

QUARTER 4
2017



SPAREBANKEN SØR

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Income statement (NOK million)	Q4 2017	Q4 2016	31.12.2017	31.12.2016
Net interest income	439	408	1 679	1 565
Net commission income	78	70	312	293
Net income from financial instruments	58	67	88	224
Other operating income	9	8	18	28
Total net income	584	553	2 097	2 110
Total operating expenses	210	194	811	787
Profit before losses on loans	374	359	1 286	1 323
Losses on loans and guarantees	-12	15	20	50
Profit before taxes	386	344	1 266	1 273
Tax expenses	74	73	282	284
Profit for the period	312	271	984	989
Income statement as percentage of average assets				
Net interest income	1.54 %	1.54 %	1.53 %	1.49 %
Net commission income	0.27 %	0.26 %	0.28 %	0.28 %
Net income from financial instruments	0.20 %	0.25 %	0.08 %	0.21 %
Other operating income	0.03 %	0.03 %	0.02 %	0.03 %
Total net income	2.05 %	2.08 %	1.92 %	2.01 %
Total expenses	0.74 %	0.73 %	0.74 %	0.75 %
Profit before losses on loans	1.32 %	1.35 %	1.17 %	1.26 %
Losses on loans and guarantees	-0.04 %	0.06 %	0.02 %	0.05 %
Profit before taxes	1.36 %	1.29 %	1.16 %	1.21 %
Tax expenses	0.26 %	0.27 %	0.26 %	0.27 %
Profit for the period	1.10 %	1.02 %	0.90 %	0.94 %
Average total assets	112 800	105 400	109 500	104 950
Balance sheet				
Total assets			114 310	105 455
Net loans to customers			97 518	90 928
Growth in loans as % last 12 mths.			7.2 %	2.9 %
Customers deposits			55 580	51 562
Growth in deposits as % last 12 mths.			7.8 %	6.6 %
Deposits as % of net loans			57.0 %	56.7 %
Equity			11 108	10 051
Losses on loans as % of net loans, annualised			0.02 %	0.05 %
Gross defaulted loans over 90 days as % of gross loans			0.28 %	0.30 %
Other key figures				
Cost as % of income	36.0 %	35.1 %	38.7 %	37.3 %
Cost as % of income ex net income from financial instruments	39.9 %	39.9 %	40.4 %	41.7 %
Return on equity after tax	12.0 %	11.4 %	9.7 %	11.3 %
Liquidity reserve (LCR) (Group)			139 %	128 %
Common equity tier 1 capital ratio			15.1 %	14.7 %
Common equity tier 1 capital ratio, when including share of partially owned companies			14.9 %	14.7 %
Tier 1 capital ratio			16.7 %	16.0 %
Total capital ratio			18.9 %	17.9 %
Common equity tier 1 capital			9 890	9 114
Tier 1 capital			10 965	9 939
Net total primary capital			12 347	11 121
Leverage ratio			9.2 %	8.6 %
Number of branches			34	34
Number of full-time equivalents in banking activity			432	439
Key figures. Equity certificates				
Equity certificate ratio, weighted average over the period	18.7 %	19.8 %	18.7 %	17.5 %
Number of equity certificates issued			15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2.8	2.6	8.9	8.5
Profit/diluted earnings per equity certificate (Group)	3.6	3.3	11.2	10.7
Dividend last year per equity certificate			6.0	6.0
Book equity per equity certificate			120.0	115.2
Price/Book value per equity certificate			0.9	0.8
Listed price on Oslo Stock Exchange at end of period *)			104.00	91.25

General

Sparebanken Sør is an independent financial institution that engages in banking, securities and real estate brokerage activities in the counties of Aust-Agder, Vest-Agder and Telemark. The Group has also established a new branch in Rogaland in 2017.

Real estate agency brokerage is carried out through the subsidiary Sørmeglere. General insurance and life insurance products are supplied through Frende, an insurance company of which the bank is a joint owner. The Bank is also a joint owner of Norne, a security trading company, and Brage, a supplier of leasing products, car financing and consumer credit.

