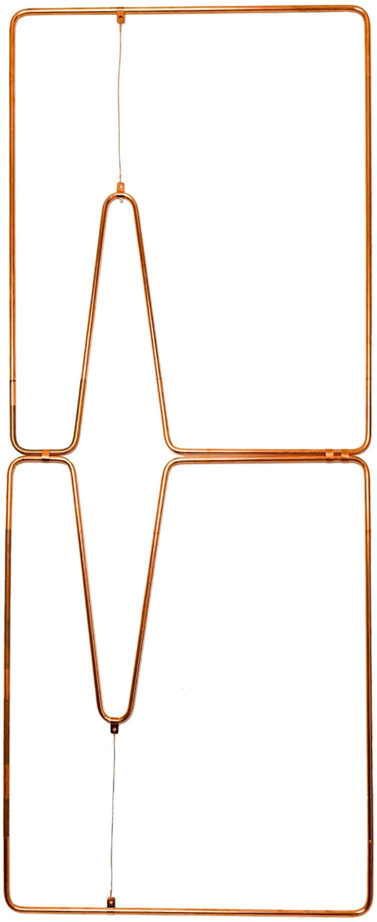
SPAREBANKEN SØR

ANNUAL REPORT 2020

WINNER OF SPAREBANKEN SØR ARTIST AWARD, 2020.

Johanne Hestvold (b. 1988, from Sandøya outside Tvedestrand) has distinguished herself in a new generation of abstract artists who carry on the legacy of modernism. This year's award winner has created two works that convinces with a strong connection between theme, material, process and form. Through a new material-based research, the artist goes straight into a current issue where the works connect nature with culture, and illuminates the human influence on nature and nature's influence on man.

Hestvold has a BA from the School of Art and Design in Bergen and Kuvataideakatemia in Helsinki. In 2015, she made a name for herself by participating in the group exhibition New Norwegian Abstraction at the Astrup Fearnley Museum, which later toured the Stavanger Art Museum. That same year, she received Anders Jahre's cultural award for younger artists.



VO OV, 2020 Copper

Hestvold's creations is often based on everyday objects such as cars, clothes, furniture or tableware, which she then uses parts of and combines with elements from other contexts. She processes the familiar forms quite far away from the function and history they carry with them, and into an abstract world of images. There, form, materiality and expression take precedence. The result is both intuitively recognizable, and at the same time something unknown.

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The year 2020

A CHALLENGING YEAR DOMINATED BY THE PANDEMIC

Kristiansand Sparebank was established in 1824, followed one year later by the establishment of Arendal Sparebank. This marked the beginning of Sparebanken Sør, today a very solid and responsive financial group has contributed to growth and development for almost 200 years. In today's highly competitive buisness community, it is rare to encounter businesses that have managed to survive for two centuries – let alone ones that have also delivered profitable growth and significant contributions to sustainable social development. We in Sparebanken Sør have managed to do exactly that. Not only in our previous peak year of 2019, but in 2020 as well. The year was notable for the coronavirus pandemic and economic downturn on a scale not seen for a hundred years.

SATISFACTORY RESULTS IN A DEMANDING YEAR

Despite being weaker than in the previous year, net profit was the second-best in the bank's history. In a crisis- and pandemic-ridden year, there is every reason to feel satisfied despite the NOK 64 million drop in profit since the 2019 record. The profit of NOK 1403 million (before tax) is satisfactory, and was boosted by good performance contributions from wholly owned and partly owned subsidiaries.

A COMPREHENSIVE AND LEADING FINANCIAL HOUSE IN THE REGION

The bank has strengthened its position in recent years through investments and organic growth in new business areas such as insurance, leasing, investment funds and real estate agency. Alongside the bank, Sørmegleren, Frende Forsikring, Brage Finans, Norne Securities and Balder Betaling now provide a product range that makes us a comprehensive and leading financial house in our region, and that strengthens our supplementary earnings and gives us a more diversified top line. We have a valuable and robust competitive edge due to our strong regional skill sets and short decision paths.

COST-EFFECTIVENESS AMONG THE BEST

The bank stands out as being highly cost-effective in Norway and internationally. The cost-income ratio was 39.2 percent at year end, compared with 38.8 percent at the previous year end. Expenses as a percentage of total assets were a strong 0.68 percent. The favourable cost position is the result of ongoing reorganisation and streamlining, and this work will continue.

NEGATIVE TREND IN LOAN LOSS PROVISIONS DUE TO THE PANDEMIC

Net losses on lending have been low and declining over recent years. As a result of the pandemic and extensive infection control measures, the Norwegian and international economies entered a sharp economic downturn from March 2020, which led to a substantial increase in the bank's model-based loss provisions. From net receipts of NOK 17 million in the previous year, the bank's loss provisions increased to NOK 83 million in 2020. This is nevertheless regarded as relatively low in light of the exceptional economic situation, backed by continued high quality in our lending portfolio demonstrated by the gradual reduction in an already low level of non-performing loans and commitments with loss exposure throughout the year.

SOLID CAPITAL ADEQUACY AND SATISFACTORY RETURN ON EQUITY

Sparebanken Sør has substantially strengthened its equity through several years of solid profits. The bank's leverage ratio of 8.9 percent places it among the most robust of the major banks in Norway and Europe. The bank's common equity Tier 1 (CET1) capital ratio at year end was 15.7 percent, well above regulatory requirements and slightly above the bank's target. Based on the bank's high leverage ratio, the return on equity of 8.4 percent is assessed as satisfactory.

STRONG MARKET POSITION AND GOOD GROWTH

The bank maintained its strong position in the domestic market through the year. Growth in lending in both the retail and corporate markets was 5 per cent, somewhat higher than national growth in credit. Deposit growth, adjusted for a controlled reduction in capital market deposits, was a solid 8.1 per cent. Net lending to customers at year end was NOK 111.6 billion, and deposits totalled NOK 59.8 billion. The deposit-to-loan ratio is therefore 53.6 per cent. The bank has good capacity for growth in lending, and has a long-term growth target slightly above the credit growth in our market area.

SECURE ACCESS TO FUNDING, EVEN IN A TURBULENT MARKET

The coronavirus pandemic triggered financial turmoil in the capital markets from mid-March. Norges Bank (the Central Bank of Norway) implemented market measures, however, which gradually normalised the market situation. Sparebanken Sør was regardless already well funded at the start of the year. To build an extra liquidity buffer, the bank took part in Norges Bank's special F-loan scheme, and was able to contribute to normalising the general market situation by redeeming outstanding liabilities early. During the course of the year, the bank issued NOK 5 billion in covered bonds to the investor market on good terms. Sparebanken Sør was also one of the first issuers of subordinated debt (senior non-preferred) in the Norwegian bond market, and issued NOK 2 billion to meet the new MREL requirements. The bank's total capital was also strengthened by raising subordinated loan capital of NOK 350 million. At the start of the year, the bank carried out a successful issue of covered bonds for EUR 500 million through the wholly owned company Sparebanken Sør Boligkreditt, an issuer in great demand among global institutional investors..

HIGH PRIORITY FOR DIGITALISATION AND TECHNOLOGICAL DEVELOPMENT

In a year notable for the pandemic, use of technology has never been more important and more crucial to maintaining service offerings, sales activity and good collaboration. Bank operations have performed very well throughout the year, even with many employees working from home for long periods.

By making important choices of technology in 2020, we have prepared the bank to ensure it remains competitive and safe going forward. We maintain effective online collaboration, both internally and with partners. Competence building and modern cloud-based platforms make new services and service providers possible. At the same time, we focus closely on security and cyber risk, and have launched a project to implement ISMS (Information Security Management System). This is to ensure that we work in a structured manner and with clearly defined roles and responsibilities in order to prevent, identify and respond quickly to potential security breaches.

Two dimensions are crucial to our development work: good customer experience and efficient processes. Online pre-approval letters, a new online mortgage path and an online savings adviser for fund savings were among our new customer solutions in 2020. When the pandemic struck in March, an online path allowing retail customers to apply for a repayment-free period was established within a week. In June, we became one of the first banks in Norwegian to introduce real-time payment between accounts. We were also among the first to offer the In-Store Cash service, which ensures that customers can make cash deposits and withdrawals in most convenience stores. This gives far better access to cash management for customers and provides good opportunities for cost-efficiency improvements for the bank.

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INCREASED COMMITMENT TO SUSTAINABILITY

The bank's mission is to create sustainable growth and development for our region, and implementing measures in the area of sustainability was high on the agenda throughout the year. Our work on sustainability represents a natural progression of the role we have played for almost 200 years. For Sparebanken Sør, sustainable development means contributing to positive development in ESG (Environmental, Social and Governance), as well as fulfilling the bank's corporate social responsibility in the areas where the bank operates. The work on sustainability is aimed at strengthening competitiveness and reducing the bank's ESG risk. The bank – as an employer, investor, lender and supplier of financial products and services – will contribute to sustainable growth by reinforcing positive, and reducing negative, impacts on people, society, climate and nature.

We report corporate social responsibility according to the GRI standard, and also report activities and results of our work on sustainability to the UN initiatives to which we are affiliated, the UN Global Compact and the UNEP Principles for Responsible Banking.

The bank adopted a separate policy for responsible lending in 2020. As part of the work on sustainable lending, the bank has integrated a separate ESG module into the credit processes, which is to be used in both granting and follow-up of credit to our customers. An important aspiration is to increase the proportion of commitments in the bank's loan portfolio that qualify as sustainable loans under the EU's new taxonomy. Another important measure has centred on identifying and measuring the bank's own climate risk, summarised in our climate risk report (TCFD) published on our website together with the year's sustainability report and other key sustainability documents.

AN ORGANISATION WITH A GOOD BALANCE OF CONTINUITY AND MODERNISATION

Sparebanken Sør has an ownership model that brings together the stock market and the community. Community ownership is currently more than 90 per cent if we include ownership through the savings bank foundation Sparebankstiftelsen Sparebanken Sør, which means that most of the profit benefits the community and sustainable growth in the region to which the bank belongs.

The bank's strong traditions and important social mandate also bring great responsibility for modernising the bank's operation to keep pace with the rapid changes characteristic of the financial industry. The bank continued its strategic skills shift throughout 2020. We employ many highly educated people with top-level skills in focal areas such as technology, digitalisation and analysis. At the same time, we have continued a planned reduction in full-time equivalent staff levels in traditional banking activity, made possible by evolving customer behaviour, investments in technology and new online customer solutions.

A FUTURE-ORIENTED RELATIONSHIP BANK

Sparebanken Sør has remained dependable through a challenging year plagued by a pandemic and economic crisis. Our employees have been present and offering support to tens of thousands of customers needing help and advice; our online customer solutions have performed extremely well; and we have managed to run the bank very well in exceptional circumstances.

The past year shows that Sparebanken Sør and the bank's employees are capable of responding to rapid changes and great challenges. In the years to come, intense competition and rapid changes in customer behaviour will necessitate a change-oriented and competent organisation. Over the course of the past year, we have shown that we are an organisation capable of adapting – through rapid change and improvement – to great changes in customer behaviour, while providing our customers with both expert personal advice and leading online solutions. We therefore firmly believe that we will continue to fulfil our role as the region's relationship bank going forward, with customer satisfaction continuing to be among the very best. We are consequently also confident that our customers will experience our product and service offerings as relevant and capable of meeting the vast majority of financial needs.

A long-term approach, strong customer relationships and local decision-making will continue to be characteristic features of our business. At the same time, through new technology and rapid digitalisation, we will give the bank customers of the future a steadily better customer experience in all channels, and in so doing strengthen the bank's cost position, capacity for growth and future profitability.

As a new year begins, Sparebanken Sør is better placed than ever to realise our mission to create sustainable growth and development in our region. Not least by virtue of the exceptional commitment and strong effort by our capable employees, also shown through the demanding pandemic year of 2020. Sincere thanks to you all!

Geir Bergskaug

Geir Bergskaug
Adm. direktør

Key figures group

NOK MILLION	31.12.2020	31.12.2019	31.12.2018	31.12.2017	31.12.2016
Profit					
Net interest income	1 914	1 926	1 729	1 679	1 565
Net commission income	347	344	318	312	293
Net income from financial instruments	40	24	2	88	224
Other operating income	143	74	23	18	28
Total net income	**2 444**	**2 368**	**2 072**	**2 097**	**2 110**
Total operating expenses before losses	958	918	884	811	787
Operating profit before losses	**1 486**	**1 450**	**1 188**	**1 286**	**1 323**
Losses on loans and guarantees	83	-17	-36	20	50
Profit before taxes	**1 403**	**1 467**	**1 224**	**1 266**	**1 273**
Tax expenses	307	342	285	282	284
Profit for the period	**1 096**	**1 125**	**939**	**984**	**989**
Profit as a percentage of average assets					
Net interest income	1,36 %	1,53 %	1,46 %	1,53 %	1,49 %
Net commission income	0,25 %	0,27 %	0,27 %	0,28 %	0,28 %
Net income from financial instruments	0,03 %	0,02 %	0,00 %	0,08 %	0,21 %
Other operating income	0,10 %	0,06 %	0,02 %	0,02 %	0,03 %
Total net income	**1,74 %**	**1,88 %**	**1,75 %**	**1,92 %**	**2,01 %**
Total operating expenses before losses	0,68 %	0,73 %	0,75 %	0,74 %	0,75 %
Operating profit before losses	**1,06 %**	**1,15 %**	**1,00 %**	**1,17 %**	**1,26 %**
Losses on loans and guarantees	0,06 %	-0,01 %	-0,03 %	0,02 %	0,05 %
Profit before taxes	**1,00 %**	**1,17 %**	**1,03 %**	**1,16 %**	**1,21 %**
Tax expenses	0,22 %	0,27 %	0,24 %	0,26 %	0,27 %
Profit for the period	**0,78 %**	**0,89 %**	**0,79 %**	**0,90 %**	**0,94 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	8,4 %	9,5 %	8,5 %	9,7 %	11,6 %
Costs as % of income	39,2 %	38,8 %	42,7 %	38,7 %	37,3 %
Costs as % of income, excl. net income from financial instruments	39,9 %	39,2 %	42,7 %	40,4 %	41,7 %
Key figures, balance sheet					
Total assets	142 126	129 499	121 125	114 310	105 455
Average total assets	140 400	125 900	118 600	109 500	104 950
Net loans to customers	111 577	106 334	102 942	97 518	90 928
Grows in loans as %, last 12 mths.	4,9 %	3,3 %	5,6 %	7,2 %	2,9 %
Customer deposits	59 833	57 949	56 537	55 580	51 562
Growth in deposits as %, last 12 mths.	3,3 %	2,5 %	1,7 %	7,8 %	6,6 %
Deposits as % of net loans	53,6 %	54,5 %	54,9 %	57,0 %	56,7 %
Equity (incl. hybrid capital)	13 752	13 081	11 845	11 108	10 051
Losses on loans as % of net loans, annualised	0,07 %	-0,01 %	-0,17 %	0,02 %	0,05 %
Gross non-performing loans (over 90 days) as % of gross lending	0,29 %	0,27 %	0,21 %	0,28 %	0,30 %
Other key figures					
Liquidity reserves (LCR), Group	173 %	148 %	159 %	139 %	128 %
Liquidity reserves (LCR), Group- EUR	107 %	1168 %	4727 %	3105 %	
Liquidity reserves (LCR), Parent Bank	154 %	140 %	180 %	134 %	119 %
Common equity tier 1 capital ratio	15,7 %	15,7 %	14,8 %	14,9 %	14,7 %
Tier 1 capital ratio	17,1 %	17,6 %	16,6 %	16,7 %	16,0 %
Total capital ratio	19,1 %	20,3 %	18,7 %	18,9 %	17,9 %
Common equity tier 1 capital	12 204	11 356	10 517	9 890	9 114
Tier 1 capital	13 315	12 767	11 591	10 965	9 939
Net total primary capital	14 864	14 686	13 096	12 347	11 121
Leverage ratio	8,9 %	9,3 %	9,1 %	9,2 %	8,6 %
Number of branches	35	34	34	34	34
Number of FTEs in banking operations	442	429	434	432	439
Key figures, equity certificates					
Equity certificate ratio before profit distribution	17,3 %	17,2 %	17,9 %	18,7 %	17,5 %
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)	10.5	9,3	7,7	8,9	8,5
Profit per equity certificate (Group)	11,3	11,7	10,1	11,2	10,7
Dividend last year per equity certificate (Parent Bank)	14,0	0,0	6,0	6,0	6,0
Book equity per equity certificate	140,0	128,5	123,2	120,0	115,2
Price/book value per equity certificate	0,8	0,9	0,8	0,9	0,8
Listed price on Oslo Stock Exchange at end of period	114,5	110,0	96,9	104,0	91,3

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Board of Directors' report

NATURE OF THE BUSINESS

Sparebanken Sør is an independent financial institution whose core business is banking, securities trading and real estate brokerage activities in Agder, Rogaland, Vestfold and Telemark counties. The Group also engages in the sale of insurance, leasing, car loans, consumer credit and share dealing through cooperating product companies, and mortgaging through the wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The Bank has 35 branches, and its head office is located in Kristiansand.

HIGHLIGHTS

The Sparebanken Sør Group delivered a solid profit in 2020, and the Board wishes to highlight the following:

- Good profit from ordinary operations
- Very good contributions to profit from Frende, Brage and Sørmegleren
- Efficient operations and low expenses
- Increased model-based loss allowances as a consequence of the coronavirus pandemic
- Growth in lending of 4.9 percent
- Growth in deposits of 3.3 percent
- Return on equity after tax of 8.4 percent
- Common equity Tier 1 capital ratio of 15.7 percent, well above the 13.0 percent requirement.
- Leverage ratio of 8,9 percent at the end of the year
- The Board will propose distribution of a dividend for 2020 of NOK 14.00 per equity certificate. This includes withheld dividend of NOK 8.00 for 2019.

FRAMEWORK 2020

Higher growth in the Norwegian economy

The Norwegian economy suffered a double shock in March 2020. The country was locked down in connection with the coronavirus pandemic, and the price of oil fell as a result of a decrease in global demand. The economy has been through one of the deepest economic downturns since the Second World War, with record high unemployment and a sharp drop in value creation, Overall, however, the Norwegian economy has coped well compared with the rest of the Western world.

Government restrictions in the fight against the coronavirus have had a cooling effect on the Norwegian economy. A number of measures were taken to stimulate the economy in the past year.

Norges Bank (Central Bank of Norway) lowered its key interest rate in three stages in 2020, down to a record low level of 0 percent. The reduction in interest rates was due to the consequences of the coronavirus pandemic. The situation in the Norwegian economy has since improved, and there were several months in which there was an upturn in the Norwegian economy. The recovery in the economy is now being slowed by the increased rate of infection and stricter infection control. At the same time, extensive vaccination has begun, and economic growth is expected to rise in 2021. Norges Bank kept its key policy rate unchanged at its most recent rate-setting meeting in January 2021 in view of the sharp downturn to the economy, and there continues to be considerable uncertainty regarding further developments. In addition to a record-low key interest rate, very expansive financial policy has been set, partly through the compensation scheme.

House prices in the Bank's principal markets have shown positive, but modest, growth for several years. The statistics for 2020 show very strong price growth, aided by the low level of interest rates. The Bank assesses the housing market in the Bank's principal markets as stable and balanced.

Credit growth (C2) fell throughout the course of 2020 and was 4.8 percent at the end of the year. Growth in credit to households and businesses was 4.9 and 3.7 percent, respectively, while growth in credit to the municipal sector was 7.6 percent. Key interest rate.

Trends in the financial markets

The Group's funding structure was solid when the coronavirus crisis hit the financial markets in the spring of 2020. In accordance with requirements adopted by the Board of Directors, maturing loans were refinanced early when the crisis occurred. The government's packages of measures then contributed to normalizing financial markets over the course of the year. The Group has had good access to funding, through the issuing of covered bonds in the home mortgage business and the issuing senior non-preferred.

Minimum requirement for the sum of subordinated capital and convertible debt (MREL)

On 18 December 2020, the Bank received a decision on minimum requirements for the total subordinated capital and convertible debt (MREL) from the Financial Supervisory Authority of Norway. MREL and internal recapitalisation are a key element of the Bank Recovery and Resolution Directive (BRRD). The MREL requirement is 32.0 percent of adjusted risk-weighted amount of commitment based on the Bank's balance sheet on 31 December 2019 and is to be fulfilled with subordinated capital and convertible debt. The Group will fulfill this requirement by 31 December 2024. During the transition period, the Bank can use unsecured senior bond debt with a remaining term to maturity of more than one year to fulfill the subordination requirement. Subordinated debt is to be phased in on a straight-line basis, taking account of the expected adjusted risk-weighted balance sheet on 1 January 2024: The need for issuing of senior non-preferred will depend on the outcome of the introduction of BRRD 2 into Norwegian regulation and whether an upper limit is set for subordinated debt.

BUSINESS SEGMENTS

Retail market

2020 was a highly exceptional year. The Bank made a good start, in terms of both profit and sales. However, in March the Bank was hit by the coronavirus pandemic and quickly had to adapt to the new operating conditions. Both customers and employees showed great willingness and ability to change, and our experience is that the customers have been served in a highly satisfactory manner. Although the Bank was closed to drop-ins, its employees were accessible and customers were able to make appointments for personal meetings. In addition, several customers made use of the Bank's successfully functioning digital solutions. Experiences during the course of 2020 will probably also have an impact on both customer behavior and how good advisory is implemented in the years ahead.

The Bank further improved the efficiency of its distribution to retail customers during the course of 2020. Several branches have been converted to 'advice centers' (staffed only in response to customers' needs for advisory meetings). Cash is in the process of being phased out in favor of 'in-store cash'. New ways of communicating with the customers have started to be used: telephone, Teams and other digital platforms. A separate department for digital distribution was also set up, and customer and sales centers have been strengthened. With increased efficiency improvements and despite having fewer employees, the Bank has never distributed more products and services to retail customers than it did in 2020, including sales of insurance (Frende), car- and boat financing (Brage) and savings products (Norne). Demand for the bank's additional products is likely to continue the positive development in 2021.

In September 2020, Sparebanken Sør opened a new branch in Sandefjord. With skilled staff, a good location, co-siting with the Bank's real estate agency Sørmegleren and a sponsorship agreement with the handball club Runar IL, the Bank is off to a flying start. We have great expectations for the years ahead.

The Bank has also strengthened its efforts in relation to the youth segment. The Bank is the main partner for Ungt Entreprenørskap i Agder og Vestfold og Telemark (Young Entrepreneurship in Agder and Vestfold and Telemark counties), a cooperation in which the Bank offers training in personal finance for classes in lower secondary and upper secondary schools. Despite the pandemic, there has been great demand for this offer. Substantial use has been made of digital instruction. In addition, the Bank is the largest and most important sponsor in most youth activities in the region. Good work has also been done with regard to making the Bank more visible on social media for the youth segment.

Gross lending to retail customers increased by NOK 3.5 billion to NOK 73.7 billion, equivalent to a change of 5.0 percent. Deposits from retail customers increased by NOK 1.8 billion to NOK 29.8 billion, equivalent to growth of 6.3 percent.

Corporate market

Over the course of 2020, the Bank upheld its position as the business bank for Southern Norway,

and strengthened its position in Rogaland and Vestfold and Telemark counties. The Bank now stands out as a natural first choice for businesses in large parts of the area where the Bank operates.

Lending to corporate customers increased by NOK 1.8 billion to NOK 38.2 billion in 2020, equivalent to growth of 5.1 percent.

Total deposits from corporate customers rose by NOK 0.1 billion to NOK 30.0 billion. This is equivalent to growth of 0.4 percent. The Bank consciously chose to reduce the extent of major capital market deposits in 2020, while a good increase in operation-related corporate deposits was recorded. The decrease in capital market deposits in the past 12 months was NOK 2.5 billion, and growth in deposits adjusted for capital market deposits in the past 12 months was 10.2 percent from corporate customers.

The Bank's corporate customers represent a balanced and solid portfolio which is a good reflection of the business community in the region. In addition to fulfilling the role of bank for large parts of the region's business community as well as the public sector, the Bank also serves a national customer segment through its agreement with the Norwegian Christian organisation KNIF. This is a low-risk segment that includes private hospitals and other enterprises in the health sector, schools, day-care facilities, ecclesiastical enterprises, missionary organisations and organisations for children and young people.

The Bank offers general insurance, occupational pensions and group life insurance to the corporate market through Frende Forsikring AS and Nordea Liv and leasing through Brage Finans AS. Cooperation with Frende and Brage has been strengthened in recent years through increased focus and improved interaction, between employees in the Bank and the product companies.

The Bank's Customer Centre CM has played an increasingly important role in serving the Bank's corporate customers. The Customer Centre today stands out as an important center of expertise in the areas of customer establishment, payment services, cash management and other day-to-day banking services.

The coronavirus pandemic affected the Bank's management of customers in the corporate market through large parts of 2020. The pandemic has made in-person meetings with customers more difficult, but customer satisfaction surveys show that the Bank has coped well in maintaining a good service and customer management. Through a demanding year, the Bank has been an important contributor and ally for the business community in the region. Proactive information linked to government support schemes, granting of government-guaranteed loans and the Bank has deliberately prioritised offers of forbearances on loans. The Bank's view is that the business community in the region, relative to other regions, coped well through 2020.

PROFIT FOR THE YEAR

Accounting policies

Sparebanken Sør's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The accounting policies are explained in more detail in the notes to the financial statements.

The annual financial statements have been prepared on a going concern basis. The Group has adequate earnings and equity, and in the view of the Board of Directors there are no indications of anything other than a going concern.

The figures referred to in the Board of Directors' report are consolidated figures unless it is specified that they relate to the Parent Bank.

Profit for the year

Sparebanken Sør achieved a profit before tax of NOK 1 403 million in 2020, compared with NOK 1 467 million in 2019. The year of 2020 was a demanding one after the coronavirus pandemic emerged in March. The Group is nevertheless delivering a very solid profit as a result of good profit contributions from subsidiaries and associates. In addition, there have been positive contributions to profit from financial instruments and continued low expenses.

Profit after tax totalled NOK 1 094 million in 2020, compared with NOK 1 125 million in 2019. This was equivalent to return on equity, adjusted for interest on hybrid capital, of 8.4 percent in 2020, compared with 9.5 percent in 2019.

Other comprehensive income, which includes changes recognised directly through equity during the financial year totalled NOK 1 091 million in 2020, compared with NOK 1 121 million in 2019.

Net interest income

Net interest income totalled NOK 1 914 million in 2020, compared with NOK 1 926 million in 2019, a decrease of NOK 12 million. Net interest income in 2020 was equivalent to 1.36 percent of average total assets, compared with 1.53 percent of average total assets in 2019.

Norges Bank lowered the interest rate by 1.5 percentage points in 2020, to a record low of 0 percent. The Bank has responded by reducing the interest rate on lending to customers. The Bank also implemented a change in interest rate on individual deposits in 2020. The changes in interest rate have squeezed the Bank's net interest income, and the interest-rate margin (lending rate – deposit rate) fell during the course of 2020.

As a result of turmoil in the financial market during the coronavirus pandemic, the balance sheet increased significantly through the year. This applies principally to financial derivatives and received security linked to derivative agreements. In addition, the Bank made use of the F-loan scheme in Norges Bank. This led to an increase in total assets, which also contributes to the decline in net interest income measured as a percentage of average total assets.

In 2020, the Bank paid NOK 68.6 million in interest on hybrid capital, compared with NOK 60.0 million in 2019. Interest on hybrid capital was charged to equity as an allocation of profit.

Commission income

Net commission income totaled NOK 347 million, compared with NOK 344 million in 2019. The increase was primarily attributed to increased commission income from the real estate agency business, Sørmegleren. The company had good growth and increased commission income in 2020.

There was a decline in commission income from payment services in 2020. The reduction in income from payment services is mostly due loss of currency income linked to card use abroad, as a result of the Bank's customers travelling less due to the coronavirus pandemic.

Financial instruments

Net income from financial instruments totalled NOK 40 million in 2020, compared with NOK 24 million in 2019.

In 2020 there was an overall positive development in value of NOK 97 million linked to shares, fixed-rate loans, currency trading, customer swaps and basis swaps used in connection with interest and currency hedging.

The liquidity portfolio made a negative contribution of NOK 45 million in 2020, compared with NOK 23 million in 2019.

The Group is to be refinanced in advance of the maturity of external market financing. In connection with the refinancing, an outstanding bond with a short time to maturity is being redeemed. The debt has been recognised at amortised cost, while redemptions are recognised at market value. Loss on redemption is recognised as net income on financial instruments and made a negative contribution of NOK 12 million in 2020, compared with NOK 29 million in 2019.

Associated companies

Sparebanken Sør has increased its ownership interests in Frende Holding AS and Brage Finans AS in recent years. This was done as part of the strategic commitment to be better able to offer customers good, relevant and integrated solutions.

In the second quarter of 2020, Sparebanken Sør bought 57 936 shares in Frende Holding AS. The purchase price was NOK 517.75 per share, equivalent to a value of the company of NOK 3.5 billion. The transaction demonstrated excess value in the company of as much as NOK 250.7 million, equivalent to NOK 2.8 per equity certificate. Frende Holding AS is classified as an associate and is recognised according to the equity method.

Income from associates totalled NOK 136 million in 2020, up from NOK 64 million in 2019. Shares of profit in 2020 are broken down into NOK 116.2 million from Frende Holding AS and NOK 32.7 million from Brage Finans AS. In 2020 a value adjustment of the shares in Vipps was made, which had a positive effect on the shares in Balder Betaling AS. The value adjustment was NOK 7.7 million.

Excess value was identified in connection with the purchase of shares in Frende Holding AS which will be amortised over expected life. The Group amortised the excess value by NOK 20.9 million in 2020, compared with NOK 20.0 million in 2019.

Expenses

Group expenses totaled NOK 958 million in 2020, compared with NOK 918 million in 2019, an increase of NOK 40 million. As a percentage of average total assets, expenses were equivalent to 0.68 percent, compared with 0.73 percent in 2019. The cost-to-income ratio, excluding income from financial instruments, was 39.2 percent, compared with 38.8 percent in 2019.

Personnel expenses totalled NOK 552 million in 2020, compared with NOK 533 million in the previous year, an increase of NOK 19 million. The increase is mainly a result of higher activity in the real estate agency business, where personnel expenses increased by NOK 12 million in comparison with 2019.

Depreciation and impairment of property, plant and equipment increased by NOK 6 million compared with the previous year. The increase is principally due to investments in systems.

Operating expenses increased by NOK 15 million compared with 2019. The increase in costs is mostly related to strategic digital priority areas.

Losses and non-performing loans

Net losses on lending totalled NOK 83 million in 2020, compared with net reversals of NOK 17 million in 2019. Most losses on lending in 2020 is due to calculations in the IFRS 9 model.

At year-end, the Bank's impairments of loans totalled NOK 468 million, equivalent to 0.42 percent of gross lending, and is still at a low level. Impairments at 31.12.2019 totalled NOK 397 million, representing 0.37 percent of gross lending.

Gross non-performing loans over 90 days totalled NOK 323 million, which is equivalent to 0.29 percent of gross lending. The equivalent figure in 2019 was NOK 286 million, equivalent to 0.27 percent of gross lending.

The level of losses and non-performing loans in 2020 is assessed as low in light of the demanding period the Norwegian economic has experienced and demonstrates high quality and a low risk profile in the Bank's lending portfolio.

BALANCE SHEET

Total assets

Total assets were NOK 142.1 billion at the end of 2020, compared with NOK 129.5 billion in the previous year. This represented growth of NOK 12.6 billion, or 9.8 percent.

Lending

Net lending to customers totaled NOK 111.6 billion in 2020, compared with NOK 106.3 billion in 2019. This represented growth of NOK 5.2 billion, or 4.9 percent. Gross lending to customers increased by NOK 5.3 billion, representing an increase of 5.0 percent.

Gross lending to retail customers totaled NOK 73.7 billion, compared with NOK 70.1 billion in 2019. This represented growth of NOK 3.5 billion, equivalent to 5.0 percent. On a national basis, household lending growth (C2) was 4.9 percent. At the end of the 2020, loans totaling NOK 48.9 billion had been transferred to Sparebanken Sør Boligkreditt AS. This company is an important instrument that enables the Bank to offer competitive terms in the retail market. Loans to retail customers accounted for 66 percent of total lending, on a par with 2019.

Gross lending to corporate customers totaled NOK 38.2 billion in 2020, compared with NOK 36.4 billion in the previous year. This represented growth of NOK 1.8 billion, or 5.1 percent. On a national basis, lending to corporate customers (C2) grew by 3.7 percent.

Deposits

At the end of the year, total deposits were NOK 59.8 billion, compared with NOK 57.9 billion in 2019. This represented growth of NOK 1.9 billion, or 3.3 percent.

Deposits in the retail market totaled NOK 29.8 billion, compared with NOK 28.1 billion in 2019. This represented growth of NOK 1.8 billion, or 6.3 percent. Deposits in the corporate market totaled NOK 30.1 billion, compared with NOK 29.8 billion in 2019. This represented growth of NOK 0.1 billion, or 0.4 percent.

The deposit-to-loan ratio was 53.6 percent on 31 December 2020, compared with 54.5 percent in 2019.

Debt established through issuance of securities and debt to financial institutions

The Bank funds itself in the capital market by issuing interest-bearing securities. The Group's debt from securities totaled NOK 58.9 billion at the end of 2020, compared with NOK 53.4 billion at the end of 2019. Long-term bond funding has been established as covered bonds, senior debt and senior non-preferred. Covered bonds accounted for 73 percent of this funding at the end of 2019. Long-term funding with a maturity of more than 12 months accounted for 75 percent. The average maturity of long-term funding was 3.6 years, and the Group's long-term funding (NSFR) indicator was 116.3 percent at the end of 2020. The Group has arranged for long-term funding from the international market by establishing EMTN (European Medium Term Bond Note) programmes for the Bank and the mortgage company.

At the end of 2020, the Group had diversified funding from international investors of EUR 2.8 billion. Funding in foreign currency is hedged for interest rate and currency risk against floating Norwegian kroner (NOK).

During the course of 2020 Sparebanken Sør issued NOK 2 billion as senior non-preferred, in order to satisfy the authorities' MREL requirements.

The maturity structure of external funding is well adapted to the Bank's operations and is in accordance with regulatory guidelines and requirements adopted by the Board of Directors.

Securities

The Group's liquidity portfolio of interest-bearing certificates and bonds totaled NOK 21.5 billion at the end of the year.

The securities holdings are part of the Bank's liquidity reserve, which is to safeguard the Bank's liquidity situation in turbulent market conditions. The securities portfolio can be used as collateral for any loans from Norges Bank and is included in the Bank's special liquid securities portfolio held to fulfil its Liquidity Coverage Ratio (LCR) requirements.

The Group's liquidity reserve (LCR) stood at 173 percent on 31 December 2020 (154 percent for the Parent Bank). Investments in shares and equity certificates totaled NOK 166 million.

Subordinated capital

Net subordinated capital totaled NOK 14.9 billion, tier 1 capital was NOK 13.3 billion and total common equity tier 1 capital was NOK 12.2 billion at year-end. Total capital ratio was 19.1 percent, tier 1 capital ratio was 17.1 percent and common equity tier 1 (CET1) capital ratio was 15.7 percent for the Sparebanken Sør Group. The calculations are based on the standard method in the Basel II regulations. Brage Finans AS is proportionally consolidated in the Group's capital reporting.

The figures for the Parent Bank were total capital ratio of 20.5 percent, tier 1 capital ratio of 18.1 percent, and common equity tier 1 capital ratio of 16.5 percent at the end of 2020.

Under the Capital Requirements Regulation (CRR), loans to customers who develop property with the intention of reselling are classified as exposure associated with particularly high risk and are allocated a risk weight of 150 percent, in contrast to a risk weight of 100 percent which is normal for loans to businesses under the standard method. Projects in which there is irrevocable pre-sale will not be regarded as high risk. In Circular 5/2020, the Financial Supervisory Authority of Norway stipulated that there must be a certificate of completion for sale to be assessed as irrevocable, and there is substantial disagreement here between the industry and the Financial Supervisory Authority. At the end of the year, the Bank chose to respond to views expressed in a letter from Finance Norway to the Financial Supervisory Authority of Norway, as well as to various legal assessments, and when the Bank judges there to be an irrevocable pre-sale this will therefore not be risk-weighted at 150 percent. At the end of the year, the Bank assessed the lending portfolio linked to development projects, and the portion of lending pre-sold is reported with capital weight of 100 percent. The assessment has led to a reduction in common equity tier 1 capital ratio of 0.28 percentage points for commitments where there is no irrevocable pre-sale.

The Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of the risk-weighted balance sheet in 2018. 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 part-owned insurance companies. The capital requirement linked to the ownership interest in Frende Holding AS alone is around 0.3 percentage points. The Financial Supervisory Authority of Norway was due to have assessed the Group's risk and capital requirement (SREP) in 2020, but as a consequence of the coronavirus pandemic the agency did not take new Pillar 2 decisions in 2020. The Group underwent ICAAP in 2020, and the Group's own calculations suggest that the Pillar 2 requirement should be substantial lower, down towards 1.5 percent of the risk-weighted balance sheet.

The Ministry of Finance decided in the first quarter to lower the countercyclical capital buffer for banks from 2.5 percent to 1 percent with immediate effect. This was done to counteract tighter lending practice at the banks amplifying the downturn resulting from the coronavirus epidemic. Norges Bank, which creates the basis for decision-making and advises the Ministry on the level, has stated that it does not expect to increase the buffer requirement until the first quarter of 2021 at the earliest.

The Group met the applicable minimum capital requirements for financial institutions on 31 December 2019 with a total capital ratio of 16.5 percent, a tier 1 capital ratio of 14.5 percent and common equity tier 1 capital ratio of 13.0 percent. The Group's internal target is a common equity tier 1 capital ratio of 15.3 percent.

