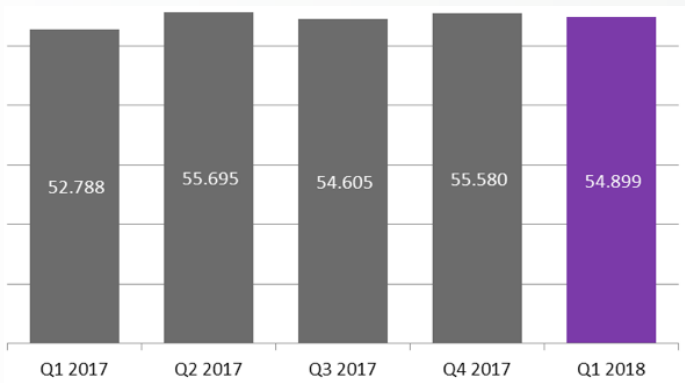
Loan growth in the reporting period was 1.2 billion, which is equivalent to an annualized growth of almost 5 percent. This has strengthened the bank's market share in the markets where we operate, this is a reinforcement of its market share from the bank's point of view, and also in line with the bank's ambitions.

Gross loans to retail customers rose by NOK 4.1 billion (6.8 percent) to NOK 64.4 billion in the last 12 months, while in the same period, gross loan to corporate customers increased by NOK 1.9 billion (5.7 percent) to NOK 34.6 billion.

Loans to retail customers accounted for 65 percent of total loans at the end of Q1 2018, which equivalent to the comparable prior-year quarter.

Deposits

Deposits (NOK million)



During the past 12 months, customer deposits rose by NOK 2.1 billion (4.0 percent) to NOK 54.9 billion, while deposits from retail customers increased by NOK 1.3 billion (5.3 percent) to NOK 26.0 billion.

During the same period, deposits from corporate customers rose by NOK 0.8 billion (2.9 percent) to NOK 28.9 billion.

At the reporting date, Sparebanken Sør's deposits equated to 55.6 percent of net loans, down from 57.0 percent at the end of Q1 2017.

Wholesale funding and liquidity portfolio

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

At the end of Q1 2018, wholesale funding amounted to NOK 46.8 million, of which 65 percent was sourced through covered bonds, and 94 percent through long-term financing.

At the reporting date, the Group's portfolio of interest-bearing securities in totalled NOK 13.4 billion, while the liquidity indicator for long-term financing closed on 110 percent.

At the same date, the Group's liquidity reserves (LCR) were 165 percent (parent bank: 157 percent).

Rating

Sparebanken Sør has an A1 rating with "negative outlook". The rating outlook was adjusted from "stable" to "negative" in July 2017 as following the introduction of the EU Bank Recovery and Resolution Directive (BRRD) for Norwegian banks, and has been applied to five regional banks.

All covered bonds issued by Sparebanken Sør Boligkreditt AS are rated to Aaa by Moody's.

Subordinated capital and capital adequacy

At the end of Q1 2018, net subordinated capital amounted to NOK 12.5 billion, while hybrid capital closed on NOK 1.1 billion and subordinated loans totalled NOK 1.4 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.2 percent, the tier 1 capital ratio was 16.8 percent and the (total) capital ratio 18.9 percent (based on Basel II).

The Group has consolidated a proportion of its cooperative companies in calculating the capital ratio at the end of Q1 2018. Accordingly, Sparebanken Sør, has included its shareholding of 15 percent in Brage Finans. The common equity tier 1 capital ratio, when including the Group's cooperative companies, amounts to 15.0 percent. The tier 1 capital ratio amounts to 16.6 percent and the (total) capital ratio amounts to 18.7 percent.

For the parent bank, the respective figures at the end of Q1 2018 were a CET1 capital ratio of 15.6 percent, a tier 1 capital ratio of 17.5 percent and a (total) capital ratio of 18.9 percent.

This means that the Group satisfies the new capital requirements for financial institutions effective from 31 December 2017 of 12.0 percent for common equity tier 1 capital, 13.5 percent for tier 1 capital and 15 percent for (total) capital. Including the pillar 2 – add-on of 2.1 percent, the capital requirements are 14.1 percent for common equity tier 1 capital, 15.6 percent for tier 1 capital and 17.6 percent for total capital. Further adaptation of the buffer beyond this level will depend on market expectations and the Financial Supervisory Authority's (Finanstilsynet's) response to the banks Internal Capital Adequacy Assessment Process (ICAAP).

One of the bank's key goals is to achieve a CET1 capital ratio at least equal to comparable banks. Sparebanken Sør is the only of the major regional bank's to apply the standard method to calculate the capital adequacy. In November 2017, Sparebanken Sør decided to initiate a process to request approval from Finanstilsynet to apply the internal ratings-based approach (IRB). The bank aims to submit the application by the end of 2019.

At the end of Q1 2018, the Groups leverage ratio was 9.2 percent, compared with 8.8 percent for the same period in 2017. The bank's capital is deemed to be highly satisfactory.

The bank's equity certificates

As of 31 March 2018, 15 663 944 equity certificates have been issued. The (Group) profit per equity certificate in Q1 2018 was NOK 2.6, while the ownership ratio for Q1 2018 was 17.9 percent. Hybrid capital classified as equity has been excluded in calculating the ownership ratio.

Board of Directors report

Dividends

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

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

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

The bank aims to distribute approximately half of the equity certificate capital after tax as dividend.

Subsidiary and partner businesses

The bank's wholly owned subsidiary, **Sparebanken Sør Boligkreditt AS**, is licensed to issue covered bonds which are used as an instrument in the bank's long-term funding strategy. As of 31 March 2018, the bank had transferred NOK 34.7 billion to Sparebanken Sør Boligkreditt AS, equivalent to 53.2 percent of all loans to the retail market.

Sørmeglere is the bank's own real estate agency and the leading estate agency business in the Southern Norway. They established together with Porsgrunn Bamble Borgestad Boligbyggelag new offices in Skien and Porsgrunn in 2017. The company has a slightly weaker result when compared with the prior-year corresponding period, but is expected to return higher profits going forward in 2018.

Frende Holding (10% sharholding) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provides general insurance and life insurance to retail and corporate customers. The company is producing strong growth in its customer base and premiums within both general and life insurance.

Brage Finans (15% shareholding) is a financing company that offers leasing and loans secured against by the purchased objects to the corporate and retail markets. The company is continuing to generate profitable growth.

Norne Securities (17.6% shareholding) is an investment firm that provides online trading, traditional brokerage and corporate finance services. The company's profits are also rising.

Balder Betaling (22.4% sharholding) is a newly established company and is owned by Sparebanken Sør together with the 14 other banks in the Frende collaboration. The company has a 12 percent sharholding in Vipps AS, and is responsible for further development of the mobile payment application Vipps, together with the other stakeholders.