Key features in Q4 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income
- Efficient operations and low costs
- Positive net losses
- Return on equity after tax of 12 percent

Key features in 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income
- Efficient operations and low costs
- Very low losses on loans
- Loan growth of 7.2 percent during the last 12 months
- Deposit growth of 7.8 percent during the last 12 months
- Successful opening of a new branch in Rogaland
- Return on equity after tax of 9.7 percent
- Common equity tier 1 capital ratio of 14.9 percent and leverage ratio of 9.2 percent
- The Board of Directors will propose a dividend for 2017 of NOK 6 per equity certificate to the Board of Trustees

Financial framework conditions

Norges Bank has held the key interest rate at 0.50 percent through 2017, and has thereby kept the key interest rate unchanged through 2017.

An extra financial tax of 5 percent on salaries was adopted in the national budget for 2017.

The government has established a new mortgage regulation for the customers' debt ratio and equity requirement, as well as a requirement for installments when a loan exceeds 60 percent of the collateral. Banks are still given the opportunity to exempt up to 10 percent of the bank's loan balance from these requirements (8 percent for loans granted in Oslo).

The Ministry of Finance has decided to increase the requirement for a countercyclical capital buffer from 1.5 percent to 2.0 percent with effect from 31.12.2017. The purpose is to make banks more robust. The increase is in line with the recommendation made by Norges Bank.

Both domestic and foreign capital markets have been well-functioning in 2017. In addition, credit spreads have remained stable in Q4. This has given the Group easy access to funding through covered bonds and senior debt.

The Annual growth in the general public's gross domestic debt (C2) was 6.3 percent at the end of December. Debt growth for households and industry amounted to 6.5 percent and 6.4 percent respectively.

Income statement

Profit before tax was NOK 386 million in Q4 2017, compared with NOK 344 million in the same period in 2016.

The Group has a solid profit before tax, a positive development in net interest income, low costs and low losses.

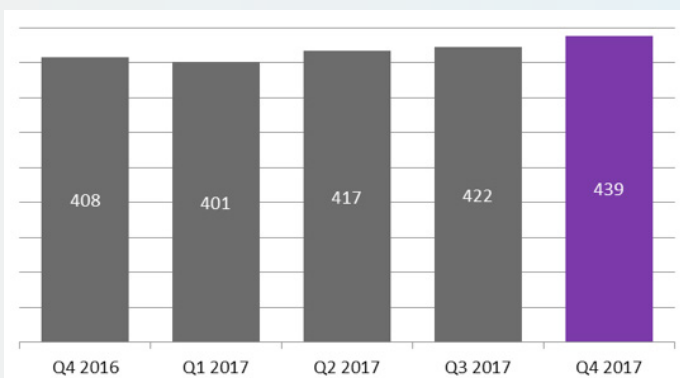
Profit from ordinary operations (*) show an increase of NOK 51 million in Q4 2017, when compared with Q4 2016.

The return on equity after tax was 12 percent in Q4 2017, compared with 11.4 percent in Q4 2016.

Profit from ordinary operations (*) at the end 2017 show an increase of NOK 105 million, when compared with 2016. Profit before tax in 2017 amounted to NOK 1 266 million, compared with NOK 1273 million in 2016. The return on equity after tax amounted to 9.7 percent for 2017, compared with 11.3 percent last year.

Net interest income

Quarterly net interest in NOK million



Net interest income amounted to NOK 439 in Q4 2017, compared with NOK 408 million in Q4 2016.

The bank changed its accounting principles from annual to periodic contributions to the Norwegian Banks' Guarantee Fund in Q1 2017. The cost amounted to NOK 10.7 million in Q4 2017, while NOK 37 million was posted in Q1 2016 for the whole of 2016. Consequently, no cost was posted in Q4 2016.

Hybrid capital has been reclassified as equity, and related interest has therefore been classified as surplus disposal. Interest expenses on hybrid capital amounted to NOK 11.6 in Q4 2017 and NOK 10.2 million in Q4 2016.