The Ministry of Finance has adopted regulatory amendments that put into effect the EU Capital Requirements Regulation CRR/CRD IV as of 31 December 2019. The systemic risk buffer requirement is increased from 3.0 to 4.5 percent. A gradual introduction of the systemic risk buffer requirement by 2021 was previously signaled, but the Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which will mean that these banks will not have to meet the increased systemic risk buffer requirement until 31 December 2022.

The Group will adapt to the new requirements by 2022 and ensure the necessary buffers above the minimum requirement.

An important part of the Group's objective is that the common equity tier 1 capital ratio should be at the same level as 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 in 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 was 8.9 percent at the end of 2020, compared with 9.3 percent at the end of 2019. The Group's solvency is assessed as highly satisfactory.

Minimum requirement for the sum of subordinated capital and convertible debt (MREL)

The EU Bank Recovery and Resolution Directive (BRRD) was introduced in Norway with effect from 1 January 2019. A key element of the directive is the requirement for internal recapitalisation as a crisis measure, in a situation where capital instruments and debt are impaired or converted to equity (bail-in). The minimum requirement for the sum of subordinated capital and convertible debt (Minimum Requirement of Own Funds and Eligible Liabilities) is set by the Financial Supervisory Authority of Norway.

MREL consists of a loss absorption amount and a recapitalisation amount. For enterprises that are to be liquidated through public administration in a crisis, the point of departure will be that the ordinary capital requirements are sufficient to absorb losses. The minimum level for this part of the MREL is related to the applicable capital adequacy requirements. For enterprises where it is considered important that all or part of the operations continue, MREL should also include a recapitalisation amount.

The Financial Supervisory Authority of Norway on 18 December 2020 set the minimum requirement for subordinated capital and convertible debt for Sparebanken Sør at 32.0 percent of the adjusted risk-weighted balance sheet. The adjusted basis of calculation includes the Bank's commitment with the mortgage company.

The decision states that the Bank must fulfill the requirement for subordinated debt by 1 January 2024. In a transitional phase, an ordinary senior debt with a remaining maturity of one year is to be regarded as eligible, but it is stipulated that debt of lower priority (senior non-preferred) must be phased in on a straight-line basis in 2021, 2022 and 2023. The Bank's expected risk-weighted balance sheet on 1 January 2024 is to be used as the basis for determining the volume and pace of phasing-in of subordinated debt.

The introduction of BRRD 2 into Norwegian regulation can potentially reduce the need to issue subordinated debt, through the introduction of an upper limit for such debt. The outcome has not been clarified. Sparebanken Sør issued NOK 2 billion of senior non-preferred debt in 2020. The Bank issued a further NOK 1 billion in senior non-preferred debt in January 2021.

ALLOCATION OF PROFIT

In the view of the Board, the submitted income statement and balance sheet present a fair and true view of the financial position and results of the Group and the Parent Bank. The Board of Directors is not aware of any circumstances that have arisen after the turn of the year which would alter this view.

The following allocation of the Parent Bank's profit of NOK 1.021 million is proposed:

Dividend:	NOK 219 million
Interest on hybrid capital:	NOK 69 million
Transferred to donation fund:	NOK 40 million
Transferred to equalisation fund:	NOK -55 million
Transferred to primary capital:	NOK 748 million
Total allocated:	**NOK 1.021 million**

EQUITY CERTIFICATES AND DIVIDEND

As at 31 December 2020, the Bank had issued 15,633,944 equity certificates with a nominal value of NOK 50.

A list of the 20 largest equity certificate holders on 31 December 2020 is presented in Note 36. Earnings per equity certificate was NOK 10.5 for the Parent Bank and NOK 11.3 for the Group.

The ownership ratio averaged 17.3 percent in 2020. Hybrid capital classified (fund bond loans) as equity has been excluded when calculating the ownership ratio.

Sparebanken Sør will ensure through sound, stable and profitable operations that its equity certificate holders achieve competitive return in terms of dividends and capital appreciation of their equity certificates.

The profit will be distributed between the equity certificate capital (equity certificate holders) and primary capital in accordance with their share of the equity.

Sparebanken Sør's need for capital, including regulatory requirements, investors' expectations and the Bank's strategic targets will be considered when determining the annual dividend.

The objective is for 50 to 70 percent of the equity certificate holders' share of the profit after tax for the year to be distributed as a dividend.

The European Systemic Risk Board (ESRB) on 15 December 2020 published a recommendation on bank's dividends and other distribution. The Financial Supervisory Authority of Norway followed up with a letter to the Ministry of Finance in which it was proposed that it be possible for a maximum of 25 percent of accumulative annual report for 2019 and 2020 to be distributed. The recommendation was also that Norwegian banks should not pay out previously decided dividends until the financial results for 2020 are available, and that a particularly cautious assessment should be used as a basis.

On 20 January 2021, the Ministry of Finance published a press release stating that the banks should be cautious in distributing dividend in future. The Ministry expresses an expectation that Norwegian banks which, following a cautious assessment and based on the ESRB's recommendation find there to be a basis for dividend payments, will keep total distributions within a maximum of 30 percent of accumulated annual profit for 2019 and 2020 up to 30 September 2021. Distributions comprise all dividend on shares and equity certificates, customer dividend, donations and buy-back of equity instruments.

The Bank deferred a divided to the equity certificate owners for 2019 but allocated NOK 60 million to the Donation Fund. The Group's accumulated profit for 2019 and 2020, after interest on hybrid capital, is NOK 2,090 million. Dividend for 2019 and proposed dividend for 2020, together with the allocation to donations, totals NOK 319 million and is equivalent to 15.3 percent of accumulated profit.

The Bank's solvency is very satisfactory, with a leverage ratio as high as 8.9 percent at the end of the fourth quarter of 2020.

The Board of Directors will propose to the Board of Trustees that a dividend of NOK 14 per equity certificate be distributed for 2020. This includes withheld dividend of NOK 8 for 2019, which was approximately 69 percent of Group profit per equity certificate in 2019. It is proposed that a dividend of NOK 6 per equity certificate be distributed for 2020, which represents 53 percent of Group profit per equity certificate. In addition, it will be proposed that NOK 40 million be allocated to the Donations Fund for 2020. The proposed dividend is conditional on an application to the Financial Supervisory Authority of Norway, as the NOK 55 million must be charged to the Equalisation Fund.

The Bank's equity certificate ratio was 17.3 percent before allocation of profit. With the proposed dividend and allocation to the donation fund, the equity certificate ratio is reduced to 15.6 percent.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør Boligkreditt

Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of Sparebanken Sør, and the company is licensed to operate as a mortgage company with the right to issue covered bonds. The main object of the company is to ensure stable and long-term funding on competitive terms.

At year-end, loans totaling NOK 48.9 billion net had been transferred to the mortgage company. The average loan-to-value ratio was 55.0 percent. Covered bonds totaling NOK 44.7 billion had been issued at year-end. The cover pool, including interest-bearing securities and derivatives, totaled NOK 51.6 billion. The over-collateralisation ratio calculated from the gross outstanding bond debt at market value was 14.8 percent.

The company reported a profit before tax of NOK 406.9 million. The common equity tier 1 capital ratio at the end of the year was 16.5 percent. The company has entered into agreements with the Parent Bank, which include financing liabilities and agreements to supply important services to the company, such as loan administration, shared services and treasury functions.

In January 2021, the company issued EUR 500 million as a covered bond under the company's EMTCN programme.

At the end of 2020, the company had five outstanding benchmark loans in euros totaling EUR 2.5 billion. The loans were swapped back to floating-interest rate funding in Norwegian kroner. The derivatives contracts are entered into with reputable financial counterparties under ISDA/CSA agreements.

Sørmegleren

Sørmegleren is the Bank's real estate agency. The real estate agency business holds a dominant position in large parts of the Bank's market area. In addition to dominating the market for dealing in second-hand homes, the company holds a very strong position in the new-build market. This applies in and around the largest towns in Agder in particular.

Sørmegleren has also strengthened its commitment to traditional commercial property agency and there are great hopes for future development in market shares and effects of interaction between the Bank and the real estate agency.

After having opened new offices in Kragerø and Sandefjord in 2020, Sørmegleren how has a total of 18 offices. The business has around 90 employees.

Other subsidiaries and joint ventures

The Bank's other subsidiaries and joint ventures principally manage commercial properties where the Bank operates.

ASSOCIATES

Frende Holding AS

Frende Holding AS (21.0 percent ownership interest) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which offer general and life insurance to private individuals and businesses.

Frende Holding AS achieved a profit before tax of NOK 721.6 million in 2020, compared with NOK 401.8 million for the same period of the previous year.

Frende Skade reported profit before tax of NOK 390.0 million in 2020, compared with NOK 263.3 million in 2019. The company held a total portfolio of insurances of NOK 2,141 million in 2020, compared with NOK 2,111 million in 2019, distributed among 158 000 customers. Market share at the end of the fourth quarter was 3.1 percent. The loss ratio on 31 December was 70.3 percent in 2020, compared with 77.4 percent in 2019, and the company's combined ratio was 88.0 percent, compared with 96.2 percent in 2019.

Frende Liv reported profit before tax of NOK 354.3 million in 2020, compared with NOK 158.0 in the previous year. Profit for 2020 was affected by a good insurance risk result, in addition to non-recurring effects related to disposal of the pension portfolio. The pension portfolio in Liv was sold to Nordea Liv in the fourth quarter. Return on equity for Frende Liv was 43.1 percent in 2020, compared with 28.8 percent in 2019.

Brage Finans AS

Brage Finans AS is a financing company that offers leasing and mortgage loans to the corporate and

retail markets. The company's head office is located in Bergen with branches in Stavanger, Kristiansand, Ålesund, Haugesund and Kragerø. The company's products are distributed mainly through owner banks, its own sales organisation and distributors. Brage Finans is owned by 12 independent savings banks.

Brage Finans AS achieved a profit before tax of NOK 221.7 million in 2020, an improvement in earnings of NOK 53.5 million from 2019. Strong growth in lending in both the business and personal markets is among the main reasons for the company's rise in profit. The profit provided return on equity of 8.6 percent, compared with 8.0 percent in 2019.

At the end of 2020, Brage had a gross lending portfolio of NOK 14.1 billion, an increase of NOK 2.1 billion compared with on the same time in the previous year.

Norne Securities AS

Norne Securities AS is a full-service investment firm with expertise in banking, finance and coastal business. Sparebanken Sør has a 17.1 percent ownership interest.

Norne has further developed its role as the leading Norwegian adviser and issue manager for equity certificates in Norwegian savings banks. The company has also focused its operations on two clear market areas: Online Equity and Fund Trading for the retail customer market and Corporate Finance and Investment Advice for the corporate customer market and professional investors.

Balder Betaling AS

Balder Betaling AS was established in 2017 and has an ownership interest of 10.6 percent in Vipps AS. The company's objective is to further develop Vipps together with other owners. Sparebanken Sør's ownership interest is 22.2 percent, and the remaining shares are held by the banks in the Frende cooperation.

RISK MANAGEMENT

Risk is a fundamental feature of banking, and there are various types of risk in all parts of the Bank's operations with differing levels of actual risk exposure. Risk management is crucial to the Bank's day-to-day operations and follow-up by the Board of Directors, and risk management is not a matter of eliminating risk but of taking calculated risk and pricing this correctly.

Risk culture is a critical factor in achieving the desired level for the Bank's risk management. The Bank's risk management is based on sound practice combined with sound theory, and the Bank has to have a culture to assess and deal with risk in all contexts. The Bank has to develop and maintain a good risk culture through communication, information and training on the Bank's strategy, activities and desired risk profile.

The Bank's risk management and internal control activities has to help ensure that risk is managed in a way that supports the Bank's strategic objectives and safeguards the Bank's long-term value creation. The overall guidelines for the Bank's risk management and limits on risk exposure are assessed and established annually by the Board of Directors in conjunction with maintenance of the Bank's internal strategy and policy documents. The Board of Directors establishes frameworks for risk appetite, including specified management objectives and limits on risk tolerance for the various categories of risk such as credit risk, market risk, liquidity risk and operational risk Systems and structures are established for measurement, management, follow-up and control of risk, as well as authorisations involving systems for reporting to management and the Board of Directors for the various categories of risk.

The most significant risk factors can be classified as financial risk, operational risk (including money laundering risk, ICT risk and cyber risk), compliance risk and strategic and business risk. In addition, there will be ESG risk (Environmental, Social and Governance), which is associated with environment and climate, social conditions and corporate governance.

Financial risk covers credit risk, market risk (related to the Bank's exposure to the interest rate, currency and stock markets) and liquidity risk. Operational risk is the risk of losses due to weak or inadequate internal processes or systems, human error or external events.

Strategic risk relates to the strategies, plans and changes the Bank makes or intends to make, while business risk is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic upturns/downturns, competition, customer behavior, lack of business development and regulation by public authorities. Reputational risk is the risk of decline in earnings or access to capital due to a decline in trust and reputation in the market. Reputational risks forms part of business risk.

The Bank has an ongoing process linked to monitoring and assessment of the various risk factors. Internal control processes are performed in accordance with relevant regulations. The Bank's Group management regularly processes cases related to risk management and provides the Board's risk committee with periodic reporting.

The Bank's management and control of risk has to be on a par with comparable banks, and the Bank's aim is to have low risk exposure. Developing and improving the Bank's risk management is a continuous process. The view of the Board is that the Bank's risk management functions well.

Credit risk

Credit risk is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the Bank, and the value of underlying security not being sufficient to cover the Bank's receivables if the security has to be realised. Credit risk is the Group's greatest risk, and the risk that requires the most capital. One consequence of this is therefore that work on credit risk is given high priority in day-to-day operation and in the Board's monitoring.

Concentration risk is credit risk in terms of risk of loss due to a large, combined exposure to a single counterparty, groups of related counterparties (large exposures), counterparties operating in the same sector (industry concentration) or geographical area (geographical concentration).

The Board of Directors approves the bank's credit strategy and policy. Credit risk is also managed through operational credit guidelines, credit assessment processes and credit allocation authorisations. The Board has established objectives and guidance, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the Bank's credit policy is monitored by the Risk Management Division, which is an independent unit.

The Bank's risk classification system is used both in the credit rating process and in the ongoing follow-up of risk at portfolio level. Classification of customers is based on probability of default over a 12-month period, where probability of default is calculated from various internal and external financial data. Scorecards are used to divide the customers into 10 different risk classes, plus a risk class for non-performing commitments. Risk development in the portfolio is analysed and followed up continuously.

The Bank's total credit risk must be on a par with comparable banks.

Market risk

Market risk includes risk associated with profit variations in unhedged interest rate, credit spread, currency and equity positions. Losses may arise due to movements in interest rates and credit spread, and in the event of fluctuations in foreign exchange rates and share prices. In addition, temporary profit effects will occur related to valuation of covering transactions (basis swaps), which are used to cover interest rate and currency risk arising when the Bank carries out financing in foreign markets.

Sparebanken Sør imust have a low market risk. Activity in financial instruments will mainly be related to identifying the Bank's exposure which arises as a result of operational circumstances related to the Bank's ordinary customer activity and in funding of operations.

The Board has established guide levels of risk tolerance for investment in shares, bonds and positions in the interest rate and currency markets. Compliance with the management objectives is monitored regularly and reported to the Board.

The interest rate risk limit is determined as an upper limit on how large the loss on unhedged interest rate positions may be in the event of shifts and distortions in the interest rate curve. Interest rate risk arising from the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies are hedged on an ongoing basis. At year-end, the Group's net interest rate risk measured using the market value method was NOK 33.0 million.

The Bank is exposed to profit effects of the time of setting of the rate of interest for the Bank's market financing, which is linked to 3-month NIBOR, not coinciding with the time of any change in interest rate on Bank's lending to customers.

Beyond the interest rate risk limit, an upper risk tolerance level has been set for credit spread risk, stated as the effect on profit or loss of an assumed change in credit spread, which will lead to changes in the value of the Group's interest-bearing securities portfolio. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The Bank's credit spread exposure is related to the liquidity portfolio. At the end of 2020, 51.0 percent of the limit adopted by the Board had been used.

The Group is subject to fluctuations in the foreign exchange market through its currency activities with customers. Derivatives (currency futures, swaps and options) are used in covering open currency exposure. Currency exposure is measured in a 25 percent change in exchange rate on the currency position.

For funding in foreign currencies, interest rate and foreign exchange risk arises as a result of the funding being undertaken on fixed rate terms and in a currency other than NOK. The same applies in the purchase of debt securities in a foreign currency. The Bank hedges interest rate and currency exposure by entering into derivative contracts with reputable financial counterparties. The contracts are entered into under the ISDA (International Swaps and Derivatives Association). The contracts are cleared against the London Clearing House or the counterparty risk is met through an established agreement for the settlement of securities (Credit Support Annex). For financing in foreign currencies and the hedging of currency risk, hedge accounting is applied in reporting changes in value.

At year-end, the Group's equity investments totaled NOK 166 million. The Bank's commercial investments in the product companies Frende Holding AS, Norne Eierselskap AS and Brage Finans AS were among its largest individual items. In addition, there is the Bank's ownership interest in Balder Betaling AS.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its commitments or be unable to finance ordinary lending growth and its assets, or that funding will not be obtainable without incurring significant additional costs.

Liquidity risk is managed through the Group's liquidity strategy, overarching guidelines and Board-approved routines, risk tolerance levels and limits. Key operational management parameters are the requirement for the deposit-to-loan ratio, the long-term funding indicator and the stress indicator for liquidity disposals within 30 days, as well as the guidelines for survivability in situations where there is no access to market funding. Liquidity risk is also managed by ensuring funding from the capital market with different maturities, sources of funding and instruments. Liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the Group.

Deposits from customers are the Bank's largest and most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. At year-end, the Group's deposit-to-loan ratio was 53.6 percent.

Sparebanken Sør Boligkreditt AS represents an important funding instrument for the Group, which ensures access to long-term funding through issuing of covered bonds. To be able to issue covered bonds, mortgages equivalent to 66 percent of all loans to the retail market were transferred from the Parent Bank to the mortgage company in 2020.

Levels of risk tolerance adopted by the Board of Directors for the Bank's liquidity risk follow guidelines issued by the Financial Supervisory Authority of Norway. At year-end, the levels of liquidity risk were within the limits adopted by the Board of Directors.

The indicator for long-term funding was 116.3 percent at the end of 2020.

The Bank has a liquidity reserve in the form of liquid interest-bearing securities that satisfy requirements imposed by the authorities and adopted by the Board for LCR holding and liquidity stress testing. The bank also has mortgages cleared for transfer to the mortgage company. The Bank's interest-bearing liquidity portfolio consists of government securities, other interest-bearing securities with zero capital weight and covered bonds

The bank's short-term liquidity risk is managed partly by adaptation to Liquidity Coverage Requirement (LCR). At the end of 2020, the total LCR indicator for Sparebanken Sør (Group and Parent Bank) and Sparebanken Sør Boligkreditt AS was sufficient to meet all the projected liquidity maturities within the next 30 days under a stress scenario by a good margin. The Group and Parent Company had an LCR ratio of 173 percent and 154 percent respectively on 31 December 2020. The regulatory requirement was 100 percent.

The Group's liquidity risk is reported periodically to the Board.

Counterparty risk

Counterparty risk is the risk of the bank's cooperating partners in the financial field not being able to fulfil their contractual obligations towards the Bank.

Derivative contracts are entered into to hedge the risk which arises in the Bank's ordinary operations in connection with funding at fixed interest rates and in a currency other than NOK, loans to customers at fixed interest rates, in foreign currency and in derivatives trading with customers. The derivative contracts must be established with reputable counterparties with a good rating and must be regulated by an underlying ISDA agreement. Derivative contracts must be distributed among various counterparties to avoid counterparty concentration.

The Bank follows the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) regarding settlement, confirmations, documentation and reporting to authorities.

The Bank's counterparty risk is regulated in the establishment of agreements on furnishing of collateral (Collateral Support Annex) between the parties. Under the CSA settlement, values of derivatives are reconciled with the derivative counterparty and settlement of collateral takes place. By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. The Bank has established clearing against the London Clearing House through a clearing agent

Operational risk

Operational risk is the risk of losses due to weak or inadequate internal processes or systems, human error or external events. These may be disruptions or interruptions of an operational nature, breach of procedures, faults in ICT systems or hardware, breaches of rules, fraud, fire or terrorist attacks.

Risk management and internal control means processes to identify, analyses, manage and follow up the risks so that the combined risk exposure is in accordance with strategic objectives, and to ensure that applicable laws and regulations, as well as internal procedures and guidelines, are complied with. Internal control is an important tool for reducing operational risk, with respect to both its identification and follow-up.

The Bank aims to have good systems for monitoring and control of low operational risk.

Compliance

The Group focuses on having good processes to ensure compliance with applicable laws and regulations. Compliance risk is the risk of the Group incurring legal or regulatory sanctions, financial losses or impaired reputation as a result of non-compliance with laws, regulations or policy documents. Work is done continuously to assess best adaptation to new rules and regulations to maintain both compliance and efficiency in the organisation. New rules and regulations are implemented in the Bank's policy documents and procedures.

The Group's compliance function is organised independently of the business units.

The Bank must have a low compliance risk.

Ownership risk

Ownership risk is the risk of the Group incurring negative results from ownership interests in subsidiaries and associates and/or having to contribute new equity to these companies. Ownership is defined as companies in which Sparebanken Sør has a significant ownership interest or influence. Sparebanken Sør is to have an ownership risk based upon strategic aims and where profitability is in proportion to risk.

The management and boards of subsidiaries are dealt with in accordance with the provisions of the Limited Liability Companies Act. Several of the companies use managers and/or employees from the Group on their boards of directors or in other positions.

The Bank's ownership risk is considered to be low.

Capital management

Capital management has to ensure that the Group has capital adequacy that meets regulatory requirements, and requirements from the financial markets. Capital management also has to ensure that market opportunities and ambitions are fulfilled, and that the Group has satisfactory return in relation to the Bank's risk profile.

At the end of 2020, the common equity tier 1 capital ratio for the Group after proportionate consolidation of partly owned subsidiaries was 15.7 percent, the tier 1 capital ratio was 17.1 percent, and the total capital ratio was 19.1 percent. The Group met the applicable minimum capital requirements for financial institutions on 31 December 2020 with a common equity tier 1 capital ratio of 13.0 percent, a tier 1 capital ratio of 14.5 percent and a total capital ratio of 16.5 percent. The Group's internal target is 15.3 percent in common equity tier 1 capital ratio. The Bank's solvency is considered highly satisfactory in relation to applicable regulatory requirements. This is substantiated by the Group's high leverage ratio, which stood at 8.9 percent at year-end.

The Bank's capital requirements are assessed annually on the basis of an estimated total risk. The internal capital adequacy assessment process (ICAAP) enables the Bank to maintain good risk management and provides an overview of the risks to which the Bank is exposed, while ensuring that the Group is sufficiently capitalised.

The Ministry of Finance decided in the first quarter to lower the countercyclical capital buffer for banks from 2.5 percent to 1 percent with immediate effect. This was done to counteract tighter lending policy on the part of the banks amplifying the downturn resulting from COVID-19. Norges Bank, which creates the basis for decision-making and advises the Ministry on the level, has stated that it does not anticipate recommending an increase in the buffer requirement until the first quarter of 2021 at the earliest.

The Ministry of Finance has decided that the requirement for the systemic risk buffer should be increased by 1.5 percentage points, and for banks that use the standard method this requirement will not apply until 31 December 2022. The Group will comply with the requirement by this date and will secure the 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 at the same level as comparable banks. Sparebanken Sør is the only one of the large regional banks to make use of the standard method when calculating capital adequacy, and the Bank today has a higher leverage ratio than the other regional banks. Sparebanken Sør has begun a process to apply to the Financial Supervisory Authority for approval to use internal models for credit risk in capital calculation (IRB). The work on preparing an IRB application is a high-priority area in the Bank. The work is, however, more extensive than originally assumed, partly as a result of changed requirements from the EBA affecting the Bank's model development. The Group's capital adequacy is followed up by periodic reporting to the Board.

RATING

In order to utilise the opportunities for funding, both internationally and from various investors, the Bank has an international rating from Moody's, one of the world's most respected rating agencies. In addition to the fact that the rating outcome is of value to the Bank, the Board also considers the actual rating process and maintenance of the rating to be of value in terms of raising the quality of various processes and procedures.

Sparebanken Sør has a long-term rating of A1 with a 'Stable Outlook'.

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

CORPORATE GOVERNANCE

At year-end 2020, the Bank had 442 full-time equivalent employees (FTEs) and the Group had 501 FTEs.

Sickness absence was in 2020 was only 2.6 percent, down from 4.7 percent in the previous year. The decrease in sickness absence was essentially linked to a decrease in long-term absence, but short-term sickness absence has also fallen. We believe that the downturn in short-term sickness above may be related to the general downturn in sickness absence in society in connection with the pandemic. The Bank works systematically and continuously to monitor sickness absence and has an ambition for sickness absence to be below 4 percent.

The Bank has made arrangements for employees with disabilities. New-builds and refurbishments have been designed for universal access, which means that the buildings are arranged so that everyone can use them without any special adaptations or assistive devices.

Continuous efforts are made to ensure that the Bank's employees have appropriate skills. In addition to ongoing training on products, systems and procedures, among other things, a training program has been implemented related to anti-money laundering for the Board and the Bank's employees. The Bank's various training measures are described in more detail in the Sustainability Report for 2020, which is published under Corporate Social Responsibility on the Bank's website.

There was extensive use of working from home among the Bank's employees in 2020 as a result of the coronavirus pandemic. Technical organisation of working-from-home solutions for employees was given high priority in the initial phase of the pandemic. As more employees began working from home, it became an important management task to monitor the staff members concerned in professional and psychosocial terms. We have endeavored in that way to bring about good working conditions with a good working environment. As a consequence of the pandemic, the Bank's social activities have naturally been at a lower level than is desirable. The same considerations apply to use of the Bank's holiday cabins and apartments.

PERSONNEL AND WORKING ENVIRONMENT

At year-end 2020, the Bank had 442 full-time equivalent employees (FTEs) and the Group had 501 FTEs.

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Diversity and equal opportunity

At year-end, the Bank had a total of 457 employees, with 231 men and 226 women. Women accounted for 38.5 percent of the Bank's managers, up from 35.5 in the previous year. In the Bank's governing bodies, the proportion of women was 63 percent on the Board of Trustees and 50 percent on the Board of Directors.

The Bank has prepared a separate policy for gender equality and diversity. The Sustainability Report for 2020 contains gender equality accounts, as well as various statistics on the status of the area of gender equality and diversity. Policy on gender equality and diversity, as well as the sustainability report, are published under Corporate Social Responsibility on the Bank's website.

In 2018 the Bank was certified in gender equality and diversity for the period 2018–2020. The recertification process is still in progress, and the Bank expects the certification to be renewed during the course of 2021. In conjunction with the recertification process a separate action plan has been drawn up that also responds to the requirements of the new activity and reporting duty (ARP). The action plan is appended to the Sustainability Report for 2020, which is published under Corporate Social Responsibility on the Bank's website.

RESEARCH AND DEVELOPMENT

The Group does not carry out any own research activities.

CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is integral to Sparebanken Sør's business activities. Sparebanken Sør's corporate social responsibility is expressed in the Bank's business concept of contributing to growth and development in the region., Sparebanken Sør has a long tradition as a responsible social actor and has taken part in the development of local communities in the Bank's market areas for generations. The work on sustainability is a natural enhancement of the role the Bank has played for almost 200 years. For Sparebanken Sør, responsibility for sustainable development means that the Bank has to contribute to positive development in ESG (climate and nature, social conditions and corporate governance) in those areas where the Bank operates. Work on sustainability is to strengthen the Bank's competitiveness and reduce the Bank's ESG risk. As an employer, investor, lender and supplier of financial products and services, the Bank has to contribute to sustainable growth by strengthening the positive and reducing the negative impacts on people, society, climate, nature and the environment.

Sparebanken Sør also returns some of its profits in the form of donations for public benefit in the region. The Bank has prepared social accounts that can be found in the Sustainability Report for 2020 and are published under Corporate Social Responsibility on the Bank's website.

Climate challenges and the external environment

The bank uses input factors or methods of production that directly pollute the external environment to an insignificant degree. The Bank prepares an annual climate-report to be able to identify emissions, quantify pollution and enable the Bank to implement targeted measures. The report, which is published on the Group's website, is based on the international "A Corporate Accounting and Reporting Standard". The report covers consumption related to transport, energy, waste and air travel. The Bank is not aware of any environmental impact, other than consumption, that can be converted to carbon equivalents, and therefore does not publish emission figures.

The greatest adverse impact of the Bank's operations on climate and nature, comes indirectly through customers, suppliers and partners. The Bank has its own guidelines that provide guidance on implementing sustainability in the Bank's purchasing, investments and lending activity. These guidelines are published under Corporate Social Responsibility on the Bank's website.

Measures and guidelines to operationalise climate-related risks and opportunities in the business areas, are described in more detail under the thematic areas in the Sustainability Report for 2020 and in the TFCD report for 2020, published under Corporate Social Responsibility on the Bank's website.

Human rights

Sparebanken Sør supports and respects the protection of international human rights.

Human rights, workers' rights and social conditions follow what is standard and required for Norwegian businesses. The Bank is a member of Finance Norway and is committed by collective agreements within this collective agreement area. The Bank has also entered into a separate collective agreement (company agreement) with employee representatives in the company. All the Bank's offices and employees are domestic. The few corporate customers registered as a Norwegian branch of a foreign company (NUF) or as a Ltd company, are subject to special review. The Bank has developed its own guidelines for workers' rights and human rights, which are published under Corporate Social Responsibility on the Bank's website.

Money laundering and the financing of terrorism

Sparebanken Sør's work against financial crime is rooted in relevant and at all times prevailing laws and regulations. The Bank has an extensive framework of policy documents, policies and guidelines that are intended to ensure compliance with statutory requirements and prevent financial crime such as money laundering, fraud and terrorist financing. Based on an annual risk assessment and a risk-based approach, measures have been implemented for continuous development and strengthening of this work, including revision of the Bank's money-laundering procedure. The Bank's 'Policy on Anti-Corruption and Bribery' provides guidance on the Bank's attitudes to and work on corruption, trading in influence, bribery and use of facilitation payments.

The Bank has been active in national networks in the fight against financial crime. The Bank's experience is that there is a low threshold for sharing experience and expertise between the banks. A number of checks of suspicious transactions and reports to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental Crime) are made during the course of the year. The activities in the Bank's work against financial crime are described in more detail in the sustainability report published under Corporate Social Responsibility on the Bank's website.

Anti-corruption measures, code of conduct and notification procedures

Under the Bank's code of conduct, employees must act with due diligence and integrity, and endeavor to behave in a manner that inspires confidence and is in accordance with standards, laws and regulations applicable in society. This is to characterise all activities, so the Bank gains trust from the market and safeguards its competitiveness and reputation. The code of conduct shows the expectations and requirements Sparebanken Sør has for how its employees act and behave. Management, employees, employee representatives, temporary personnel and hired consultants are all covered by the code of conduct. Everyone who is covered by these standards must act in such a way that confidence in Sparebanken Sør is not weakened. The ethical guidelines and conflict of interest document are published under Corporate Social Responsibility on the Bank's website.

No breaches of the guidelines in relation to conflicts of interest or of the ethical guidelines were reported in 2020.

The Bank makes active efforts to prevent corruption and bribery linked to employees, customers and other partners. The Bank has adopted its own guidelines for anti-corruption and bribery that are published under Corporate Social Responsibility on the Bank's website. There have not been reported any cases that can be defined as corruption in 2020.

The Bank has good procedures for alerts about undesirable events, questionable conditions, threats, etc. The procedure is reviewed and revised annually by a broadly composed group of managers, union representatives and members of staff from Risk, HR and Internal Audit. Alerts are sent to a neutral external body (BDO). The alert procedure is easily accessible for the Bank's employees on the Bank's intranet. There is also a separate alert option for customers and outsiders on the Bank's website.

DONATIONS FOR THE PUBLIC BENEFIT

Sparebanken Sør has defined donations as a strategic priority area. In making donations, the Bank is concerned to ensure that projects which receive funding are of real benefit to the community. In that way, donations provide an opportunity to promote sustainable growth and development in the region.

The Donations Committee considered 466 applications in 2020. Of these, 144 were granted funding in a total amount of NOK 36 million. Children and young people are a priority target group for the Bank's donation strategy, and the awards have largely been aimed at projects in the areas of upbringing, sport and culture. The Bank has prioritised broad rather than narrow target groups, and teams rather than individual operators. The Board of Directors proposes that NOK 40.0 million of the Bank's profit for 2020 allocated for distribution in 2021.

OUTLOOK

The financial year 2020 was affected by the coronavirus pandemic , and the first half of the year in particular was marked by great uncertainty. The Bank has come through 2020 in a very satisfactory state. The Bank has a solid lending portfolio, good long-term funding and reassuring cash buffers. Profitability in the banking sector has been squeezed by lowering of interest rates, but the commitment to other income streams, through ownership in Frende, Brage and Sørmegleren, has made a very positive contribution. The Bank will continue to focus on profitability and is well positioned for profitable future growth.

The start of 2021 has again been notable for an increasing infection rate, leading to a tightening of infection prevention measures. Vaccines have arrived, but the roll-out will take time. Economic growth is nevertheless expected to pick up during the course of 2021, although the situation remains uncertain.

House prices in the Bank's main markets have developed positively but modestly for several years. The statistics for 2020 showed very positive growth in house prices in the Bank's market area. The strong growth in prices was greatly assisted by the low level of interest rates. There continues to be great uncertainty over future development. A long period of low interest rates increases the danger of financial imbalances building up, and the trend is being watched closely. The Group's mortgage portfolio is well secured, and the Group is well prepared to respond to any fall in house prices. This is substantiated by the stress tests carried out.

The Group has a requirement for Tier 1 capital, including Pillar 2 addition of 2.0 percent, which is 13.0 percent. The Group has an objective of a common equity Tier 1 capital ratio of 15.3 percent. At the end of the fourth quarter of 2020, the common equity Tier 1 capital ratio was 15.7 percent, well above the regulatory requirement.

The Ministry of Finance has adopted regulatory amendments that meant that the EU Capital Requirements Regulation CRR/CRD IV entered into force from 31 December 2019. The systemic risk buffer requirement is increased from 3 to 4.5 percent. The Ministry of Finance will set a transitional rule for banks using the standard method or basic IRB. Under this rules, these banks will not have to fulfil the increased systemic risk buffer requirement until 31 December 2022. The Group will adapt to the new requirements by 2022 and ensure the necessary buffers above the minimum requirement. The Ministry of Finance has conducted a consultation process in connection with implementation of amendments to the EU bank regulations, the 'Bank Package'. It is expected that amendments will be implemented in mid-2021, and this will be of significance among other things for capital requirements for loans to SMEs, which is expected to have a positive impact on the Bank's capital adequacy.

The Group has a long-term ambition for lending growth in excess of credit growth. The Group has a target of return on equity of 9 percent after tax.

Return on equity for 2021 will be affected by the loss assessments and the trend in the macroeconomic picture over the course of the year. Loss provisions on 31 December are calculated according to the rules in IFRS9, and the assessment has been based on a long-term perspective. The impact of the authorities' packages of measures and the trend in the macroeconomic picture remain uncertain.

In line with its adopted strategy, the Bank will pay close attention to long-term value creation. The Bank's investments in technology and expertise will continue. and are to contribute to cost-effective operation, as well as enabling the office structure to be streamlined. Along with good quality in credit management, this will contribute to continued profitable growth and development for Sparebanken Sør.

CLOSING REMARKS

The Board of Directors wishes to express its gratitude to the Bank's employees for their important contributions throughout 2020. At the same time, the Board of Directors wishes to thank the Bank's customers, equity certificate holders and other business associates for supporting the Bank and for the confidence they have shown in the Bank over the past year.

THE BOARD

Kristiansand, 31 December 2020 / 2 March 2021

Stein Hannevik

Chair

Inger Johansen

Deputy chair

Erik Tønnesen

Merete Østby

Knut Sæthre

Mette Ramfjord Harv

Jan Erling Tobiassen

Employee representative

Gunnhild Tveiten Golid

Employee representative

Geir Bergskaug

CEO

Income statement

PARENT BANK		NOK MILLION		GROUP	
2019	**2020**		**Notes**	**2020**	**2019**
1 543	1 431	Interest income	15.33.34	2 833	3 305
1 148	796	Interest income from assets at fair value through profit and loss	15.33	434	487
1 172	824	Interest expenses	15.33	1 354	1 866
1 519	**1 404**	**Net interest income**	**5.15**	**1 914**	**1 926**
365	350	Commission income	16.34	409	403
59	62	Commission expenses		62	59
306	**288**	**Net commission income**		**347**	**344**
11	265	Dividend	34	25	6
47	33	Net income from other financial instruments	12.13	15	18
58	**297**	**Net income from financial instruments**	**17**	**40**	**24**
64	136	Income from associated companies		136	64
8	11	Other operating income		7	10
72	**147**	**Total other income**		**143**	**74**
1 954	**2 136**	**Total net income**		**2 444**	**2 368**
438	445	Wages and other personnel expenses	18.35	552	533
37	42	Depriciation, amortization and impairment of non-current assets	30	43	37
336	348	Other operating expenses	19.34	363	348
811	**835**	**Total operation expenses before losses**	**5**	**958**	**918**
1 143	**1 301**	**Operating profit before losses**		**1 486**	**1 450**
-21	81	Losses on loans, guarantees and unused credit	7.8	83	-17
1 164	**1 220**	**Profit before taxes**	**5**	**1 403**	**1 467**
261	200	Tax expenses	20	307	342
904	**1 021**	**Profit for the period**		**1 096**	**1 125**
		Minority interests		2	0
904	**1 021**	**Majority interests**		**1 094**	**1 125**
60	69	Attributable to additional Tier 1 Capital holders		69	60
844	952	Attributable to ECC- holders and to the saving bank reserve		1 025	1 064
904	**1 021**	**Profit for the period**		**1 094**	**1 125**
9,3	10,5	Profit/diluted earnings per equity certificate (in whole NOK)	36	11,3	11,7

Other comprehensive income

PARENT BANK		NOK MILLION		GROUP	
2019	**2020**		**Notes**	**2020**	**2019**
904	**1 021**	**Profit for the period**		**1 096**	**1 125**
		Items that will not be reclassified subsequently to profit or loss			
		Recognized estimate deviation. pensions	18		
		Tax effect	18.20		
		Items that may be reclassified to profit or loss			
		Change in value. basis swaps		-7	-4
		Tax effect		2	1
		Total other comprehensive income		**-5**	**-3**
904	**1 021**	**Comprehensive income for the period**		**1 091**	**1 122**
0	0	Minority interests		0	1
904	**1 021**	**Majority interests**		**1 091**	**1 121**
9.3	10.5	Comprehensive income/diluted earnings per equity certificate		11.3	11.7

Notes 1 to 38 form an integral part of the consolidated financial statements.