Outlook

The Board of Directors is satisfied with the Bank's financial performance in Q1 2018, and in particular an improved profit from ordinary operations caused by higher net interest income, increased commission income, effective cost control and low losses.

After a weak growth in GDP in recent years, growth in the Norwegian economy has picked up. The weak NOK exchange rate, low interest rates and an expansionary fiscal policy have generated positive growth impulses and contributed to higher export growth, a lower unemployment rate and increased private consumption. Going forward, the financial framework for the Norwegian economy therefore seem good.

House prices in the bank's main market have returned moderate growth over several years. Statistics for the first months of 2018 reveal flattening growth in house prices as well as decreases in some regions. The Groups mortgage portfolio has a satisfactory LTV, and the bank is well positioned to absorb any further fall in house prices. This view is also supported by the stress tests that have been carried out.

Norges Bank kept its key interest rate unchanged in 2017, and made no further changes at its most recent meeting on 15 March 2018. Norges Bank indicated that the key interest rate will remain close to current levels until summer 2018, and then rise.

The Group has a requirement for a common equity tier 1 capital, including a pillar 2 add-on of 2.1 percent, which amounts to 14.1 percent. The Group aims for a common equity tier 1 capital ratio of 14.5 percent where any adjustments of the buffer will depend on market expectations and Finanstilsynet's response to the bank's ICAAP in 2018. At the end of 2018 common equity tier 1 capital ratio closed on 15 percent, which is 0.9 percentage points above the regulatory requirements.

The Group expects loan growth to outstrip overall credit growth in 2018, and has set a target return on equity of 9 percent.

Effective 1 January 2018, the Group has applied the new IFRS 9 standard, which will impact the calculation of the Group's impairment losses on loans. In the future, the Group will calculate its impairment losses based on expected loan losses. This approach is expected to result in greater fluctuations in loan losses moving forward. Based on the composition of the bank's loan portfolio, economic trends, historical figures and local market conditions, net losses are expected to remain low also in 2018.

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

Events after the reporting period

There have been no recorded events since 31 March 2018 that affect the quarterly financial statements.

Arendal, 7 May 2018

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			Mill. kroner		GROUP		
31.12.	Q1	Q1			Q1	Q1	31.12.
2017	2017	2018		Notes	2018	2017	2017
2 205	549	543	Interest income	3	743	730	2 953
884	222	217	Interest expenses	3	318	329	1 274
1 321	327	326	Net interest income	3	425	401	1 679
321	74	84	Commission income		87	84	370
58	12	13	Commission expenses		13	13	58
263	62	71	Net commission income		74	71	312
23	1		Dividend			1	15
121	22	27	Net income from other financial instruments		26	13	73
144	23	27	Net income from financial instruments		26	14	88
16	4	2	Other operating income		2	4	18
1 744	416	426	Total net income		527	490	2 097
374	85	97	Wages and other personal expenses		117	105	453
29	7	7	Depreciation and write-down of fixed assets and intangible assets		7	7	30
309	82	83	Other operating expenses		88	87	328
712	174	187	Total operating expenses		212	199	811
1 032	242	239	Profit before losses on loans		315	291	1 286
20	15	-1	Losses on loans and guarantees	4	0	15	20
1 012	227	240	Profit before taxes	2	315	276	1 266
217	54	59	Tax expenses		77	66	282
795	173	181	Profit for the period		238	210	984
			Minority interests		0	0	1
795	173	181	Majority interests		238	210	983
8.9	1.9	1.9	Profit/diluted earnings per equity certificate (In whole NOK)		2.6	2.4	11.2
			Other comprehensive income				
			<i>Items that will not be reclassified to profit and loss account</i>				
-13			Recognised estimate deviation, pensions				-13
3			Tax effect				3
			<i>Items that will be reclassified to profit and loss account</i>				
			Change in value, basiswaps		-5		
			Change in value, loans to customers with securities in residential				
			Tax effect		1		
-10	0	0	Other comprehensive income		-4	0	-10
785	173	181	Comprehensive income for the period		234	210	974
			Minority interests		0	0	1
			Majority interests		234	210	973
8.8	1.9	1.9	Total profit/diluted earnings per equity certificate (In whole NOK)		2.5	2.4	11.1

PARENT BANK			NOK million	GROUP			
31.12.	31.03.	31.03.			31.03.	31.03.	31.12.
2017	2017	2018	ASSETS	Notes	2018	2017	2017
1 143	420	606	Cash and receivables from central banks		606	420	1 143
3 516	1 996	3 324	Loans to credit institutions		177	157	236
66 595	65 307	63 993	Net loans to customers	4,5,6,8,10	98 690	92 632	97 518
12 660	10 140	13 398	Bonds and certificates	10	15 218	10 951	13 468
572	540	605	Shares	10	605	540	572
385	413	228	Financial derivatives	10,11	363	529	754
1 256	1 259	1 856	Shareholdings in Group companies				
39	11	39	Shareholdings in associated companies		39	11	39
15	20	17	Intangible assets		17	23	15
387	419	388	Fixed assets		407	465	416
81	99	114	Other assets		197	167	149
86 649	80 624	84 568	TOTAL ASSETS	2,10	116 319	105 895	114 310
			LIABILITIES AND EQUITY CAPITAL				
974	215	1 013	Debts to credit institutions		910	155	902
55 593	52 794	54 904	Deposits from customers	2,7,10	54 899	52 788	55 580
17 848	16 549	16 270	Debt incurred due to issue of securities	10,12	46 788	40 585	44 343
283	318	276	Financial derivatives	10,11	359	554	306
228	102	104	Payable taxes		158	148	299
219	364	443	Other liabilities		477	409	256
87	76	60	Provisions for commitments		60	76	87
43	44	49	Deferred tax		31	30	25
1 404	1 203	1 404	Subordinated loan capital	10,12	1 404	1 203	1 404
76 679	71 665	74 523	Total liabilities		105 086	95 948	103 202
1 575	1 531	1 576	Equity certificate capital	13	1 576	1 531	1 575
1 075	625	1 075	Hybrid capital		1 075	625	1 075
7 320	6 803	7 394	Other equity		8 582	7 791	8 458
9 970	8 959	10 045	Total equity capital	9	11 233	9 947	11 108
86 649	80 624	84 568	TOTAL LIABILITIES AND EQUITY CAPITAL	2,10	116 319	105 895	114 310