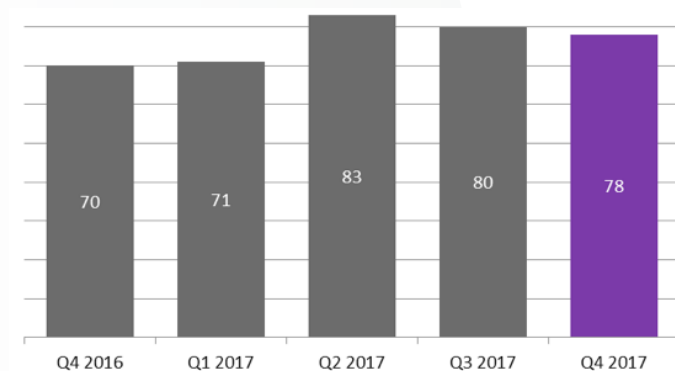
Adjusted for these two factors, net interest shows an increase of NOK 38 million in Q4 2017 when compared with Q4 2016. The increase is mainly caused by changes in the deposit rate. Net interest income was also somewhat higher than normal in Q4 due to a correction in accrual in the previous quarter.

Net interest income amounted to NOK 1 679 million in 2017, compared with NOK 1 565 million in 2016. The bank has paid a total of NOK 46.6 million in interest on hybrid capital so far in 2017, compared with NOK 32.6 million in 2016. Adjusted for interest on hybrid capital, net interest income was NOK 100 million higher in 2017.

*) Net interest income adjusted for accounting changes, commission income, other income and costs adjusted for the conversion of the pension scheme. See appendix for calculations.

Commission income

Quarterly net commission income in NOK million



Net commission income amounted to NOK 78 million in Q4 2017, compared with NOK 70 million in Q4 2016.

Gross commission income amounted to NOK 93 million in Q4 2017, compared with NOK 82 million in in Q4 2016.

Commission income in 2017 amounted to NOK 370 million, compared with NOK 345 million in the same period in 2016. The increase is mainly due to increased commissions in Sørmegløren.

NOK million	Q4 2017	Q4 2016	Change	2017	2016	Change
Payment services	43	40	3	169	165	4
Real estate brokerage	25	20	5	109	95	14
Others	25	22	3	92	85	7
Total	93	82	11	370	345	25

Financial instruments

Net income from financial instruments amounted to 58 million in Q4 2017, compared with NOK 67 million in the same period last year.

The positive net income is related to gains on shareholdings of NOK 48 million, positive changes in fixed interest loans accounts for NOK 4 million, positive accounting effects related to hedge accounting accounts for NOK 1 million and gains on basis-swaps accounts for NOK 8 million in Q4 2017. In addition, there were negative income effects of NOK 3 million related to the bond portfolio. The banks ownership share in Frende accounted for a significant portion of net income from financial instruments, with a return of NOK 55 million.

Net income from financial instruments amounted to NOK 88 million in 2017, compared with NOK 224 million in 2016.

Basisswaps are used to hedge fixed rate debt issued in Euro. The value of basisswaps fluctuates due to market changes, and the fluctuations are recognized in the income statement. These are hedging instruments, and assuming the underlying bonds are held to maturity, the change in market value over the instruments duration equals zero. Accounting effects will therefore be reversed over time.

Operating expenses

Quarterly operating expenses in NOK million



Total operating expenses amounted to NOK 210 million in Q4 2017, compared with NOK 194 million in the same period last year.

The operating expenses in Q4 2016 were extraordinary low as a consequence of the conversion of the banks collective defined benefit scheme (NOK 28 million). NOK 8 million related to the conversion in 2016 has been recognized in Q4 2017.

Adjusted for one-time accounting effects related to pension, operating expenses amounted to NOK 218 million in Q4 2017, compared with NOK 222 million in the same period last year. Even with increased expenses related to the banks new establishment in Rogaland and Sørmeqlerens new establishments in Telemark, there has been a decrease in operating expenses of NOK 4 million. Additionally, the new financial tax increased expenses by NOK 4.3 million in Q4 2017.