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2019	31.12.2020		Noter	31.12.2020	31.12.2019
Assets					
462	1 148	Cash and receivables from central banks	21.22	1 148	462
4 063	10 936	Loans to credit institutions	21.22.29	2 460	182
66 185	62 724	Loans to customers	5.6.9.10.11.21.22.33.34	111 577	106 334
16 807	18 329	Bonds and certificates	21.22.23	21 543	19 916
189	166	Shares	21.22.24	166	190
251	907	Financial derivatives	21.22.27	3 415	757
1 858	2 111	Shareholding in group companies	25		
968	1 134	Shareholding in associated companies	26	1 134	968
27	41	Intangible assets	30	47	27
426	430	Property, plant and equipment	30	461	458
107	96	Other assets		174	205
91 344	**98 022**	**TOTAL ASSETS**	**5**	**142 126**	**129 499**
Liabilities and equity capital					
2 192	6 765	Liabilities to credit institutions	14. 21. 22.29.34	6 435	1 793
57 963	59 883	Deposits from customers	5.14.21.22.34	59 833	57 949
16 707	14 149	Liabilities related to issue of securities	14.21.22.28.34	56 885	53 430
213	687	Financial derivatives	21.22.27	687	423
284	272	Payable taxes	20	373	361
387	406	Other liabilities	32	457	425
43	38	Provisions for commitments	18	38	43
49	29	Deferred tax	20	10	24
	2 002	Subordinated senior loan capital	4.14.21.22.28	2 002	
1 971	1 653	Subordinated loan capital	4.14.21.22.28	1 653	1 971
79 809	**85 886**	**Total liabilities**	**5.14**	**128 374**	**116 418**
1 623	1 694	Equity certificate capital	4.36	1 694	1 623
1 375	1 075	Hybrid capital	4	1 075	1 375
8 537	9 367	Other equity	4	10 983	10 083
11 535	**12 136**	**Total equity**	**4**	**13 752**	**13 081**
91 344	**98 022**	**TOTAL LIABILITIES AND EQUITY**	**5**	**142 126**	**129 499**

Notes 1 to 38 form an integral part of the consolidated financial statements.

Kristiansand, 31 December 2020 / 2 March 2021

Stein A. Hannevik
Chair

Inger Johansen
Deputy chair

Mette Ramfjord Harv

Knut Ruhaven Sæthre

Merete Steinvåg
Østby

Erik Edvard Tønnesen

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
CEO

Statement of changes in equity

NOK MILLION	Equity certificates	Premium fund	Equalization fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP									
Balance 31.12.2018	**783**	**451**	**369**	**1 075**	**7 683**	**62**	**1 421**	**1**	**11 845**
Dividend distributed for 2018							-94		-94
Profit 31.12.2019			20	60	639	60	347	0	1125
Interest paid, hybrid capital				-60					-60
Issuance of hybrid capital				300					300
Other comprehensive income							-4		-4
Trading of own equity certificates	0		1						1
Allocated gift fund						-34			-34
Other changes					1		1		1
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 322**	**88**	**1 671**	**1**	**13 081**
Change in dividend 2019			125				-125		0
Profit 31.12.2020			-55	69	747	40	290	2	1094
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				-310					-310
Issuance of hybrid capital				10					10
Other comprehensive income							-5		-5
Trading of own equity certificates					-1				-1
Allocated gift fund						-49			-49
Other changes								1,0	1,0
Balance 31.12.2020	**783**	**451**	**459**	**1 075**	**9 069**	**80**	**1 831**	**4**	**13 752**
PARENT BANK									
Balance 31.12.2018	**783**	**451**	**369**	**1 075**	**7 683**	**62**	**94**	**0**	**10 518**
Dividend distributed for 2018							-94		-94
Profit 31.12.2019				-60					-60
Interest paid, hybrid capital			20	60	639	60	125		904
Issuance of hybrid capital				300					300
Trading of own equity certificates			0						0
Allocated gift fund						-34			-34
Other changes			0		1				1
Balance 31.12.2019	**783**	**451**	**389**	**1 375**	**8 323**	**88**	**125**	**-**	**11 535**
Change in dividend 2019			125				-125		0
Profit 31.12.2020			-55	69	747	40	219		1021
Interest paid, hybrid capital				-69					-69
Buyback of hybrid capital				10					10
Issuance of hybrid capital				-310					-310
Other comprehensive income					-1				-1
Trading of own equity certificates			0		-1				-1
Allocated gift fund						-49			-49
Other changes									0
Balance 31.12.2020	**783**	**451**	**459**	**1 075**	**9 068**	**80**	**219**	**0**	**12 136**

Notes 1 to 38 form an integral part of the consolidated financial statements.

See Note 36 concerning equity certificates, equity capital and proposed dividend.

Cash flow statement

PARENT BANK		NOK MILLION	GROUP	
31.12.2019	**31.12.2020**		**31.12.2020**	**31.12.2019**
2 662	2 250	Interest received	3 278	3 749
-1 185	-792	Interest paid	-1 345	-1 840
334	622	Other payments received	383	346
-770	-782	Operating expenditure	-893	-898
13	12	Loan recoveries	12	13
-225	-279	Tax paid for the period	-350	-289
-28	-28	Gift expenditure	-28	-28
1 404	1 929	Change in customer deposits	1 893	1 399
-1 921	3 435	Change in loans to customers	-5 285	-3 382
-15	2 002	Change in deposits from credit institutions	1 830	-108
269	**8 369**	**Net cash flow from operating activities**	**-505**	**-1 038**
20 016	44 944	Payments received, securities	37 651	12 258
-18 948	-46 482	Payments made, securities	-39 295	-17 380
3	11	Payments received, sale of property, plant and equipment	14	3
-37	-62	Payments made, purchase of property, plant and equipment	-70	-40
-293	-286	Investments in subsidiaries and associated companies	-29	-293
-12	-664	Change in other assets	-2 257	-108
729	**-2 539**	**Net cash flow from investing activities**	**-3 987**	**-5 560**
-1 053	-6 873	Change in loans to credit institutions	-2 278	-63
-54	2 500	Change in deposits from credit institutions	2 374	-17
3 600	0	Payments received, bond debt	5 000	16 063
-4 815	-2 959	Payments made, bond debt	-3 724	-10 867
-154	-69	Payments made, dividends and interest on hybrid capital	-69	-154
0	2 000	Issue of senior non-preferred	2 000	0
500	350	Issue of subordinated loan capital	350	500
-134	-666	Buyback of subordinated loan capital	-666	-134
-13	874	Change in other assets	2 490	144
300	0	Issue of hybrid capital	0	300
0	-300	Deduction of hybrid capital	-300	0
-1 823	**-5 144**	**Net cash flow from financing activities**	**5 177**	**5 772**
-825	**686**	**Net change in liquid assets**	**686**	**-826**
1 287	462	Cash and cash equivalents as at 1 Jan	462	1 288
462	**1 148**	**Cash and cash equivalents at end of period**	**1 148**	**462**

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. The statement has been prepared in accordance with the direct method. Cash flows are classified as operating activities, investing activities and financing activities. Cash is defined as cash and receivables with central banks.

Notes 1 to 38 form an integral part of the consolidated financial statements.

Notes 2020 – Sparebanken Sør

Notes

NOTE 1 – ACCOUNTING POLICIES

GENERAL INFORMATION

The Sparebanken Sør Group consists of the Parent Bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, AS Eiendomsvekst, Prosjektutvikling AS and Transitt Eiendom AS. The Group conducts banking operations at 35 locations and provides real estate services at 18 locations in the counties of Agder, Rogaland and the county of Vestfold and Telemark.

Within the framework of its articles of association in addition to the legislation applicable at any given time, the Bank may perform all business and services that banks in general are licensed to undertake. The Bank is licensed as a securities investment company. Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary of the Sparebanken Sør Group. Sparebanken Sør Boligkreditt AS was established to offer mortgages within 75 percent of the property value.

Sparebanken Sør is an equity certificate bank. The registered office of the Bank and the real estate agency business is in Kristiansand.

The consolidated financial statements for 2020 were presented by the Board of Directors on 2 March 2021 and are due to be adopted by the Board of Trustees on 25 March 2021. The Board of Trustees is the Bank's highest governing body.

BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Application of IFRS

The consolidated financial statements and the parent company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act. Sparebanken Sør prepares its financial statements in Norwegian kroner (NOK), which is the functional currency for all entities in the Group. Unless stated otherwise, all amounts in the financial statements have been rounded to the nearest million.

The consolidated financial statements are based on the principles of historical cost accounting, with the exception of the following accounting items:

- Buildings, which are measured at adjusted amount.
- Financial instruments at fair value through profit or loss and financial instruments through other comprehensive income.

The consolidated financial statements have been prepared according to uniform accounting policies for identical transactions and events under otherwise identical conditions.

Consolidation and Group companies

The consolidated financial statements cover the Parent Bank and subsidiaries over which the Bank alone, or together with subsidiaries, has a controlling influence, usually as a result of a shareholding in excess of 50 percent. Internal transactions and balances are eliminated.

When subsidiaries are acquired, the cost price of shares in the parent company is eliminated against the equity in the subsidiary at the time of acquisition. The difference between the cost price and net book value of assets in the subsidiary at the time of the acquisition is added to the assets to which the excess value relates within the market value of these assets. The part of the cost price that cannot be attributed to specific assets, represents goodwill. If the value of the acquired assets exceeds the cost price, the difference is recognised in income.

In the Parent Bank's financial statements, shareholdings in consolidated companies are recognised at cost price on initial recognition. The shareholdings are tested annually for impairment, and if necessary are written down to their recoverable amount.

Associates and joint ventures

The Group has investments in associates and joint ventures. Associates are companies over which the Bank exerts significant influence, but not control or joint control, of financial and operational management. Significant influence normally exists when the Bank has a shareholding of between 20 and 50 percent.

A joint venture is a joint arrangement where the parties who have joint control over the arrangement have the right to the arrangement's net assets. Joint control is the contractual agreement on sharing control of an arrangement that only exists when decisions on relevant activities require unanimity between the parties sharing control.

Associates and joint ventures are recognised in accordance with the equity method both in the consolidated financial statements and in the financial statements of the Parent Bank. This means that the shareholdings are initially recognised at cost and subsequently adjusted for the Bank's share of the profit or loss of the associates and joint ventures.

The Group's share of profit/loss from investments in associates and joint ventures is presented on a separate line in the income statement. An impairment test is carried out on the carrying amount of the investment on any indication of impairment. Any impairment is recognised in the financial statements under the share of profit/loss of associates or joint ventures. When the share of the loss exceeds the investment in an associate, the Group's carrying amount is reset to zero and no further losses are recognised unless the Group is obliged to cover these losses.

The Sparebanken Sør Group's shares in joint ventures are of significant size.

Business combinations

Business combinations are recognised in accordance with the acquisition method.

The consideration for the purchase of the business is measured at fair value at the acquisition date. Transaction costs are recognised in income as they arise. A contingent consideration is measured at fair value at the time of acquisition. It is classified as a liability or equity in accordance with IAS 32. Contingent consideration classified as a liability is recognised at fair value in subsequent periods, with changes in value through profit or loss. Contingent consideration classified as equity is not measured after the initial recognition.

When acquiring a business, all acquired assets and liabilities are classified and allocated in accordance with the contractual terms, financial circumstances and relevant conditions at the acquisition date. Acquired assets and liabilities are recognised at fair value in the opening consolidated balance sheet.

Goodwill is calculated as the sum of the consideration and the carrying amount of non-controlling shareholdings and the fair value of previously owned assets, less the net value of identifiable assets and liabilities calculated at the acquisition date. Goodwill is not amortised, but is tested at least once a year for impairment.

If the fair value of net assets in the business combination exceeds the consideration, the difference is immediately recognised in income at the time of acquisition.

REVENUE RECOGNITION

Interest income and expenses related to assets and liabilities, which are measured at amortised cost, are recognised in income on an ongoing basis using the effective interest method. All charges related to interest-bearing borrowings and loans are included in the calculation of the effective interest rate and amortised over the expected term. Interest income and expenses related to instruments measured at fair value through profit or loss are presented as part of net interest income. Changes in value, including changes in value related to the interest element, are recognised as net income from other financial instruments.

Commission income and expenses which are a direct payment for services provided are recognised when the services have been delivered. Fees for establishing loan agreements are amortised over the loan's anticipated term. Fees associated with loans measured at fair value are recognised directly in income.

Dividends are recognised in income when the right to receive the dividend has been approved, which normally takes place when the entity (issuer) holds its annual general meeting.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset for one enterprise and a financial liability or an equity instrument for another enterprise.

Financial instruments are measured and classified in accordance with IFRS 9. Note disclosures have been prepared in accordance with IFRS 7.

Recognition and derecognition

Financial assets and liabilities are recognised in the balance sheet when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the Bank transfers the financial asset in such a way that the risk and profit potential of the asset concerned is essentialy transferred.

A financial liability is derecognised when the liability has been repaid, cancelled or has matured. When an existing financial liability is replaced by a new liability from the same lender under terms that have been materially changed, or the terms of an existing liability have been materially modified, the original liability is derecognised and a new liability is recognised. The difference in capitalised value is recognised through profit or loss.

Classification and measurement

Measurement of the financial asset is determined on initial recognition of the asset.

The Group classifies its financial assets in four categories:

- Fair value with changes in value recognised through profit or loss.
- Fair value with changes in value recognised through other comprehensive income (OCI).
- Amortised cost.
- Derivatives designated as hedging instruments recognised at fair value.

Classification on initial recognition is based on the instruments being held in a business model both to receive contractual cash flows and for sale, and whether contractual cash flows solely consist of payments of interest and principal on given dates.

Financial instruments that are held to receive contractual cash flows shall as a principle be measured at amortised cost.

Financial assets that are held to receive contractual cash flows and for resale shall as a principle be measured at fair value through other comprehensive income (OCI).

Instruments with cash flows that are not only payments of interest and principal or where the purpose of owning the instrument is not to receive contractual cash flows are measured at fair value with changes in value recognised through profit or loss.

On initial recognition, financial liabilities are classified as loans and liabilities, or derivatives designated as hedge instruments in an effective hedge. Derivatives are initially recognised at fair value. Loans and liabilities are recognised at fair value adjusted for directly attributable transaction costs. Changes in value deriving from inherent credit risk, where the liability is measured using the fair value option, are recognised through other comprehensive income (OCI).

Derivatives used in connection with hedge accounting are measured according to the policies for hedge accounting. See separate section.

The Parent Bank's mortgage portfolio is measured at fair value through OCI. The Group's mortgage portfolio is measured at amortised cost.

Fair value with changes in value recognised through profit or loss

All derivatives are measured at fair value with changes in value recognised through profit or loss. However, derivatives designated as hedging instruments are recognised in accordance with the principles of hedge accounting.

Sparebanken Sør has also chosen to recognise holdings of interest-bearing bonds, certificates and shares at fair value with changes in value through profit or loss. These are assets and liabilities that are managed, measured and reported to management at fair value.

Fixed-interest loans can be redeemed before maturity against payment for premiums or discounts arising as a result of movements in market rates. Sparebanken Sør hedges the interest rate risk for this balance sheet item through derivatives. Derivatives are always measured at fair value. As changes in the value of the derivatives are recognised in income, recognition of fixed-interest loans at amortised cost will lead to significant fluctuations in profit. Recognition at fair value through profit or loss will therefore lead to a more harmonised comparison of the profit or loss on the derivative and changes in value of fixed-interest loans.

This category additionally covers basis swaps established before 1 January 2018 used as instruments in fair value hedging of bonds issued at fixed interest rates. Hedge accounting is discussed further in a separate section below.

Fair value through other comprehensive income (OCI)

Loans to retail customers collateralised by real estate are classified at fair value through other comprehensive income in the Parent Bank. This is a consequence of the fact that the loans can be sold at a later date to the Bank's wholly owned mortgage company. The purpose is therefore not solely to receive contractual cash flows but also resale.

This category further covers interest rate and currency swaps used as hedging instruments entered into after 1 January 2018. For these derivatives, changes in value due to changes in exchange rates are recognised through other comprehensive income (OCI). Hedge accounting is discussed further in a separate section below.

Amortised cost

The Group measures financial assets at amortised cost if the following conditions are met:

- The financial asset is held in a business model whose purpose is to receive contractual cash flows, and
- the contractual terms for the financial asset lead to cash flows which consist exclusively of payments of principal and interest on given dates.

Debt instruments whose sole purpose is to be held in order to collect contractual cash flows, are recognised at amortised cost. In the Group, all borrowings and loans at variable interest rates are classified at amortised cost.

There is an exception in the Parent Bank's financial statements relating to loans to retail customers collateralised by real estate. These loans are classified at fair value through other comprehensive income.

Derivatives designated as hedging instruments recognised at fair value

Interest rate swaps and currency swaps used as instruments for the fair-value hedging of bonds issued at fixed interest rates. Hedge accounting is discussed further in a separate section.

Subsequent measurement

Measurement at fair value with changes in value recognised through profit or loss

Fair value is the price that would be obtained upon the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the time of valuation.

Measurement of financial instruments traded on an active market

Financial instruments traded on an active market are valued at the observed market prices.

Measurement of financial instruments not traded on an active market

The fair value of financial instruments not traded on an active market is determined using a suitable valuation method. Valuation techniques are based on recently signed transactions between independent parties, by referencing instruments with virtually the same content or by discounting cash flows. As far as possible, valuations are based on externally observed parameter values.

Fair value of interest-bearing securities is determined by established market values reported by leading external market players, or at fair value calculated on the basis of the prevailing market yield and credit spread curves.

In calculating the fair value of interest rate swaps, the prevailing market value of the relevant inter-bank interest rate curve is used.

For shares that are not listed or traded actively, the change in value is based primarily on the valuation methods described above.

Fixed-interest loans are not traded in an active market. The Bank must therefore establish a market spread to estimate the loans' fair value as at 31 December. For fixed-interest loans in the retail market, the average of the ten best mortgages published at www.finansportalen.no is used to represent the market interest rate.

Measurement at fair value with changes in value recognised through other comprehensive income

Loans to retail customers collateralised by real estate are measured continuously at fair value, and any changes in value are recognised through other comprehensive income. This applies only in the Parent Bank.

Measurement at amortised cost

Subsequent measurement of financial instruments measured at amortised cost, is performed using the effective interest method and is subject to loss provisions. Gains and losses are recognised through profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost, include receivables from customers and loans to customers excluding fixed-rate loans.

Amortised cost is defined as the carrying amount on initial recognition, less received/paid interest and instalments, including accrued effective interest, adjusted for net impairment losses and the net recognised effect of hedging.

The effective interest method is a method that calculates amortised cost and accrues interest income/expenses to the relevant period. Interest income is recognised using the effective interest method. The effective interest rate is the interest rate that by discounting the loan's cash flows over the anticipated term, gives a value equal to the loan's (gross) amortised cost on the date of its establishment.

Derivatives designated as hedging instruments recognised at fair value

Interest rate and currency swaps are measured at fair value in the balance sheet. Changes in value are recognised in profit or loss with the exception of basis swaps entered into as of 1.1.2018. Here, changes in value due to changes in spreads will be recognised in comprehensive income as a hedging effect.

Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet, only when the company has a legally enforceable right to offset and intends to realise the asset and settle the liability simultaneously as a whole.

Modification

When the contractual cash flows from a financial asset are renegotiated or altered in some other way, and the renegotiation or change does not lead to derecognition of the financial asset, the gross recognised value of the financial asset is recalculated and any gain or loss on the change is recognised through profit or loss.

The gross recognised value of the financial asset is recalculated as the present value of the renegotiated or changed cash flows, discounted at the original effective interest rate of the financial asset. Any incurred expenses and fees adjust the recognised value of the changed financial asset and are depreciated over the remaining life of the changed financial asset.

Impairment of financial assets

The Group has recognised a provision for expected credit losses (ECL) for all debt instruments that are not classified at fair value through profit or loss. A provision is recognised for expected losses based on relevant information available at the reporting date, including historical, current and future information.

Loss allowance are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The model used to calculate provisions for expected losses depends on whether there has been a significantly increased in credit risk since initial recognition. On initial recognition and in cases where the credit risk has not significantly increased since initial recognition, a provision is recognised for expected losses over the next 12 months. Expected losses over the next 12 months are losses that are expected to incurre over the lifetime of the instrument, of which can be linked to events occuring during the next 12 months. Expected credit losses over the whole term are calculated for assets where the credit risk has increased materially since initial recognition, with the exception of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date.

The expected credit loss for exposures that have been qualitatively assessed is calculated based on the present value of all cash flows over the expected residual lifetime. In effect, this is the difference between the contractual cash flows in accordance with the agreement and the cash flow that the Group expects to receive, discounted at the effective interest rate of the instrument. The expected cash flows shall cover cash flows from the sale of collateral or other credit enhancements that are embedded in the contract terms.

In the balance sheet, loan impairments reduce the carrying amounts of the exposures. In the income statement, losses on loans consist of realised losses, changes in loss allowance, income on loans and provisions for guarantees and unused credit facilities, as well as income relating to recovery of previously realised losses. Losses on loans are based on a qualitative assessment of the Bank's loan and guarantee portfolio in accordance with IFRS 9.

For further details, please refer to Note 7.

Loans with low credit risk

The bank uses the exception for low credit risk for lending to credit institutions and central banks. This means that the Group assesses whether the instruments that had a low credit risk on initial recognition still have a low credit risk at the balance sheet date. This assessment is made using relevant available information that can be obtained without undue cost or effort.

Reduction in the value of loans as a result of qualitative assessments

Loss allowance based on qualitative assessments is recognised when there are objective and observable indications that a loan is impaired as a result of a credit loss. An loss allowance is reversed when the loss is reduced and the reduction is objectively attributable to an event occurring after the date on which loss allowance was recognised. All loans regarded as significant will be assessed to see whether there is objective evidence of weakened creditworthiness, and the objective indication is highly likely to result in reduced future cash flows for the servicing of the exposure.

The Group assesses a financial asset as non-performing if a minimum of one of the following criteria is met:

- The contractual payments have been overdue for more than 90 days and the amount exceeds NOK 1 000.
- Credit losses have been recognised.
- Bankruptcy has been declared.
- Qualitative assessments and default notices have been made.

Qualitative assessments are made when observable data relating to the exposure is available, for example information regarding significant financial difficulties for the issuer or borrower. This applies when the borrower's lender, due to financial or contractual grounds relating to the borrowers' financial difficulties, has granted the borrower concessions that the lender would not otherwise have considered and when it becomes probable that the borrower will enter bankruptcy or undergo another form of financial reorganization.

Reduction in the value of loans, guarantees and unused credit facilities as a result of model-based calculations

Loans that have not been subject to qualitative impairment assessments are included in the basis of calculation for model-based impairments. The same applies to guarantees and unused credit facilities.

The model assessing the impairment of financial assets under IFRS 9 applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. The standard also contains requirements for loss provisions on new loans, by stipulating that an impairment must be recognised for expected credit losses resulting from expected defaults in the next 12 months. The model calculates losses for all customers at account level. The model also includes loan approvals, guarantees and unused lines of credit. For loans where the credit risk has increased materially after initial recognition, a loss allowance corresponding to the expected credit loss over the term of the loan is recognised.

Realised losses

When it is highly probable that a loss is final, it is recognised as a realised loss. Some realised losses will be covered by previously recognised, qualitatively assessed loss allowance, and will therefore be recognised against the existing provision. Realised losses not covered by qualitatively assessed loss allowance, as well as any surplus or deficit in relation to previously recognised loss allowance are recognised through profit or loss.

Presentation in the balance sheet and income statement

Loans

Loans are recorded as either loans to and receivables from credit institutions or as net loans to customers. Interest is included in the income statement under interest income from assets valued at amortised cost. Changes in value due to loss allowance are included in the income statement under losses on loans, guarantees and unused credit facilities.

Changes in value of fixed-interest loans, which are measured at fair value, are included in the income statement under net income from financial instruments. Interest is included in the income statement under interest income from assets valued at fair value.

Changes in the value of loans to retail customers collateralised by real estate (Parent Bank) are presented through other comprehensive income.

Bonds and certificates

This balance sheet item includes the Group's certificate and bond portfolio. Interest is included in the income statement under interest income from assets at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

Shares

The balance sheet includes the Group's shares recognised at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

Financial derivatives (assets and liabilities)

This balance sheet item includes financial derivatives. Changes in value related to the derivatives are recognised in the income statement under net income from financial instruments.

Liabilities to credit institutions and deposits from customers

This balance sheet item includes liabilities to credit institutions and customers. Interest is recognised in the income statement under interest expenses.

Liabilities from issuance of securities

This balance sheet item includes issued securities debt. Interest is recognised in the income statement under interest expenses. In case of early redemption or repurchase of issued bonds, any gains and losses are recognised under net change in the value of financial instruments.

Provisions

A provision is recognised when the company has an obligation (legal or self-imposed) due to a previous event, where it is likely (more likely than not) that there will be a financial settlement as a result of this liability, and the size of the amount can be reliably determined. If the effect is significant, the provision is calculated by discounting the expected future cash flow with a discounted interest rate before tax that reflects the market's pricing of the time value of money, and if relevant, the specific risks associated with this obligation.

Subordinated loan capital and senior non-prefered

This balance sheet item includes issued subordinated loans. Interest is recognised in the income statement under interest expenses.

HEDGE ACCOUNTING

Sparebanken Sør uses hedge accounting in relation to the Bank's funding at fixed-interest terms and foreign currency. Hedging covers the bond-related interest rate risk and currency risk.

The Bank's criteria for classifying a derivative as a hedging instrument are:

- The hedge accounting is anticipated to be very effective, in that it counteracts changes in the fair value of the bond issued.
- There must be an economic relationship between the hedging instrument and the hedged object, and the effect of credit risk must not dominate any changes in value in the hedging relationship.
- It must be possible to measure the effectiveness of hedging reliably.
- Satisfactory documentation has been established prior to hedging which shows, among other things, that hedging is effective and is expected to remain effective throughout the period.

Sparebanken Sør uses fair value hedging. Hedging is measured and documented every quarter to ensure that it is effective. The dollar-offset method is used to measure the effectiveness of hedging. When the hedging is established and effective, interest rate swaps and currency swaps will be recognised in the balance sheet at fair value and in the income statement under net income from financial instruments.

The hedged item is recognised in the balance sheet at amortised cost. Changes in fair value associated with the hedged risk are accounted for as a supplement or deduction in the book value of the bond debt and is recognised in the income statement under net income from financial instruments.

IFRS 9 applies qualitative requirements for hedge effectiveness, where a prospective effectiveness test is regarded as adequate.

For interest rate and currency swaps established on or after 1 January 2018, changes in value due to changes in spreads will be recognised through other comprehensive income as a hedging effect. Basis swaps created before 1 January 2018 are recognised at fair value through profit or loss until these fall due.

If circumstances should occur which render hedging ineffective, the Bank/Group will amortise the change in value associated with the hedged item over the residual period. The associated hedging instrument will continue to be measured at fair value with changes in value through profit or loss.

ACCOUNTING OF EXCHANGE-RATE EFFECTS

Income and expenses in foreign currencies are translated into Norwegian kroner (NOK) at the exchange rates prevailing on the transaction date.

Balance sheet items denominated in foreign currencies are hedged by corresponding items on the opposite side of the balance sheet, or through hedging transactions. Currency derivatives (currency futures) traded with customers are hedged in a similar manner against another external party. Assets and liabilities in foreign currencies are translated into Norwegian kroner at the banks' median rates on the balance sheet date. Foreign exchange gains and losses are recognised in the income statement under net income from other financial instruments.

TANGIBLE ASSETS

Tangible assets are recognised at cost less accumulated depreciation and impairments. When assets are sold or disposed off, the book value is deducted and any loss/gain is recognised in the income statement. Depreciation is computed on a straight-line basis over the expected useful economic life of the asset. The remaining useful economic life and residual values for each asset are reassessed annually.

At each reporting date, an assessment is made to whether there are any indications of impairment. If there are indications of impairment of an asset, the Bank will obtain valuations or calculate the assets utility value. The asset is written down to either fair value or utility value, depending on which method returns the highest value. The basis for previous write-downs is considered at the same time.

Real estate is decomposed by calculating the value of land, technical installations and buildings. Land is not depreciated. Buildings and technical facilities are depreciated over their estimated useful economic life, and are not considered to have any residual value. Improvements and periodic maintenance are amortised over the asset's estimated useful economic life.

Leases

Identification of a leasing agreement

When entering into a contract, the group determines whether the contract is or contains a leasing agreement. A contract is or contains a leasing agreement if the contract transfers the right to control the use of an identified asset for a period in exchange for a remuneration.

The Group as lessor

The Group presents assets that have been leased out as non-current assets in the balance sheet. Leasing revenue is recognised through profit or loss on a straight-line basis over the term of the lease. Direct expenses incurred when establishing an operating leases are added to the carrying amount of the leased asset, and are recognised as an expense in the leasing period on the same basis as leasing revenue.

Recognition of leases and recognition exemptions

At the inception of a lease, the Group recognises a lease liability and a corresponding right-of-use asset for all leases, with the exception of the following applied exemptions:

- Short-term leases (lease term of 12 months or less)
- Low-value assets

The Group recognises the lease payments for these leases as other operating costs in the income statement as they arise.

The Group measures lease liabilities on inception as the present value of the lease payments that have not been paid at that time. The lease term represents the non-cancellable period of the lease, in addition to periods that are covered by an option to either extend or cancel the lease if the Group will (will not) exercise this option with reasonable certainty. The lease is subsequently measured by increasing the carrying amount to reflect the interest rate on the lease liability, reducing the carrying amount to reflect the lease payments made and re-measuring the carrying amount to reflect any revaluations or amendments to the lease, or to reflect adjustments to lease payments as a result of adjustments to indices or installments. The Group present its lease liabilities under other liabilities in the balance sheet.

The Group measures right-of-use assets at cost, less accumulated amortisation and loss allowance, adjusted for any re-measurements of the lease liability. The Group recognises right-of-use assets under fixed assets in the balance sheet.

Subsequent measurements of right-of-use assets will determine whether the value of the asset is significantly impaired, and any identified losses will be recognised. Right-of-use assets and liabilities are in the parent bank and consolidated accounts of insignificant sizes.

Distinction between service contracts and leases

IFRS 16 distinguishes between service contracts and leases. A distinction is therefore made between contracts that give the customer a right to use an asset (lease) and those that represent a purchase of services. IFRS 16 defines a lease as follows: "a contract, or part of a contract, that conveys a right to use the asset (the underlying asset) for a period of time in exchange for consideration. To be classified as a lease, a contract must convey the right to control the use of an identified asset." Service agreements represent mutually unfulfilled contracts, where delivery is considered to take place as and when the service is delivered by the supplier and adopted by the customer. Service contracts do not fall under the new IFRS 16 standard.

As well as ordinary tenancy agreements, Sparebanken Sør has a significant contract for the delivery of IT systems. The agreement describes "Business-as-a-Service" (BaaS) and indicates that this refers to services that are received. The agreement is deemed to be a purchase of services since no right to control the use of an identified asset has been conveyed. The agreement is not deemed to be covered by IFRS 16.

INTANGIBLE ASSETS

Intangible assets acquired separately will be posted in the balance sheet at cost. Posted intangible assets are recognised at cost reduced for depreciation and amortisation.

Expenses related to the purchase of new software are posted in the balance sheet as intangible assets if these expenses are not part of the procurement costs for hardware. Software is normally amortised on a straight-line basis over three years. Costs incurred as a result of maintaining or sustaining the future utility of software are expensed unless changes in the software increase future financial benefits of the software.

PENSION EXPENSES AND LIABILITIES

Defined-benefit pension scheme

Defined-benefit pension schemes are valued at the present value of the future pension benefits that for accounting purposes are regarded as earned at the balance sheet date. Pension assets are valued at fair value.

In accordance with IAS 19, both liabilities related to group plans in life insurance companies and unsecured liabilities have been recognised in the financial statements in accordance with the calculations performed by an external actuary. The net pension expense for the year consists of the present value of accrued pension entitlements for the year and interest expenses on the pension liability, less the expected return on pension plan assets.

The net pension expense is included under personnel expenses. Changes in estimate deviations are recognised through other comprehensive income (OCI) and plan changes will be added to the income statement as personnel cost consecutively. Defined-benefit group schemes in a life insurance company have been closed. The schemes was terminated in 2016 in connection with the transition to a defined-contribution scheme.

Defined-contribution scheme

Under the defined-contribution scheme, the Bank does not guarantee a future pension. The Bank pays an annual contribution to the employees' pension plan. Payments into the scheme are directly recognised as an expense.

INCOME TAX

Income tax is accrued as a cost, irrespective of when payment is made. The tax expense therefore reflects the year's tax and future taxes payable as a result of the year's activities. The tax is expected to offset net income included in the year's tax expense and is designated as tax payable.

Deferred tax is calculated on the basis of differences between the reported results for tax and accounting purposes that will be offset in the future. Tax-increasing and tax-reducing temporary differences within the same time interval are offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax-reducing differences will be realised. The company will likewise reduce the deferred tax asset to the extent that the company no longer considers it probable that it can make use of the deferred tax asset.

Wealth tax is calculated and recognised under other operational expenses in the income statement, and tax payable in the balance sheet.

EQUITY

Sparebanken Sør has issued equity certificates on the Oslo Stock Exchange. The equity is divided into equity certificates, a share premium fund, an equalisation fund, a primary capital fund, a gift fund and other equity.

To calculate the share of equity, equity certificates, the share premium fund and equalisation fund are divided by total equity, less other equity and hybrid capital.

The gift fund is a part of equity. When gifts are awarded by the Bank's gifts committee, the Bank's gift fund is charged and this is entered as a liability in the balance sheet.

The proposed distribution of dividend is presented as other equity until a final decision on distribution has been made. Distribution is then presented as allocated dividend until payment has been made.

HYBRID CAPITAL

Hybrid capital is a bond with an agreed interest rate. Hybrid capital has no maturity date, and the Bank has a unilateral right to refrain from paying interest to investors under specified conditions. Hybrid capital does not satisfy the definition of a financial liability in accordance with IAS 32 and is classified as equity. Interest is not presented as an interest expense in the income statement, but as a reduction in other equity. The tax effect of hybrid capital is included in tax expense in the income statement.

SEGMENTS/SEGMENT REPORTING

Segments are reported in the same way as the different areas of activity are reported and monitored internally by management and the Board.

Sparebanken Sør has two operating segments:

- RM – Retail market, including loans transferred to Sparebanken Sør Boligkreditt AS.
- CM – Corporate market, including loans transferred to Sparebanken Sør Boligkreditt AS.

The Bank's staff departments, including capital market, and real estate agency are not a separate reportable segment and are reported as undistributed.

CASH FLOW STATEMENT

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents are defined as cash and receivables with central banks.

CHANGES IN ACCOUNTING POLICIES AND NOTE DISCLOSURES

Applied accounting policies are consistent with the standards used for the previous accounting period, with the exception of IFRS amendments, which were implemented by the group in the current accounting period. Below is a list of IFRS amendments that have been relevant for the group and effective for the 2020 accounts, as well as the impact these have had on the group's annual accounts.

The bank has implemented the following standards and amendments to standards, effective from 1 January 2020.

Amendments to IAS 1 and IAS 8 – Definition of materiality

The International Accounting Standards Board (IASB) has published amendments to the "Definition of Material" in order to make it easier for companies to evaluate what is and is not material, and to improve the relevance of the information contained in the notes of financial statements. These amendments introduce a new "Definition of Material", which states that information is material if omitting, misstating or obscuring the information could reasonably be expected to influence the decisions that the primary users of financial statements make on the basis of those financial statements. It is also emphasised that the materiality depends on the nature or magnitude of the information, or both. In addition, these amendments ensure that the concept of materiality is consistent within the entire IFRS framework.

These amendments apply to the accounting periods that begin on or after 1 January 2020.

These amendments have had only minor effects on the annual accounts.

Amendments to IFRS 9 and IFRS 7 – the IBOR reform

These amendments provide temporary relief from the specific requirements related to hedge accounting in a period of uncertainty before the current benchmark interest rates are replaced with alternative, nearly risk-free interest rates.

For hedge conditions where relief has been applied, the company is required to provide further qualitative and quantitative information. However, the amendments include a temporary exemption from the requirements in IAS 8.28f, related to the effect of the amendments for each post of the financial statement in the current and previous period.

These amendments apply to the accounting periods that begin on or after 1 January 2020. The requirements are applied retrospectively.

Management has assessed that the effect of the amendments to these standards is of little significance for the company and consolidated accounts.

For further information, see note 22.

STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, BUT NOT YET ADOPTED

The following new standards and interpretations of existing standards have been published and will be mandatory for company and consolidated accounts in future accounting periods, although management has not decided on early applications:

Amendments to Section 10-1 of the Capital Requirements

Regulation – New Definition of Default

The Financial Supervisory Authority of Norway has followed up recommendations by the EBA for a more harmonised definition of default across the EU. The amendments to the Capital Requirements Regulation will apply to the accounting periods that begin on or after 1 January 2021.

The recommendations by the EBA are intended to specify how key elements of the definition of default should be interpreted. This includes how the days past due criterion should be calculated, indications for unlikeliness to pay, as well as criteria for the return to non-defaulted status.

As regulations now permit, the bank has decided to define default at the customer level for both mass-market and corporate customers. Based on the new definition, a mass-market customer is considered to be in default if the defaulted amount is at least NOK 1,000 (absolute threshold) or at least 1 percent of the customer's obligations (relative threshold). Overdrafts and arrears must have been extended for more than 90 days.

Based on the new definition, a corporate customer is considered to be in default if the defaulted amount is at least NOK 2,000 (absolute threshold) or at least 1 percent of the customer's obligations (relative threshold). Overdrafts and arrears must have been extended for more than 90 days.

The counting of days begins when both the absolute and relative thresholds are exceeded. Co-borrowers will be affected if there is default on a shared loan.

Default is also defined to exist when there are other objective causes or qualitative assessments and incurred loss. Objective causes may, for instance, be a decision on compulsory winding up/bankruptcy petition, registered incurred loss/loss of customer obligations, or the customer has sought or is currently involved in a debt settlement.

Qualitative assessments will be made when there is observable data related to obligations, such as significant financial difficulties for the borrower. If the bank has granted the borrower concessions that would not otherwise have been granted if the borrower had not had financial problems, the bank must assess the consequences if concessions had not been granted, and potentially categorise the borrower's obligations as defaulted.

The impact of the amendments to the definition of default is under consideration. Preliminary estimates do not indicate that these amendments will have a significant impact on company and consolidated accounts. Defaults on payments are expected to decline in accordance with the new definition, based on relative thresholds, while obligations will remain in default for a longer period, due to the quarantine.

Amendments to IFRS 9, IFRS 7 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

In August 2020, the International Accounting Standards Board (IASB) determined the second phase of its project on interest rate benchmark reform, which involves amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases.

In Phase 2, IASB will complete its response to the ongoing reform of interbank-offered rates (IBORs) and other benchmark interest rates.

These changes complement Phase 1 of the project, which was adopted in 2019, and focus on the accounting effects that may arise when a company implements new benchmark interest rates due to the reform.

Phase 2 changes primarily consist of the following:

- Practical solution for special changes to contract regulated cash flows
- Relief from specific requirements related to hedge accounting
- Information requirements

Phase 2 changes only apply if there are financial instruments or hedge conditions that include a benchmark interest rate that will change due to the reform.

These changes will apply to accounting periods that begin on or after 1 January 2021.

The Bank has in 2020 assessed that the effect of the amendments on these standards is of little significance for the company and consolidated accounts.

NOTE 2 – DISCRETIONARY JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing financial statements, management makes estimates and discretionary judgments. Areas largely comprised of discretionary estimates, with a high degree of complexity, and where assumptions and estimates are significant to the accounts of the Parent Bank and the Group, are presented below.

General

In applying the Group's accounting policies, the company's management has exercised discretion in some areas and made assumptions about future events. There will naturally be an inherent uncertainty related to accounting items based on the use of discretion and assumptions about future events. When exercising discretion and making assumptions about future events, management will use information available at the balance-sheet date, previous experience with similar assessments, as well as market and third-party assessments of current conditions. Although management exercises its best judgment and bases itself on the best estimates available, it must be anticipated that the actual outcome may, in some cases, differ materially from the accounting estimates. Estimates, assumptions and conditions that represent a significant risk of material changes in the carrying value of assets and liabilities within the next financial year are discussed below.

Provisions for loan losses

The accounting area provisions for loan losses is subject to a large degree of discretionary assessments. In 2020, this has been particularly challenging due to the ongoing pandemic and the consequences of which have not yet been fully demonstrated. During the year there have been large market fluctuations and turmoil.

Models used for calculating future credit loss contains forward-looking macro data, and in events of major changes in the economy, the current models and parameters must be changed accordingly. Macro-data used in the model for calculating future credit losses is shown in note 7 in the financial statements.

All loans to customers classified at amortised cost have loss allowances based according to IFRS 9. Loss allowances are to be recognized on all commitments based on expected credit losses (ECL). Each month, all commitments are calculated for future expected losses.

At initial recognition, future expected losses are calculated for the next 12 months and all commitment receive an application score.

For subsequent periods, commitments where there is no significant increase in credit risk, expected loss for the next 12 months will be calculated and allocated. If there has been a significant increase in credit risk, the expected loss for the entire lifetime will be calculated and allocated.

In cases when there is observable data related to commitments which, for example, relate to significant financial difficulties of the borrower, the loans will be assessed qualitatively. In such cases, an individual assessment of model-calculated losses will be made and, if needed, model-calculated losses will be overdrawn. For qualitative assessments, write-downs will be calculated as difference between the loan's book value and the present value of future cash flows based on the effective interest rate at the time of initial calculation of qualitative impairment.

The group conducts an annual review of the entire corporate market portfolio. Large commitments, default commitments and high risk exposures are assessed quarterly.

Provisions for loan losses are mostly based on the Group's risk classification models. The group has models for application scores and portfolio scores that form the basis for the risk classification. Any weaknesses in these models affect the loss provisions calculated in the model.

Assessment of loss allowances, where there is objective evidence of impairment, will always be based on a significant degree of discretion. Predictions based on historical information may prove to be incorrect because it can never be known with certainty what relevance historical data has as a basis for making decisions. When collateral values are linked to particular objects or industries in crisis, collateral will have to be realized in low-liquid markets, and assessment of collateral values will be subject to significant uncertainty in such situations.

The loss model contains data for macroeconomic conditions, and relevant parameters must be adjusted to take account of any changes in the economic climate or macroeconomic conditions. The timing and selection of parameters to be updated depends on discretionary assessments and may vary between the different banks.

The quality of the bank's score and risk classification models also has a direct impact on calculated losses allowances.

Fair value of financial instruments

Fair value of financial instruments is based partly on underlying factors that are not observable in the market. This applies in particular to the establishment of relevant premiums for credit risk, in fair value determination for fixed-interest securities in the form of borrowings, lendings and securities issued by others. Management has based its assessments in such cases on the information available in the market, combined with a best estimate. Such information will include credit scoring by leading market players.

NOTE 3 – RISK MANAGEMENT

Sparebanken Sør shall maximise its long-term value creation, and with this objective, it is essential that the risk is subject to active and satisfactory management. Part of the Group's business strategy, is to keep a low to moderate risk profile for the whole enterprise. Taking risk is a fundamental feature of banking, and in all parts of banking there are different types of risks with different levels of actual exposure. The risk management is a key area for the day-to-day operations and the general work of the Board. Risk manangement is not about elimminating risk, but taking calculated risk and pricing the risk correctly. We also refer to the Bank's Pillar 3 disclosure document, which is available on the Bank's website.

ORGANISATION

Board of directors

The Board has overall responsibility for the Bank's total risk management and aims to ensure the Bank has appropriate systems in place for risk management and internal control. The Board of Directors determines risk strategies, framework for risk appetite, risk profile and risk tolerance. The Board of Directors also determines the strategy and guidelines for the capital plan and composition of the capital, and approves the process to ensure the Bank at all times has an adequate level of capital (Internal Capital Adequacy Assessment Process, ICAAP).

Audit committee and risk committee

The Board has appointed an audit committee and a risk committee as sub-committees of the Board. The objective is to make a more thorough assessment of relevant matters, including strengthening work on monitoring of risk and financial reporting and internal control.

The Bank's management

The CEO and other members of the management team are responsible for implementing risk management and internal control. Matters pertaining to changes or the implementation of new policies and strategies within the Group should always be presented to the management team for discussion and decision. Management considers the risk situation continuously, and evaluates the overall risk situation and the associated capital requirement at least once a year (ICAAP). These assessments are then presented to the Board.

The CEO has delegated duties in accordance with the formal responsibility for internal control and risk management. Responsibility for the implementation of the annual assessment of risk and capital adequacy has been delegated to the Risk Management division. This analysis is to be coordinated and integrated with other planning and strategy work in the Bank. Control and verification tasks are further delegated to the various line managers within the framework of agreed principles, instructions and authorisations.

Risk management covers the entire Group and does not perform activities which the control function is intended to monitor. The unit is to identify, measure and evaluate the Bank's overall risk. Compliance has previously belonged to the Risk management division, but was in 2020 transferred to the Strategy and compliance division.

Internal auditor

The Bank has appointed internal auditors. This is a monitoring function independent of the administration in general, and designed to perform risk assessments, controls and investigations of the Bank's internal control and governance processes to assess whether they are appropriate and proper.

Risk management process

The Bank has expedient and appropriate strategies and processes for risk management, the assessment of its capital requirement and how this can be maintained. The collective term for this is ICAAP.

RISK CATEGORIES

All risks are managed through a framework for risk appetite. Targets have been established for the different risk parameters. Sparebanken Sør operates with the following risk categories:

Credit risk

Credit risk is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the Bank, and the value of underlying security not being sufficient to cover the Bank's receivables if the security has to be realised. Credit risk is the Group's greatest risk, and the risk that requires the most capital. One consequence of this is therefore that work on credit risk is given high priority in day-to-day operation and in the Board's monitoring.

The Bank's total credit risk must be on a par with comparable banks. The Board of Directors approves the bank's credit strategy and policy. Credit risk is also managed through operational credit guidelines, credit assessment processes and credit allocation authorisations. The Board has established objectives and guidance, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the Bank's credit policy is monitored by the Risk Management Division, which is an independent unit.

The Bank's risk classification system is used both in the credit rating process and in the ongoing follow-up of risk at portfolio level. Classification of customers is based on probability of default over a 12-month period, where probability of default is calculated from various internal and external financial data. Scorecards are used to divide the customers into 10 different risk classes, plus a risk class for non-performing commitments. Risk development in the portfolio is analysed and followed up continuously.

The Board, management and supervisory bodies receive regular credit risk reports. Central to this is the trend in loans divided into different risk classes and movement between classes.

Settlement risk

Settlement risk is a form of credit risk, where a contracting party fails to fulfill its obligations regarding settlement in the form of cash or securities, after the Bank has given notice of payment or transfer of a security or collateral. The settlement risk that the Group is exposed to is considered low.

Counterparty risk

Counterparty risk is the risk of the Bank's business partners in the financial field not being able to fulfill their contractual obligations towards the Bank.

Derivative contracts are entered into to hedge risk which arises in the Bank's ordinary operations, in connection with funding at fixed interest rates and in a currency other than NOK, loans to customers at fixed interest rates and in foreign currencies, and derivatives trading with customers. Derivative contracts must be established with reputable counterparties with a good rating and must be regulated by an underlying ISDA agreement. Derivative contracts must be spread across various counterparties to avoid counterparty concentration.

The Bank follows the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) regarding settlement, confirmations, documentation and reporting to authorities.

The Bank's counterparty risk is regulated through the establishment of agreements on the furnishing of collateral (Collateral Support Annex) between the parties. Under CSA settlement, the value of derivatives is reconciled with the derivative counterparty, and settlement of collateral takes place.

By entering into an agreement on collateral settlement for changes in the value of derivatives, the Bank manages to maintain the lowest possible counterparty risk. In 2019, the Bank has established clearing against the London Clearing House through a clearing agent.

Concentration risk

Concentration risk is a credit risk constituting the risk of loss due to a large combined exposure to a single counterparty, groups of related counterparties (large exposures), counterparties operating in the same sector (industry concentration) or geographical area (geographical concentration).

The Bank must maintain a moderate combined concentration risk. Although additional risk due to debtor concentration does exist, it does not, in the Bank's opinion, represent a significant risk for the Group. This is a result of low exposure when taking into account the quality of the collateral. Similar reasoning can be applied in relation to lessee concentration.

The greatest concentration risk facing Sparebanken Sør relates to "Real estate". This part of the portfolio will thus be exposed to risk factors that affect property companies specifically. These risk factors are primarily vacancy, rental prices and interest rates. The latter is a general macro-variable, but property companies are more heavily exposed to interest rate levels than many other sectors because they are highly leveraged and because property is an asset with a longevity.

Individual commitments will vary considerably in terms of sensitivity to these factors, and how it therefore contributes to the portfolio's concentration risk. This depends, among other things, on tenancy, property location and type of building. In addition, the debtor's financial situation has a major impact.

The Bank has set aside additional capital under ICAAP to cover concentration risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or fund its assets, and also of it not being able to obtain funding without incurring significant additional costs, in the form of a reduction in the value of assets that must be realised, or in the form of funding at an above-normal cost level. Liquidity risk also includes the risk that the financial markets which the Bank wishes to use are not functioning.

Liquidity risk is managed through the Group's liquidity strategy, overarching and Board-approved guidelines, routines, risk tolerance levels and limits. Key operational management parameters are the requirement for the deposit-to-loan ratio, the long-term funding indicator and the stress indicator for liquidity disposals within 30 days (LCR), as well as the guidelines for survivability in situations where there is no access to market funding. Liquidity risk is also managed by ensuring that funding from the capital market is distributed across various terms to maturity, sources of funding and instruments. Liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the Group.

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. Sparebanken Sør Boligkreditt AS represents an important funding instrument for the Group, because it ensures access to long-term funding by issuing covered bonds

Levels of risk tolerance adopted by the Board of Directors for the Bank's liquidity risk follow guidelines issued by the Financial Supervisory Authority of Norway. At year-end, the levels of liquidity risk were within the limits adopted by the Board of Directors.

The Bank has a liquidity reserve in the form of liquid interest-bearing securities that satisfy requirements imposed by the authorities and adopted by the Board for LCR holdings and liquidity stress testing. The Bank also has mortgages cleared for transfer to the mortgage company. The Bank's interest-bearing liquidity portfolio consists of government securities, other interest-bearing securities with zero capital weight, covered bonds and securities issued by Norwegian municipalities and county councils.

The Bank's short-term liquidity risk is managed partly by adaptation to the Liquidity Coverage Requirement (LCR).

In addition to the LCR, the Bank analyses liquidity risk using stress tests. According to these analyses, the Group would be able to continue operating normally for 24 months in a stress alternative, where new market funding is assumed to be unavailable and the regulatory liquidity reserves can be used.

Sparebanken Sør shall have a moderate to low liquidity risk. Liquidity risk should be on par with comparable banks, but be reconciled with the Bank's overall risk profile and the Board's approved capital requirements. The risk profile should be adapted to the current market situation and outlook.

The Group`s liquidity risk is reported periodically to the Board of Directors.

Market risk

Market risk includes risk associated with variations in the value of un-hedged interest rate, credit spread, currency and equity positions. Losses may arise due to movements in interest rates and credit spread, and in the event of fluctuations in foreign exchange rates and share prices. In addition, the valuation of covering transactions (basis swaps), which are used to hedge interest rate and currency risk arising when the Bank carries out financing in foreign markets, will also have a temporary impact on profit or loss.

Sparebanken Sør shall have a low market risk. The Board has established risk-tolerance guide levels for investment in shares, bonds and positions in the interest rate and currency markets. Compliance with these performance targets is followed up regularly and reported to the Board.

Interest rate risk

Interest rate risk is defined as the risk of financial losses arising from changes in interest rates if the fixed-interest period for the Bank's liabilities and assets on and off the balance sheet do not coincide.

The interest rate risk limit is determined as an upper limit on how large the loss on un-hedged interest rate positions may be in case of shifts or distortions in the interest rate curve. Interest rate risk arising from the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies are hedged on an ongoing basis.

If the date on which the rate of interest for the Bank's market funding at floating 3-month NIBOR is set differs from the date on which the rate of interest for the Bank's lending volume is set, the Bank is exposed to a fixing risk.

Exchange rate risk

Exchange rate risk is the risk of financial loss arising from a disadvantageous change in the value of asset and liability items (on and off the balance sheet) measured in the base currency (NOK) due to changes in exchange rates. The group is affected by fluctuations in the foreign exchange market through its activity in foreign exchange towards customers. Derivatives (currency futures, swaps and options) are used to hedge open currency exposure. Exposure is measured by a 25% change in the exchange rate of the currency position. Limits have been set for exposure in the individual currencies.

For funding in foreign currencies, interest rate and foreign exchange risk arises as a result of the funding being undertaken on fixed rate terms and in a currency other than NOK. The same applies to the purchase of debt securities in a foreign currency. The Bank hedges interest rate and currency exposure by entering into derivative contracts with reputable financial counterparties. The contracts are cleared against the London Clearing House or the counterparty risk is safeguarded through an established agreement for the settlement of securities (Credit Support Annex). For financing in foreign currencies and the hedging of currency risk, hedge accounting is applied in reporting changes in value.

Share price risk (share risk)

Share price risk (share risk) consists of market risk associated with positions in equity instruments, including derivatives with underlying equity instruments. Exposure is measured as the size of the potential loss, where the market value of the shares falls by 30% and the exchange rate risk is regulated by limits for the maximum aggregated position in a share portfolio.

Credit spread risk

Credit spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in credit margins. A general increase in credit margins would lead to a reduction in the value of a portfolio of interest-bearing securities. Changes in the credit margin are a consequence of changes in investors' requirement for a risk premium for a shift in anticipated credit risk and/or changes in other market conditions. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The Bank's credit spread exposure is mainly related to the liquidity portfolio.

Business risk

Business risk is defined as the risk of unexpected fluctuations in revenue and expenses, based on changes in external factors such as cyclical fluctuations, competitive situation, customer behavior, inadequate business development and regulations issued by public authorities, i.e. factors other than credit risk, market risk and operational risk. This risk also includes reputational risk, which is the risk associated with increased losses, reduced income and/or increased costs as a result of damage to the Bank's reputation.

Strategic risk

Strategic risk is defined as internal factors where the strategic risk relates to the strategies, plans and changes that the Bank either has or has proposed.

Operational risk

Operational risk for the Group is the risk of financial loss due to inadequate or failing internal processes or systems, human error or external events. These may be disruptions or interruptions of an operational nature, breach of procedures, faults in ICT systems or hardware, breach of rules, fraud, fire and terrorist attacks.

Operational risk is monitored by regular qualitative assessments. The Bank has procedures that cover all significant areas. Risk management and internal control means processes to identify, analyse, manage and follow up the risks so that the combined risk exposure is in accordance with strategic objectives, and to ensure that applicable laws and regulations, as well as internal procedures and guidelines, are complied with. Internal control is an important tool for reducing operational risk, with respect to both its identification and follow-up.

The Bank aims to have good systems for following-up and controlling, and a low operational risk.

HEDGING INSTRUMENTS

The group uses the following hedging instruments:

- Interest-rate swaps – agreements to swap interest rates for a particular nominal amount over a specified number of periods.
- Currency futures – agreements to buy or sell foreign currencies with settlement at a specified future date.
- Cross-exchange rate interest rate swaps – agreements to swap both interest and exchange rates.

The purpose of using interest rate and currency instruments is to cover the Bank's interest and exchange rate exposure.

NOTE 4 – CAPITAL ADEQUACY

Sparebanken Sør aims to maximise its long-term value creation. The Group also aims to maintain a moderate to low risk profile. This means that effective risk and capital management is a key strategic element.

Sparebanken Sør has established a strategy and process for risk measurement, management and control that provides an overview of the risks the Bank is exposed to. This therefore provides the basis for the assessment and calculation of the Bank's total capital requirement, and how this can be maintained to meet the specific risks in an adequate manner. The process is described as ICAAP (Internal Capital Adequacy Assessment Process). The assessment of capital required includes size, composition and distribution of equity and subordinated loan capital in relation to the risks the Bank is or may be subjected to. This is based on the results of stress tests that show the negative effects of changes in macro-variables on bank losses.

The Board of Directors establishes a capital plan to ensure that the Bank at all times has a total capital ratio which meets regulatory requirements and expectations. In order to have better flexibility in terms of strategic choices and business opportunities, the Bank maintain a higher level of capital than the requirement calculated on the basis of ICAAP.

The Group met the applicable minimum capital requirements for financial institutions as at 31 December 2020 with a common equity tier 1 capital ratio of 13.0 percent, Tier 1 capital ratio of 14.5 percent and a total capital ratio of 16.5 percent, respectively. The Group's internal target is a common equity tier 1 capital ratio of 15.3 percent.

The Ministry of Finance has adopted regulatory amendments that put into force the EU Capital Requirements Regulations CRR/ CRD IV as of 31 December 2019. The systemic risk buffer requirement increased from 3.0 to 4.5 percent. Previously, a gradual introduction of the systemic risk buffer requirement by 2021 was signaled. However, the Ministry of Finance will establish a transitional rule for banks using the standard method or basic IRB, which will entail that these banks will not have to achieve the increased systemic risk buffer requirement until 31 December 2022.

Under the Capital Requirements Regulation (CRR), loans to customers who develop property with the intention of reselling are classified as exposure associated with particularly high risk and are allocated a risk weight of 150 percent, in contrast to a risk weight of 100 percent which is normal for loans to businesses under the standard method. Projects in which there is irrevocable pre-sale will not be regarded as high risk. In Circular 5/2020, the Financial Supervisory Authority of Norway stipulated that there must be a certificate of completion for sale to be assessed as irrevocable, and there is substantial disagreement here between the industry and the Financial Supervisory Authority. At the end of the year, the Bank chose to respond to views expressed in a letter from Finance Norway to the Financial Supervisory Authority of Norway, as well as to various legal assessments, and when the Bank judges there to be an irrevocable pre-sale this will therefore not be risk-weighted at 150 percent. At the end of the year, the Bank assessed the lending portfolio linked to development projects, and the portion of lending pre-sold is reported with capital weight of 100 percent. The assessment has led to a reduction in common equity tier 1 capital ratio of 0.28 percentage points for commitments where there is no irrevocable pre-sale.

Sparebanken Sør uses the standard method for credit and market risk and the basic method for operational risk to calculate capital adequacy in accordance with the current capital adequacy rules – Basel II.

MINIMUM CAPITAL REQUIREMENTS

PARENT BANK		NOK million	GROUP	
31.12.2019	31.12.2020		31.12.2020	31.12.2019
4.50 %	4.50 %	Minimum Tier 1 capital requirements	4.50 %	4.50 %
2.50 %	2.50 %	Conservation buffer	2.50 %	2.50 %
3.00 %	3.00 %	Systemic risk buffer	3.00 %	3.00 %
2.50 %	1.00 %	Counter-cyclical buffer	1.00 %	2.50 %
2.00 %	2.00 %	Pilar 2 requirements	2.00 %	2.00 %
14,50 %	13.00 %	CET1 requirements, incl. Pilar 2	13.00 %	14,50 %
16,00 %	14.50 %	Tier1 Capital requirements, incl. Pilar 2	14.50 %	16,00 %
18,00 %	16.50 %	Total capital requirements, incl. Pilar 2	16.50 %	18,00 %
8 802	8 401	CET1 requirements, incl. Pilar 2	10 137	10 503
9 712	9 370	Tier1 Capital requirements, incl. Pilar 2	11 307	11 589
10 926	10 662	Total capital requirements, incl. Pilar 2	12 867	13 038
938	2 245	Above CET1 requirements, incl. Pilar 2	2 067	853
1 403	2 351	Above Tier1 Capital requirements, incl. Pilar 2	2 008	1 178
2 059	2 559	Above total capital requirements, incl. Pilar 2	1 998	1 648

PARENT BANK		NOK MILLION	GROUP	
31.12.2019(2)	31.12.2020		31.12.2020(1)	31.12.2019(2)
11 535	**12 136**	**Total equity**	**13 752**	**13 081**
		Tier 1 capital		
-1 375	-1 075	Hybrid capital classified as equity	-1 111	-1 375
-245	-219	Share of profit not eligible as common equity tier 1 capital	-219	-245
-27	-41	Deductions for intangible assets	-48	-27
-44	-42	Deductions for additional value adjustments	-31	-27
		Proportion of common equity tier 1 capital from Brage Finans AS		374
		Deductions for internal eliminations from Brage Finans AS		-374
-104	-113	Other deductions	-138	-51
9 740	**10 646**	**Total common equity tier 1 capital**	**12 204**	**11 356**
		Other tier 1 capital		
1 375	1 075	Hybrid capital	1 111	1 375
		Proportion of tier 1 capital Brage Finans AS		36
11 115	**11 721**	**Total tier 1 capital**	**13 315**	**12 767**
		Additional capital supplementary to tier 1 capital		
1 971	1 600	Subordinated loan capital	1 649	1 971
		Proportion of net subordinated capital Brage Finans AS		49
-101	-100	Deductions from additional capital	-100	-101
1 870	**1 500**	**Total additional capital**	**1 549**	**1 919**
12 985	**13 221**	**Net subordinated capital**	**14 864**	**14 686**
		Calculation basis according to standard method		
25	25	Engagements with local and regional authorities	25	25
875	1 913	Engagements with institutions	513	425
2 725	3 824	Engagements with enterprises	5 164	2 800
5 188	4 787	Engagements with mass market	7 151	6 500
37 863	34 598	Engagements secured in property	51 991	52 088
1 150	1 025	Engagements which have fallen due	1 125	1 225
25	4 075	Engagements which are high risk	4 075	25
4 800	5 612	Engagements in covered bonds	1 338	1 338
4 175	4 813	Engagements in collective investment funds	1 750	2 300
613	563	Engagements, other	638	613
57 440	**61 233**	**Capital requirements for credit and counterparty risk**	**73 768**	**67 338**
13	**13**	**Capital requirements for position, currency and product risk**	**13**	**13**
3 238	**3 350**	**Capital requirements for operational risk**	**4 175**	**3 913**
13	**25**	**CVA addition**	**25**	**13**
60 702	**64 620**	**Risk-weighted balance (calculation basis)**	**77 980**	**71 275**
		Proportionate share of calculation basis Brage Finans AS		2 112
		Deductions for internal eliminations Brage Finans AS		-955
		Risk weighted balance after proportionate consolidation	**77 980**	**72 432**
16,0 %	16,5 %	Common equity tier 1 capital ratio, %	15,7 %	15,7 %
18,3 %	18,1 %	Tier 1 capital ratio, %	17,1 %	17,6 %
21,4 %	20,5 %	Total capital ratio, %	19,1 %	20,3 %
8,5 %	8,1 %	Leverage ratio	8,9 %	9,3 %

(1) Brage Finans AS is proportionately consolidated in the Group's capital adequacy reporting from Q4 2020.

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

NOTE 5 – SEGMENT REPORTING

Sparebanken Sør has three operating segments: Retail Market (RM), Corporate Market (CM) and real estate (Sørmegleren). The Bank's own investment activities are not a separate reporting segment and are included under 'Undistributed'. For more information about the segments, refer to accounting policies. Retail Market (RM) and Corporate Market (CM) deviate in this context from retail customers and corporate customers in reporting on sectors and industries.

The different segments recognise actual revenue and expenses related to loans and deposits as revenue and expenses in the balance sheet. All employees are related to the different segments. When there is a liquidity shortfall in the segments, an interest expense is calculated based on an internal rate, which is determined each month.

The Group's branch offices are located in the Agder counties, Telemark and Vestfold and Rogaland. The Group also has customers in other geographical areas, who are served by the established offices. Loans are broken down geographically in Note 10.

None of the Group's customers individually account for more than 10% of turnover. This applies to both 2020 and 2019.

Report per segment		**31.12.2020**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest income	1 166	826	-79	1 914	0	1 914
Net other operating income	177	74	131	382	149	531
Operating expenses	408	105	321	835	124	958
Profit before losses per segment	**935**	**795**	**-269**	**1 461**	**25**	**1 486**
Losses on loans and guarantees	1	85	-3	83		83
Profit before tax per segment	**934**	**709**	**-266**	**1 377**	**25**	**1 403**
Net loans to customers	74 994	36 420	163	111 577		111 577
Other assets			30 444	30 444	105	30 549
Total assets per segment	**74 994**	**36 420**	**30 607**	**142 021**	**105**	**142 126**
Deposits from customers	32 287	24 546	2 999	59 833		59 833
Other liabilities	42 706	11 874	13 855	68 436	105	68 541
Total liabilities per segment	**74 994**	**36 420**	**16 855**	**128 269**	**105**	**128 374**
Equity			13 752	13 752		13 752
Total liabilities and equity per segment	**74 994**	**36 420**	**30 607**	**142 021**	**105**	**142 126**

Report per segment		**31.12.2019**				
NOK MILLION	RM	CM	Undistrib. and elimin.	Total banking business	Sørmegleren	Total
Net interest income	1 084	760	81	1 926	0	1 926
Net other operating income	207	73	41	321	121	442
Operating expenses	377	101	332	810	108	918
Profit before losses per segment	**915**	**732**	**-210**	**1 437**	**12**	**1 450**
Losses on loans and guarantees	2	-52	33	-17		-17
Profit before tax per segment	**913**	**784**	**-243**	**1 454**	**12**	**1 467**
Net loans to customers	71 182	35 113	39	106 334		106 334
Other assets			23 093	23 093	73	23 166
Total assets per segment	**71 182**	**35 113**	**23 132**	**129 426**	**73**	**129 499**
Deposits from customers	30 164	22 399	5 386	57 949		57 949
Other liabilities	41 018	12 714	4 664	58 396	73	58 469
Total liabilities per segment	**71 182**	**35 113**	**10 051**	**116 345**	**73**	**116 418**
Equity			13 081	13 081		13 081
Total liabilities and equity per segment	**71 182**	**35 113**	**23 131**	**129 426**	**73**	**129 499**

The Sparebanken Sør Group does not report segments in the Parent Bank separately. Since Sparebanken Sør Boligkreditt AS is an integral part of the Group's retail banking market, it would be misleading to report segments in the Parent Bank in isolation.

NOTE 6 – CREDIT AND CREDIT RISK

Credit risk represents the largest area of risk for the Group. The Board defines the Group's credit strategy which, together with the Bank's credit policies and guidelines for credit processes, are intended to ensure that the customer portfolio has an acceptable risk profile and helps the Group maximise long-term value creation.

Sparebanken Sør has Agder, Rogaland Vestfold and Telemark as its principal market. In addition, the Bank has a national market segment, encompassing organisations that form part of KNIF (Kristen-Norges Innkjøpsfellesskap) and their employees.

The Bank's risk classes are as follows:

Risk classes	Lower limit of default, %	Upper limit of default, %
A	0.00	0.10
B	0.11	0.25
C	0.26	0.50
D	0.51	0.75
E	0.76	1.25
F	1.26	2.00
G	2.01	3.00
H	3.01	5.00
I	5.01	8.00
J	8.01	99.99
K	100.00	

Loans distributed in risk classes

The models used to calculate the probability of default (PD) in the next 12 months and expected losses (EL) at the customer and portfolio level are based on internal and external data. Retail customers and corporate customers are scored each month, and are divided into 11 classes (A – K) based on their probability of default. Class K comprises non-performing loans. For definition of non-performing loans refer note 1.

The table below shows the intervals for the different risk classes based on the probability of default.

Probability of default	
Low risk (A-D)	0.00 - 0.75%
Medium risk (E-G)	0.76 - 3.00 %
High risk (H-J)	3.01 - 99.99 %
Default (K)	100 %

TOTAL COMMITMENTS DISTRIBUTED BY RISK CLASSES

Total commitments includes the balance of approved loans and credit to customers, any unused portion of approved loans, guarantee limits and granted guarantees.

PARENT BANK					GROUP			
31.12.2019		31.12.2020		NOK MILLION	31.12.2020		31.12.2019	
				Retail banking customers:				
27 385	81.3 %	24 134	82.5 %	Low risk	68 809	84.8 %	63 949	82.7 %
5 436	16.1 %	4 364	14.9 %	Medium risk	11 138	13.7 %	11 916	15.4 %
641	1.9 %	385	1.3 %	High risk	769	0.9 %	1 257	1.6 %
33 463		**28 882**		**Total non-matured or written down**	**80 716**		**77 123**	
215	0.6 %	355	1.2 %	Commitment in default.	402	0.5 %	248	0.3 %
33 678	**100 %**	**29 238**	**100 %**	**Total retail banking customers**	**81 117**	**100 %**	**77 370**	**100 %**
				Corporate customers:				
22 3001	50.8 %	23 793	53.0 %	Low risk	24 779	53.8 %	22 295	50.8 %
16 949	38.6 %	15 109	33.7 %	Medium risk	15 313	33.2 %	16 942	38.6 %
3 848	8.8 %	4 833	10.8 %	High risk	4 851	10.5 %	3 847	8.8 %
43 098		**43 736**		**Total non-matured or written down**	**44 942**		**43 085**	
824	1.9 %	1 147	2.6 %	Commitment in default.	1 147	2.5 %	824	1.9 %
43 922	**100 %**	**44 884**	**100 %**	**Total corporate customers**	**46 089**	**100 %**	**43 908**	**100 %**
77 599		**74 121**		**Total commitments**	**127 206**		**121 279**	

MIGRATION BETWEEN RISK CLASSES DURING THE YEAR

For the Group, there has been a positive migration in the retail market portfolio. The overall risk to the retail market portfolio is assessed as highly satisfactory.

The business portfolio shows a clear migration from medium risk to low and high risk, with emphasis on migration to low-risk. The classification does not take into account collateral, only solvency.

MAXIMUM CREDIT RISK

Maximum exposure to credit risk, for the components of the balance sheet, including derivatives. Exposure is shown gross before any pledged security and permitted offsets.

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Assets		
4 063	10 936	Loans and advances to credit institutions	2 460	182
66 185	62 724	Net loans to costumers	111 577	106 334
16 807	18 329	Bonds and certificates	21 543	19 916
251	907	Financial derivatives	3 415	757
87 306	**92 895**	**Total credit risk exposure from balance sheet**	**138 996**	**127 189**
		Financial guarantee commitments, unutilised credits and loan approvals		
1 380	1 331	Guarantees	1 331	1 380
119	686	Unutilised credits to credit institutions		
9 674	9 648	Unutilised credits	13 868	13 195
360	517	Loan approvals	517	360
11 533	**12 182**	**Total financial guarantee commitments, unutilised credits and loan approvals**	**15 717**	**14 935**
98 839	**105 077**	**Total credit risk exposure**	**154 713**	**142 124**

Collateral

The Group uses a variety of collateral to reduce risk depending on the market and type of transaction. The main principle for assessing collateral is that the value is estimated to what it would be in a situation where the bank has need for the collateral. With the exception of commitments where impairments have been recognised, the value of collateral is calculated on a going concern basis. The valuation of collateral takes into account the estimated sales-cost. The main types of collateral used are mortgages secured on dwellings (residential/commercial), personal guarantees (consumer guarantees and surety), registrable movable property (inventory, plant and machinery) and receivables. The estimated value of residential as collateral for loans transferred to Sparebanken Sør Boligkreditt AS is updated quarterly, while collateral for other loans is updated when new credit applications are processed or commitments followed up, at the very least. The Group's loans generally have very good collateral.

Collateral in the retail market

Mortgages constitute the major part of the retail market portfolio, and the group's mortgage portfolio has the following LTV (Loan to Value) distribution.

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2020

	PARENT BANK		GROUP	
LTV 31.12.2019	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 204	6,4 %	9 335	13,8 %
40 - 50 %	1 155	6,2 %	8 199	12,1 %
50 - 60 %	2 364	12,6 %	15 011	22,2 %
60 - 70 %	3 615	19,3 %	20 423	30,2 %
70 - 75 %	2 693	14,4 %	5 789	8,6 %
75 - 80 %	2 468	13,2 %	3 107	4,6 %
80 - 85 %	1 919	10,2 %	2 177	3,2 %
85 - 90 %	1 151	6,1 %	1 255	1,9 %
90 - 95 %	882	4,7 %	945	1,4 %
95 - 100 %	742	4,0 %	812	1,2 %
Over 100 %	558	3,0 %	596	0,9 %
TOTAL	**18 751**	**100 %**	**67 649**	**100 %**

LOAN TO VALUE RATIO (LTV) LOANS SECURED BY PERMANENT HOUSING AS AT 31.12.2019

	PARENT BANK		GROUP	
LTV 31.12.2018	NOK MILLION	%	NOK MILLION	%
Below 40 %	1 827	7,3 %	7 909	12,1 %
40 - 50 %	1 521	6,1 %	6 620	10,1 %
50 - 60 %	2 838	11,3 %	10 918	16,7 %
60 - 70 %	5 166	20,6 %	18 972	29,0 %
70 - 75 %	2 656	10,6 %	7 863	12,0 %
75 - 80 %	3 412	13,6 %	4 685	7,2 %
80 - 85 %	2 581	10,3 %	2 928	4,5 %
85 - 90 %	1 876	7,5 %	1 993	3,1 %
90 - 95 %	1 230	4,9 %	1 268	1,9 %
95 - 100 %	1 203	4,8 %	1 241	1,9 %
Over 100 %	813	3,2 %	933	1,4 %
TOTAL	**25 123**	**100 %**	**65 332**	**100 %**

It should be noted that the LTV ratio is based on a traditional ratio where the entire loan is placed in the interval where the "last part" of the loan belongs. This means that the real LTV ratio will be lower than shown in the table. For a loan that is embedded with a high loan-to-value ratio, only part of this loan volume will be in the interval with a high loan-to-value ratio, while most of the loan will be in the lower intervals.

Collateral in the commercial market

The measurement and assessment of collateral for corporate loans are more complex than for the retail market, and will be subject to greater uncertainty in estimates at the portfolio level. However, the bank frequently reviews the collaterals in its loan portfolio on an individual level.