Cash flow statement

PARENT BANK			NOK million	GROUP		
31.12. 2017	31.03. 2017	31.03. 2018		31.03. 2018	31.03. 2017	31.12. 2017
2 212	595	607	Interest received	844	810	2 951
-922	-315	-310	Interest paid	-452	-453	-1 317
312	61	79	Other payments received	81	72	337
-677	-196	-224	Operating payments	-250	-221	-794
11	3	2	Loan recoveries	2	3	11
-185	-141	-178	Period tax paid	-214	-184	-259
-21	-7	-9	Gifts paid	-9	-7	-21
4 006	1 217	-689	Change in customers deposits	-681	1 226	4 008
-3 790	-2 473	2 562	Change in loans to customers	-1 209	-1 739	-6 650
946	-1 256	1 840	Net cash flow from operational activities	-1 888	-493	-1 734
8 179	2 228	4 220	Payments received regarding securities	4 320	2 328	8 278
-9 826	-1 383	-4 988	Payments made regarding securities	-6 099	-1 436	-9 874
30	8		Payments received regarding sale of fixed assets	10	17	66
-24	-11	-3	Payments made regarding purchase of fixed assets	-3	-11	-28
		-600	Investment in subsidiary			
62	7	150	Change in other assets	338	-7	-178
-1 579	849	-1 221	Net cash flow from investing activities	-1 434	891	-1 736
-1 305	215	192	Change in loans to credit institutions	59	-1	-80
742	-17	39	Change in deposits from credit institutions	8	-23	724
4 550	1 550		Payments received, bond debt	4 855	1 550	10 810
-3 174	-1 534	-1 460	Payments made, bond debt	-1 950	-2 121	-8 069
-141	-10	-106	Payments made, dividend and interest hybrid capital	-106	-10	-141
450			Issuance of hybrid capital			450
-200	-200		Paid hybrid capital		-200	-200
200			Issuance of subordinated loan capital			200
-143	26	179	Change in other liabilities	-81	30	122
979	30	-1 156	Net cash flow from financing activities	2 785	-775	3 816
346	-377	-537	Net change in liquid assets	-537	-377	346
797	797	1 143	Cash and cash equivalents as at 01.01	1 143	797	797
1 143	420	606	Cash and cash equivalents at end of period	606	420	1 143

GROUP NOK million	Dividend								TOTAL
	Equity certificates	Premium fund	equaliza- tionfund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31 Dec. 2016	783	451	297	825	6 606	42	1 044	3	10 051
Dividend distributed for 2016							-94	-2	-96
Profit Q1 2017				10			200		210
Buy back of hybrid capital				-10					-10
Interest on hybrid capital				-200					-200
Allocated gift fund						-8			-8
Balance 31.03.2017	783	451	297	625	6 606	34	1 150	1	9 947
Profit 1.4-31.12.2017			46	37	568	40	82	1	774
Buy back of hybrid capital				-37					-37
Issuance of hybrid capital				450	-1				449
Other comprehensive income			-2		-8				-10
Allocated gift fund						-13			-13
Other changes							-2		-2
Balance 31 Dec. 2017	783	451	341	1 075	7 165	61	1 230	2	11 108
Dividend distributed for 2017							-94		-94
Accounting effects on transition to IFRS 9			1		4		-3		2
Profit Q1 2018				12			226		238
Interest on hybrid capital				-12					-12
Other comprehensive income							-4		-4
Allocated gift fund						-5			-5
Balance 31.03.2018	783	451	342	1 075	7 169	56	1 355	2	11 233
PARENT BANK									
Balance 31 Dec. 2016	783	451	297	825	6 606	42	94		9 098
Dividend distributed for 2016							-94		-94
Profit Q1 2017				10			163		173
Buy back of hybrid capital				-10					-10
Interest on hybrid capital				-200					-200
Allocated gift fund						-8			-8
Balance 31.03.2017	783	451	297	625	6 606	34	163	0	8 959
Profit 1.4-31.12.2017			46	37	568	40	-69		622
Buy back of hybrid capital				-37					-37
Issuance of hybrid capital				450	-1				449
Other comprehensive income			-2		-8				-10
Allocated gift fund						-13			-13
Balance 31 Dec. 2017	783	451	341	1 075	7 165	61	94	0	9 970
Dividend distributed for 2017							-94		-94
Accounting effects on transition to IFRS 9			1		4				5
Profit Q1 2018				12			169		181
Interest on hybrid capital				-12					-12
Other comprehensive income									0
Allocated gift fund						-5			-5
Balance 31.03.2018	783	451	342	1 075	7 169	56	169	0	10 045

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRS), including IAS 34. The applied accounting policies are the same as those applied in the 2017 annual financial statements.

Effective 1 January 2018, the Group changed its accounting principles for the recognition, derecognition, classification and measurement of financial assets and liabilities, as well as hedge accounting, from the previously applied IAS 39 to IFRS 9. Please refer to Note 38 of the 2017 annual financial statements for further details on the accounting effects of the transition, new accounting policies and descriptions of the bank's applied impairment model.

There are no other new standards applicable for 2018 that have a material impact on the financial statements.

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

2. SEGMENT REPORTING

Report per segment	31.03.2018				31.03.2017			
			Undistrib. and				Undistrib. and	
Income statement (NOK million)	RM	CM	elimin.	Total	RM	CM	elimin.	Total
Net interest and commission income	249	163	13	425	240	160	1	401
Net other operating income	47	18	36	102	42	16	31	89
Operating expenses	92	23	97	212	90	23	86	199
Profit before losses per segment	204	159	-48	315	192	153	-54	291
Losses on loans and guarantees	0	0	0	0	1	14	0	15
Profit before tax per segment	204	159	-48	315	191	139	-54	276
Net loans to customers	65 218	33 378	94	98 690	60 589	32 101	-58	92 632
Other assets			17 629	17 629			13 263	13 263
Total assets per segment	65 218	33 378	17 723	116 319	60 589	32 101	13 205	105 895
Deposits from customers	27 971	20 253	6 675	54 899	26 397	20 409	5 981	52 788
Other liabilities	37 247	13 124	-185	50 187	34 192	11 692	-2 724	43 160
Total liabilities per segment	65 218	33 378	6 490	105 086	60 589	32 101	3 258	95 948
Equity			11 233	11 233			9 947	9 947
Total liabilities and equity per segment	65 218	33 378	17 723	116 319	60 589	32 101	13 205	105 895

3. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			Interest income	Group		
31.12.17	31.03.17	31.03.18	NOK million	31.03.18	31.03.17	31.12.17
			<i>Interest income from financial instruments at amortised cost:</i>			
42	11	16	Interest on loans given to credit institutions	2	2	9
2007	497	326	Interest on loans given to customers	661	637	2 605
2050	508	342	Interests from financial instruments at amortised cost	663	639	2 614
			<i>Interest income from financial instruments at fair value:</i>			
0	0	35	Interest on loans given to customers (fixed rate loans)	35	47	172
156	41	41	Interest on certificates and bonds	45	45	168
156	41	76	Interest income from financial instruments at fair value	80	91	340
			<i>Interest income from financial instruments at fair value over OCI</i>			
		125	Interest on loans given to customers (mortgage)			
		125	Interest income from financial instruments at fair value over OCI			
2 205	550	543	Total interest income	743	730	2 953
			<i>Interest expenses from financial instruments at amortised cost:</i>			
6	0	3	Interest on debt given to credit institutions	3	0	5
521	130	129	Interest on debt to customers	129	130	517
281	73	66	Interest on issued securities	168	180	675
32	8	9	Interest on subordinated loans	9	8	32
45	11	10	Fee to The Norwegian Banks' Guarantee Fund	10	11	45
884	222	217	Interest expenses from financial instruments at amortised cost	318	329	1 274
884	222	217	Total interest expenses	318	329	1 274

4. LOSSES ON LOANS, GUARANTEES AND UNUSED CREDITS

Allowances on loan losses and the loss and guarantee cost for the period, have been calculated in accordance with the new accounting principles in IFRS 9. Losses on loans, guarantees and unused credits are based on expected credit loss (ECL), applying the 3 stage method described in Note 38 to the 2017 annual financial statements.