Total operating expenses as a percentage of average assets amounted to 0.74 percent (0.73 percent) in Q4 2017. The cost-income ratio was 36.0 (35.1 percent) in the Group. The cost-income ratio, excl. financial instruments, was 39.9 percent (39.9 percent).

Operating expenses amounted to NOK 811 million in 2017, compared with NOK 787 million in 2016. The cost-income ratio was 38.7 percent (37.3 percent). When excluding financial instruments, the cost-income ratio amounts to 40.4 percent (41.7 percent).

Losses and defaulted loans

Net losses on loans amount to NOK 12 million in Q4 2017, equivalent to 0.05 percent of net loans. The corresponding figures in 2016 were NOK 15 million and 0.06 percent of net loans.

The Group's individual write-downs as of 31 December 2017 amounted to NOK 388 million, equivalent to 0.40 percent of gross loans. The Group's collective write-downs as of 31 December 2017 amounted to NOK 180 million, equivalent to 0.18 percent of gross loans.

Gross non-performing loans amounted to NOK 273 million, equivalent to 0.28 percent of gross loans. The corresponding numbers for 2016 were NOK 276 million and 0.30 percent of gross loans.

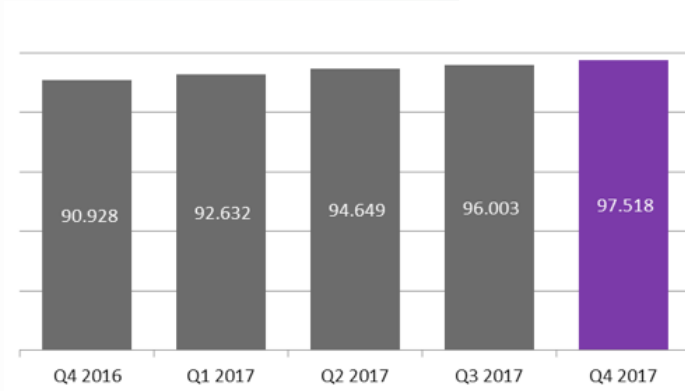
Other doubtful loans amounted to NOK 619 million. The corresponding figure in 2016 was NOK 634 million.

Net losses on loans amounted to NOK 20 million in 2017, amounting to 0.02 percent of net loans. The corresponding numbers for 2016 were NOK 50 million and 0.05 percent of net loans.

IFRS 9 – Financial instruments will replace IAS 39 – Financial instruments, recognition and measurement from 2018. There are significant changes in the impairment regulations in the new standard. Today's IAS 39 is based on an incurred loss model, while the upcoming IFRS 9 is based on an expected loss model. The bank has through 2016 and 2017 developed models to meet the new requirements. The banks calculation of expected losses for the Group as of 1 January 2018 gives a reduction on total loan impairment losses of NOK 2 million. The Groups equity will therefore increase by NOK 1.5 million following the implementation of IFRS 9.

Loans

Loans in NOK million



During the past 12 months, net loans have increased by NOK 6.6 billion to a total of NOK 97.5 billion, a growth of 7.2 percent.

The loan growth is in line with the banks expectation of a growth which is higher than growth in the markets where the bank is represented.

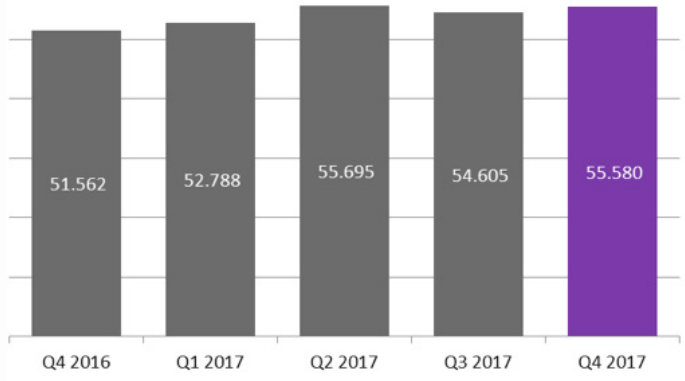
Gross loans to retail customers have increased by NOK 4.0 billion to NOK 63.8 billion the last 12 months, a growth of 6.7 percent.