NOTE 7 – DESCRIPTION OF THE LOSS MODEL UNDER IFRS 9

IMPAIRMENT MODEL

The model assessing the impairment of financial assets under IFRS 9, applies to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income. The standard was implemented on 1 January 2018. See Note 1 for accounting policies related to descriptions. The same calculation model is used for the Group, mortgage company and Parent Bank, but with different dates being defined for initial recognition.

Provision must be made for expected losses, based on relevant information available at the time of reporting, including historical, current and future information. The loss is shown in the accounts before a loss event has occurred, and future expectations are included in the calculations.

Loss allowance are calculated on the basis of probability of default (PD), loss given default (LGD) and exposure at default (EAD). The principal rule is that the loss provision is calculated on the basis of expected credit loss over the next 12 months or expected credit loss over the whole term. Expected credit loss over the whole term is calculated for assets where the credit risk has increased significantly since initial recognition, with the exception of assets which are nevertheless assessed as having a low absolute credit risk on the reporting date. If there has not been a significant increase in credit risk since initial recognition, a loss provision will be calculated for expected credit loss in the next 12 months. IFRS 9 also introduces requirements for loss provisions on new loans, by recognising loss allowance for expected credit losses as a result of expected default over the next 12 months.

Assessment of a significant increase in credit risk

The Bank use the PD-level as the main criteria to assess a significant increase in credit risk. A significant increase in credit risk is assessed on the basis of both the relative increase in PD and the absolute change. It requires the relative change to be significant and the level of risk itself to be not insignificant compared with that considered to be a low risk. In addition, any large absolute change must, under any circumstances, be regarded as a significant increase.

The limits for significant increase and PD checks are summarised in the table below.

Parameter	RM	CM
Absolute limit (a)	0.625 %	0.625 %
Relative change (b)	2 %	2 %
Absolute change (c)	5 %	5 %

The absolute limit corresponds to risk class D. Risk class D for CM corresponds to 0.625%, but some customers are scored according to the RM model. Risk class D for RM corresponds to the range 0.5% to 0.75% The absolute limit is in the middle of the range.

If the economic cycle or national/regional development trends indicate that there is a higher risk in individual sectors/industries, this is included by changing the PD level of customers in the sectors/industries concerned.

PD as basis for expected loss

The PD model gives PD at customer level, 12 months ahead. At the end of 2020 there is no lifetime PD model integrated, but the Parent Bank is in the process of introducing one.

When calculating the expected credit loss over the lifetime of the commitment, it is the probability of default over the same lifetime that should be used. A methodology has been developed to estimate PD over a commitment's lifetime. This is based on breaking lifetime down into separate years and estimating PD for each year ahead in time.

The PD models are validated every year. The PD-models are hybrid-models and gives expectation oriented estimates. Since the loss model is expected oriented, calibrating PD is done to a excepted oriented estimate before used in the loss model.

Population

The model is intended to calculate expected loss for all customers, at account level and on not already recognised losses. The model also includes loan approvals, guarantees and unused credit limits. For loans where the credit risk has increased significantly after initial recognition, an impairment loss must be recognised for expected credit losses over the term of the loans. From April 2018 until April 2019, the calculation of impairment losses under IFRS 9 was based on extracts at the end of the previous months for all the customers. From May 2019, the calculation is based on extracts at the end of the current reporting month. All model calculations are made at account level. Data that exists only at customer level, is linked to individual accounts. For example, risk class is allocated at the customer level so that all the customer's accounts have the same score. The most important variables in the extract are risk class and PD with associated interest, balance, approval and collateral at the time of calculation.

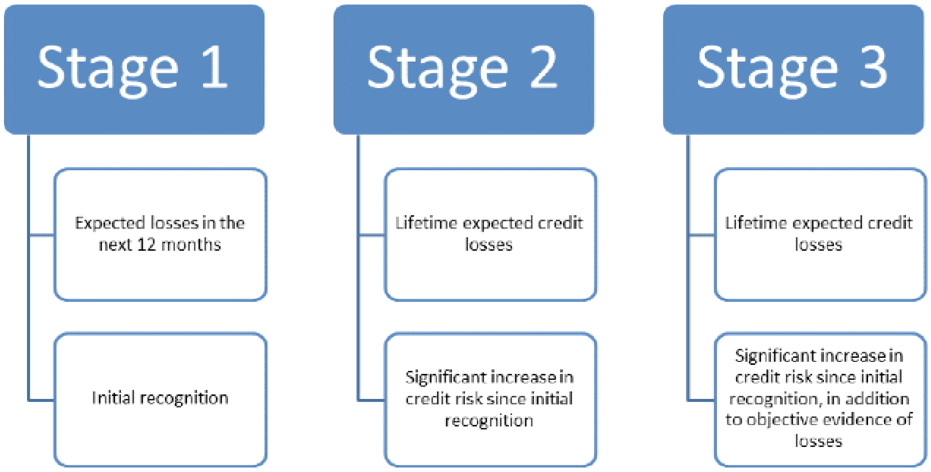
Loans approved but not discounted at the calculation date, must also be included in the basis of calculation.

Under IFRS 9, an expected loss must also be calculated on receivables from central banks and credit institutions. The Group has no loss provisions with respect to these receivables for the financial year 2020. The low-risk exemption in IFRS 9 is used because the main emphasis on lending to credit institutions is linked to Norwegian banks. These have an assignment in risk class B and a PD of 0.175 percent. LGDs are considered to be low as they have good rating from external rating agencies. The Group considers that the condition of low credit risk is met on the balance sheet date and that the expected loss will be completely insignificant.

After the dataset has been defined, the various account commitments are noted and allocated to the different stages. Allocation to one of the three "stages" in the model is based on their change in risk since approval (change of credit risk). For a description of the individual "stages", see the subsequent explanations. All commitments are placed in stage 1 upon initial recognition, and are subsequently moved to stage 2 or 3 if there has been a significant increase in credit risk. Commitments for which qualitatively assessed loss allowance have been recognised are excluded from the model-based calculation of loss allowance. Qualitatively assessed loss allowance are added to those in stage 3.

Non-performing account commitments are defined in the model as all account commitments where the customer has risk class K. For an overview of the Bank's risk classes, refer to Note 6 –Credit and credit risk.

A customers commitment is until 31.12.2020 assessed as being non performing if an installment has not been paid 90 days after its due date and the amount exceeds 1 000 NOK, in case of bankruptcy, losses are confirmed, or qualitative assessments and marks have been made. From 01.01.2021 non performing have been assessed according to a new definition. See note 1 for a description of the new definition and when qualitative assessments are made. When a customer has one or several defaulted loans, it is the customer's total commitment which is reported as default and not the individual loan. See also Note 11.



Stage 1

In most cases, this is starting point for all financial assets that come under the general impairment model. Financial instruments that have the same credit risk as at initial recognition and which have not been classified in stage 2 or 3 are covered by this stage. The estimated expected losses recognised in the balance sheet are equivalent to the expected losses over the next 12 months.

Stage 2

Financial assets that have had a significant increase in credit risk since initial recognition are placed in stage 2. Whether an account commitment has had a significant change or not, is defined as a function of the probability of default (PD) on the measurement date and the probability of default on the date of loan approval. Expected losses on assets in stage 2 are calculated over the remaining term of the asset.

The model has the following additional indicators and overriding rules for customer commitments (loans to customers):

- For commitments that qualify for a one-year loss calculation (stage 1), a check will be made of whether there is a 30-day default/account overdrawn. If so, the commitment will be transferred to lifetime calculation (stage 2). This applies to overdrawn accounts from the first Norwegian krone, but older than 30 days.

- For commitments that qualify for a one-year loss calculation (stage 1), a check will be made of whether there is a larger overdraft. If so, the commitment will be transferred to lifetime calculation (stage 2). This applies to overdrawn amounts that are relatively larger than the credit limit, starting from the first day.
- Commitments with changed payment obligations or refinancing (forbearance) are automatically moved to stage 2.
- The commitments are also checked against an internal watch list that will detect commitment-specific forward-looking risk.

Stage 3

Stage 3 of the impairment model includes assets that have had a significant change in credit risk since initial recognition and where there is objective evidence of loss at the time of reporting. In this stage, the model calculates an expected loss over the remaining term of the asset. If individual loss allowance have been recognised, these override the model-based calculation.

Qualitative assessments are made, when observable data related to significant financial issues are present. If the bank, based on economic and contractually matters related to the customers financial issues, has provided any forbearances, and it is likely that the customer will go bankrupt or exposed to a financial reorganization. If observable data related to impairment are present, a future reduction in cash flow will be evaluated.

The same model is used for the Group, Parent Bank and a wholly owned mortgage company, but with different date being defined for initial recognition. At Group level, the account's approval date is used, while the transfer date is used for the mortgage company. As a general rule, the approval date will be used for the Parent Bank, unless the account has been registered in the mortgage company. If so, the date of transfer to the Parent Bank is used.

Estimated losses will be calculated on the basis of 12 months' probability of default (PD), loss given default (LGD) and exposure at default (EAD). The dataset contains historical data about the observed probability of default (PD) and loss given default (LGD). This will form the basis for producing estimates of future PD and LGD values. The Bank's PD model gives PD at customer level, one year ahead. The Bank does not have a lifetime PD model. When calculating expected credit loss over the lifetime of the commitment, it is the probability of default over the same lifetime that should be used.

Migration to a lower stage

A commitment that has migrated to stage 2 can migrate back to stage 1 if it no longer fulfills the criteria for migration stated above. Migration to a lower stage is not subject to any explicit quarantine period, except for loans market with forbearance. Commitments that have gone into default will migrate to stage 1 or 2 when they are no longer in default.

Forbearance and quarantine

Commitments provided with forbearance, may be performing or initially non-performing. The commitments are listed as forbearance in the data warehouse. Factors causing forbearance will be changes in repayments, e.g. installments postponements and refinancing as result of payment issues.

When a commitment is listed forbearance, a transfer to stage 2 automatically will take place from stage 1. If the commitment is in stage 2 or 3 initially, no transfers will take place. In case of forbearance, PD may be adjusted.

If a commitment is listed forbearance there is a quarantine period, before regarded as performing and transferring back to stage 1.

Macroeconomic conditions and scenarios

In Q1 2020, the group adopted a macro model that calculates estimated changes in PD. The PD values from the macro model are used further into the IFRS9 model.

The model contains data for macroeconomic conditions, and relevant parameters must be adjusted to take account of any changes in economic climate or macro conditions before the model can be run. Primary, the parameters are set on the basis of empiricism related to monetary policy and financial stability obtain from Norges Bank, in addition to the latest updated figures for unemployment and house prices.

The following macro parameters are used in the model:

1. Level of policy rate
2. Growth in unemployment
3. Growth in house prices
4. National growth in GDP
5. Exchange rate related to import
6. Oil price (USD)

Macroeconomic variables as a basis of scenarios:

	2020	2021	2022	2022	2024
Housing price %	4.4	6.7	2.4	1.8	1.8
Housing price region %	3.4	5.7	1.4	0.8	0.8
Unemployment %	5.5	4.5	3.8	3.7	3.7
Oilprice, $	41.7	49.6	48.6	48.2	48.2
Key policy rate, $	0.4	0.0	0.3	0.8	0.8
Import-weighted exchange rate	115.0	111.8	111.1	110.7	110.7
GDP %	2.2	1.3	2.2	2	1.7

Determining macro variables involves the exercise of discretion because no one knows how large and long-lasting the effects of the crisis will be.

Sparebanken Sør has largely secured loans in real estate, and setting parameters for house prices (including real estate) is considered to be a parameter that has a major impact on LGD (Loss Given Default).

In addition, there is a great deal of uncertainty associated with future unemployment, and the determination of this parameter is also of significant importance for the group's model-calculated loss impairments.

Three scenarios are defined in the model; realistic (base) scenario, optimistic scenario and pessimistic scenario. All scenarios are applicable with effect from the date of calculation. This means that the first scenario period is in progress at the time of calculation. This is done so that the scenarios will have an impact on the whole calculation, including stages 1 and 3. The background to the assessments is an overall assessment of all the central elements affecting the development of the Norwegian and regional economy, and whether these factors suggest that changes should be made to the PD and/or LGD level in individual sectors, product and market segments or the whole portfolio.

The realistic (base) scenario is a macroeconomic scenario that represents expected future economic growth over the next 5 years. The realistic scenario is comparable to the ICAAP scenario Base Case. The scenario is based on an expectation of stable and moderate global economic growth, as well as stable growth in the Norwegian economy over the next 5 years. It is further expected that regional economic growth over the next 5 years will be on a par with the rest of the country.

The optimistic scenario is a macroeconomic scenario that represents an economic upturn with strong economic growth. Positive development and strong economic growth over the next 5 years are expected in this scenario. Oil prices will rise and the Norwegian economy will experience strong economic growth. Regional economic growth is expected to be on a par with the rest of the country.

The pessimistic scenario represents a downturn, with weak economic growth. The pessimistic scenario may represent an economic downturn based on a 25-year cycle, but one that will be considerably milder than the credit crisis in the early 1990s. In this scenario, it is expected that growth in emerging markets will decline. Increased protectionism will create barriers to trade and global economic growth will stall. Oil prices fall and, taken together with weak economic growth among our most important trading partners, this will lead to weak development and growth in the Norwegian economy. Regional economic growth is expected to be on a par with the rest of the country.

The Bank has further assessed the scenarios described above and weighted them to determine ECL. Weighting was performed on the basis of an expectation that a realistic scenario will occur in 3 out of 5 years (60% probability), while the other two scenarios will occur in 1 out of 5 years (20% probability each).

Parameter	RM	CM
Weighted optimistic scenario	20.0%	20.0%
Weighted realistic scenario	60.0%	60.0%
Weighted pessimistic scenario	20.0%	20.0%

Sensitivities

To a large extent, Sparebanken Sør has loans secured by property. This is considered to be one of the parameters that affect LGD the most. A sensitivity analysis relating to changes in the portfolio's collateral was therefore performed as at 31 December 2020. The analysis has been carried out over the coming year by assuming a fall in collateral of 10%, 20% and 30% respectively. Analysis have also been performed with 1 % increase in unemployment. The changes have the following impact on the Group's loss expense:

				GROUP 31.12.2020
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 % increase in unemployment
Loan loss provisions, CM	53	117	193	11
Loan loss provisions, RM	11	25	41	9
Total	**64**	**142**	**234**	**20**

				PARENT BANK 31.12.2020
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	1 % increase in unemployment
Loan loss provisions, CM	53	116	193	11
Loan loss provisions, RM	5	12	20	5
Total	**58**	**128**	**213**	**16**

				GROUP 31.12.2019
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	35	77	127	63
Loan loss provisions, RM	12	27	44	8
Total	**47**	**104**	**171**	**71**

				PARENT BANK 31.12.2019
Loan loss provisions	10 percent reduction in collateral	20 percent reduction in collateral	30 percent reduction in collateral	A doubling of PD
Loan loss provisions, CM	35	77	127	63
Loan loss provisions, RM	7	16	27	5
Total	**42**	**93**	**154**	**68**

Validation

The purpose of validate the IFRS 9-system, is to confirm that, both the model and the process, is working as intended and provides the best estimates. The system shall provide the best estimate for expected credit loss (ECL), based on access to information and knowledge at the reporting date. Calculations and assumptions are subjected to an annual validation. The validation provides a report investigated by the Validation Committee. Based on the results there will be an assessment related to the satisfactory of the model and process – and any needs for adjustments.

Changes in the loss model in 2020

The following changes have been made in 2020 and effects calculations of model based impairments:

- Equal LGD recovery rate for step 1 and step 2 + 3. Until the autumn of 2020, the IFRS9 model had a different recovery rate for stage 1 and stage 2 + 3. Following feedbacks, from among others Finanstilsynet, adjustments have been made, so there is only one recovery rate for each customer segment. The model is run for the segments CM and RM, and different parameter values are used for them.
- Absolute limit for migration to step 2 is changed. Until the autumn of 2020, the IFRS9 model had an absolute limit (equal for both CM and RM) for migration between stages 1 and 2 of 0.75. This was in the 4th quarter changed, for both CM and RM, to 0.625.

NOTE 8 – LOSSES ON LOANS, GUARANTEES AND UNDRAWN CREDIT FACILITIES

Losses on loans

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 to the financial statements.

The various elements contained in losses and loss allowances, guarantees and undrawn credit facilities are discussed under Accounting Policies. Reference is also made to note 3 regarding Risk Management in Sparebanken Sør and to Note 6 regarding Credit and credit risk.

The COVID-19 pandemic has led to severe changes in the macro variables in the IFRS9 model. By the end of the year, multiple parameters has improved.

The Group's provisions for loss allowances as of 31 December 2020 is based on new assumptions. For an overview of macros used and sensitivity analyzes, see note 7.

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
-6	58	Period's change inn write-downs stage 1	61	-5
31	26	+ Period's change inn write-downs stage 2	23	33
-89	-3	+ Period's change inn write-downs stage 3	-2	-89
41	8	+ Period's confirmed loss	8	41
18	4	+ Recognised as interest income	4	18
13	12	- Period's recoveries relating to previous losses	12	13
-1	-1	+ Change in write downs on guaranties	-1	-1
-21	**81**	**= Loss expenses during the period**	**83**	**-17**

The balance of confirmed losses as at 31. December 2020 was NOK 116 million. The equivalent figure as at 31 December 2019 was NOK 132 million. This applies to loans which have been derecognised and which the Group is still working to collect.

PROVISIONS FOR LOAN LOSSES BY STAGE

GROUP	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2020	**39**	**126**	**231**	**397**
Transfers				
Transferred to stage 1	37	-32	-5	0
Transferred to stage 2	-4	15	-11	0
Transferred to stage 3	0	-2	2	0
	0	0	0	0
Losses on new loans	40	38	30	108
Losses on deducted loans	-9	-26	-41	-77
Losses on older loans and other changes	-2	31	11	40
Provisions for loan losses as at 31.12.2020	**101**	**149**	**218**	**468**
Provisions for loan losses	87	129	213	429
Provisions for guarantees and undrawn credits	13	21	5	39
Total provision for losses as at 31.12.2020	**101**	**149**	**218**	**468**

GROUP	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**45**	**94**	**335**	**473**
Transfers				
Transferred to stage 1	47	-17	-30	0
Transferred to stage 2	-4	51	-47	0
Transferred to stage 3	-1	-2	3	0
Losses on new loans	20	39	37	96
Losses on deducted loans	-16	-24	-67	-107
Losses on older loans and other changes	-53	-13	0	-66
Provisions for loan losses as at 31.12.2019	**39**	**126**	**231**	**397**
Provisions for loan losses	32	111	228	370
Provisions for guarantees and undrawn credits	8	15	4	27
Total provision for losses as at 31.12.2019	**39**	**126**	**231**	**397**

* Losses on derecognised loans relate to losses on loans redeemed or transferred between the parent bank and Sparebanken Sør Boligkreditt AS.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

PARENT BANK	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2020	**37**	**120**	**230**	**387**
Transfers				
Transferred to stage 1	35	-30	-5	0
Transferred to stage 2	-4	15	-11	0
Transferred to stage 3	0	-2	2	0
Losses on new loans	36	37	30	103
Losses on deducted loans *	-9	-24	-41	-74
Losses on older loans and other changes	0	30	11	40
Provisions for loan losses as at 31.12.2020	**94**	**145**	**217**	**457**
Provisions for loan losses	81	125	213	418
Provisions for losses on guarantees and undrawn credits	13	21	5	39
Total provision for losses as at 31.12.2020	**94**	**145**	**217**	**457**

PARENT BANK	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**44**	**91**	**330**	**466**
Transfers				
Transferred to stage 1	46	-16	-30	0
Transferred to stage 2	-3	50	-47	0
Transferred to stage 3	-1	-2	3	0
Losses on new loans	19	36	37	92
Losses on deducted loans *	-15	-22	-67	-105
Losses on older loans and other changes	-53	-17	4	-66
Provisions for loan losses as at 31.12.2019	**37**	**120**	**230**	**387**
Provisions for loan losses	29	105	226	360
Provisions for losses on guarantees and undrawn credits	8	15	4	27
Total provision for losses as at 31.12.2019	**37**	**120**	**230**	**387**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

GROUP Retail Customers incl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2020	**6**	**19**	**40**	**65**
Transfers				
Transferred to stage 1	6	-6	0	0
Transferred to stage 2	0	1	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	5	3	5	14
Losses on deducted loans *	-1	-3	-7	-11
Losses on older loans and other changes	-5	-1	5	-1
Provisions for loan losses as at 31.12.2020	**13**	**13**	**42**	**68**
Provisions for loan losses	11	12	42	66
Provisions for losses on guarantees and undrawn credits	1	0	0	2
Total provision for losses as at 31.12.2020	**13**	**13**	**42**	**68**

GROUP Retail Customers incl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**4**	**18**	**50**	**72**
Transfers				
Transferred to stage 1	5	-4	-1	0
Transferred to stage 2	0	2	-2	0
Transferred to stage 3	0	0	0	0
	0	0	0	0
Losses on new loans	3	7	3	12
Losses on deducted loans *	-2	-8	-4	-14
Losses on older loans and other changes	-4	5	-7	-5
Provisions for loan losses as at 31.12.2019	**6**	**19**	**40**	**65**
Provisions for loan losses	6	20	39	64
Provisions for losses on guarantees and undrawn credits	1	0	0	1
Total provision for losses as at 31.12.2019	**6**	**19**	**40**	**65**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

GROUP/PARENT BANK Corporate Customers excl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2020	**33**	**107**	**192**	**331**
Transfers				
Transferred to stage 1	31	-27	-5	0
Transferred to stage 2	-4	14	-10	0
Transferred to stage 3	0	-1	2	0
Losses on new loans	35	34	25	94
Losses on deducted loans *	-8	-24	-34	-66
Losses on older loans and other changes	2	32	6	41
Provisions for loan losses as at 31.12.2020	**88**	**137**	**176**	**401**
Provisions for loan losses	77	116	171	364
Provisions for losses on guarantees and undrawn credits	12	20	5	37
Total provision for losses as at 31.12.2020	**88**	**137**	**176**	**401**

GROUP/PARENT BANK Corporate Customers excl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**40**	**76**	**285**	**402**
Transfers				
Transferred to stage 1	42	-13	-29	0
Transferred to stage 2	-3	49	-45	0
Transferred to stage 3	-1	-2	3	0
	0	0	0	0
Losses on new loans	17	32	35	84
Losses on deducted loans *	-14	-16	-63	-93
Losses on older loans and other changes	-49	-18	7	-61
Provisions for loan losses as at 31.12.2019	**33**	**107**	**192**	**331**
Provisions for loan losses	26	92	188	306
Provisions for losses on guarantees and undrawn credits	7	14	4	25
Total provision for losses as at 31.12.2019	**33**	**107**	**192**	**331**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

PARENT BANK Retail Customers incl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2020	**4**	**13**	**38**	**56**
Transfers				
Transferred to stage 1	3	-3	0	0
Transferred to stage 2	0	1	0	0
Transferred to stage 3	0	-1	1	0
	0	0	0	0
Losses on new loans	2	2	5	9
Losses on deducted loans *	-1	-1	-7	-9
Losses on older loans and other changes	-3	-3	5	-1
Provisions for loan losses as at 31.12.2020	**6**	**9**	**42**	**56**
Provisions for loan losses	5	8	42	55
Provisions for losses on guarantees and undrawn credits	1	0	0	2
Total provision for losses as at 31.12.2020	**6**	**9**	**42**	**56**

PARENT BANK Retail Customers incl. Self-employed	Stage 1	Stage 2	Stage 3	
NOK MILLION	Expected losses in the next 12 months	Lifetime expected credit losses	Lifetime expected credit losses	Total
Provisions for loan losses as at 01.01.2019	**4**	**15**	**45**	**64**
Transfers				
Transferred to stage 1	4	-3	-1	0
Transferred to stage 2	0	2	-2	0
Transferred to stage 3	0	0	0	0
Losses on new loans	2	4	2	8
Losses on deducted loans *	-1	-6	-4	-12
Losses on older loans and other changes	-4	2	-3	-5
Provisions for loan losses as at 31.12.2019	**4**	**13**	**38**	**56**
Provisions for loan losses	3	13	38	54
Provisions for losses on guarantees and undrawn credits	1	1	0	1
Total provision for losses as at 31.12.2019	**4**	**13**	**38**	**56**

* Losses on derecognised loans relate to losses on loans that have been repaid.

The table also includes write-downs on off-balance sheet items (undrawn credit facilities and guarantees). These are presented as other liabilities in the balance sheet.

IMPAIRMENT BY SECTOR, INDUSTRY AND STAGE

PARENT BANK					GROUP			
Stage 1	Stage 2	Stage 3	Loss allowances as of 31.12.20	NOK MILLION	Loss allowances as of 31.12.20	Stage 3	Stage 2	Stage 1
5	7	28	40	Retail customers	53	29	13	11
0	0	0	0	Public administration	0	0	0	0
1	1	3	5	Primary Industry	5	3	1	1
3	8	4	15	Manufactoring industry	15	4	8	3
17	27	52	95	Real estate development	95	52	26	17
3	7	12	23	Building and construction industry	23	12	7	3
49	75	89	213	Property management	212	89	73	49
1	0	1	2	Transport	2	1	0	1
4	8	13	26	Retail trade	26	13	8	4
1	2	2	5	Hotel and restaurants	5	2	2	1
2	2	0	4	Housing cooperatives	4	0	2	2
2	3	12	17	Financial/commercial services	17	12	3	2
7	4	2	13	Social services	13	2	4	7
94	**145**	**217**	**457**	**Total impairment losses on loans, guarantees and undrawn credit**	**468**	**218**	**149**	**101**
81	125	213	418	*Impairment losses on lending*	429	213	129	87
13	21	5	39	*Impairment losses on unused credits and guarantees*	39	5	21	13
94	**145**	**217**	**457**	**Total impairment losses**	**468**	**218**	**149**	**101**

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

The presentation of industries is based on official industrial codes and is grouped as the Group reports these internally.

CHANGE IN GROSS LOANS BY STAGE

NOK MILLION		Amortised cost				GROUP 31.12.2020
GROSS LOANS	Stage 1	Stage 2	Stage 3	Gross loans	Fair value	Total gross loans incl accrued interest
Gross loans as at 1.1.2020	**89 267**	**10 710**	**1 038**	**101 016**	**5 689**	**106 704**
Transferred to stage 1	2 730	-2 694	-36	-0		-0
Transferred to stage 2	-2 873	2 897	-23	-0		-0
Transferred to stage 3	-128	-102	230	0		0
Net change on present loans	1 945	-276	-76	1 593		1 269
New loans	30 844	2 449	43	33 335	1 251	34 671
Derecognised loans	-26 035	-3 286	-193	-29 513	-1 380	-30 637
Change in value during the period					16	
Gross loan as at 31.12.2020	**95 750**	**9 697**	**983**	**106 431**	**5 576**	**112 007**

NOK MILLION		Amortised cost				GROUP 31.12.2019
GROSS LOANS	Stage 1	Stage 2	Stage 3	Gross loans	Fair value	Total gross loans incl accrued interest
Gross loans as at 1.1.2019	**86 297**	**10 411**	**978**	**97 686**	**5 714**	**103 400**
Transferred to stage 1	1 518	-1 472	-45	0		0
Transferred to stage 2	-1 958	2 001	-43	0		0
Transferred to stage 3	-147	-62	209	0		0
Net change on present loans	-1 367	-473	-51	-1 890		-1 890
New loans	26 078	2 804	180	29 062	1 106	30 168
Derecognised loans	-21 153	-2 499	-189	-23 842	-1 146	-24 988
Change in value during the period					15	15
Gross loan as at 31.12.2019	**89 267**	**10 710**	**1038**	**101 016**	**5 689**	**106 704**

NOK MILLION				PARENT BANK 31.12.2020
GROSS LOAN	Amortised cost	Fair value through other comprehensive income	Fair value	Toal gross loans incl accrued interest
Gross loan as at 1.1.2020	**39 106**	**21 751**	**5 689**	**66 545**
Transferred to stage 1	-0	0	0	-0
Transferred to stage 2	0	0	0	0
Transferred to stage 3	0	0	0	0
Net change on present loans	3 687	-476	0	3 211
New loans	5 768	8 112	1 251	15 131
Derecognised loans	-7 729	-12 652	-1 380	-21 761
Change in value during the period			16	16
Gross loan as at 31.12.2020	**40 832**	**16 735**	**5 576**	**63 142**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN	Amortised cost	Fair value through other comprehensive income	Fair value	Toal gross loans incl accrued interest
Gross loan as at 1.1.2019	**38 095**	**20 905**	**5 714**	**64 713**
Transferred to stage 1	0	0	0	0
Transferred to stage 2	0	0	0	0
Transferred to stage 3	0	0	0	0
Net change on present loans	50	-449	0	-399
New loans	9 120	9 214	1 106	19 440
Derecognised loans	-8 159	-7 920	-1 146	-17 224
Change in value during the period			15	15
Gross loan as at 31.12.2019	**39 106**	**21 751**	**5 689**	**66 545**

NOK MILLION				PARENT BANK 31.12.2020
GROSS LOAN ASSESSED AT AMORTISED COST	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2020 at amortised cost	**31 866**	**6 378**	**863**	**39 106**
Transferred to stage 1	1 405	-1 376	-29	-
Transferred to stage 2	-1 508	1 524	-16	-
Transferred to stage 3	-94	-80	174	-
Net change on present loans	3 934	-186	-61	3 687
New loans	4 587	1 164	18	5 768
Derecognised loans	-6 189	-1 409	-131	-7 730
Gross loan assessed at amortised cost 31.12.2020	**34 001**	**6 013**	**817**	**40 832**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN ASSESSED AT AMORTISED COST	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2019 at amortised cost	**31 360**	**5 886**	**849**	**38 095**
Transferred to stage 1	810	-775	-35	-
Transferred to stage 2	-1 344	1 392	-48	-
Transferred to stage 3	-112	-44	155	-
Net change on present loans	482	-383	-48	50
New loans	7 556	1 418	146	9 120
Derecognised loans	-6 887	-1 116	-156	-8 159
Gross loan assessed at amortised cost 31.12.2019	**31 866**	**6 378**	**863**	**39 106**

NOK MILLION				PARENT BANK 31.12.2020
GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2020 through other comprehensive income	**19 241**	**2 369**	**141**	**21 751**
Transferred to stage 1	468	-464	-3	-
Transferred to stage 2	-451	456	-6	-
Transferred to stage 3	-23	-11	34	-
Net change on present loans	-434	-29	-13	-476
New loans	7 213	886	12	8 112
Derecognised loans	-11 256	-1 343	-53	-12 652
Gross loan as at 31.12.2020 through other comprehensive income	**14 758**	**1 864**	**112**	**16 735**

NOK MILLION				PARENT BANK 31.12.2019
GROSS LOAN THROUGH OTHER COMPREHENSIVE INCOME	Stage 1	Stage 2	Stage 3	Total
Gross loan as at 01.01.2019 through other comprehensive income	**18 139**	**2 650**	**116**	**20 905**
Transferred to stage 1	317	-308	-9	-
Transferred to stage 2	-142	137	6	-
Transferred to stage 3	-24	-18	42	-
Net change on present loans	-406	-42	-0	-449
New loans	8 312	884	18	9 214
Derecognised loans	-6 955	-934	-30	-7 920
Gross loan as at 31.12.2019 through other comprehensive income	**19 241**	**2 369**	**141**	**21 751**

CHANGE IN UNDRAWN CREDITS AND GUARANTEES (OFF BALANCE) BY STAGE

NOK MILLION				GROUP 31.12.2020
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2020	**13 362**	**1 120**	**35**	**14 517**
Transferred to stage 1	443	-440	-3	-0
Transferred to stage 2	-390	392	-2	0
Transferred to stage 3	-50	-3	53	-0
Net change on present loans	321	-61	-16	245
New loans	1 566	627	13	2 206
Derecognised loans	-1 666	-262	-5	-1 933
Undrawn credits and guarantees as at 31.12.2020	**13 587**	**1 373**	**76**	**15 035**

NOK MILLION				GROUP 31.12.2019
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2019	**12 597**	**903**	**32**	**13 528**
Transferred to stage 1	227	-220	-6	-
Transferred to stage 2	-520	533	-12	0
Transferred to stage 3	-40	-12	52	-
Net change on present loans	-563	-.205	-28	-796
New loans	3 250	458	7	3 716
Derecognised loans	-1 583	-338	-10	-1 931
Undrawn credits and guarantees as at 31.12.2019	**13 362**	**1 120**	**35**	**14 517**

NOK MILLION				PARENT BANK 31.12.2020
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2020	**9 923**	**1 096**	**34**	**11 054**
Transferred to stage 1	434	-431	-3	-0
Transferred to stage 2	-372	374	-2	0
Transferred to stage 3	-50	-3	53	-0
Net change on present loans	169	-54	14	101
New loans	1 015	621	13	1 648
Derecognised loans	-1 670	-260	-5	-1 935
Undrawn credits and guarantees as at 31.12.2020	**9 448**	**1 344**	**76**	**10 869**

NOK MILLION				PARENT BANK 31.12.2019
UNDRAWN CREDITS AND GUARANTEES (off balance)	Stage 1	Stage 2	Stage 3	Total
Undrawn credits and guarantees as at 01.01.2019	**9 428**	**873**	**32**	**10 333**
Transferred to stage 1	214	-208	-6	-
Transferred to stage 2	-510	522	-12	0
Transferred to stage 3	-40	-12	52	-
Net change on present loans	-658	-.2052	-28	-888
New loans	3 025	457	7	3 490
Derecognised loans	-1 536	-334	-10	-1 881
Undrawn credits and guarantees as at 31.12.2019	**9 923**	**1 096**	**34**	**11 054**

CHANGE IN GROSS LOANS BETWEEN RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED AND CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED

				GROUP 31.12.2020
NOK MILLION				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2020	**67 533**	**5 574**	**252**	**73 360**
Transferd to stage 1	1 744	-1 734	-10	
Transferd to stage 2	-1 846	1 853	-7	
Transferd to stage 3	-46	-51	97	
Net change on present loans	-2 532	-110	-12	-2 654
New loans	29 022	1 618	34	30 675
Derecognised loans	-22 142	-2 211	-87	-24 440
Gross loans as at 31.12.2020	**71 733**	**4 940**	**268**	**76 941**

				GROUP 31.12.2019
NOK MILLION				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2019	**67 088**	**5 605**	**254**	**72 946**
Transferd to stage 1	1 310	-1 295	-15	
Transferd to stage 2	-1 554	1 574	-19	
Transferd to stage 3	-47	-34	81	
Net change on present loans	-2 193	-111	-17	-2 321
New loans	22 416	1 869	34	24 319
Derecognised loans	-19 484	-2 033	-66	-21 583
Gross loans as at 31.12.2019	**67 534**	**5 574**	**252**	**73 361**

				PARENT BANK/GROUP 31.12.2020
NOK MILLION		CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED		
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2020	**26 793**	**5 760**	**791**	**33 344**
Transferd to stage 1	1 184	-1 155	-28	
Transferd to stage 2	-1 271	1 287	-16	
Transferd to stage 3	-82	-56	138	-
Net change on present loans	4 204	-216	-64	3 923
New loans	2 996	993	7	3 995
Derecognised loans	-4 857	-1 229	-111	-6 198
Gross loans as at 31.12.2020	**28 966**	**5 383**	**716**	**35 066**

PARENT BANK/GROUP 31.12.2019				
NOK MILLION				CORPORATE CUSTOMERS EXCLUDING SELF EMPLOYED
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2019	**24 555**	**5 401**	**497**	**30 454**
Transferd to stage 1	348	-318	-30	
Transferd to stage 2	-549	570	-22	
Transferd to stage 3	-102	-28	130	
Net change on present loans	461	-394	-36	31
New loans	4 520	1 096	181	5 797
Derecognised loans	-2 247	-568	-124	-2 938
Gross loans as at 31.12.2019	**26 987**	**5 760**	**596**	**33 343**

PARENT BANK 31.12.2020				
NOK MILLION				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2020	**29 369**	**3 611**	**222**	**33 202**
Transferd to stage 1	887	-881	-6	
Transferd to stage 2	-931	937	-6	
Transferd to stage 3	-35	-40	75	
Net change on present loans	-977	-50	-10	-1 037
New loans	9 977	1 220	23	11 220
Derecognised loans	-13 552	-1 677	-79	-15 308
Gross loans as at 31.12.2020	**24 738**	**3 120**	**220**	**28 077**

PARENT BANK 31.12.2019				
NOK MILLION				RETAIL CUSTOMERS INCLUDING SELF-EMPLOYED
GROSS LOANS	Stage 1	Stage 2	Stage 3	Total
Gross loans as at 01.01.2019	**30 299**	**3 729**	**232**	**34 260**
Transferd to stage 1	920	-905	-14	
Transferd to stage 2	-1 083	1 102	-19	
Transferd to stage 3	-35	-34	69	
Net change on present loans	-751	-64	-14	-829
New loans	12 194	1 367	31	13 591
Derecognised loans	-12 174	-1 584	-62	-13 820
Gross loans as at 31.12.2019	**29 369**	**3 611**	**222**	**33 202**

The presentation between retail and corporate customers is divided according to official sector codes. In these tables, self-employed are allocated to retail customers. The tables are not comparable with other distributions in other notes.

Sparebanken Sør Boligkreditt AS only has customers classified as retail customers in this note. For corporate customers, the tables for parent bank and group will therefore be the same.

Expected annual average net loss

Loss allowance totaling NOK 468 million were recognised in connection with losses on loans, guarantees and unused credit facilities as at 31 December 2020 (NOK 397 million in individual impairments as at 31 December 2019). These relate to different risk classes.

All commitments to the corporate market are priced individually on the basis of, among other things, risk, profitability requirement and competitive situation. The pricing therefore reflects the risk relating to the commitment, and margins obtained are generally greater at higher risk.

Mortgage loans are priced using a price matrix which reflects both loan to value and risk classification.