Figures for Q1 2017 and as of 31 December 2017 have been recognised under subsequent loss model in IAS 39. Consequently, the figures for the current period are not directly comparable to previous periods.

PARENT BANK			NOK million	GROUP		
31.12.17	31.03.17	31.03.18	Loss expense on loans during the period	31.03.18	31.03.17	31.12.17
		-3	Period's change in write-downs stage 1	-2		
		-3	+Period's change in write-downs stage 2	-3		
		1	+Period's change in write-downs stage 3	1		
		4	+ Period's confirmed loss	4		
3	7		Change in individual write downs during the period		7	3
-30	0		+ Change in collective write-downs during the period		0	-30
50	9		+ Period's confirmed loss where individual write-downs has been performed previously		9	50
8	5		+ Period's confirmed loss where no individual write-downs has been performed previously		5	8
4	-2	2	+ Recognised as interest income	2	-2	4
11	3	2	- Period's recoveries relating to previous losses	2	3	11
-4	-1	0	+Change in write downs on guaranties	0	-1	-4
20	15	-1	Loss expenses during the period	0	15	20

Notes

GROUP	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
NOK million				
Allowances on loan losses 01.01.2018	51	99	416	566
<i>Transfers</i>				
Transferred to stage 1	17	-16	0	0
Transferred to stage 2	-1	2	-1	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	3	3	5	11
Losses on deducted loans *	-2	-3	-10	-15
Confirmed losses	0	0	0	0
Entered into previous confirmed losses	0	0	0	0
Losses on older loans and other changes	-18	13	6	1
Allowances on loan losses 31.03.2018	49	96	417	562

* Losses on deducted loans consist of loss on loans redeemed in the period, or loans transferred between the parent bank and Sparebanken Sør Boligkreditt AS.

PARENT BANK	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
NOK million				
Allowances on loan losses 01.01.2018	49	91	415	555
<i>Transfers</i>				
Transferred to stage 1	15	-15	0	0
Transferred to stage 2	-1	2	-1	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	3	2	5	10
Losses on deducted loans *	-2	-3	-10	-15
Confirmed losses	0	0	0	0
Entered into previous confirmed losses	0	0	0	0
Losses on older loans and other changes	-16	12	6	2
Allowances on loan losses 31.03.2018	48	88	416	552

* Losses on deducted loans consist of loss on loans redeemed in the period, or loan transferred between the parent bank and Sparebanken Sør Boligkreditt AS.

For changes in balance sheet items from 31 December 2017 to 1 January 2018 due to the transition to new accounting standards, please refer to Note 38 of the 2017 annual financial statements. The following table shows reported figures for the comparable prior-year period and as of 31 December 2017 in accordance with IAS 39.

PARENT BANK		NOK million	Group	
31.12.17	31.03.17	Individual write-downs	31.03.17	31.12.17
385	385	Individual write-downs at start of period	385	385
50	9	- Period's confirmed loss where individual write-down has been performed previously	9	50
27	16	+ Increased individual write-downs during the period	16	27
50	5	+ New individual write-downs during the period	5	50
24	5	- Reversal of individual write-downs during the period	5	24
388	392	= Individual write-downs at end of period	392	388

PARENT BANK			Group	
31.12.17	31.03.17	Collective write-downs on loans	31.03.17	31.12.17
204	204	Collective write-downs of loans at start of period	210	210
-30	0	+ Change in collective write-downs during the period	0	-30
174	204	= Collective write-downs of loans at end of period	210	180

5. DEFAULTED LOANS

PARENT BANK			NOK million	GROUP		
31.12.17	31.03.17	31.03.18		31.03.18	31.03.17	31.12.17
273	241	316	Non-performing loans	321	241	273
60	77		Individual write-downs		77	60
		72	Stage 3 write-downs	72		
213	165	244	Net non-performing loans	249	165	213
0.41 %	0.37 %	0.49 %	Gross non-performing loans as % of gross loans	0.32 %	0.26 %	0.28 %

A non-performing loan is the sum of a customer's total loan amount if part of the loan has been overdrawn or has been in arrears exceeding NOK 1,000 for more than 90 days.

Please refer to note 38 in the 2017 annual financial statements for a detailed explanation of loans recognised in stage 3 when calculating expected losses.

6. WRITE-DOWNS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million		GROUP			
Stage 1	Stage 2	Stage 3			Write-down on loans, guarantees and unused credits as of 31.03.18	Write-down on loans, guarantees and unused credits as of 31.03.18	Stage 3	Stage 2
3	14	36	53	Retail customers	62	36	21	5
0	0	0	0	Public administration	0	0	0	0
0	1	2	3	Primary industry	3	2	1	0
1	1	54	56	Manufacturing industry	56	54	1	1
8	14	54	77	Real estate development	77	54	14	8
5	2	75	82	Building and construction industry	82	75	2	5
22	51	153	226	Property management	227	153	52	22
1	1	1	3	Transport	3	1	1	1
1	1	25	27	Retail trade	27	25	1	1
0	0	0	1	Hotel and restaurant	1	0	0	0
1	0	0	1	Housing cooperatives	1	0	0	1
1	2	12	14	Financial/commercial services	14	12	2	1
4	1	3	8	Social services	8	3	1	4
48	88	416	552	Total write-down on loans, guarantees and unused credits	562	417	96	50

The distribution is based on official industry codes, and corresponds with the Groups internal reporting.

7. CUSTOMERS DEPOSITS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.17	31.03.17	31.03.18		31.03.18	31.03.17	31.12.17
25 945	24 656	25 951	Retail customers	25 952	24 656	25 946
9 332	8 559	9 598	Public administration	9 599	8 559	9 332
485	595	501	Primary industry	501	595	485
2 257	1 482	1 963	Manufacturing industry	1 963	1 482	2 257
797	452	578	Real estate development	572	445	782
1 002	886	867	Building and construction industry	867	886	1 002
2 778	2 257	2 544	Property management	2 544	2 258	2 778
552	870	485	Transport	485	870	552
1 016	896	963	Retail trade	963	896	1 016
172	119	145	Hotel and restaurant	145	119	172
215	260	219	Housing cooperatives	219	260	215
5 265	5 491	5 156	Financial/commercial services	5 157	5 491	5 265
5 761	6 166	5 817	Social services	5 818	6 166	5 761
17	107	115	Accrued interests	115	107	17
55 593	52 794	54 904	Total deposits from customers	54 899	52 788	55 580

The distribution is based on official industry codes, and corresponds with the Groups internal reporting.

8. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.17	31.03.17	31.03.18		31.03.18	31.03.17	31.12.17
32 896	32 971	29 734	Retail customers	64 434	60 337	63 844
413	370	420	Public administration	420	370	413
858	816	869	Primary industry	870	818	858
1 136	918	896	Manufacturing industry	896	918	1 136
4 162	3 680	4 228	Real estate development	4 193	3 621	4 113
1 516	1 403	1 612	Building and construction industry	1 612	1 403	1 516
16 282	16 338	16 869	Property management	16 875	16 334	16 280
667	585	666	Transport	666	585	667
1 148	1 011	1 109	Retail trade	1 110	1 011	1 148
611	330	630	Hotel and restaurant	631	330	611
1 439	983	1 268	Housing cooperatives	1 268	983	1 438
1 072	2 262	1 406	Financial/commercial services	1 406	2 262	1 072
4 814	4 106	4 665	Social services	4 667	4 106	4 814
144	130	146	Accrued interests	180	157	175
67 158	65 903	64 519	Total gross loans	99 228	93 234	98 086
562	596	526	Write-downs on lending	537	602	568
66 595	65 307	63 993	Total net loans	98 690	92 632	97 518

The distribution is based on official industry codes, and corresponds with the Group's internal reporting.

9. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12.17	31.03.17	31.03.18		31.03.18	31.03.17	31.12.17
9 970	8 958	10 046	Total equity	11 233	9 947	11 108
			Tier 1 capital			
-1 074	-625	-1 075	Equity not eligible as common equity tier 1 capital	-1 075	-625	-1 088
-94	-162	-37	Share of profit not eligible as common equity tier 1 capital	-40	-201	-94
-15	-20	-17	- Deduction for intangible assets and deferred tax assets	-17	-20	-15
-20		-20	- Deduction for additional value adjustments (AVA)	-22		-21
8 767	8 151	8 897	Total common equity tier 1 capital	10 079	9 101	9 890
			Other tier 1 capital			
1 075	625	1 075	Hybrid capital	1 075	625	1 075
0	0	0	Deduction in other tier 1 capital			
9 842	8 776	9 972	Total tier 1 capital	11 153	9 726	10 965
			Additional capital over tier 1 capital			
1 404	1 203	1 404	Subordinated loan capital	1 404	1 200	1 404
-22	-22	-22	Deduction in additional capital	-22	-22	-22
1 382	1 181	1 382	Total additional capital	1 382	1 178	1 382
11 224	9 957	11 354	Net primary capital	12 535	10 904	12 347
			Minimum requirement for subordinated capital Basel II calculated according to the standard method:			
3	3	3	Engagements with local and regional authorities	3	3	3
59	54	55	Engagements with institutions	23	34	17
168	220	210	Engagements with enterprises	212	221	170
475	462	459	Engagements with mass market	533	462	498
3 048	3 017	3 006	Engagements secured in property	4 005	3 861	3 991
47	46	41	Engagements in arrears	41	46	47
0	0	0	Engagements which are high risk	0	0	0
284	250	321	Engagements in covered bonds	84	62	79
143	143	200	Engagements in collective investment funds	52	44	43
43	47	10	Engagements, other	10	47	44
4 270	4 242	4 305	Capital requirements for credit- and counterparty risk	4 963	4 780	4 892
1	6	1	Capital requirements for position-, currency- and product risk	1	6	1
219	219	239	Capital requirements for operational risk	298	257	280
23	24	8	CVA addition	37	41	65
0	0	0	Deduction from the capital requirement	0	0	0
4 513	4 491	4 553	Total minimum requirement for primary capital	5 299	5 084	5 238
56 401	56 138	56 916	Risk-weighted balance (calculation basis)	66 233	63 550	65 475
15.5 %	14.5 %	15.6 %	Common equity tier 1 capital ratio, %	15.2 %	14.3 %	15.1 %
17.5 %	15.6 %	17.5 %	Tier 1 capital ratio, %	16.8 %	15.3 %	16.7 %
19.9 %	17.7 %	19.9 %	Total capital ratio, %	18.9 %	17.2 %	18.9 %
8.4 %	8.0 %	8.4 %	Leverage ratio	9.2 %	8.8 %	9.2 %

NOK million	Cooperative Groups		
	31.03.2018	31.03.2017	31.12.2017
Proportion of common equity tier 1 capital	145	93	111
Proportion of tier 1 capital	159	93	126
Proportion of net primary capital	174	107	140
Deductions from internal eliminations	-158	-112	-124
Common equity tier 1 capital after proportionate consolidation	10 066	9 084	9 877
Tier 1 capital after proportionate consolidation	11 155	9 709	10 967
Net subordinated capital after proportionate consolidation	12 551	10 905	12 363
Proportion of risk weighted balance	986	670	793
Deductions from internal eliminations	-181	-135	-147
Risk weighted balance after proportionate consolidation	67 038	63 704	66 121
Common equity tier 1 capital after proportionate consolidation, %	15.0 %	14.3 %	14.9 %
Tier 1 capital after proportionate consolidation, %	16.6 %	15.2 %	16.6 %
(Total) capital after proportionate consolidation, %	18.7 %	17.1 %	18.7 %
Leverage ratio after proportionate consolidation, %	9.1 %	8.7 %	9.2 %

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

Includes financial assets and liabilities valued using unadjusted observable market values. These include listed shares, derivatives traded via active marketplaces and other securities with listed market values.

Level 2:

Instruments whose value is based on valuation techniques in which all assumptions (all input) 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 whose value is based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. This category includes investments in unlisted companies and fixed-rate loans where none of the required market information is available.

For a more detailed description, see Note 21 Fair value of financial instruments in the 2017 annual financial statements.