Gross loan to corporate customers have increased by NOK 2.6 billion over the last 12 months to NOK 34.1 billion, a growth of 8.1 percent.

Loans to retail customers amounted to 65 percent (66 percent) of total loans at the end of 2017.

Deposits

Deposits in NOK million



During the past 12 months, customer deposits have increased by NOK 4.0 billion to NOK 55.6 billion, a growth of 7.8 percent.

Deposits from retail customers have increased by NOK 1.0 billion to NOK 25.9 billion, a growth of 3.9 percent.

Deposits from corporate customers have increased by NOK 3.0 billion to NOK 29.6 billion, a growth of 11.5 percent. The growth is mainly from the public sector, which is a focus area for the Group.

Sparebanken Sør’s deposits as a percentage of net loans were 57.0 percent as at 31 December 2017, up from 56.7 percent the same time last year.

Wholesale funding and liquidity portfolio

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

Wholesale funding amounted to NOK 44.3 billion at the end of 2017, of which 61 percent was through covered bonds. Long-term funding amounted to 92 percent at the end of 2017.

As at 31 December 2017, the portfolio of interest-bearing securities in the Group totalled NOK 13.5 billion, and the liquidity indicator for long-term financing was 109 percent.

The Group's liquidity credit rating (LCR) were 139 percent as at 31 December 2017 (134 percent in the parent bank).

Rating

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

All covered bonds issued by Sparebanken Sør Boligkreditt AS have also been rated by Moody's, with Aaa rating.

Primary capital and capital adequacy

Net primary capital amounted to NOK 12.3 billion. Hybrid capital amounted to NOK 1.1 billion and subordinated loans to NOK 1.4 billion. At the end of 2017, the common equity tier 1 (CET1) capital ratio was 15.1 percent. The tier 1 capital ratio was 16.7 percent and the (total) capital ratio 18.9 percent, based on the Basel II regulations.

As of Q1 2017 the Group has consolidated a proportion of its cooperative companies when calculating the capital ratio. In Sparebanken Sør, this applies to Brage Finans, where the bank has an ownership interest of more than 10 percent. The common equity tier 1 capital ratio, when including the Group's cooperative companies, amounts to 14.9 percent. The tier 1 capital ratio amounts to 16.6 percent and the (total) capital ratio amounts to 18.7 percent.

For the Parent Bank, the respective figures at the end of 2017 was a CET1 capital ratio of 15.5 percent, a tier 1 capital ratio of 17.5 percent and a (total) capital ratio of 19.9 percent.

Hence the Group has fulfilled the new capital requirements for financial institutions with effect from 31 December 2017 on 12.0 percent for common equity tier 1 capital, 13.5 percent for tier 1 capital and 15.5 percent for (total) capital. When including the pillar 2 - addition of 2.1 percent, the capital requirements are 14.1 percent for common equity tier 1 capital, 15.6 percent for tier 1 capital and 17.6 percent for total capital. Further adaptation of the buffer beyond this level will depend on market expectations and the Financial Supervisory Authority's response to the banks Internal Capital Adequacy Assessment Process (ICAAP).

An important part of the bank's ambition is to achieve a CET1 capital ratio at least level with comparable banks. Of the largest regional banks, Sparebanken Sør is the only bank using the standard method in the capital adequacy calculations. Sparebanken Sør decided in November to initiate the process of applying for approval from the Financial Authority to use the internal ratings-based approach (IRB). It is an ambition to send the application by the end of 2019.

The Groups leverage ratio was 9.2 percent at the end of 2017, compared with 8.6 percent at the end of 2016. The bank's capital is considered very satisfactory.

The bank's equity certificates

As at 31 December 2017, 15 663 944 equity certificates have been issued. The profit (Group) per equity certificate amounted to NOK 3.6 for Q4 2017 and NOK 11.2 for 2017. The ownership ratio for Q4 2017 was 18.7 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Report from the Board of Directors

Dividend

Sparebanken Sør shall through sound, stable and profitable operations ensure that its equity certificate owners achieve a competitive return in terms of dividend and return on their equity certificates.