The Group has made provisions for expected losses, which has led to somewhat greater fluctuations in the loss expense over the year. Fluctuations in loss expenses are also expected in the future. The ongoing pandemic has affected the loss provisions in 2020. Based on the composition of the Bank's loan portfolio, the state of the economy and local market conditions, it is expected that losses in Sparebanken Sør overall will remain at a low level in 2021. The Bank's goal of keeping its total loss level below 0.20% of gross loans is maintained for the period 2019–2021.

NOTE 9 – LOANS BROKEN DOWN BY TYPE

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Loans valued at amortised cost		
6 920	6 119	Overdraft- and working capital facilitie	17 159	15 478
3 950	4 457	Building loans	4 457	3 950
28 082	30 144	Repayment loans	84665	81 365
38 951	**40 720**	**Total loans valued at amortised cost**	**106 280**	**100 793**
		Loan designated at fair value through income statement		
21 733	16 735	Mortgages	-	-
5 689	5 575	Fixed rate loans	5 580	5 689
27 422	**22 310**	**Total loans designated at fair value through income statement**	**5 580**	**5 689**
173	112	Accrued interest	147	222
66 545	**63 142**	**TOTAL GROSS LOANS**	**112 007**	**106 704**
-360	-418	Impairment losses on lending	-429	-370
66 185	**62 724**	**TOTAL NET LOANS**	**111 577**	**106 334**

For impairments, see Note 8 Losses on loans, guarantees and undrawn credit facilities.

NOTE 10 – LOANS BROKEN DOWN BY GEOGRAPHICAL AREA, SECTOR AND INDUSTRY

GROSS LOANS BY GEOGRAPHICAL AREA

PARENT BANK					GROUP			
31.12.2019		31.12.2020		NOK MILLION	31.12.2020		31.12.2019	
46 529	69.9 %	40 227	63,7 %	Agder	74 976	66,9 %	73 574	69,0 %
8 129	12,2 %	7 553	12,0 %	Vestfold og Telemark	13 761	12,3 %	12 452	11,7 %
4 899	7,4 %	4 647	7,4 %	Oslo	9 499	8,5 %	8 924	8,4 %
1 552	2,3 %	1 839	2,9 %	Akershus	3 782	3,4 %	3 986	3,7 %
1 656	2,5 %	1 760	2,8 %	Rogaland	2 421	2,2 %	2 802	2,6 %
3 607	5.4 %	7 004	11,1 %	Others	7 421	6,6 %	4 745	4,4 %
173	0,3 %	112	0,2 %	Accrued interests	147	0,1 %	222	0,2 %
66 545	**100.0 %**	**63 142**	**100,0 %**	**Total gross loans**	**112 007**	**100,0 %**	**106 704**	**100,0 %**

The geographical breakdown is based on the customer's home/business address.

GROSS LOANS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
30 034	25 956	Retail customers	73 662	70 126
498	567	Public administration	567	499
1 157	1 181	Primary industry	1 272	1 159
795	806	Manufacturing industry	861	796
4 855	4 146	Real estate development	4 104	4 836
1 386	1 365	Building and construction industry	1 623	1 388
17 239	19 270	Property management	19 303	17 257
677	507	Transport	590	678
1 093	1 288	Retail trade	1 395	1 098
274	369	Hotel and restaurant	399	275
1 248	1 281	Housing cooperatives	1 281	1 249
1 872	864	Financial/commercial services	1 094	1 874
5 242	5 428	Social services	5 707	5 248
173	112	Accrued interests	147	222
66 545	**63 142**	**TOTAL GROSS LOANS**	**112 007**	**106 704**
360	418	Impairment losses	429	370
66 185	**62 724**	**TOTAL NET LOANS**	**111 577**	**106 334**

GUARANTEES BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
17	11	Retail customers	11	17
3	3	Public administration	3	3
16	2	Primary industry	2	16
241	234	Manufacturing industry	234	241
324	357	Real estate development	357	324
295	246	Building and construction industry	246	295
119	129	Property management	129	119
95	82	Transport	82	95
176	168	Retail trade	168	176
7	8	Hotel and restaurant	8	7
0	0	Housing cooperatives	0	0
45	31	Financial/commercial services	31	45
40	60	Social services	60	40
1 380	**1 331**	**TOTAL GUARANTEES**	**1 331**	**1 380**

UNDRAWN CREDIT BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
3 551	3 226	Retail customers	7 351	7 085
404	359	Public administration	359	403
205	153	Primary industry	158	204
514	488	Manufacturing industry	491	513
1 593	940	Real estate development	982	1 613
575	672	Building and construction industry	684	574
1 254	1 598	Property management	1 588	1 236
91	71	Transport	76	90
531	911	Retail trade	917	530
53	76	Hotel and restaurant	76	52
7	44	Housing cooperatives	43	6
425	237	Financial/commercial services	261	423
470	873	Social services	883	464
9 674	**9 648**	**TOTAL UNDRAWN CREDITS**	**13 868**	**13 195**

COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
33 603	29 194	Retail customers	81 024	77 229
905	929	Public administration	929	905
1 379	1 337	Primary industry	1 433	1 379
1 550	1 528	Manufacturing industry	1 585	1 550
6 772	5 443	Real estate development	5 443	6 773
2 257	2 283	Building and construction industry	2 553	2 257
18 612	20 997	Property management	21 020	18 612
864	660	Transport	747	864
1 801	2 367	Retail trade	2 480	1 804
334	454	Hotel and restaurant	483	334
1 255	1 325	Housing cooperatives	1 325	1 255
2 342	1 132	Financial/commercial services	1 386	2 342
5 752	6 361	Social services	6 650	5 752
173	112	Accrued interests	147	222
77 599	**74 121**	**TOTAL COMMITMENTS**	**127 206**	**121 279**

NOTE 11 – NON-PERFORMING LOANS

The Group assesses a financial asset as non-performing if a minimum of one of the following criteria is met:

- The contractual payments have been overdue for more than 90 days and the amount exceeds NOK 1 000.
- Credit losses have been recognised.
- Bankruptcy has been declared.
- Qualitative assessments and default notices have been made.

Qualitative assessments are made when observable data is available relating to the exposure, for example significant financial difficulties at the issuer or borrower. When the borrower's lender, due to financial or contractual grounds relating to the borrowers' financial difficulties, has granted the borrower concessions that the lender would not otherwise have considered and when it becomes probable that the borrower will enter bankruptcy or undergo another form of financial reorganisation.

NON-PERFORMING COMMITMENTS

PARENT BANK			GROUP	
31.12.19	31.12.20	NOK MILLION	31.12.20	31.12.19
276	300	Gross non-performing loans > 90 days	323	286
763	661	Other non performing loans	687	787
1 039	**961**	**Total non-performing loans (step 3)**	**1 009**	**1 073**
230	217	Impairment losses in stage 3	218	231
809	**744**	**Net non-performing loans**	**791**	**842**
22.1 %	22.6 %	Provisioning non-performing loans	21.6 %	21.5 %
0.41 %	**0.48 %**	**Gross non-performing loans > 90 days in % of gross loans**	**0.29 %**	**0.27 %**

GROSS NON-PERFORMING COMMITMENTS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
215	192	Retail banking customers	241	249
824	769	Corporate customers	769	824
1 039	**961**	**Total defaulted commitments**	**1 009**	**1 073**
0	0	Public administration	0	0
16	8	Primary industry	8	16
19	15	Manufacturing industry	15	19
424	309	Real estate development	309	424
25	32	Building and construction industry	32	25
223	316	Property management	316	223
48	3	Transport	3	48
43	42	Retail trade	42	43
1	6	Hotel and restaurant	6	1
0	0	Housing cooperatives	0	0
16	35	Financial/commercial services	35	16
8	3	Social services	3	8
824	**769**	**Total corporate customers**	**769**	**824**

The weighted average collateral coverage was 74 % for non-performing commitments as at 31 December 2020 and 73 % as at 31 December 2019. Collateral coverage is the extent of the pledged security linked to each loan, and cannot exceed 100%.

FORBEARANCE

PARENT BANK			GROUP	
31.12.19	31.12.20	NOK MILLION	31.12.20	31.12.19
256	201	Step 2	229	339
53	50	Step 3	50	55
310	**251**	**Total exposures with forbearance measures**	**279**	**394**

Commitments provided with forbearance, may be performing or initially non-performing. The commitments are listed as forbearance in the data warehouse. Factors causing forbearance will be changes in repayments, e.g. installments postponements and refinancing as result of payment issues. When a commitment is listed forbearance, a transfer to stage 3 automatically will take place. If the commitment is in stage 3 initially, no transfers will take place. In case of forbearance. If a commitment is listed forbearance and later on regarded as performing, there is a quarantine before transferring back to stage 1.

The bank followed the guidelines that EBA published regarding forbearance (payment moratoria) in April 2020. Payment moratoria as a result of the coronavirus pandemic has not been marked as forbearance and is not included in the table above. This issue mainly concerned loans til retail customers secured by mortage in residential property. Estimated losses were insignificant.

NOTE 12 – EXCHANGE RATE RISK

The table states the net currency position for Sparebanken Sør, including financial derivatives. Under the Bank's internal rules, the maximum effect on profit in the event of a 25 percent movement in exchange rates must not be more than NOK 10 million.

PARENT BANK			GROUP	
31.12.2018	31.12.2020	NOK MILLION	31.12.202	31.12.2018
2	2	Net foreign currency position	2	2
1	0	Income effect at 25% change	0	1

NOTE 13 – INTEREST RATE RISK

Interest rate risk occurs in connection with the Bank's ordinary lending and borrowing activities, and in relation to activity in the Norwegian and international money and capital markets. Interest rate risk is a result of the fixed-interest period for the Bank's assets and liabilities, as well as for off-balance sheet items, not coinciding. Interest rate risk must be assessed on the basis of a stress test scenario where there is a 2-percentage point parallel shift in the yield curve. An assessment must also be made on how stress test scenarios (six scenarios) with various distortions in the yield curve affect the Bank's positions. The scenario with the greatest loss potential is taken as a basis for measuring interest rate risk. The interest rate risk framework also includes interest rate risk in foreign currency.

Calculation of interest rate risk follows guidelines from The Financial Supervisory Authority of Norway. The Bank's Board of Directors has adopted limits for maximum interest rate risk, and receives quarterly reports thereon. The Bank's interest rate risk was well within approved limits at year-end.

The Group's interest rate position meant that a possible increase in interest rates of 2 percentage points was estimated to be capable of making a positive contribution to profit of NOK 7 million at 31 December 2019, measured by the EV (market value) method. The equivalent figure for the Bank is NOK 11 million.

Interest rate risk is managed through the choice of fixed interest on asset and liability items and the use of financial derivatives.

Using the EV method, the present value is calculated before and after the interest rate change by discounting contractual obligations for a financial instrument over the entire term with a discount rate (before and after the interest rate change). Changes in present value constitute interest rate exposure to the financial instrument.

Interest rate sensitivity

The table indicates the effect on the Bank's earnings of a 2-percentage point parallel shift or a distortion in the interest rate curve for the Bank's total interest positions using the EV method. The table shows the outcome for the past two years.

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
41	11	Parallel shift and twist in the yield curve	-7	7

The largest loss due to a change in the interest rate curve in the 6 different scenarios for the group amounted to NOK 33 million as of 31 December 2020 and NOK 24 millon as of 31 December 2019. Under the Bank's internal rules, this effect must not exceed NOK 100 million. The table shows the outcome for the past two years.

NOTE 14 – LIQUIDITY RISK

Liquidity risk is the risk of the Group being unable to meet its obligations, or being unable to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, general guidelines and procedures, and through established loan approval authorisations. Key operational management parameters are the requirement for deposit-to-loan ratio, indicator value of long-term funding, stress indicator for liquidity coverage within 30 days (LCR) and, in addition, guidelines for ability to survive in situations where there is no access to market funding. The liquidity risk is also managed by securing funding from the capital market with various maturities, funding sources and instruments. Periodic stress testing of liquidity risk is carried out, and there are established contingency and recovery plans for the Group.

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2020, the Group's deposit-to-loan ratio was 53.6%, down from 54.5% at 31 December 2019.

In addition, Sparebanken Sør Boligkreditt AS is an important funding instrument, ensuring access to long-term funding through the issuance of covered bonds. In order to issue covered bonds, mortgage loans equivalent to 70% of the total mortgage volume were transferred from the Bank to the mortgage loan company as at 31 December 2020 (56% as at 31 December 2019).

Target requirements adopted by the Board of Directors for the Bank's liquidity risk comply with guidelines issued by the Financial Supervisory Authority of Norway. At year-end, Sparebanken Sør fulfilled the Board-adopted requirements.

The Group has an extensive liquidity reserve in the form of liquid interest-bearing securities. The Bank also has mortgages cleared for transfer to the mortgage company. At year-end, the Bank's interest-bearing liquidity portfolio, composed of government securities, other zero-weighted securities, covered bonds and municipal bonds, totaled NOK 21.5 billion.

The Bank's short-term liquidity risk is managed partly through the Liquidity Coverage Requirement (LCR) imposed by the authorities. At the end of 2020, the LCR indicator for Sparebanken Sør was 173% (148% at 31 December 2019). This is sufficient to meet all projected liquidity maturities within the next 30 days under a stress scenario. The requirement was 100% at 31 December 2020. The requirement is applicable at all times.

The Group's liquidity risk is followed up through periodic reporting to Group Management and the Board of Directors.

LIQUIDITY RISK

The tables show cash flows including contractual interest payments. Consequently, the size of the figures cannot be reconciled with the balance sheet.

						GROUP 31.12.2020
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	6 441	2 177	2 514	0	1 750	0
Deposits from customers	59 910	52 537	5 213	2 160		
Debt incurred due to issue of securities	57 626	20	5 378	9 232	31 913	11 083
Other liabilities	748	133	130	419	14	52
Senior non-preferred	2 163	0	7	20	2 136	0
Subordinated loan capital	1 770	1	6	22	1 741	
Loan commitments and unused credit facilities	14 385	14 385				
Total liabilities	**143 043**	**69 254**	**13 248**	**11 853**	**37 553**	**11 135**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-35 714	-2 630	-7 483	-3 574	-11 031	-10 996
Payment received	32 984	2 599	6 425	3 391	10 107	10 463
Total derivative obligations	**-2 731**	**-31**	**-1 058**	**-184**	**-925**	**-534**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2020
Liabilities /non-derivative obligations						
Debts to credit institutions	6 739	2 475	2 514	0	1 750	0
Deposits from customers	59 860	52 487	5 213	2 160		
Debt incurred due to issue of securities	14 499	0	25	4 130	10 344	0
Other liabilities	642	127	125	324	14	52
Senior non-preferred	2 163	0	7	20	2 136	0
Subordinated loan capital	1 770	1	6	22	1 741	
Loan commitments and unused credit facilities	10 165	10 165				
Total liabilities	**95 838**	**65 255**	**7 890**	**6 656**	**15 985**	**52**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-8 624	-2 630	-2 235	-3 574	-185	
Payment received	7 847	2 599	1 665	3 391	193	
Total derivative obligations	**-777**	**-31**	**-570**	**-184**	**7**	**0**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						GROUP 31.12.2019
Liabilities /non-derivative obligations						
Debts to credit institutions	1 802	42	11	0	750	1 000
Deposits from customers	58 017	48 217	6 561	3 239		
Debt incurred due to issue of securities	55 115	20	378	3 627	34 669	16 420
Other liabilities	739	136	138	447	10	10
Subordinated loan capital	3 741	67	34	1 011	2 630	
Loan commitments and unused credit facilities	13 555	13 555				
Total liabilities	**132 970**	**62 036**	**7 121**	**8 324**	**38 059**	**17 430**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-31 783	-1 595	-1 891	-358	-18 062	-9 876
Payment received	31 512	2 026	1 517	502	17 505	9 963
Total derivative obligations	**-271**	**431**	**-374**	**144**	**-558**	**86**

NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2019
Liabilities /non-derivative obligations						
Debts to credit institutions	2 184	423	11	0	750	1 000
Deposits from customers	58 031	48 231	6 561	3 239		
Debt incurred due to issue of securities	17 718	0	247	3 039	13 609	823
Other liabilities	657	131	134	330	10	53
Subordinated loan capital	3 741	67	34	1 011	2 630	
Loan commitments and unused credit facilities	10 034	10 034				
Total liabilities	**92 365**	**58 885**	**6 986**	**7 620**	**16 998**	**1 876**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-7 093	-1 595	-1 891	-358	-3 248	
Payment received	7 225	2 026	1 517	502	3 180	
Total derivative obligations	**133**	**431**	**-374**	**144**	**-68**	**0**

MATURITY STRUCTURE OF ISSUED BONDS AS AT 31.12.2020

NOK MILLION

ISIN Number	Ticker	Currency	Nominal	Owned by the bank	Recog-nised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010692189	SOR16 PRO	NOK	300		303	303	Fixed rate	No installments	28.04.2021
NO0010736960	SOR35 PRO	NOK	500		504	504	Fixed rate	No installments	26.05.2021
NO0010735327	SOR33 PRO	NOK	499		512	512	Fixed rate	No installments	06.05.2022
NO0010735418	SOR34 PRO	NOK	500		528	528	Fixed rate	No installments	12.05.2025
NO0010754849	SOR41 PRO	NOK	300		327	327	Fixed rate	No installments	23.12.2025
NO0010781214	SOR44 PRO	NOK	551		561	561	Fixed rate	No installments	22.03.2022
NO0010782253	SOR45 PRO	NOK	500		503	503	NIBOR 3 mths	No installments	17.02.2022
NO0010807910	SOR48 PRO	NOK	1 498		1 509	1 509	NIBOR 3 mths	No installments	11.11.2022
NO0010805385	SOR50 PRO	NOK	1 496		1 540	1 540	Fixed rate	No installments	13.09.2023
XS1815076838		EURO	300		3 151	3 153	NIBOR 3 mths	No installments	03.05.2021
NO0010830631	SOR52 PRO	NOK	1 000		1 044	1 044	Fixed rate	No installments	28.08.2024
NO0010869548	SOR57 PRO	NOK	600		617	617	Fixed rate	No installments	28.11.2022
NO0010869530	SOR58 PRO	NOK	1 000		1 002	1 002	NIBOR 3 mths	No installments	28.11.2022
NO0010872344	SOR59 PRO	NOK	999		1 002	1 002	NIBOR 3 mths	No installments	22.12.2023
NO0010872351	SOR60 PRO	NOK	999		1 045	1 045	Fixed rate	No installments	23.12.2024
Issued by Parent bank				**-**	**14 149**	**14 151**			
NO0010671597	SORB09	NOK	350		382	385	Fixed rate	No installments	13.02.2023
NO0010670409	SORB08	NOK	500		594	605	Fixed rate	No installments	24.01.2028
XS1383921803		EURO	500		5 273	5 268	Fixed rate	No installments	22.03.2021
NO0010778954	SORB27	NOK	5 000		5 005	5 028	NIBOR 3 mths	No installments	22.11.2021
XS1622285283		EURO	500		5 290	5 300	Fixed rate	No installments	30.05.2022
XS1775786145		EURO	500		5 363	5 359	Fixed rate	No installments	20.02.2023
NO0010832637	SORB28	NOK	6 000	1 000	6 003	6 059	NIBOR 3 mths	No installments	24.09.2025
XS1947550403		EURO	500		5 744	5 511	Fixed rate	No installments	06.02.2026
XS2069304033		EURO	500		5 057	5 355	Fixed rate	No installments	26.10.2026
NO0010882632	SORB30	NOK	6 000	1 000	6 012	6 059	NIBOR 3 mths	No installments	19.11.2024
Issued by Subsidiary					**44 723**	**44 925**			
Total bonds				**2 000**	**58 872**	**59 075**			

Sparebanken Sør Boligkreditt AS is entitled to extend the term of all issued bonds by 1 year.

Accrued interest is added to fair value in order to be comparable with carrying amount.

At year-end 2020, the average remaining term to maturity of the portfolio of senior bond debt and covered bonds was 2.9 years, compared with 3.5 years at year-end 2019.

MATURITY STRUCTURE OF ISSUED SUBORDINATED LOANS AS AT 31.12.2020

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010809460	SOR49 PRO	200	201	202	NIBOR 3 mths	Subordinated loan capital	02.11.2027
NO0010825094	SOR51 PRO	250	250	254	NIBOR 3 mths	Subordinated loan capital	14.06.2028
NO0010832157	SOR53 PRO	250	250	254	NIBOR 3 mths	Subordinated loan capital	14.09.2028
NO0010837313	SOR54 PRO	100	100	102	NIBOR 3 mths	Subordinated loan capital	23.11.2028
NO0010871247	SOR56 PRO	500	500	506	NIBOR 3 mths	Subordinated loan capital	12.12.2029
NO0010887177	SOR62 PRO	350	351	355	NIBOR 3 mths	Subordinated loan capital	09.07.2030
Subordinated capital		**1 650**	**1 653**	**1 672**			

LIQUIDITY INDICATORS

The enterprise must at all times have a liquidity reserve (LCR). As of 31 December 2017 the requirement has been 100% .

This means the holding of liquid assets must at least be equivalent to net cash outflow in a given stress period of 30 calendar days. The Liquidity Coverage Ratio is calculated according to the following formula and is expressed as a percentage:

$$\text{Liquidity Coverage Ratio (LCR} = \frac{\text{Liquid assets}}{\text{Net cash outflow 30 days ahead given a stress situation}}$$

At year-end 2020, LCR was 173% for the Group and 154% for the Parent Bank. Corresponding figures for 2019 were 148% for the Group and 140% for the Parent Bank.

NOTE 15 – INTEREST INCOME AND INTEREST EXPENSES

INTEREST INCOME

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Interest income from financial instruments at amortised cost		
92	68	Interest on receivables from credit institutions	13	24
1 452	1 363	Interest on loans given to customers	2 820	3 281
1 543	**1 431**	**Total interest from financial instruments at amortised cost**	**2 833**	**3 305**
		Interest income from financial instruments at fair value		
165	175	Interest on loans given to customers (fixed rate loans)	175	166
305	231	Interest on certificates and bonds	259	321
470	**406**	**Total interest from financial instruments at fair value via profit or loss**	**434**	**487**
		Interest income from financial instruments at fair value via OCI		
677	**390**	Interest on loans given to customers (mortgages)		
677	**390**	**Total interest from financial instruments at fair value via OCI**		
2 691	**2 227**	**Total interest income**	**3 267**	**3 792**

INTEREST EXPENSES

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Interest expenses from financial instruments at amortised cost		
38	37	Interest on liabilities to credit institutions	36	38
692	447	Interest on customer deposits	447	691
345	233	Interest on issued securities	758	1 036
49	54	Interest on subordinated loans	54	49
47	53	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	59	52
1 172	**824**	**Interest expenses from financial instruments at amortised cost**	**1 354**	**1 866**
1 172	**824**	**Total interest expenses**	**1 354**	**1 866**

NOTE 16 – COMMISSION INCOME

PARENT BANK			GROUP	
2019	2020	NOK MILLION	2020	2019
25	26	Guarantee commission	21	22
21	23	Security trading and management	23	19
188	164	Payment transmission	164	172
34	31	Insurance services	31	29
		Real estate turnover and management	149	116
97	105	Fees from other activities	21	45
365	**350**	**Total commission income**	**409**	**403**

NOTE 17 – INCOME FROM FINANCIAL INSTRUMENTS

PARENT BANK			GROUP	
2019	2020	NOK MILLION	2020	2019
-39	127	Changes in value - fixed rate loans - designated at fair value through profit	128	-39
54	-103	Changes in value - derivatives fixed rate loans - liable to fair value through profit	-103	54
14	**25**	**Net fixed rate loans**	**25**	**14**
3	8	Gains(losses) and change in value - certificates and bonds	-45	-23
11	265	Share dividend	25	6
10	-18	Gains(losses) and change in value - shares	-17	10
24	**255**	**Certificates, bonds and shares - designated at fair value through profit**	**-37**	**-7**
59	-230	Change in value - bonds at fixed interest rate - hedge accounting	-2 000	101
-58	237	Change in value - derivatives fixed rate bonds - liable to fair value through profit	2 043	-77
1	**7**	**Net issued securities at fixed rate - hedge accounting**	**43**	**24**
IA	**IA**	*Effect of earnings on basisswap*	**26**	**18**
17	-188	Change in value liabilities Euro - amortised cost	-188	17
-21	184	Change in value financial derivatives - fair value	184	-21
-5	**-3**	**Net profit effect, debt in Euro**	**-3**	**-5**
-3	-11	Gains (losses) from buy-back of own bonds - amortised cost	-12	-29
26	20	Currency gains (losses)	20	26
0	5	Other financial derivatives - liable to fair value through profit	5	0
22	**14**	**Net other financial instruments and derivatives**	**13**	**-3**
58	**297**	**Net income from financial instruments**	**40**	**24**

Changes in the value of fixed-interest loans include those associated with changes in interest rates and margins. See Note 21 for further details.

NOTE 18 – PAYROLL EXPENSES AND PENSIONS

PARENT BANK			GROUP	
2019	2020	NOK MILLION	2020	2019
308	317	Wages to employees and fee to elected representatives (1)	405	382
47	48	Payroll tax	60	58
18	16	Financial tax	16	18
44	46	Pension costs	48	46
21	18	Other Personal costs	23	28
438	**445**	**Total personnel costs**	**552**	**533**
429	442	Number og FTE at 31.12	520	501
432	436	Average numer of FTE per year	511	504

1 – The Bank primarily pays its employees a fixed salary, but also has a bonus scheme. The scheme covers all employees, with the exception of the head of internal auditing. Depending on the achievement of performance goals, the bonus scheme can result in a maximum payment of 1 month salary per employee. Board members are not included in the bonus scheme.

All employees can borrow up to five times their gross annual salary at a rate of interest 1.5% lower than the Bank's prevailing mortgage interest rate, provided that the loan does not exceed 85% of the collateral asset's market value.

PENSIONS

On 1 November 2016, the Bank's defined-benefit group pension scheme through Nordea Liv and Storebrand Livsforsikring was terminated and replaced by a defined-contribution group pension scheme in Storebrand Livsforsikring. Remaining liabilities in the defined-benefit schemes are linked to incapacity/partial incapacity. (Employees who have an estimated pension loss resulting from this change will be compensated.)

The funded defined-benefit group scheme now covers 21 people who are incapacitated/partially incapacitated.

The Bank also has pension liabilities covering 31 people who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These pension schemes are considered to be defined-benefit schemes. Estimate changes and deviations are recognized directly in the statement of comprehensive income. The new pension scheme, which was introduced in 2010, is treated as a defined-contribution scheme as at 31 December 2020.

The pension scheme fulfills the requirements set out in the Mandatory Occupational Pensions Act.

The Bank uses the Cover Bond rate as its reference rate. The market for these bonds is considered to be sufficiently liquid at the reporting date.

In previous years, the bank has used an external actuary to calculate its pension schemes. As of 31. December 2020, this has not been done as several large arrangements have been paid out during the year, and the most significant remaining scheme has been clarified.

Corresponding tables used in the annual statements for 2019, are included also in 2020, for comparison purposes. Tables regarding calculated pension schemes will be removed in the annual accounts in 2021.

	2020	2019
Discounting interest rate	NA	2.30 %
Expected wage adjustment	NA	2.25 %
Expected pension adjustment	NA	0.50 %
Expected 'G' -adjustment	NA	2.00 %
Expected investment return on pension resources	NA	2.30 %
Voluntary retirement	NA	0.00 %

The assumptions as at 31 December 2019 have been used as a basis for calculating the pension expense for 2019. The economic assumptions have been assessed in a long-term perspective. The assumptions are identical to the Norwegian Accounting Standards Board's recommendations. The calculation as at 31 December 2019 is based on mortality table FNH2013.
No calculations made at 31.12.2020.

BREAKDOWN OF PENSION EXPENSE

	31.12.2020		31.12.2019	
NOK MILLION	Funded	Unfunded	Funded	Unfunded
Pension earnings for the year				3
Net scheme-change				
Interest costs on the pension commitments				1
Recognized return on pension funds				
Total pension costs - defined benefit schemes				**4**
New AFP and premium deposit pension		46		41
Total pension costs recognised in the income statement		**46**		**45**
Estimate deviations recognised in the total result		-		-
Total pension costs		**46**		**45**
Movements - pension commitments				
Commitments at the beginning of the period	23	40	23	58
Pension earnings for the year				3
Interest costs on the pension commitments				1
New commitment				
Actuarial losses/gains				
Pension payments		-5		-22
Pension commitments at end of period	**23**	**36**	**23**	**40**
Movements - pension funds				
Pension funds at the beginning of the period	19		19	
Return on pension funds				
Actuarial losses/gains				
New commitment				
Payment into pension funds	1		1	
Pension payments				
Pension funds at end of period	**20**		**20**	
Net pension commitments at end of period	**3**	**36**	**3**	**40**

ACTIVE MEMBERS IN THE DIFFERENT SCHEMES

	31.12.2020	31.12.2019
Active members of the benefit pension scheme	0	0
Pensioners and disabled in the scheme	21	21
Total number of persons who are included in the benefit scheme	**21**	**21**
Active members of non-insured schemes	9	9
Pensioners and disabled people in non-secured schemes	22	26
Total number of people in non-secured schemes	**31**	**35**
Active members of contribution scheme	514	461
Total number of people in the contribution scheme	**514**	**461**

SENSITIVITY ANALYSIS PENSION CALCULATION

The Bank switched its group occupational pension arrangements from a defined-benefit to a defined-contribution scheme on 1 November 2016. As a result, pension liabilities were significantly reduced. A sensitivity analysis is therefore not considered to be significant and has consequently not been performed for 2020 and 2019.

NOTE 19 – OTHER OPERATING EXPENSES

PARENT BANK			GROUP	
2019	2020	MILLONER KRONER	2020	2019
32	28	Marketing	34	38
147	159	IT costs	164	150
25	22	Operating costs - real estate	28	29
29	40	External fees	42	31
20	24	Wealth tax	24	20
82	74	Other operating expenses	70	79
336	**348**	**Total other operating expenses**	**363**	**348**

Remuneration paid to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2019	2020	NOK THOUSAND	2020	2019
722	1 147	Ordinary audit fees	1 699	1 085
41	70	Tax advice	95	41
564	560	Other attestation services	846	725
969	1 070	Fees from other services	1 070	973
2 296	**2 847**	**Total remuneration of elected auditor (incl. VAT)**	**3 710**	**2 823**

NOTE 20 – TAX

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Deferred tax and deferred tax asset		
54	54	Fixed assets	54	53
-11	4	Securities	4	-13
11	43	Loans	43	11
-12	-11	Pension commitments	-11	-12
11	-109	Bonds loans	-740	-220
-4	52	Derivatives	664	205
0	-3	Other accounting provisions	-3	0
49	**29**	**Total deferred tax and deferred tax assets**	**10**	**24**
		Composition of tax cost for the year		
-2	**-20**	**Change in deferred tax**	**-15**	**3**
1	0	Deferred tax recognised in the total result comprehensive income	2	0
-1	**-20**	**Deferred tax recognised in the profit for the year**	**-13**	**4**
261	221	Tax payable on net income	322	338
-1	-20	Recognised deferred tax	-13	4
0	-1	Excess provision previous years	-2	0
261	**200**	**Tax cost for the year**	**307**	**342**
		Tax payable on net income		
291	305	25% of profit before tax	351	367
-30	-104	25% of permanent differences	-42	-24
1	20	Recognised deferred tax	13	-4
261	**221**	**Tax payable on net income**	**322**	**338**
		Payable tax in the balance sheet		
261	221	Tax payable on net income	322	338
20	20	Wealth tax	20	20
0	32	Tax payable 2019	32	0
1	0	Correction of tax 2019	0	1
2	0	Effect IFRS 9 adjusted on deferred tax	0	2
284	**272**	**Payable tax in the balance sheet**	**373**	**361**

Wealth tax is included in tax payable in the balance sheet, but is recognised under other operating expenses in the income statement.

NOTE 21 – FINANCIAL INSTRUMENTS BY CATEGORY

Amortised cost

Debt instruments whose sole purpose is to hold the instrument in order to collect contractual cash flows are recognised at amortised cost.

Fair value through profit or loss

All derivatives must be measured at fair value with the changes in value recognised through profit or loss.

Sparebanken Sør has also chosen to recognise holdings of interest-bearing bonds, certificates and shares at fair value through profit and loss. These are assets and liabilities that are managed, measured and reported to management at fair value.

Fixed-interest loans can be redeemed before maturity against payment for premiums or discounts arising as a result of movements in the interbank interest rate. Sparebanken Sør hedges the interest risk for this balance sheet item by entering derivatives recognised at fair value. As changes in the value of the derivatives are recognised in the income statement, recognition of fixed-interest loans at amortised cost will lead to significant fluctuations in profit. Recognition at fair value through profit or loss will therefore lead to a more harmonised comparison of the profit or loss on the derivative and changes in value of fixed-interest loans.

Fair value through other comprehensive income (OCI)

Loans to retail customers secured by residential will be classified in the Parent Bank at fair value through other comprehensive income under IFRS 9. This is a consequence of the fact that the loans can be sold at a later date to the Bank's wholly owned mortgage companies. The purpose is therefore not solely to receive contractual cash flows but also resale.

Hedge accounting

Sparebanken Sør uses hedge accounting with regard to the Bank's fixed-interest bond debt in Norwegian kroner and foreign currencies. The hedging covers the interest rate risk and foreign exchange risk associated with the bonds.

CLASSIFICATION 31.12.2020

NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	GROUP 31.12.2020 Total
Cash and receivables from central banks				1 148	1 148
Loans to and receivables from credit institutions				2 460	2 460
Net loans to customers	5 575			106 002	111 577
Bonds and certificates	21 543				21 543
Shares	166				166
Financial derivatives	2 706		709		3 415
Ownership in group companies					0
Ownership in associated companies				1 134	1 134
Total financial assets	**29 990**	**0**	**709**	**110 744**	**141 443**
Debts to credit institution				6 435	6 435
Deposits from customers				59 833	59 833
Debt incurred due to issue of securities			38 167	18 718	56 885
Financial derivatives	687		0		687
Senior non-preferred				2 002	2 002
Subordinated loan capital				1 653	1 653
Total financial liabilities	**687**	**0**	**38 167**	**88 641**	**127 495**

NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	PARENT BANK 31.12.2020 Total
Cash and receivables from central banks				1 148	1 148
Loans to and receivables from credit institutions				10 936	10 936
Net loans to customers	5 575	16 729		40 419	62 724
Bonds and certificates	18 329				18 329
Shares	166				166
Financial derivatives	725		182		907
Ownership in group companies				2 111	2 111
Ownership in associated companies				1 134	1 134
Total financial assets	**24 795**	**16 729**	**182**	**55 748**	**97 455**
Debts to credit institution				6 765	6 765
Deposits from customers				59 883	59 883
Debt incurred due to issue of securities			6 934	7 215	14 149
Financial derivatives	687		0		687
Senior non-preferred				2 002	2 002
Subordinated loan capital				1 653	1 653
Total financial liabilities	**687**	**0**	**6 934**	**77 518**	**85 139**

CLASSIFICATION 31.12.2019

					GROUP 31.12.2019
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				462	462
Loans to and receivables from credit institutions				182	182
Net loans to customers	5 689			100 645	106 334
Bonds and certificates	19 916				19 916
Shares	190				190
Financial derivatives	293		464		757
Ownership in group companies					0
Ownership in associated companies				968	968
Total financial assets	**26 088**	**0**	**464**	**102 257**	**128 809**
Debts to credit institution				1 793	1 793
Deposits from customers				57 949	57 949
Debt incurred due to issue of securities			33 763	19 667	53 430
Financial derivatives	187		236		423
Subordinated loan capital				1 971	1 971
Total financial liabilities	**187**	**0**	**33 998**	**81 380**	**115 566**

					PARENT BANK 31.12.2019
NOK MILLION	Fair value	Fair value through OCI	Hedge accounting	Amortised cost	Total
Cash and receivables from central banks				462	462
Loans to and receivables from credit institutions				4 063	4 063
Net loans to customers	5 689	21 733		38 764	66 185
Bonds and certificates	16 807				16 807
Shares	189				189
Financial derivatives	258		-7		251
Ownership in group companies				1 858	1 858
Ownership in associated companies				968	968
Total financial assets	**22 943**	**21 733**	**-7**	**46 115**	**90 783**
Debts to credit institution				2 192	2 192
Deposits from customers				57 963	57 963
Debt incurred due to issue of securities			7 938	8 769	16 707
Financial derivatives	170		43		213
Subordinated loan capital				1 971	1 971
Total financial liabilities	**170**	**0**	**7 981**	**70 895**	**79 046**

NOTE 22 – FAIR VALUE OF FINANCIAL INSTRUMENTS

METHODS TO DETERMINE FAIR VALUE

GENERAL

For financial instruments, whose carrying amount is a reasonable approximation of fair value, valuation methods are not used to calculate fair value. This applies principally to assets and liabilities with short maturities (3 months) or where interest is due for payment or adjustment within a short period of time (3 months).

INTEREST RATE SWAPS AND CURRENCY SWAPS

The fair value of interest rate swaps is determined using valuation techniques in which the expected future cash flows are discounted to present value. The calculation of expected cash flows and the discounting of these is based on observed market rates for different currencies and observed exchange rates. Estimated present values are checked against the corresponding estimates from the counterparties in the contracts.

CERTIFICATES AND BONDS

The valuation of certificates and bonds is based on future cash flows and credit risk, assessed on the balance sheet date. The valuation is based on observable market rates. The Bank's assessment of credit risk is based on market information from a reputable provider.

LENDING

Lendings recognised at fair value are valued using valuation methods in which the anticipated future cash flows are discounted to present value. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk and margins is added on the basis of the original supplement for credit risk and margin, and is adjusted in line with changes in the market's pricing of risk, the borrower's creditworthiness and margin changes in the market.

Fair value is considered to be equal to the carrying value for loans with a variable interest rate.