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.03.2018	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognised at amortised cost								
606		606		Cash and receivables from central banks	606		606	
3 324		3 324		Loans to credit institutions	177		177	
58 104			58 104	Net loans to customers (floating interest rate)	92 801			92 801
Assets recognised at fair value								
5 889			5 889	Net loans to customers (fixed interest rate)	5 889			5 889
13 398		13 398		Bonds and certificates	15 218		15 218	
605	5		600	Shares	605	5		600
228		228		Financial derivatives	363		363	
82 154	5	17 556	64 593	Total financial assets	115 659	5	16 364	99 290
Liabilities recognised at amortised cost								
1 013		1 013		Debt to credit institutions	910		910	
54 904			54 904	Deposit from customers	54 899			54 899
16 270		16 394		Debt incurred due to issue of securities	46 788		47 145	
1 404		1 419		Subordinated loan capital	1 404		1 419	
Liabilities recognised at fair value								
276		276		Financial derivatives	359		359	
73 867	0	19 102	54 904	Total financial liabilities	104 360	0	49 833	54 899

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.12.2017	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognised at amortised cost								
1 143		1 143		Cash and receivables from central banks	1 143		1 143	
3 516		3 516		Loans to credit institutions	236		236	
60 279			60 279	Net loans to customers (floating interest rate)	91 202			91 202
Assets recognised at fair value								
6 316			6 316	Net loans to customers (fixed interest rate)	6 316			6 316
12 660		12 660		Bonds and certificates	13 468		13 468	
572	5		567	Shares	572	5		567
385		385		Financial derivatives	754		754	
84 871	5	17 704	67 162	Total financial assets	113 691	5	15 601	98 085
Liabilities recognised at amortised cost								
974		974		Debt to credit institutions	902		902	
55 593			55 593	Deposit from customers	55 580			55 580
17 848		17 944		Debt incurred due to issue of securities	44 343		44 648	
1 404		1 415		Subordinated loan capital	1 404		1 415	
Liabilities recognised at fair value								
283		283		Financial derivatives	306		306	
76 102	0	20 616	55 593	Total financial liabilities	102 535	0	47 271	55 580

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.03.2017	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognised at amortised cost								
420		420		Cash and receivables from central banks	420		420	
1 996		1 996		Loans to credit institutions	157		157	
57 988			57 988	Net loans to customers (floating interest rate)	85 313			85 313
Assets recognised at fair value								
7 319			7 319	Net loans to customers (fixed interest rate)	7 319			7 319
10 140		10 140		Bonds and certificates	10 951		10 951	
540	35		505	Shares	540	35		505
413		413		Financial derivatives	529		529	
78 816	35	12 969	65 812	Total financial assets	105 229	35	12 057	93 137
Liabilities recognised at amortised cost								
215		215		Debt to credit institutions	155		155	
52 794			52 794	Deposit from customers	52 788			52 788
16 549		16 657		Debt incurred due to issue of securities	40 585		40 834	
1 203		1 212		Subordinated loan capital	1 203		1 212	
Liabilities recognised at fair value								
318		318		Financial derivatives	554		554	
71 079	0	18 402	52 794	Total financial liabilities	95 285	0	42 755	52 788

Movement level 3

GROUP / PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares
Recognised value as at 01.01.2017	7 514	-14	509
Acquisitions Q1 2017	124		
Of which, transferred from level 1 or 2	0		
Change in value recognised during the period	-9	-9	-4
Disposals Q1 2017	-310		
Recognised value as at 31.03.2017	7 319	-23	505
Acquisitions Q2, Q3, and Q4 2017	111		21
Of which, transferred from level 1 or 2	0		
Change in value recognised during the period	-39	21	63
Disposals Q2, Q3, and Q4 2017	-1 075		-21
Recognised value as at 31.12. 2017	6 316	-2	567
Acquisitions Q1 2018	302		36
Of which, transferred from level 1 or 2	0		
Change in value recognised during the period	15	17	-2
Disposals Q1 2018	-744		-1
Recognised value as at 31.03.2018	5 889	15	600

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	31.03.2018	31.03.2017	31.12.2017
Loan to customers	18	21	16
- of which, loans to corporate market (CM)	4	6	5
- of which, loans to retail market (RM)	14	15	11

11. OFFSETTING

GROUP

NOK million	31.03.2018	31.03.2018 (1) Net presented	31.03.2017	31.12.2017 (1) Net presented
Assets				
Financial derivatives	363	17	529	338
Liabilities				
Financial derivatives	359	14	554	363

PARENT BANK

NOK million	31.03.2018	31.03.2018 (1) Net presented	31.03.2017	31.12.2017 (1) Net presented
Liabilities				
Financial derivatives	228	-28	413	177
Liabilities				
Financial derivatives	276	20	318	82

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

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

12. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities - Parent bank

NOK million	31.03.2018	31.03.2017	31.12.2017
Bonds, nominal value	46 895	40 351	43 990
Value adjustments	-293	59	125
Accrued interest	186	175	228
Debt incurred due to issue of securities	46 788	40 585	44 343

Change in debt securities - Parent bank

NOK million	31.12.2017	Issued	Matured/ Redeemed	Other changes during the period	31.03.2018
Bonds, nominal value	43 990	4 855	-1 950		46 895
Value adjustments	125			-418	-293
Accrued interest	228			-42	186
Debt incurred due to issue of securities	44 343	4 855	-1 950	-460	46 788

Debt securities - Group

NOK million	31.03.2018	31.03.2017	31.12.2017
Bonds, nominal value	16 120	16 220	17 580
Value adjustments	-6	178	99
Accrued interest	156	151	169
Debt incurred due to issue of securities	16 270	16 549	17 848

Change in debt securities - Group

NOK million	31.12.2017	Issued	Matured/ Redeemed	Other changes during the period	31.03.2018
Bonds, nominal value	17 580	0	-1 460		16 120
Value adjustments	99			-105	-6
Accrued interest	169			-13	156
Debt incurred due to issue of securities	17 848	0	-1 460	-118	16 270

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

NOK million	31.12.2017	Issued	Matured/ Redeemed	Other changes during the period	31.03.2018
Subordinated loans	1 400				1 400
Accrued interest	4				4
Total subordinated loan capital	1 404	0	0	0	1 404

13. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as of 31 March 2018 were as follows:

	NUMBER OF EC	SHARE OF EC-CAP. %		NUMBER OF EC	SHARE OF EC-CAP. %
NAME			NAME		
1. Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00	11. Gumpen Bileiendom AS	174 209	1.11
2. Arendal Kom. pensjonskasse	450 000	2.87	12. Allumgården AS	151 092	0.96
3. EIKA utbytte VPF c/o Eika kapitalforv.	423 351	2.70	13. Landkreditt Utbytte	150 000	0.96
4. Pareto AS	417 309	2.66	14. Ottersland AS	100 000	0.64
5. Holta Invest AS	393 765	2.51	15. Wenaas Kapital AS	100 000	0.64
6. Gladstad Capital AS	387 467	2.47	16. MP Pensjon PK	85 523	0.55
7. Bergen Kom. Pensjonskasse	376 231	2.40	17. Artel AS	82 131	0.52
8. Merrill Lynch	253 749	1.62	18. Profond AS	77 115	0.49
9. Wenaasgruppen AS	186 000	1.19	19. Apriori Holding AS	72 575	0.46
10. Otterlei Group AS	182 000	1.16	20. Varodd AS	70 520	0.45
Total - 10 largest owners	11 058 551	70.58	Total - 20 largest owners	12 121 716	77.36

As of 1 January 2018, the weighted average ownership ratio was 17.9 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

At the reporting date, Sparebanken Sør owned 5 168 of its own equity certificates. The equity certificate capital amounted to NOK 783 197 200 distributed over 15 663 944 equity certificates each with a nominal value of NOK 50.