BORROWINGS

Borrowings recognised at fair value are valued at quoted prices, where available, and the securities will be traded in a liquid market. Other securities are valued using valuation techniques and the discounting of expected future cash flows. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk is added on the basis of other market players' assessments of the Bank's creditworthiness.

DEPOSITS

For deposits at fair value are valued using valuation techniques in which the expected future cash flows are discounted to present value. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A premium for credit risk is added on the basis of other market players' assessments of the bank's creditworthiness. Margin premiums are added on the basis of the initial margin, but with subsequent adjustment of the margin in line with margin changes in the markets.

For floating-rate deposits, fair value is considered to equal nominal value.

SHARES

Shares are valued at quoted prices where available. Other shares are valued using valuation techniques.

In some cases, shares in local companies will mostly represent support for positive action in the local community. For such shares, fair value is set to the share's cost price or nominal value. Fair value may also be written down to NOK 1 where it is evident that the shares have no commercial value.

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

Comprises financial assets and liabilities valued using unadjusted, observable market values. This comprises listed shares, derivatives traded on active markets and other securities with quoted market values.

Level 2:

Instruments valued using valuation techniques in which all assumptions (all input) are based on directly or indirectly observable market data. Values can be obtained from external market players or reconciled with the external market players offering these types of services.

Level 3:

Instruments valued using valuation techniques in which at least one material assumption cannot be supported by means of observable market rates. This category includes investments in unlisted companies and fixed-interest loans where the necessary market information does not exist.

PARENT BANK				31.12.2020	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
1 148		1 148		Cash and receivables from central banks	1 148		1 148	
10 936		10 936		Loans to and receivables from credit institutions	2 460		2 460	
40 419			40 419	Net loans to customers (floating interest rate)	106 002			106 002
				Assets recognised at fair value				
5 575			5 575	Net loans to customers (fixed interest rate)	5 575			5 575
16 729			16 729	Net loans to customers (mortgages)				
18 329		18 329		Bonds and certificates	21 543		21 543	
166	7		160	Shares	166	7		160
907		907		Financial derivatives	3 415		3 415	
94 209	**7**	**31 319**	**62 883**	**Total financial assets**	**140 311**	**7**	**28 567**	**111 737**
				Liabilities recognised at amortised cost				
6 765		6 765		Debt to credit institutions	6 435		6 435	
59 883			59 883	Deposit from customers	59 833			59 833
14 149		14 151		Debt incurred due to issue of securities	56 885		56 961	
2 002		2 024		Senior non-preferred	2 002		2 024	
1 653		1 672		Subordinated loan capital	1 653		1 672	
				Liabilities recognised at fair value				
687		687		Financial derivatives	687		687	
85 140	**-**	**25 300**	**59 883**	**Total financial liabilities**	**127 496**	**-**	**67 780**	**59 833**

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

There were no movements between levels 1 and 2 in 2019 or 2020.

MOVEMENTS IN VALUES RECOGNISED AT FAIR VALUE CLASSIFIED AT LEVEL 3

			GROUP
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2019	**5 714**	**-1**	**365**
Acquisitions 2019	1 106		114
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		-
Reclassified as associated company	-		-298
Recognized value as at 31.12.2019	**5 689**	**13**	**183**
Acquisitions 2020	1 251		51
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	128	12	1 809
Disposals 2020	-1 492		-1 883
Reclassified as associated company			-
Recognized value as at 31.12.2020	**5 575**	**25**	**160**

			PARENT BANK
NOK MILLION	Net loans to customers	Of which credit risk	Shares
Recognized value as at 01.01.2019	**26 607**	**-1**	**365**
Acquisitions 2019	1 946		114
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	15	14	2
Disposals 2019	-1 146		-
Reclassified as associated company			-298
Recognized value as at 31.12.2019	**27 422**	**13**	**183**
Acquisitions 2020	1 251		51
Of which, transferred from level 1 or 2	-		
Change in value recognized during the period	128	12	1 809
Disposals 2020	-6 495		-1 883
Reclassified as associated company			-
Recognized value as at 31.12.2020	**22 304**	**25**	**160**

Disposals includes the net transfer of loans to the subsidiary Sparebanken Sør Boligkreditt AS.
Changes in value recognised in the year apply mainly to financial instruments recognised in the balance sheet as at 31 December.

LOANS TO AND RECEIVABLES FROM CUSTOMERS

Loans to and receivables from customers at fair value, classified at level 3, consist of fixed-interest loans and mortgages in the Parent Bank. In the Group exclusively fixed-interest loans.

When valuing fixed-interest loans, the Bank uses three categories: retail market (RM), large commercial commitments and other business commitments. Regarding the retail market, credit spreads have been recognised according to current market prices for fixed-interest loans. For large commercial commitments (50 largest), the customers and spreads are individually assessed on the basis of what each customer would have received in terms of spread/margin at 31 December. For other commercial loans, the value is calculated with a spread that represents an average of what the smaller fixed-interest loans to corporate customers would be at 31 December. For variable-rate mortgages, fair value is recognised as equal to carrying value.

SHARES

Concerns shares and investments in companies where there is little or no turnover and discretion has to be exercised in the valuation. Multiples are used to a large extent and earnings-based methods to a lesser extent in connection with valuation. Valuation is affected by discretionary assessments.

SENSITIVITY ANALYSIS LEVEL 3

The sensitivity of fixed-interest loans is estimated by changing the margin requirement by 10 basis points. The valuation of fixed-interest loans to private customers is based on available market rates. For the corporate market, there is a greater degree of discretion in determining the market spread/margin as at 31 December.

	GROUP / PARENT BANK	
NOK MILLION	31.12.2020	31.12.2019
Loan to customers	**20**	**19**
- of which, loans to the corporate market (CM)	2	3
- of which, loans to the retail market (RM)	18	16

HEDGE ACCOUNTING

The Bank uses hedge accounting for debt issued at fixed interest rates and in foreign currencies. Financial derivatives used as hedging instruments are recognised at fair value. Bond loans included as hedged objects are recognised at cost price and are continuously adjusted for changes in fair value for the risks that are hedged. The hedging covers the interest rate risk in issued fixed-rate bonds, as well as the foreign exchange risk for bonds issued in foreign currencies. Hedge accounting requires the Bank to maintain a system for measuring and documenting hedge effectiveness.

All bond loans issued at a fixed interest rate or in a foreign currency are included in hedge accounting. Sparebanken Sør uses fair value hedging. The dollar-offset method is used to measure the effectiveness of hedging.

Hedge accounting is according to IFRS 9. There must be an economic relationship between the hedging instrument and the hedged element, and the effect of credit risk must not dominate changes in value in the hedging relationship. Under IFRS 9 a prospective (future-oriented) effectiveness test is sufficient. Ineffectiveness in hedging, defined as the difference between changes in the value of hedging instruments and in the value of the hedged object, is recognised in the income statement as it arises. The exception is that portion of the change in value that is due to a change in basis spread linked to the hedging instruments.

For interest and currency swaps created from and including 1 January 2018, changes in value due to changes in the currency basis will be recognised through other comprehensive income. Interest-rate and currency swaps created up to 1 January 2018 are recognised at fair value, with changes in value recognised through profit or loss until these fall due.

HEDGE ACCOUNTING IN THE BALANCE SHEET

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Hedging instruments / financial derivatives		
-7	182	Interest rate swaps NOK	281	59
		Interest rate swaps EUR	2 348	770
-7	**182**	**Total financial assets**	**2 630**	**829**
		Hedged items		
7 984	6 750	Nominal debt NOK	7 600	8 834
		Nominal debt EUR (1)	24 287	24 287
-46	184	Adjustment of hedged items NOK - interest risk	284	22
		Adjustment of hedged items EUR - interest- and currency risk	2 387	645
		Hedging instruments / financial derivatives		
43	0	Interest rate swaps NOK	0	43
		Interest rate swaps EUR	0	189
7 981	**6 934**	**Total financial liabilities**	**34 558**	**34 019**

(1) Converted to NOK at exchange rate in effect at the time of issuance.

The hedging instrument is recognised under financial derivatives. Nominal value and adjustment of hedging objects is recognised under debt incurred on issuance of securities.

RESULT OF HEDGE ACCOUNTING

PARENT BANK			GROUP	
2019	2020	NOK MILLION	2020	2019
		Result / ineffectiveness in hedge acconting		
1	7	Income effect hedge interest rate risk (NOK)	7	1
	5	Income effect as a result of repurchases	5	
		Income effect hedge interest- and currency risk (EUR)	36	22
IA	*IA*	*Effect of earnings from currency basis*	*26*	*18*
1	**7**	**Total**	**43**	**24**
		Other comprehensive income (OCI)		
IA	*IA*	*Change in results from change in value of currency basis*	*-7*	*-5*

UNCERTAINTY ARISING FROM THE INTEREST RATE BENCHMARK REFORM

On December 2020, the Ministry of Finance decided amendments to the Reference Interest Act that implements the regulations (EU 2016/1011) in Norwegian law.

All hedging instruments in NOK are exposed to NIBOR and all hedging instruments in EUR are exposed to EURIBOR and NIBOR.

Nominal value hedge accounting:

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Nominal value		
7 984	6 750	Interest rate swaps NOK	7 600	8 834
		Interest rate swaps EUR	2 500	2 500

In 2020, a project group was established to deal with issues regarding to the interest rate benchmark reform. The company are exposed to NIBOR and EURIBOR, and considers the complexity of changing necessary systems to be limited.

The company assumes that NIBOR and EURIBOR will be quotas for a further couple of years, and the company will adapt to market practices going forward. With regard to hedge accounting, the company expects that established hedging relationships can be continued, without any deduction and recognition to be made, and that the hegdes can be continued without major accounting effects.

NOTE 23 – BONDS AND CERTIFICATES

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Short-term investments designed at fair value through profit and loss		
4 612	4 986	Certificates and bonds issued by public sector	6 863	6 066
12 195	11 325	Certificates and bonds issued by others	14 680	13 850
0	2 018	Certificated and bonds issued by subsidiaries	0	0
16 807	**18 329**	**Total short-term investment designed at fair value through profit and loss**	**21 543**	**19 916**
16 807	**18 329**	**Investment in securities**	**21 543**	**19 916**
13 346	13 656	Bonds pledged for drawing-rights in Norges Bank	13 656	13 346

CLASSIFICATION OF FINANCIAL INVESTMENTS

Certificates and bonds are rated by external parties. If the securities have an official rating, this rating will be applied. However, in cases where no official rating exists, a credit assessment by an external broker will be used as the basis for risk classification.

The Bank's risk category	Rating
Lowest risk	AAA, AA+, AA og AA-
Low risk	A+, A og A-
Medium risk	BBB+, BBB og BBB-
High risk	BB+, BB, BB-
Highest risk	B+ and lower

CERTIFICATES AND BONDS

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Certificates and bonds		
16 758	18 263	Lowest risk	21 472	19 859
0	0	Low risk	0	0
0	0	Medium risk	0	0
0	0	High risk	0	0
0	0	Highest risk	0	0
49	65	Accrued interest	71	57
16 807	**18 329**	**Total certificates and bonds**	**21 543**	**19 916**

NOTE 24 – SHARES

All shares and ownership interests are classified at fair value through profit or loss.

GROUP 31.12.2020			
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5	75 000	66 454
VN Norge AS*	2.3	25 344	0
Norne Eierselskap	17.4	6 038	12 691
Sparebanken Vest	0.1	6 508	3 306
Norgesinvestor Proto	17.6	23 792	15 600
Norgesinvestor IV	2.1	9 381	8 058
Øvrige selskaper (36 stk)		5 487	9 568
Total shares valued at fair value through profit and loss		**151 550**	**115 677**
Participations classified at fair value through profit and loss			
Skagerak Venture Capital 1 KS	12.5	3 419	3 419
Skagerak Seed Capital II AS	9.5	907	2 470
Skagerak Maturo V AS	4.7	2 250	2 250
Skagerak Maturo Seed AS	5.8	8 250	8 250
Total participations valued at fair value through profit and loss		**14 827**	**16 389**
TOTAL		**166 376**	**132 066**

*The company was restructured in 2018, and the number of shares is stated in billions.

GROUP 31.12.2019			
NOK THOUSAND	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit and loss			
Eksportfinans	1.5	75 000	66 454
VN Norge AS*	2.27	43 097	-
Norne Eierselskap	17.4	6 038	6 038
Sparebanken Vest		5 699	2 735
Norgesinvestor Proto	17.6	23 283	15 600
Norgesinvestor IV	2.1	9 875	8 058
Other companies (37)		8 202	11 557
Total shares valued at fair value through profit and loss		**171 194**	**110 442**
Participations classified at fair value through profit and loss			
Skagerak Venture Capital 1 KS	12.4	12 000	12 000
Skagerak Seed Capital II AS	10.4	757	757
Skagerak Maturo Seed AS	5.8	5 850	5 850
Total participations valued at fair value through profit and loss		**18 607**	**18 607**
TOTAL		**189 801**	**129 049**

*The company was restructured in 2018, and the number of shares is stated in billions.

Those of Sparebanken Sør's subsidiaries which are included in the consolidated financial statements have no significant investments in shares at 31 December. The overview above is therefore identical for the Parent Bank and the Group.

The Bank's investment in venture companies largely constitutes participation in an investment company. The company values itself based on its underlying portfolio of investments, and the Bank uses this valuation.

The Group has committed to additional payments linked to the investment in Skagerak Maturo V AS and Skagerrak Maturo Seed AS. At 31 December 2020, uncalled capital totalled NOK 19 500 000 (NOK 9 300 349 at 21 December 2019).

See also Note 34 – 'Disclosures on related parties' for additional disclosures regarding transactions with associates.

NOTE 25 – OWNERSHIP OF GROUP COMPANIES

					PARENT BANK 31.12.2020
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1 125 000	2 095 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	10 739	11 499
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	0
Prosjektutvikling AS	Property managment	Arendal	100 %	100	0
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	780
Total					**2 110 909**

					PARENT BANK 31.12.2019
NOK THOUSAND	Type of business	Registered office	Ownership	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1 125 000	1 845 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property managment	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property managment	Arendal	50 %	601	1 000
Prosjektutvikling AS	Property managment	Arendal	100 %	100	-
Transitt Eiendom AS	Property managment	Kristiansand	100 %	100	1 450
Total					**1 858 063**

Arendal Brygge AS is a joint venture and is not consolidated into the Group.

Shareholdings correspond to the percentage of voting capital.

See also Note 34 – 'Disclosures on related parties' for additional disclosures regarding transactions with subsidiaries.

NOTE 26 – ASSOCIATED COMPANIES

				PARENT BANK 31.12.2020
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	21 %	607 958
Brage Finans AS	Finance	Bergen	21 %	406 517
Balder Betaling AS	Finance	Bergen	22 %	111 668
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	6 535
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**1 134 253**

				PARENT BANK 31.12.2019
NOK THOUSAND	Type of business	Registered office	Ownership	Book value
Frende Holding AS	Ensurance	Bergen	20 %	482 868
Brage Finans AS	Finance	Bergen	21 %	373 849
Balder Betaling AS	Finance	Bergen	22 %	103 346
Åseral Næringshus AS	Property managment	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	6 400
Søndeled Bygg AS	Property managment	Arendal	29 %	1 125
Total				**968 039**

See Note 34 – 'Disclosures on related parties' for additional disclosures regarding transactions with associated companies.

NOTE 27 – FINANCIAL DERIVATIVES

Sparebanken Sør and 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.

		31.12.2020			GROUP
NOK MILLION	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	3 415	290	3 125	-2 157	968
Derivatives - liabilities	-687	-290	-397	472	74
Net	2 728	0	2 728	-1 686	1 042

		31.12.2019			GROUP
NOK MILLION	Book value	Financial instruments	Financial derivatives - presented as net	Delivered/received collateral	Net
Derivatives - assets	757	422	335		335
Derivatives - liabilities	-422	-422	0		0
Net	335	0	335		335

		31.12.2020			PARENT BANK
NOK MILLION	Book value	Financial instruments	Financial derivatives- presented as net	Delivered/recieved collateral	Net
Derivatives - assets	907	290	617	-236	381
Derivatives - liabilities	-687	-290	-397	472	74
Net	219	0	219	236	455

		31.12.2019			PARENT BANK
NOK MILLION	Book value	Financial instruments	Financial derivatives- presented as net	Delivered/recieved collateral	Net
Derivatives - assets	251	162	89		89
Derivatives - liabilities	-212	-162	-50		-50
Net	39	0	39		39

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.

NOTE 28 – BOND DEBT AND SUBORDINATED LOANS

DEBT SECURITIES - GROUP

NOK MILLION	31.12.2020	31.12.2019
Bonds, nominal value	55 989	52 977
Value adjustments	735	273
Accrued interest	161	180
Debt incurred due to issuance of securities	**56 885**	**53 430**

CHANGE IN DEBT SECURITIES - GROUP

NOK MILLION	31.12.2019	Issued	Matured/ Reedemed	Other changes during the period	31.12.2020
Bonds, nominal value	52 977	5 000	-3 724	1 736	55 989
Value adjustments	273			462	735
Accrued interest	180			-18	161
Debt incurred due to issuance of securities	**53 430**	**5 000**	**-3 724**	**2 180**	**56 885**

NOK MILLION	31.12.2018	Issued	Matured/ Reedemed	Other changes during the period	31.12.2019
Bonds, nominal value	47 969	16 063	-10 867	-187	52 977
Value adjustment	170			103	273
Accrued interest	184			-4	180
Total debt due to issue of securities	**48 323**	**16 063**	**-10 867**	**-89**	**53 430**

CHANGE IN SUBORDINATED LOAN CAPITAL – PARENT BANK AND GROUP

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Subrdinated loans	1 966	350	-666		1 650
Accured interest	5			-2	3
Total subordinated loan capital	**1 971**	**350**	**-666**	**-2**	**1 653**

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

DEBT SECURITIES - PARENT BANK

NOK MILLION	31.12.2020	31.12.2019
Bonds, nominal value	13 899	16 672
Value adjustments	184	-47
Accrued interest	66	82
Debt incurred due to issuance of securities	**14 149**	**16 707**

CHANGE DEBT SECURITIES – PARENT BANK

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	16 672	0	-2 959	186	13 899
Value adjustments	-47			231	184
Accrued interest	82			-16	66
Debt incurred due to issuance of securities	**16 707**	**0**	**-2 959**	**401**	**14 149**

NOK MILLION	31.12.2018	Issued	Matured/ Redeemed	Other changes during the period	31.12.2019
Bonds, nominal value	17 904	3 600	-4 815	-17	16 672
Value adjustment	13			-60	-47
Accrued interest	110			-28	82
Debt incurred due to issue of securities	**18 027**	**3 600**	**-4 815**	**-104**	**16 707**

CHANGE SENIOR NON-PREFERRED – GROUP AND PARENT BANK

NOK MILLION	31.12.2019	Issued	Matured/ Redeemed	Other changes during the period	31.12.2020
Bonds, nominal value	0	2 000	0	0	2 000
Value adjustments	0			2	2
Accrued interest	0			0	0
Debt incurred due to issuance of securities	**0**	**2 000**	**0**	**2**	**2 002**

NOTE 29 – LOANS AND DEBT TO CREDIT INSTITUTIONS

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
		Loans to credit institutions		
3 964	8 712	Without agreed maturity	241	82
100	2 224	With agreed maturity	2 219	100
4 063	**10 936**	**Total loans to credit institutions**	**2 460**	**182**
		Debts to credit institutions		
419	2 236	Without agreed maturity	250	38
1 770	4 520	With agreed maturity	6 176	1 752
2	9	Accrued interest	9	2
2 192	**6 765**	**Total debts to credit institutions**	**6 435**	**1 793**

GROUP

NOK MILLION	31.12.2019	Issue debt	Collateral*	Repo	Net change credits	31.12.2020
Loan to credit institutions	182	0	472	1628	179	2 460
Debt to credit institutions	1793	2500	2157	0	-15	6 435
Total net debt to credit institutions	**-1 611**	**-2 500**	**-1 686**	**1 628**	**194**	**-3 975**

GROUP

NOK MILLION	31.12.2018	Issue debt	Net change credits	31.12.2019
Loan to credit institutions	119		63	182
Debt to credit institutions	1 918		-125	1 793
Total net debt to credit institutions	**-1 799**		**188**	**-1 611**

PARENT BANK

NOK MILLION	31.12.2019	Issue debt	Collateral	Repo	Net change credits	31.12.2020
Loan to credit institutions	4063	0	472	1628	4773	10 936
Debt to credit institutions	2192	2500	236	0	1838	6 765
Total net debt to credit institutions	**1 871**	**-2 500**	**236**	**1 628**	**2 936**	**4 170**

PARENT BANK

NOK MILLION	31.12.2018	Issue debt	Net change credits	31.12.2019
Loan to credit institutions	3 010		1 053	4 063
Debt to credit institutions	2 261		-69	2 192
Total net debt to credit institutions	**749**		**1 122**	**1 871**

*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.

NOTE 30 – TANGIBLE ASSETS

GROUP	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2020	2019	2020	2019	2020	2019	2020	2019
Acquisition cost 01.01.	**189**	**205**	**512**	**519**	**48**	**43**	**749**	**767**
Additions during the year	18	13	8	5	8	5	35	23
Disposals during the year	-31	-29	-19	-12	0	0	-50	-41
Other changes	-42	0	47	0	0	0	5	0
Acquisition cost 31.12.	**134**	**189**	**548**	**512**	**56**	**48**	**738**	**749**
Accumulated depreciations and write-downs 31.12.	122	146	144	139	11	5	278	290
Other changes	-30	0	30	0	0	0	0	0
Book value as at 31.12	**42**	**43**	**374**	**373**	**45**	**42**	**461**	**458**
Ordinary depreciation	8	10	10	7	6	5	24	22
Impairments			3	2	0		3	2
Gains/losses on sale	0		4	0			5	

GROUP	Intangible assets	
NOK MILLION	2020	2019
Acquisition cost 01.01.	**190**	**181**
Additions during the year	36	20
Disposals during the year	0	-11
Acquisition cost 31.12.	**226**	**190**
Accumulated depreciations and write-downs 31.12.	179	163
Book value as at 31.12	**47**	**27**
Ordinary depreciation	16	14

Assumed useful economic life harmonises with the depreciation period for the individual groups of fixed assets. Fixed assets are depreciated on a straight-line basis. The Group's buildings are located in the Bank's own district and are mainly used by the Bank itself.

The rate of depreciation for buildings is in the range 2–5%, and the depreciation rate for machinery, equipment, vehicles and intangible assets is in the range 10–33%.

PARENT BANK	Machinery, inventory and transport equipments		Real estate		Right of use of rented premises, IFRS 16		Total real estate, inventory and right of use of rented premises	
NOK MILLION	2020	2019	2020	2019	2020	2019	2020	2019
Acquisition cost 01.01.	**176**	**192**	**484**	**491**	**48**	**43**	**708**	**726**
Additions during the year	18	13	6	5	8	5	32	23
Disposals during the year	-31	-29	-15	-12	0	0	-46	-41
Other changes	-42	0	47	0	0	0	5	0
Acquisition cost 31.12.	**121**	**176**	**522**	**484**	**56**	**48**	**699**	**708**
Accumulated depreciations and write-downs 31.12.	111	134	147	143	11	5	269	282
Other changes	-30	0	30	0	0	0	0	0
Book value as at 31.12	**40**	**42**	**346**	**341**	**45**	**42**	**430**	**426**
Ordinary depreciation	8	10	9	7	6	5	23	22
Impairments			3	2	0		3	2
Gains/losses on sale	0		3				4	0

PARENT BANK	Intangible assets	
NOK MILLION	2020	2019
Acquisition cost 01.01.	**92**	**83**
Additions during the year	30	20
Disposals during the year	0	-11
Acquisition cost 31.12.	**122**	**92**
Accumulated depreciations and write-downs 31.12.	81	65
Book value as at 31.12	**41**	**27**
Ordinary depreciation	16	14

In 2020, The Parent Bank integrated the register of tangible assets into the accounting system. In this manners, old assets have been discarded. This has led to increased disposal of accumulated depreciations. Furthermore some assets have been moved between the groups real estate and machinery,inventory and transport equipments.

Repossessed assets have previously not been included in the register of tangible assets. In 2020 this have been included as a integral part of real estate. Effects of these changes are recorded on separate lines as other changes.

NOTE 31 – DEPOSITS FROM CUSTOMERS

DEPOSITS FROM CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
28 084	29 834	Retail customers	29 836	28 074
9 325	9 078	Public administration	9 079	9 326
561	660	Primary industry	660	561
1 923	1 474	Manufacturing industry	1 474	1 923
566	709	Real estate development	655	561
1 117	1 402	Building and construction industry	1 402	1 117
3 066	3 031	Property management	3 031	3 066
645	595	Transport	595	645
1 032	1 541	Retail trade	1 542	1 032
152	214	Hotel and restaurant	214	152
186	189	Housing cooperatives	189	186
5 075	4 303	Financial/commercial services	4 303	5 075
6 202	6 832	Social services	6 832	6 202
29	20	Accrued interests	20	29
57 963	**59 883**	**Total deposits from customers**	**59 833**	**57 949**

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
46 975	51 073	Deposits from costumers with no fixed maturity	51 073	46 960
10 960	8 790	Deposits from costumers with fixed maturity	8 790	10 960
57 935	**59 863**	**Total deposits from costumers**	**59 863**	**57 920**
29	20	Accrued interest	20	29
57 963	**59 883**	**Total deposits from costumers incl. accrued interest**	**59 883**	**57 949**

NOTE 32 – OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.2019	31.12.2020	NOK MILLION	31.12.2020	31.12.2019
59	41	Trade creditors	53	68
16	14	Tax withholdings	21	22
37	31	Clearing accounts	31	37
142	180	Other liabilities	187	145
37	38	Accrued holiday pay	48	45
98	102	Other incurred costs	116	108
387	**406**	**Total other liabilities**	**457**	**425**

NOTE 33 – AVERAGE INTEREST RATES

PARENT BANK			GROUP	
31.12.2019	31.12.2020		31.12.2020	31.12.2019
		Debt to credit institutions		
2.42 %	0.26 %	Debt to credit institutions	0,27 %	2.42 %
		Deposits from customers		
1.15 %	0,42 %	Deposits from customers	0,42 %	1.15 %
		Debt incurred due to issue of securities		
2.42 %	0,98 %	Bond debt - floating interest rate	0,90 %	1.38 %
0.11 %	0.00 %	Bond debt - floating interest rate EUR	0.00 %	0.11 %
2.45 %	2.45 %	Bond debt - fixed interest rate	2.61 %	2.50 %
		Bond debt - fixed interest rate EUR	0.25 %	0.25 %

The average interest rate is calculated as a weighted average of actual interest rate terms at 31 December, defined as interest in arrears for the full year. No liabilities have special conditions.

The bulk of the debt to credit institutions is denominated in NOK. Debt established through the issuance of securities is entirely in NOK.

NOTE 34 – DISCLOSURES ON RELATED PARTIES

Sparebanken Sør has entered into transactions with related parties as described in this note and Note 35. Transactions with subsidiaries have been eliminated in the consolidated financial statements.

NOK THOUSAND	Group management	Board of Directors	Chairman of the Board of Trustees
Loans as at 31.12	20 814	12 182	2 322
Interest costs	200	303	67
Deposits as at 31.12	11 218	4 482	72
Interest income	81	43	0

Subsidiaries	Loans	Interest income	Deposits	Interest cost	Manager fee	Dividend received	Operating income
Prosjektutvikling AS	20 538	818	105	1			
Eiendomsvekst AS	5 000	0	5 196	18			
Transitt Eiendom AS	2 305	213	0	0			
Sørmegleren Holding AS	0	124	21 720	6		4 296	2400
Sparebanken Sør - Boligkreditt AS	10 488 652	99 901	2 252 025	709	84 434	235 279	
Total	**10 516 495**	**101 056**	**2 279 046**	**734**	**84 434**	**239 575**	**2 400**

Associated companies	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	47 041	1 681	105	0
Torvparkering AS	156 197	4 796	9 624	18
Total	**203 238**	**6 477**	**9 729**	**18**

Associated companies	Commission income	Commission costs	Personnel insurance
Balder Betaling AS		1 354	
Brage Finans AS	4 197	5 182	
Frende Holding AS	31 282		4 886
Total	**35 479**	**6 536**	**4 886**

Sparebanken Sør has derecognised loans transferred to Sparebanken Sør Boligkreditt AS. The agreements have been formulated such that the loans qualify for derecognition. The total balance of these loans is stated below.

NOK MILLION	31.12.2020	31.12.2019
Sparebanken Sør Boligkreditt AS	48 899	40 200

Sparebanken Sør Boligkreditt AS purchases the majority of services from the Bank. All transactions between the companies are entered into on market terms. As at 31 December 2020, Sparebanken Sør Boligkreditt AS has an overdraft facility of NOK 5,000 million in Sparebanken Sør. In addition, Sparebanken Sør Boligkreditt AS has, at all times, a revolving credit facility with the Parent Bank, for which an annual commission is paid.

NOTE 35 – REMUNERATION AND SIMILAR BENEFITS

Information in this note applies to the status of the Group's Board of Directors, management and employee representatives.

								2020
Key personel NOK THOUSAND	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	66 239	2 938	106	204	2) 4 537	7 785	2 987
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	3 088	1 885	75	157	448	2 565	0
Gunnar Thomassen	Director, Retail market	3 206	1 766	72	277	348	2 463	3 811
Rolf H. Søraker	Director, Group support	1 644	1 460	63	164	318	2 005	1 847
Marianne Lofthus	Director, Capital market	776	1 376	60	244	354	2 034	4 455
Bjørn A. Friestad	Director, Risk management	4 119	1 506	64	211	360	2 141	1 152
Gry Moen	Director, Business support	732	1 376	60	198	347	1 981	5 234
Steinar Breen 1)	Director, Strategy and compliance	614	1 118	0	128	134	1 380	1 328
Total		**80 717**	**13 425**	**500**	**1 583**	**6 846**	**22 354**	**20 814**

1) Employed from April 2020.

2) The increase in pension costs is due to a change in the individual pension agreement in 2020. The agreement has been changed from a defined benefit penion to a defined contribution pension.

There is i bonus system for all the Bank's employees, including Group Management, see Note 18.

								2019
Key personel NOK THOUSAND	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	60 625	2 891	68	188	2 186	5 333	2 968
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 474	1 865	49	182	294	2 390	0
Gunnar Thomassen	Director, Retail market	2 592	1 744	47	258	350	2 399	3 328
Rolf H. Søraker	Director, Group support	1 030	1 463	41	133	318	1 955	2 258
Marianne Lofthus	Director, Capital market	162	1 359	39	176	356	1 930	4 468
Bjørn A. Friestad	Director, Risk management	3 505	1 486	42	200	300	2 028	1 301
Gry Moen	Director, Business support	118	1 352	39	173	348	1 912	4 667
Total		**70 506**	**12 160**	**325**	**1 310**	**4 152**	**17 947**	**18 991**

The CEO has an agreement for once year's severance pay in the event of enforced resignation before the end of the agreed period of tenure.

There is i bonus system for all the Bank's employees, including Group Management, see Note 18.

						2020
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remun-eration 1)	Fringe benefits	Total remun-eration	Loans and collateral
Stein A. Hannevik 1)	Chairman	38 467	488	4	492	0
Inger Johansen	Deputy chairman	0	201	1	202	0
Marit Kittelsen 2)	Member	0	127	7	134	1 126
Erling Holm 2)	Member	0	243	11	254	3 500
Mette Harv	Member	0	235	0	235	0
Tom Erik Jebsen 2)	Member	2 500	124	5	129	0
Knut R Sæthre	Deputy member	0	140	0	140	0
Merete Østby 3)	Member	0	23	0	23	0
Erik Tønnesen 3)	Member	0	23	0	23	7 293
Trond Randøy 3)	Deputy member	0	23	0	23	0
Jan Erling Tobiassen	Employee representative	776	138	40	178	263
Gunnhild Tveiten Golid	Employee representative	776	140	22	162	0
Sum		**42 542**	**1 905**	**90**	**1 995**	**12 182**

1) Fees paid to the Board of Trustees and the committees

2) Member of the Board until 30 October 2020

3) Member of the Board from 1 November 2020

						2019
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remun-eration 1)	Fringe benefits	Total remun-eration	Loans and collateral
Stein A. Hannevik	Chairman	23 467	441	13	454	6 813
Inger Johansen	Deputy chairman	0	206	2	208	2 975
Marit Kittelsen	Member	0	131	8	139	1 150
Erling Holm	Member	0	240	23	263	0
Mette Harv	Member	0	220	2	222	0
Tom Erik Jebsen	Member	2 500	131	9	140	0
Knut R Sæthre	Deputy member	0	120	0	120	0
Jan Erling Tobiassen	Employee representative	162	120	14	134	70
Gunnhild Tveiten Golid	Employee representative	162	120	21	141	0
Total		**26 291**	**1 729**	**92**	**1 821**	**11 008**

1) Fees paid to the Board of Trustees and the committees

				2020
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remuneration	Loans
Jorunn Aarrestad	Chairman, Deposit elected	0	71	2 322
Terje Spilling	Deputy Chairman, Deposit elected	0	11	0
Rita Eretveit	Deposit elected	0	3	0
Anne Omholt Hovstad	Deposit elected	0	3	0
Ingvild Hovden	Deposit elected	97	6	998
Birgitte Midgaard	Deposit elected	0	57	390
Kristi Marie Tveit	Deposit elected	0	3	1 347
Linda Gjertsen	Deposit elected	0	6	1 088
Mette Vestberg Sørensen	Deposit elected	0	38	0
Ole Tom Haddeland	Deposit elected	0	6	181
Merete Fogh Lund	Deposit elected	0	3	2 650
Berit T Knudsen	Deposit elected	0	16	0
Tore Askildsen	Public elected	0	3	2 739
Dag Eide	Public elected	0	13	0
Bjørn Rudborg	Public elected	0	3	0
Nina Berit Gumpen Hansen 4)	EC owner	174 209	13	0
Alf Albert	EC owner	58 732	13	1 036
Ole Moe Dy	EC owner	904	10	0
Helge Sandåker 2)	EC owner	0	16	1 256
Kari Anne Norbø 2)	EC owner	105	6	0
Svein Bringsjord 1)3)	EC owner	6 854	25	1 545
Karen Andersen	Elected by employees	398	25	1 591
Hildegunn Smidsrød	Elected by employees	894	3	940
Tommy Holter Moi	Elected by employees	894	3	3 806
Nina Merete Olsen	Elected by employees	684	25	3 511
Bente Sørensen	Elected by employees	596	3	971
Hege Kirkhus	Elected by employees	894	6	3 096
Hans Arthur Frigstad	Elected by employees	162	3	2 562
Sum		**245 423**	**393**	**32 029**

1) Fees paid to the Board of Trustees and the Nomination Committee.
2) Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates
3) Represents Sparebankstiftelsen Sparebanken Sør and 6854 own equity certificates
4) Represents Gumpen Eiendom AS

				2019
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remunerations	Loans
Jorunn Aarrestad	Chairman, Deposit elected	0	63	2 333
Terje Spilling	Deputy Chairman, Deposit elected	0	3	0
Øystein Haga	Deposit elected	0	16	2 438
Kai Magne Strat	Deposit elected	0	13	2 636
Ingvild Hovden	Deposit elected	97	6	1 250
Birgitte Midtgaard	Deposit elected	0	34	439
Kristi Marie Tveit	Deposit elected	0	0	1 537
Linda Gjertsen	Deposit elected	0	3	1 038
Mette Vestberg Sørensen	Deposit elected	0	36	0
Ole Tom Haddeland	Deposit elected	0	6	507
Ståle Rysstad	Deposit elected	0	49	0
Berit T Knudsen	Deposit elected	0	3	0
Nils Johannes Nilsen	Public elected	0	6	0
Vidar Stang	Public elected	0	6	0
Harald Fauskanger Andersen	Public elected	500	33	2 574
Tormod Nyberg 2)	EC owner	20 000	3	0
Alf Albert	EC owner	59 313	3	1 346
Egil B Galteland	EC owner - deputy	6 020	6	0
Helge Sandåker 3)	EC owner	0	3	0
Kari Anne Norbø 3)	EC owner	0	6	0
Svein Bringsjord 4)	EC owner	5 854	33	1 901
Karen Andersen	Elected by employees	162	27	1 598
Ellen Haugen	Elected by employees	280	6	1 499
Per Bø	Elected by employees	280	6	3 013
Nina Merete Olsen	Elected by employees	70	27	3 701
Bente Sørensen	Elected by employees	360	3	863
Hege Kirkhus	Elected by employees	280	6	3 069
Birger Sløgedal	Elected by employees	312	6	1 676
Total		**93 528**	**412**	**33 420**

1) Fees paid to the Board of Trustees and the Nomination Committee.
2) Represents Acan AS
3) Represents Sparebankstiftelsen Sparebanken Sør, which owns 7 988 679 equity certificates
4) Represents Sparebankstiftelsen Sparebanken Sør

NOTE 36 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

THE 20 LARGEST EQUITY CERTIFICATE OWNERS AT 31 DEC. 2020

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00
2.	EIKA utbytte VPF c/o Eika	723 017	4.62
3.	Arendal Kom. pensjonskasse	450 000	2.87
4.	Pareto Invest AS	417 309	2.66
5.	Glastad Capital AS	300 000	1.92
6.	Hamjern Invest AS	279 388	1.78
7.	Wenaasgruppen AS	186 000	1.19
8.	Gumpen Bileiendom AS	174 209	1.11
9.	Allumgården AS	151 092	0.96
10.	Catilina Invest AS	105 872	0.68
	Total - 10 largest certificate holders	**10 775 566**	**68.79**

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Carl Krogh Arnet	100 000	0.64
12.	Ottersland AS	100 000	0.64
13.	MP Pensjon PK	85 523	0.55
14.	Lombard Int Assurance S.A.	82 131	0.52
15.	Apriori Holding AS	72 575	0.46
16.	Varodd AS	70 520	0.45
17.	Geir Bergskaug	66 239	0.42
18.	Birkenes Sparebank	66 000	0.42
19.	K.T. Brøvig Invest AS	65 639	0.42
20.	Profond AS	60 104	0.38
	Total - 20 largest certificate holders	**11 544 297**	**73.70**

Sparebanken Sør has no equity certificates at 31 December 2020. In 2019, the bank sold the 5,168 equity certificates that the bank owned as of 31.12.2018. As of 31 December, the bank had a total of 15,663,944 outstanding equity certificates, with a nominal value of NOK 50.