The Group's risk management procedures ensure that the Group's risk exposure is known at all times and are instrumental in helping the Group to achieve its strategic objectives and comply with legal and regulatory requirements. Governing targets are established for the Group's overall risk level and each specific risk area, and systems are in place to calculate, manage and control risk. Systems have been established 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 established 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 risks include undesirable actions and events, including the failure of IT systems, 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 profit trend

Group	Q1	Q4	Q3	Q2	Q1
NOK million	2018	2017	2017	2017	2017
Net interest income	425	439	422	417	401
Net commission income	74	78	80	83	71
Net income from financial instruments	26	58	21	-5	14
Other operating income	2	9	2	3	4
Total net income	527	584	525	498	490
Total operating expenses	212	210	194	208	199
Profit before losses	315	374	331	290	291
Losses on loans and guarantees	0	-12	4	13	15
Profit before taxes	315	386	327	277	276
Tax expenses	77	74	80	62	66
Profit for the period	238	312	247	215	210

% of average assets

Net interest income	1.49 %	1.54 %	1.51 %	1.54 %	1.54 %
Net commission income	0.26 %	0.27 %	0.29 %	0.31 %	0.27 %
Net income from financial instruments	0.09 %	0.20 %	0.07 %	-0.02 %	0.05 %
Other operating income	0.01 %	0.03 %	0.01 %	0.01 %	0.02 %
Total net income	1.85 %	2.05 %	1.87 %	1.84 %	1.88 %
Total operating expenses	0.75 %	0.74 %	0.69 %	0.77 %	0.76 %
Profit before losses	1.11 %	1.32 %	1.18 %	1.07 %	1.12 %
Losses on loans and guarantees	0.00 %	-0.04 %	0.01 %	0.05 %	0.06 %
Profit before taxes	1.11 %	1.36 %	1.17 %	1.02 %	1.06 %
Tax expenses	0.27 %	0.26 %	0.29 %	0.23 %	0.25 %
Profit for the period	0.84 %	1.10 %	0.88 %	0.80 %	0.81 %

Key figures, income statement

Return on equity after tax	9.1 %	12.0 %	9.8 %	8.5 %	8.7 %
Cost as % of income	40.2 %	36.0 %	37.0 %	41.8 %	40.6 %
Cost as % of income, ex net income from financial instruments	42.3 %	39.9 %	38.5 %	41.4 %	41.8 %

Balance sheet

Total assets	116 319	114 310	111 315	110 907	105 895
Average total assets	115 300	112 800	111 100	108 400	105 680
Net loans to customers	98 690	97 518	96 003	94 649	92 632
Growth in loans as %, last 12 mths.	6.5 %	7.2 %	6.6 %	4.9 %	3.8 %
Customers deposits	54 899	55 580	54 605	55 695	52 788
Growth in deposits as %, last 12 mths.	4.0 %	7.8 %	6.6 %	8.7 %	8.4 %
Deposits as % of net loans	55.6 %	57.0 %	56.9 %	58.8 %	57.0 %
Equity	11 233	11 108	10 831	10 391	9 947
Losses on loans as % of net loans, annualised	0.00 %	-0.05 %	0.02 %	0.06 %	0.06 %
Gross defaulted loans over 90 days					
as % of gross loans	0.32 %	0.28 %	0.27 %	0.29 %	0.26 %

Other key figures

(As of Q2 2017 profit has been included in the capital ratio)

Liquidity reserve (LCR) (Group)	165 %	139 %	144 %	158 %	114 %
Common equity tier 1 capital ratio (added share of profit)	15.2 %	15.1 %	14.7 %	14.6 %	14.6 %
Common equity tier 1 capital ratio (incl. partly owned companies)	15.0 %	14.9 %	14.5 %	14.4 %	14.4 %
Tier 1 capital ratio	16.8 %	16.7 %	16.3 %	16.0 %	15.3 %
Total capital ratio	18.9 %	18.9 %	18.1 %	17.8 %	17.2 %
Common equity tier 1 capital	10 079	9 890	9 625	9 434	9 101
Tier 1 capital	11 153	10 965	10 700	10 309	9 726
Net total primary capital	12 535	12 347	11 881	11 490	10 904
Leverage ratio	9.2 %	9.2 %	9.1 %	9.0 %	8.8 %
Number of branches	33	34	34	34	33
Number of man-years in banking activity	427	432	431	430	431

Key figures, Equity certificates

Equity certificate ratio	17.90 %	18.70 %	18.7 %	18.7 %	18.7 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	1.9	2.8	2.1	2.1	1.9
Profit/diluted earnings per equity certificate (Group)	2.6	3.6	2.8	2.4	2.4
Dividend last year per equity certificate	6.0	6.0	6.0	6.0	6.0
Book equity per equity certificate	116.1	120	116.6	113.9	111.6
Price/Book value per equity certificate	0.8	0.9	0.9	0.9	0.9
Listed price on Oslo Stock Exchange at end of period	98.6	104	103	100.00	96.50