PROPOSED, NOT APPROVED DIVIDEND

	PARENT BANK	
	2020	2019
Total proposed dividend	NOK 219.0 mill	NOK 0.0 mill
Proposed dividend per equity certificate	NOK 14.0 pr. EC	NOK 0.0 pr. EC
Number of equity certificates	15 663 944	15 663 944

Dividend for the financial year 2020 is classified as other equity at 31 December 2020.
On 26 March 2020, following a recommendation from The Norwegian Financial Authorities, the board of trustees decided on a dividend of NOK 0 for the financial year 2019. The recommendation came as a consequence of the situation surrounding the corona pandemic.

EQUITY CAPITAL AND EARNINGS PER EQUITY CERTIFICATE

NOK MILLION	31.12.2020	31.12.2019
Number of equity certificates	15 663 944	15 663 944
Nominal value	50	50
Equity certificate capital	783	783
Premium fund	451	451
Dividend equalisation fund	459	389
Total equity share capital (A)	**1 693**	**1 623**
Total equity share capital (Parent bank)	12 136	11 535
- hybrid capital	(1 075)	(1 375)
- other equity	(219)	(125)
Equity share capital excl. Hybrid capital and other equity share capital (B)	**10 842**	**10 035**
Ownership ratio after allocation (A/B)	**15.6 %**	**16.2 %**
Ownership ratio, weighted average (1)	**17.3 %**	**17.2 %**

NOK MILLION	2020	2019
Profit for the year, parent bank	1021	904
- interest on hybrid capital	(69)	(60)
Dividend basis, parent bank	**952**	**844**
Profit for the year per EC, Parent Bank	10.5	9.3
Profit for the year, Group	1094	1125
- interest on hybrid capital	(69)	(60)
Dividend basis, the Group	**1 025**	**1 065**
Profit for the year per EC, Group	11.3	11.7

Earnings per equity certificate is calculated as the ratio between profit for the year attributable to the owners of equity certificates according to the equity capital certificate ratio in the parent company and the number of equity certificates issued at the end of the year.

Equity certificates owned by the CEO, senior management, members of the Board of Directors, members of the Board of Trustees and their personal related parties as in section § 7–26 of the Norwegian Accounting Act and section § 8-20 of its supplementary regulations are disclosed in Note 34.

NOTE 37 – BUSINESS COMBINATIONS

Business acquisitions

Sparebanken Sør has from previous years, a shareholding in Frende Holding AS totaling 20.19 %. In connection with the acquisition of Helgeland Sparebank in June 2020, the bank purchased an additional 57 936 shares. The purchase price amounted to NOK 517.71 per share, a total purchase price of Nok 30 million. The total purchase price amounted to NOK 29 million. Following the transaction, Sparebanken Sør owns 21.0 percent of Frende Holding, which at the time of acquisition was valued at NOK 3.5 billion.

Frende Holding AS is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which offer general and life insurance to private individuals and businesses. The company is owned by 15 independent savings banks, and its head office is at Jonsvoll in Bergen. The insurance operation is based on distribution through the owner banks' extensive network of offices in their respective geographical catchment areas, via their own sales centres in the franchise channel and via electronic distribution through the owner banks, partners and frende.no.

After the purchase in 2018, Frende is measured as an investment in associate. There is no change in accounting policies after the latest acquisition.

When Frende Holding AS (2018) changed from being an investment in shares measured at fair value to being an investment in an associate, a excess value analysis was performed. This years acquisition is based on the same prerequisites as previous analysis. Due to the small increase in shareholding and the size of the transaction, the analysis performed has been less extensive.

The acquisition resulted in an added value of NOK 16.3 million. Management believes that the purchase will have a positive impact on future earnings beyond the value of the company's individual assets. The shareholding in Frende Holding AS corresponds to voting rights .

The acquired company has contributed in 2020 with NOK 116.2 million in revenue. This is recognised as income from ownership interests in associates

Based on figures at the close of the second quarter 20120, excess value and the excess value analysis break down as follows:

NOK MILLION	Sparebankens Sørs calculated excess values recognised on the last acquisition
Assets	
Fixed assets (systems)	5
Customer portefolio	10
	15
Liabilities	
Increased share of book value of equity on the acquisition date	14
	14
Net identifiable excess values	**29**
Goodwill	1
Purchase price	**30**

NOTE 38 – EVENTS AFTER THE BALANCE SHEET DATE AND CONTINGENCIES

No events of material significance to the financial statements have occurred since the balance sheet date.

Calculations

NOK MILLION	31.12.2020	31.12.2019
Return on equity adjusted for hybrid capital		
Profit after tax	1 096	1 125
Interest on hybrid capital	-69	-60
Profit after tax, incl. Interest on hybrid capital	**1 018**	**1 065**
Opening balance, equity	13 081	11 845
Opening balance, hybrid capital	-1 375	-1 075
Opening balance, equity excl. hybrid capital	**11 706**	**10 770**
Closing balance, equity	13 752	13 081
Closing balance, hybrid capital	-1 075	-1 375
Closing balance, equity excl. hybrid capital	**12 677**	**11 706**
Average equity	13 416	12 463
Average equity excl. Hybrid capital	**12 191**	**11 238**
Return on equity	8,2 %	9.0 %
Return on equity excl. Hybrid capital	**8,4 %**	**9.5 %**
Net interest income, incl. interest hybrid capital		
Net interest income, incl. interest hybrid capital	1 914	1 926
Interest on hybrid capital	-69	-60
Net interest income, incl. interest hybrid capital	**1 845**	**1 866**
Average total assets	140 400	125 900
As a percentage of total assets	**1,31 %**	**1.48 %**
Profit from ordinary operations (Adjusted earnings)		
Net interest income, incl. interest hybrid capital	1 845	1 866
Net commission income	347	344
Share of profit by associated companies (excl. valueadjustment Balder Betaling/Vipps)	136	64
Other operating income	7	10
Operating expenses, adjusted for conversion of the pension scheme	958	918
Profit from ordinary operations (adjusted earnings), before tax	**1 377**	**1 366**
Profit excl. Finance, and adjusted for non-recurring items		
Net interest income, incl. interest hybrid capital	1 845	1 866
Net commission income	347	344
Share of profit from associated companies (excl. value-adjustment Balder Betaling/Vipps)	136	64
Other operating income	7	10
Operating expenses, adjusted for conversion of the pension scheme	958	918
Losses on loans, guarantees and undrawn credit	31	-17
Profit excl. Finance, and adjusted for non-recurring items	**1 346**	**1 383**
Tax (25 %)	336	346
Ordinary operations / adjusted earnings after losses and tax	**1 009**	**1 037**
Average equity excl. Hybrid capital	12 191	11 238
Return on equity, profit excl. Finance and adjusted for non-recurring items	**8,3 %**	**9.2 %**

The Board of Directors' report and some accounting presentations refer to adjusted results that are not defined in IFRS (Alternative Performance Measures (APM)).

Alternative performance measures

Sparebanken Sør presents alternative performance measures (APMs) which provide useful information to supplement the financial statements. These performance measures are not defined in IFRS (International Financial Reporting Standards) and by necessity are not directly comparable with the performance measures of other companies. Alternative performance measures are not intended to replace or overshadow accounting figures under IFRS, but are included in our reports to better highlight the underlying operation.

Key figures regulated in IFRS or other legislation are not regarded as alternative performance measures. The same applies to non-financial information. Sparebanken Sør's alternative performance measures are presented in the overviews of key figures, calculations and the Board of Directors' report. All APMs are presented with comparative figures. The APMs mentioned below have been used consistently over time.

Sparebanken Sør's alternative performance measures and definitions:

MEASURE	Definition
Return on equity (ROE) (Ordinary profit in % of average equity capital)	These measures give relevant information on Sparebanken Sør`s profitability by measuring the ability to generate profits from the shareholders' investments. ROE is one of Sparebanken Sør`s most important APM. Return on equity (ROE) is calculated as: Shareholders' share of profits for the period divided by average equity excluding hybrid capital.
Book equity per ecuity certificate (including dividend)	This key figure provides information on the value of book 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 shareholders' 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 compared to the diluted earnings per equity certificate at the relevant time, which provides a basis for assessing the reasonableness of the profit on the earnings per equity certificates. Diluted earings per equity certificate is calculated as majority interest multiplied by equity certificate ratio, divided by number of equity certificates issued.
Growth in loans (gross) as %. last 12 months	Growth in lending over the last 12 months is a performance measure that provides relevant information on the level of activity of and growth in the bank's lending business. The bank uses Sparebanken Sør Boligkreditt (SSBK) as a source of funding, and this key figure includes loans sold to them since this better reflects the level of activity and growth in lending than if these loans were excluded. Lending growth is calculated as gross loans incl. loans sold to SSBK at period-end minus gross loans incl. loans sold to SSBK at period-start divided by gross loans incl. loans sold to SSBK at the start of the period.
Growth in deposits as %. last 12 months	Growth in deposits over the last 12 months is a performance measure that provides relevant information on the level of activity of and growth in the bank's liquidity position. Deposit growth is calculated as total deposits from customers at period-end minus total deposits from customers at period-start divided by total deposits from customers at the start of the period.
Deposit as % of net loans	These measures give relevant information on Sparebanken Sør's liquidity position. The APM is calculated as: Customer deposits divided by net loans to customers at the end of the period.
Cost/income ratio (Total operating costs in % of total incomes)	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 value pr 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. Calculated as: Sparebanken Sør's closing share price at the end of the period divided by book value per equity certificate.
Losses on loans ass % of net loans (annualised)	This key figure indicates recognised impairment cost as a function of net loans incl. loans transferred to Sparebanken Sør Boligkreditt. The figure is calculated as loss recognised in the period divided by net loans incl. loans sold to SpareBanken Sør Boligkreditt at period-end. Where information is disclosed on loan-loss ratios for periods shorter than one year, the ratios are annualised for recognition purposes.
Gross defaulted loans over 90 days as % of gross loans	This ratio is presented because it provides relevant information on the bank's credit exposure. It is calculated as total defaulted exposures (over 90 days) divided by total loans incl. loans sold to Sparebanken Sør Boligkreditt at period-end.
Lending margin (CM and RM)	Measures the group's average profit from loans, calculated as average lending rate (return) with deduction of 3 month NIBOR. Average lending rate is calculated as interest income as a percentage of average gross loans to customers.
Deposit margin (CM and RM)	Measures the group's average profit from deposits, calculated as 3 month NIBOR with deduction of average deposit rate, Average deposit rate is calculated as interest expense as a percentage of average deposits from customers.
Average lending rate	See Lending margin (CM and RM) above
Average deposit rate	See Deposit margin (CM and RM) above

Corporate governance

CORPORATE GOVERNANCE REPORT

Sparebanken Sør is an independent financial services group whose principal activities are in banking, securities and real estate in Agder, Vestfold and Telemark as well as Rogaland.

In addition to the parent company Sparebanken Sør, the Sparebanken Sør Group consists of the following companies:

					PARENT BANK 31.12.2020
NOK THOUSAND	Type of business	Office location	Owner shares	Share capital	Nominal value
Sparebanken Sør Boligkreditt AS	Credit institution	Kristiansand	100 %	1 125 000	2 095 695
Sørmegleren Holding AS	Estate agency firm	Kristiansand	91 %	10 739	11 499
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Arendal Brygge AS	Property management	Arendal	50 %	601	-
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Transitt Eiendom AS	Property management	Kristiansand	100 %	100	780
Total					**2 110 909**

The headquarters and registered address of the bank are in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal. The Bank's organisation number is 937 894 538. This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" requirements of the Oslo Stock Exchange.

The company's intention with this document is:

- To clarify the allocation of roles between the Bank's governing bodies and day-to-day management
- Equal and secure access to reliable and timely information on the company's operations
- Equal treatment of equity certificate holders
- To optimise the company's value in a long-term perspective

The corporate governance principles have been specified in various policy documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, Board instructions, instructions for the CEO, framework for management and control, governance document for sustainability and procedures for own-account trading.

THE CONNECTION WITH THE BANK'S OTHER POLICY DOCUMENTS

The Bank's strategy documents specifies the overall plans for the Group, and to complement the totality of the Group's policy documents there should be a close correlation between the overall strategy document and the complementary and more detailed governance documents.

The structure of the various documents is shown below.

For some policy documents there are, in addition, supplementary documents adopted by the administration. To ensure that the various policy documents correspond to the Group's objectives, the policy documents have to be revised and maintained regularly. An audit is normally carried out within a period of 12 months with a decision by a relevant authority.

For operationalization of the Bank's strategic objectives, detailed annual action plans.

The document owner is responsible for ongoing maintenance, including presenting proposals for changes and ensuring that these are treated in accordance with the Bank's procedures. The document owner is responsible for implementing the governing documents in the organisation.

For a comprehensive overview of the various management documents, see the document «Organization of risk management in Sparebanken Sør».

OPERATIONS

Objectives

The Bank's objective is to generate growth and development in the region in a long-term, responsible and sustainable manner.

Main strategies

To generate growth and development in the region, Sparebanken Sør has a strategy for high value creation. The Bank's strategic objective will be achieved through proximity to the market, customer focus, building of relations, expertise, local decision-making power, competitive products, motivated employees and cost-effective processes. By doing this, the Bank's reputation is enhanced, customer loyalty is built up and the Bank's profitability is safeguarded.

Sparebanken Sør's main market area is Agder as well as Vestfold and Telemark and Rogaland. In addition, the Bank aims to strengthen its position in the KNIF segment (Kristen-Norges Innkjøpsfelleskap), in both the retail and corporate markets. Expansion in the KNIF segment will provide growth potential and diversification of risk. Growth will be controlled and based on profitability and low risk.

The Board directs the Bank's operations, and the work of the Board follows an established annual plan and Board instructions. The Board adopts the Bank's strategy in a three to five-year perspective. The strategic plan is evaluated on a rolling basis over the strategic period. The Board establishes goals and a risk profile for the business annually.

As a traditional savings bank dating back to 1824, Sparebanken Sør is run in accordance with the statutory rules that apply at any particular time to savings banks. The Bank can perform all normal banking transactions and services and provide investment services in accordance with the applicable regulations at any time. See the articles of association on the Bank's website www.sor.no.

Social responsibility

Social responsibility is integral to Sparebanken Sør's business. Sparebanken Sør's corporate social responsibility is expressed in the bank's business concept of contributing to growth and development in the region, and the goal of its social responsibility activities is to help achieve this in a responsible and sustainable way. Work on social responsibility helps to strengthen the Bank's competitiveness, reduce risk, and attract good customers, investors and skilled employees.

Sparebanken Sør is committed to taking considerations of the climate, the environment, social conditions and good corporate governance in all its activities, including the development of products and services, advisory and sales activities, investment and credit decisions, and in its production and operations. Sparebanken Sør shall not contribute to the infringement of human and workers' rights, corruption, serious environmental damage and other acts, which may be regarded as unethical.

By being a community building company, Sparebanken Sør contributes toward sustainable industrial and social development through creating values for the region. The bank also supports projects in culture, sport and other areas that make a positive contribution to the region. In addition to traditional sponsorship of teams and clubs, the Bank carries on the strong tradition of making donations for the public good in its capacity as an independent savings bank.

Measures against money laundering and the financing of terrorism

Sparebanken Sør must comply with the authorities' anti-money laundering regulations whose purpose is to combat money laundering and the financing of terrorism. This includes both an automatic notification system for suspicious transactions and responsibility for each individual employee to report individual cases or, if appropriate, to carry out intensified customer checks. The Bank has specific procedures for this and provides continuous training for employees, particularly those, who are in direct contact with customers.

Environmental matters

Sparebanken Sør takes account of climate issues. Environmental protection is becoming increasingly more important to and the bank would like to do its part to contribute. Sparebanken Sør has defined work on internal environmental efficiency as a priority area in the Bank's response to climate change.

Deviations from the recommendation: None

EQUITY AND DIVIDENDS

Equity

Sparebanken Sør's equity is complex for several reasons. The most important of these are the size of the Group, a stable market for long-term funding and the Bank's objectives in a long-term, strategic perspective. Through annual evaluation of management and control, including the Internal Capital Adequacy Assessment Process (ICAPP), the Group has a strong focus on ensuring that its equity is tailored to its goals, strategies and risk profile. The capital situation is monitored closely through the year with internal calculations and reports.

Dividend

Risk-adjusted return is assumed to be high and competitive in the market. The equity certificate holders' mathematical share of profit is split between a cash dividend and an equalisation fund. The objective is for 50 to 70 percent of the equity certificate holders' share of profit for the year after tax to be distributed as a dividend.

Emphasis is placed on the bank's equity development, solvency, liquidity situation and market adjustment when determining the size of the cash dividend and the share of the profit.

Board authorisations

The Bank's articles of association do not contain any provisions on the purchase of own equity certificates. Decisions on this issue must be discussed and adopted by the Board of Trustees, which can authorise the Board of Directors. Such decisions/authorisations to increase equity are otherwise based on the Financial Institutions Act and the principles set out in the Public Limited Companies Act.

Deviations from the recommendation: None

EQUAL TREATMENT OF SHARE-HOLDERS AND TRANSACTIONS WITH RELATED PARTIES

The bank will place strong emphasis on transparency in relation to those, who provide the bank with equity and funding, and those who have relations with the bank in other ways.

Sparebanken Sør has one equity certificate class, and all equity certificate holders are treated equally. The Bank follows the provisions of the Financial Institutions Act on restrictions in ownership and voting rights insofar as the provisions apply to savings bank with listed equity certificates. Existing equity certificates have preference in the event of increases in capital, unless special circumstances dictate that this rule be waived. The waiver in such a case will be reasoned, and the reasons will be published in a stock exchange report.

In cases where the Bank has transactions in its own equity certificates, these are done on the stock exchange. If significant transactions occur between the Sparebanken Sør Group and equity certificate holders, board members, senior executives or parties related to these, the Board of Directors must ensure that a valuation has been made by an independent third party.

The Bank is obliged by the Stock Exchange's rules on reporting financial and other information to the market.

Deviations from the recommendation: None

EQUITY CERTIFICATES AND NEGOTIABILITY

Sparebanken Sør's equity certificates are listed on Oslo Stock Exchange and are freely negotiable.

The only restriction is statutory requirements which at present stipulate that acquisition of a qualified share of the equity capital, at 10 percent or more, requires consent from the Ministry of Finance.

Listing on the stock exchange ensures that the Bank abides by the terms and conditions which apply at any time in the equity market.

Deviations from the recommendation: None

THE BOARD OF TRUSTEES

A savings bank is, in essence, self-owned institution, and the management structure and composition of its governing bodies differs from those of limited liability companies with respect to the governing bodies a savings bank shall have. The Bank's governing structure and the composition of its governing bodies are deemed to comply with the wording of the recommendation" to the extent appropriate to savings banks with listed equity certificates".

The Bank's highest governing body is the Board of Trustees, which must ensure that the Bank acts in line with its purpose and in accordance with laws, articles of association and the Board of Trustees' own resolutions.

The Board of Trustees consists of 28 members, of whom 12 represent customers, 3 represent the general public, 6 represent equity certificate holders and 7 represent the Bank's employees. Mechanisms have been adopted that ensure geographical spread in the representation of the Bank's market areas.

Notice to the Board of Trustees' meetings will be sent with at least 21 days' notice. The Board of Trustees does not make decisions in other cases than those specified in the notice of the meeting.

The Board of Directors and auditor attend meetings of the Board of Trustees.

Deviations from the recommendation: None

NOMINATING COMMITTEES

Under the Bank's articles of association, 3 nominating committees are elected:

- The Trustees Election Committee shall prepare the elections of Trustees. One nominating committee with 8 members is elected from among the members of the Board of Trustees and shall have representatives from all groups represented in the Board of Trustees.
- The Depositor Nomination Committee shall prepare the election of depositors to the Board of Trustees. One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- Nomination Committee for the equity certificate holders shall prepare the election of representatives of the equity owners to the Board of Trustees. One nominating committee with 4 members is elected from among the equity certificate holders'-elected members of the Board of Trustees.

The work of the nomination committees

The Board of Trustees' nominating committee prepares election of the Chairman and Deputy Chairman of the Board of Trustees, the Chairman and Deputy Chairman of the Board of Directors, and other members and deputy members of the Board of Directors, excluding the employees' representatives. Likewise for elections of the Chairman, members and deputy members of the Nominating Committee.

The reasons for the recommendations of the Board of Trustees, the depositor-elected, equity certificate-elected and employees' nominating committees shall be given.

Deviations from the recommendation: None

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1 of the articles of association.

The Board of Directors shall consist of 7 to 8 members and 3 deputy members, of which at least 4 are from Agder and at least 1 member from Vestfold and Telemark. Among these, 2 members and 2 personal deputy members are elected from the employees. The other members of the Board of Directors elect a permanent attending deputy member with a right to speak.

Members of the Board of Directors are elected for two years.

The composition of the Board is based on expertise, capacity and diversity, and in compliance with the Bank's articles of association with regard to geographical distribution.

The Board of Directors independence

None of the bank's day-to-day management is a member of the Board of Directors.

The Board members' independence

All members of the Board of Directors are independent of executive personnel. The members of the Board of Directors are also independent of significant business connections.

Deviations from the recommendation: None

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for the funds at the Bank's disposal being managed in a secure and appropriate manner. The Board of Directors must ensure the satisfactory organisation of the Bank's operations, keep itself informed of the Bank's financial position and ensure that its operations, accounting and asset management are subject to satisfactory control.

The Board of Directors shall supervise day-to-day management and the Bank's operations in general.

The Board of Directors shall ensure that the Bank has good management and control systems in order to meet the statutory provisions applicable to the business.

The Board of Directors conducts an annual self-assessment.

The Audit Committee

The Audit Committee have separate instructions adopted by the Board of Directors. The committee is a preparatory and advisory committee for the Board of Directors, whose purpose is to strengthen work on financial reporting and internal control. At least one of the committee's members must be independent of the business and have qualifications (formal or experience-based competence) in accounting and auditing.

The Audit Committee prepares the Board of Directors' follow-up of the financial reporting process, monitors internal control and risk management systems, has ongoing contact with the Bank's chosen auditor, and assesses and monitors the auditor's independence.

The Board of Directors elects 3 members to the committee from among its members.

In accordance with the NUES recommendation, the majority of the members in the Audit Committee, are independent of the business.

The Risk Committee

The Risk Committee has separate instructions adopted by the Board of Directors. The Risk Committee is a preparatory and advisory committee to the Board of Directors and shall ensure that risk and capital management in the Group supports the Group's strategic development and achievement of objectives while ensuring financial stability and prudent asset management.

The Risk Committee shall monitor the overall risk and assess whether the group's management and control systems have been adjusted to the risk level and the scope of the business.

The Board of Directors elects 3 members to the committee from among its members.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee will help to ensure that there is consistency between the bank's remuneration arrangements, the overall objectives, risk tolerance and long-term interests.

The committee prepares all matters relating to remuneration schemes for the Board of Directors. The committee must support the work of the Board of Directors to determine and ensure that the Bank at all times has and practices guidelines and frameworks for remuneration arrangements.

The Bank has established a Remuneration Committee consisting of 3 members of the Board of Directors, of whom 1 member is an employee representative.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

Technology Committee

Technology Committee has its own instructions adopted by the Board of Directors. The committee shall have a special responsibility for being informed about financial technology and prepares all matters concerning strategic choices within the technology area for the Board.

The Nank has established a Technology Committee consisting of 2 members of the Board of Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Bank has established a separate risk management and control division. There is a clear division of responsibility between the various governing bodies in the Bank in accordance with laws and regulations, as well as internally adopted management, control and reporting procedures. Key bodies are the Board of Trustees, the Board of Directors, external auditing, internal auditing and Group management.

Internal audit

The Bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor must ensure that adequate and efficient internal control and risk management procedures have been established and implemented. Separate instruction has been prepared for the internal auditor. Each year, the Board of Directors approves the annual internal auditing plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The Bank has established guidelines and procedures for the implementation of internal controls based on the COSO model. This model has an international standard for comprehensive risk management, and is widely used within the financial sector. Responsibility for practical implementation of the Group's internal control processes is allocated to the Risk Management Division, organised independently of the business units.

Compliance

The Bank focuses on having good processes to ensure compliance with applicable laws and regulations, and has established a separate compliance function, organised independently of the business units.

Risk management and capital adequacy

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives are given by the strategic business concept. The targeted return is decisive for the bank's activities and specification of targets. Focus is to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the Bank's capital assessment. A process related to the Bank's risk and capital adequacy assessment (ICAAP) is carried out annually. The Board of Directors ensures that the bank has sufficient capital relatively to the desired risk and the bank's operations and ensures that the bank is adequately capitalised in respect of regulatory requirements. The ICAAP - process is based on requirements set out by the authorities in addition to the banks own assessments.

Consideration of external factors in value creation

As a basis for its operations, the Bank must set strict requirements for honesty and good business ethics. The Bank therefore expects employees and elected representatives to have a high level of integrity, and attitudes in accordance with the Bank's code of conduct. These provide guidance on customer care, donations, confidentiality, participation in other commercial activity and transactions with related parties. The code's guidelines also requires employees to report any breaches of internal guidelines, laws and regulations. The procedure for how such disclosures are to be made is described in more detail in the Bank's whistleblowing routines.

Deviations from the recommendation: None

REMUNERATION OF THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviations from the recommendation: None

REMUNERATION OF EXECUTIVE PERSONNEL

The remuneration to the CEO and the head of internal auditing is determined by the Board of Directors, following a proposal from the Remuneration Committee. Remuneration paid to members of Group management is determined by the CEO in consultation with the Remuneration Committee. No members of Group management receive performance-based remunerations other than participating in the Bank's ordinary bonus scheme, which encompasses all Bank employees. The head of internal auditing does not receive performance-based remuneration, and does not participate in the Bank's ordinary bonus scheme.

The Board of Directors' declaration on pay to executive personnel is submitted to the Board of Trustees annually.

Deviations from the recommendation: None

INFORMATION AND COMMUNICATION

The Bank must have an open and active dialogue with all stakeholders. It is the intention of the Bank that customers, equity certificate holders, lenders (financial market players) and public authorities should have simultaneous access to correct, clear, relevant and complete information on the Bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, a separate Investor Relations area on the Bank's website and financial reports.

Deviations from the recommendation: None

COMPANY ACQUISITION

Sparebanken Sør is a self-owned institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law, and no party may own more than 10 percent of the Bank's equity. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

The savings bank foundation Sparebankstiftelsen Sparebanken Sør owns 51 percent of the equity certificates in the bank.

Statutory limits on ownership are assumed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviations from the recommendation: None

EXTERNAL AUDITOR

An external auditor is selected by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor attends the meeting of the Board of Directors at which the annual financial statements are discussed. The external auditor also attends meetings of the Audit Committee and has an annual meeting with the Board of Directors without members of administration being present. The external auditor's fees are considered by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also governed by a separate letter of engagement which, among other things, is concerned with the parties' responsibilities.

The Audit Committee monitors the auditor's in-dependency, including what other services are provided by the auditor.

Deviations from the recommendation: None

Declaration from the Board of Directors and CEO

Declaration in accordance with section 5-5 of the Securities Trading Act

The Board of Directors and Sparebanken Sør`s Chief Executive Officer hereby confirm that the Bank and the Group`s 2019 financial statements have been prepared in accordance with currently valid accounting standards and that the information provided in the financial statements presents a true and fair view of the Bank's assets, liabilities, financial position and overall results.

In addition, we confirm that the Board og Directors report give a true and fair view of the development, results and financial position of the Bank and the Group, together with a description of the most central risk factors and uncertainties facing the Bank and the Group.

Kristiansand, 31 December 2020 / 2 March 2021

Stein A. Hannevik Chair	Inger Johansen Deputy chair	Mette Ramfjord Harv	Knut Ruhaven Sæthre	Merete Steinvåg Østby

Erik Edvard Tønnesen	Jan Erling Tobiassen Employee representative	Gunnhild Tveiten Golid Employee representative	Geir Bergskaug CEO

Auditor's report 2020

To the Board of Trustees of Sparebanken Sør

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør, which comprise:

- The financial statements of the parent company Sparebanken Sør (the Company), which comprise the balance sheet as at 31 December 2020, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The consolidated financial statements of Sparebanken Sør and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2020, the income statement, other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The business activities of the Group and the Company are largely unchanged compared to the previous year. We have not identified regulatory changes, transactions or other events that classify as new Key Audit Matters and our focus areas have remained the same in 2020 as in the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of loans to customers	
We focused on this area because loans to customers represent a significant portion of totals assets in the balance sheet and because valuation of loans to customers involves considerable judgement and large quantities of data which makes calculation of impairment of loans to customers complex. Impairment of loans to customers is performed in accordance with IFRS 9. For loans to customers where objective indicators of impairment exist, impairment is determined individually for each loan. For other loans to customers, impairment is calculated collectively based on a model. Both methods involve judgement that may affect financial results for the period and compliance with solvency regulations due to the risk classification of loans. For loans to customers where objective indicators of impairment exist, we have focused specifically on management's process for identification of loans to customers where objective indicators of impairment exist, management's follow-up of such loans and the assumptions used by management to calculate the impairment loss.	As part of our audit of expected impairment provisions, we assessed design and tested operating effectiveness of controls over quality assurance of assumptions and calculation methods. We determined that we could rely on these controls for the purposes of our audit. In addition, we performed detailed testing related to both loans to customers where impairment is calculated collectively based on a model and where impairment is estimated individually based on objective indicators of impairment. For loans to customers where objective indicators of impairment existed and the impairment was estimated individually, we tested a sample of such loans. We assessed the recoverable amount and cash flows that management had prepared to support the amount of impairment loss. We challenged management's assessment by interviewing client account managers and management. We compared the recoverable amount to external evidence where available. The outcome of our testing showed that the assumptions used by management when calculating individual impairment losses were reasonable. Where impairment is calculated collectively based on a model, we gained a detailed understanding of the process and performed testing to assess the following: - Calculations and methods used. - That the model used was was in accordance with the applicable framework and operated as intended. - Reliability and accuracy of central parameters and data used by the model. - Accurate and complete transfer of information from the model to the accounting system. Our testing gave no indications of material misstatement.

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For other loans to customers where impairment loss has been calculated collectively based on a model we have focused specifically on:

- Risk classification of loans to customers.
- Calculation of expected credit loss.
- Calculation of probability of default.
- Identification of significant change in credit risk.
- How loans to customers have been allocated to stages.
- Determination of significant input variables to the model.

We refer to notes 6 through 11 to the financial statements for a description of the group's impairment model, credit risk and impairment of loans to customers.

We have looked at the information disclosed in the notes related to valuation of loans to customers and found it to be sufficient and adequate.

The bank used external service organisations to operate certain key IT systems. The auditor of the respective service organisations evaluated design and tested operating effectiveness of the controls addressing integrity of the IT systems that are relevant to financial reporting. The auditor has issued a report on the audit of reports and application controls. The auditor tested that key calculations produced by the core IT systems were performed in line with expectations, including interest calculations and amortizations. The testing also covered integrity of data, changes and access to the IT systems. To assess if we could rely on the information included in the auditor's reports, we satisfied ourselves regarding the auditor's competence, capacity and objectivity and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the bank's IT systems and segregation of duties where this was considered necessary to our audit.

Our assessments and tests showed that we could rely on the data managed by and the calculations produced by the bank's IT systems relevant to financial reporting to be reliable.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial

Independent Auditor's Report - Sparebanken Sør

statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

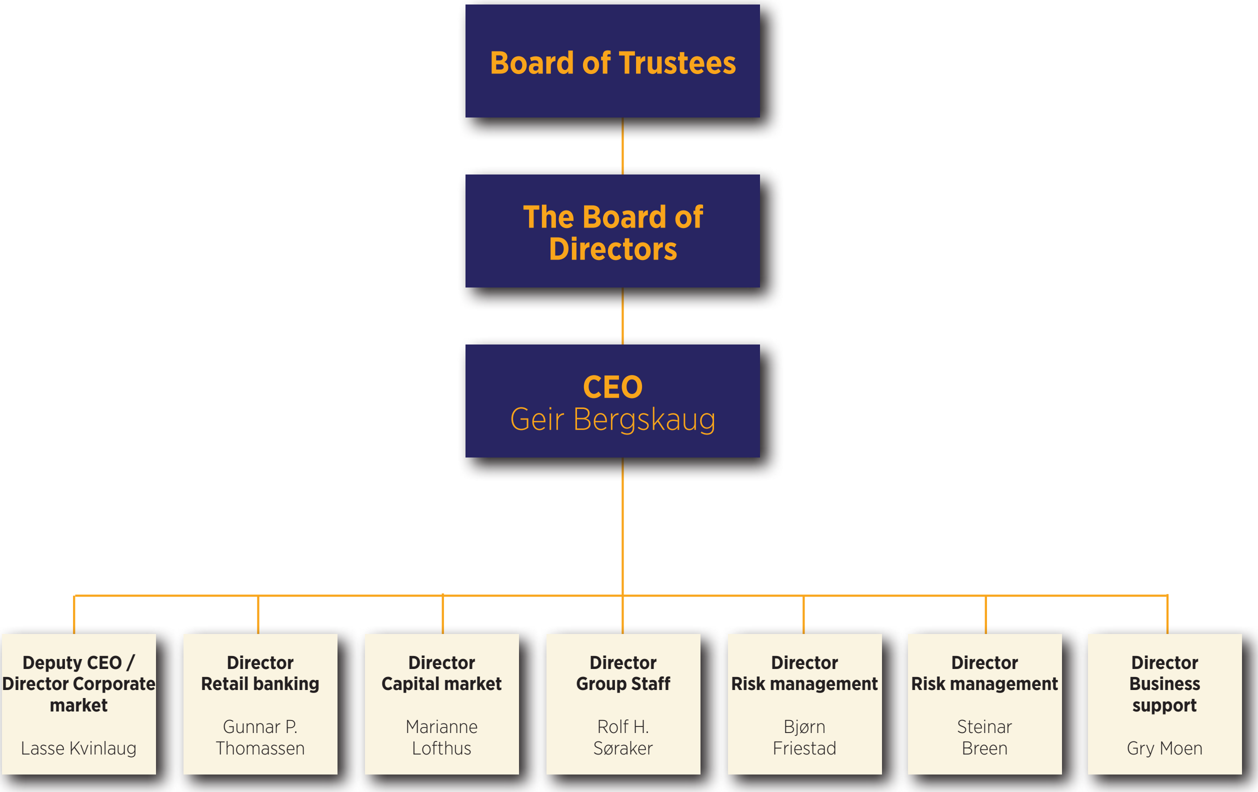
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 2 March 2021
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Organisation



THE BANK'S BRANCHES

The Group management

Geir Bergskaug (1960)

CEO from 1 January 2014. Former CEO of the "old" Sparebanken Sør from 1 November 2010. Worked in Gjensidige as Director and Executive Vice President (1999–2010), chairman of the board of Gjensidige Bank (2008–2010), General Manager / Director of DnB NOR (1988–1999). Master of Business and Economics from the Norwegian School of Economics and Business Administration. Additional education from Harvard Business School in Boston – GMP, INSEAD, Fontainebleau in France – MBA.

Lasse Kvinlaug (1961)

Deputy Chief Executive from 1 January 2014 and Corporate Market Director. Master of Business and Economics. Formerly worked in Sparebanken Pluss as Deputy Chief Executive, Director and General Manager (1997–2013). Also experience from Sparebanken NOR / Sparebanken ABC (1987–1997), as Assistant General Manager with responsibility for the corporate market in Kristiansand. Financial Consultant in Statoil (1984–87)

Marianne Lofthus (1961)

Capital Market Director from 1 January 2014 and General Manager of Sparebanken Sør Boligkreditt. Was CFO in Sparebanken Pluss (2003–2013) and has many years of experience from the financial operations in Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from the Norwegian School of Economics and Business Administration.

Gunnar P. Thomassen (1965)

Retail Banking Market Director from 1 January 2014. Previously worked in Sparebanken Sør as director, regional director and bank manager (1999–2013). Also has experience from Ernst & Young Management Consulting and the Industrial Fund/SND. Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology.

The Group management

Rolf H. Søraker (1960)

Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Also has experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master of Management.

Bjørn A. Friestad (1959)

Risk Management Director from 1 January 2014. Was responsible for credit and business development in Sparebanken Plus (2001–2013). Has a wide range of experience from various business areas in Sparebanken Agder / Sparebanken Pluss since 1986. Master in Business and Economics and aut. financial analyst (AFA) from the Norwegian School of Economics and Business Administration.

Gry Moen (1963)

Business Development Director from 1 January 2014. Has also worked in "old" Sparebanken Sør as Business Development Director from 2011. Was General Manager of ABCenter Holding (2009–2010) and Marketing Director in Sparebanken Sør (2006–2009). Has previous experience from Statoil, Telenor and LOS / Agder Energi. Education from Trondheim Business College / Ecôle Superiéure de Commerce Grenobles/Nantes.

Steinar Breen (1976)

Director of strategy and compliance from 1 April 2020. Previously an associate partner in EY's consulting business for banking and finance. Also has experience from Accenture. Has a master's degree in economics, cand. Oecon. and authorized financial analyst from NHH - Norwegian School of Economics.

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