	31.12.2017	31.12.2016	31.12.2015	31.12.2014*	31.12.2013*
Income statement (NOK million)					Proforma
Net interest income	1 679	1 565	1 544	1 511	1 443
Net commission income	312	293	300	284	252
Net income from financial instruments	88	224	-66	184	201
Other operating income	18	28	14	23	22
Total net income	2 097	2 110	1 792	2 002	1 918
Total expenses	811	787	817	834	800
Profit before losses on loans	1 286	1 323	975	1 168	1 118
Losses on loans and guarantees	20	50	97	268	126
Profit before taxes	1 266	1 273	878	900	992
Tax expenses	282	284	231	215	219
Profit for the period	984	989	647	685	773
Income statement as percentage of average assets					
Net interest income	1.53 %	1.49 %	1.58 %	1.60 %	1.60 %
Net commission income	0.28 %	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.08 %	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.02 %	0.03 %	0.01 %	0.02 %	0.03 %
Total net income	1.92 %	2.01 %	1.83 %	2.12 %	2.13 %
Total expenses	0.74 %	0.75 %	0.83 %	0.88 %	0.89 %
Profit before losses on loans	1.17 %	1.26 %	0.99 %	1.24 %	1.24 %
Losses on loans and guarantees	0.02 %	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	1.16 %	1.21 %	0.90 %	0.96 %	1.10 %
Tax expenses	0.26 %	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	0.90 %	0.94 %	0.66 %	0.73 %	0.86 %
Key figures, income statement					
Cost as % of income, ex net income from financial instruments	38.7 %	37.3 %	45.6 %	41.7 %	41.7 %
Return on equity after tax	40.4 %	41.7 %	44.0 %	45.9 %	46.6 %
Liquidity reserve (LCR) (Group)	9.7 %	11.3 %	8.4 %	10.1 %	12.3 %
Total assets	114 310	105 455	101 334	94 062	93 758
Average total assets	109 500	104 950	98 000	94 300	90 200
Net loans to customers	97 518	90 928	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	109 500	104 950	98 000	94 300	90 200
Grows in loans as %, last 12 mths.	7.2 %	7.1 %	9.2 %	4.5 %	6.8 %
Customers deposits	55 580	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	7.8 %	6.6 %	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	57.0 %	56.7 %	49.3 %	51.2 %	56.5 %
Equity	11 108	10 051	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	0.02 %	0.05 %	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.28 %	0.30 %	0.47 %	0.71 %	0.60 %
Other key figures					
Liquidity reserves (LCR)	139.0 %	128.0 %	108.0 %		
Common equity tier 1 capital ratio (added share of profit)	15.1 %	14.7 %	12.7 %	13.1 %	12.8 %
Common equity tier 1 capital ratio (incl. partly owned companies)	14.9 %	14.7 %	12.7 %	13.1 %	12.8 %
Tier 1 capital ratio	16.7 %	16.0 %	13.5 %	14.4 %	14.2 %
Total capital ratio	18.9 %	17.9 %	15.5 %	15.1 %	15.1 %
Common equity tier 1 capital	9 890	9 114	7 700	7 092	6 376
Tier 1 capital	10 965	9 939	8 210	7 792	7 076
Net total primary capital	12 347	11 121	9 388	8 170	7 522
Leverage ratio	9.2 %	8.6 %	7.0 %	7.0 %	
Number of branches	34	34	40	40	44
Number of man-years in banking activity	432	439	449	454	489
Key figures, Equity certificates					
Equity certificate ratio before profit distribution	18.7 %	19.8 %	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	15 663 944	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent bank)	8.9	8.5	10.6	12.2	10.3
Profit per equity certificate (Group)	11.2	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	6.0	6.0	9.0	10.0	10.0
Book equity per equity certificate	120.0	115.2	219.0	212.0	187.0
Price/Book value per equity certificate	0.9	0.8	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	104.0	91.3	139.0	196.0	150.0

Calculations

	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	31.12. 2017
NOK million						
Return on equity adjusted for hybrid capital						
Profit after tax	238	312	247	215	210	984
Interest on hybrid capital	-12	-12	-10	-15	-10	-47
Profit after tax, incl. interest on hybrid capital	226	300	237	200	200	937
IB Equity	11 108	10 831	10 391	9 947	10 051	10 051
IB Hybrid capital	-1 075	-1 075	-875	-625	-825	-825
IB Equity excl. hybrid capital	10 033	9 756	9 516	9 322	9 226	9 226
UB Equity	11 233	11 108	10 831	10 391	9 947	11 108
UB Hybrid capital	-1 075	-1 075	-1 075	-875	-625	-1 075
UB Equity excl. hybrid capital	10 158	10 033	9 756	9 516	9 322	10 033
Average equity	11 171	10 970	10 611	10 169	9 999	10 580
Average equity excl. hybrid capital	10 096	9 895	9 636	9 419	9 274	9 630
Return on equity	8.6 %	11.3 %	9.2 %	8.5 %	8.5 %	9.3 %
Return on equity excl. hybrid capital	9.1 %	12.0 %	9.8 %	8.5 %	8.7 %	9.7 %
Net interest income, adjusted for accounting changes						
Net interest income	425	439	422	417	401	1 679
Fee to the Norwegian Banks' Guarantee Fund						
Interest on hybrid capital	-12	-12	-10	-15	-10	-47
Net interest income, adjusted for accounting changes	413	427	412	402	391	1 632
Average total assets	115 300	112 800	111 100	108 400	105 680	109 500
As a percentage of total assets	1.45 %	1.50 %	1.47 %	1.49 %	1.50 %	1.49 %
Operating costs, adjusted for conversion of the pension scheme						
Operating costs	212	210	194	208	199	811
Conversion of pension scheme	0	8				8
Operating costs, adjusted for conversion of the pension scheme	212	218	194	208	199	819
Profit from ordinary operations						
Net interest income, adjusted for accounting changes	413	427	412	402	391	1 632
Nett commission income	74	78	80	83	71	312
Other operational income	2	9	2	3	4	18
Operating income, adjusted for conversion of pension scheme	212	218	194	208	199	819
Profit from ordinary operations, before tax	277	296	300	279	267	1 143
Profit excl. finance and adjusted for accounting changes						
Net interest income, adjusted for accounting changes	413	427	412	402	391	1 632
Net commission income	74	78	80	83	71	312
Other operational income	2	9	2	3	4	18
Operating income, adjusted for conversion of pension scheme	212	218	194	208	199	819
Losses on loans and guarantees	0	-12	4	13	15	20
Profit excl. finance and adjusted for accounting changes	277	308	296	266	252	1 123
Tax (25 %)	69	77	74	67	63	281
Ordinary operations / adjusted profit after losses and tax	208	231	222	200	189	842
Average equity, excl. Hybrid capital	10 096	9 895	9 636	9 419	9 274	9 630
Return on equity, profit excl. Finance and adjusted for accounting events	8.3 %	9.3 %	9.1 %	8.5 %	8.3 %	8.7 %
Ordinary operations / adjusted profit after losses and tax						
Average interest / interest margins						
Average lending rate RM (Return)	2.69 %	2.72 %	2.75 %	2.77 %	2.83 %	2.78 %
Average lending rate CM (Return)	3.26 %	3.20 %	3.25 %	3.35 %	3.44 %	3.32 %
Average deposit rate RM	0.82 %	0.81 %	0.82 %	0.82 %	0.82 %	0.82 %
Average deposit rate CM	0.97 %	0.92 %	1.04 %	1.06 %	1.10 %	1.03 %
Average 3 month NIBOR	0.95 %	0.81 %	0.81 %	0.92 %	1.02 %	0.89 %
Lending margin RM (lending rate - 3 month NIBOR)	1.74 %	1.91 %	1.94 %	1.85 %	1.81 %	1.89 %
Lending margin CM (lending rate - 3 month NIBOR)	2.31 %	2.39 %	2.44 %	2.43 %	2.42 %	2.43 %
Deposit margin RM (3 month NIBOR - deposit rate)	0.13 %	0.00 %	-0.01 %	0.10 %	0.20 %	0.07 %
Deposit margin CM (3 month NIBOR - deposit rate)	-0.02 %	-0.11 %	-0.23 %	-0.14 %	-0.08 %	-0.14 %

In order to provide a better picture of the bank's underlying operations, the Board of Directors report refers to a number of Alternative Performance Measures (APMs) which are not defined under IFRS. These figures are not intended to replace the figures in the standard financial report. The table above reconciles the adjusted and the unadjusted figures.