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

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

The ambition is that approximately half of the equity certificate capital's proportion of annual profits should be paid as dividend.

The Board of Directors will propose a dividend of NOK 6.00 per equity certificate, which amounts to approx. 54 percent of the Groups income per equity certificate. With regard to the stock price as at 31 December 2017 of NOK 104, this amounts to a return of 5.8 percent. Additionally, NOK 40 million will be proposed distributed to the gift fund.

Subsidiaries and business partners

Sparebanken Sør Boligkreditt AS, the Bank's wholly owned subsidiary, is licensed to issue covered bonds and is used as an instrument in the bank's long-term funding strategy. As at 31 December 2017, the bank had transferred NOK 31 billion to Sparebanken Sør Boligkreditt AS, equivalent to 48.1 percent of all loans to the retail market.

Sørmegleren is the bank's own real estate agency and the leading estate agency business in the Agder counties. The company has a positive profit development and has also established new offices in Skien and Porsgrunn in 2017.

Frende Holding (10% ownership interest) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provides general insurance and life insurance to retail and corporate customers. The company has had strong growth in its customer base and premiums within both general and life insurance, together with positive profit-development.

Brage Finans (15% ownership interest) is a financing company which offers leasing and loans secured by the purchased objects to the corporate and retail markets. The company has continued its trend to develop and deliver profitable growth.

Norne Securities (17.6% ownership interest) is an investment firm that provides online trading, traditional brokerage and corporate finance services. The company has had a positive development in profit.

Balder Betaling (22.4% ownership interest) is a newly established company and is owned by Sparebanken Sør together with the 14 other banks in the Frende collaboration. The company has a 12 percent ownership interest in Vipps AS, and the company's task is to further develop Vipps (Norwegian mobile wallet) together with the other shareholders.

Outlook

The Board of Directors is satisfied with the financial performance after Q4 2017. The bank has had a good development in profit from ordinary operations through increased net interest income, increased commission income, good cost control and low losses.

After a weak growth in GDP over recent years, growth in the Norwegian economy has picked up. The weak NOK exchange rate, low interest rates and an expansionary fiscal policy has generated positive growth impulses and contributed to a higher export growth, a lower unemployment rate and increased private consumption. A more stable oil price seems to have contributed to a reduced fall in oil investments. The conditions for the Norwegian economy ahead therefore seem good.

House prices in the bank's main market has experienced a moderate growth over several years. Statistics for 2017 show a flattening house prices growth, and also a negative development in some regions. The Groups mortgage portfolio has a satisfactory LTV, and is well prepared to meet any further reduction in house prices. This is also supported by the stress tests that have been carried out.

Norges Bank has kept its key interest rate unchanged in 2017, and it was also kept unchanged at the last meeting on 25 January 2018. Their analysis implies a key interest rate that will remain close to current levels until autumn 2018, and then increase.

The Group has a requirement for a common equity tier 1 capital, including a pillar 2 addition of 2.1 percent, which amounts to 14.1 per cent. The Group aims for a common equity tier 1 capital ratio of 14.5 percent, and adjustments of the buffer beyond this level will depend on market expectations and the Financial Supervisory Authority's response to the banks ICAAP in 2018.

The Group expects growth to be higher than the overall credit growth in 2017. The Group has a goal of a return on equity of 9 percent.

The Group will as of 1 January 2018 implement the new standard IFRS 9, which affects the calculation of the Groups impairment losses on loans. The Group will calculate its impairment losses based on expected loan losses, and this is expected to create more fluctuations in the loan loss expense. Based on the bank's loan portfolio composition, economic trends, historical figures and local market conditions, net losses is expected to be low also in 2018.

In February 2017, the Group collaborated with more than 100 other Norwegian savings banks and DNB to establish a common mobile wallet under the brand Vipps. This is a collaboration we believe will provide the best and easiest payment solution for our customers, and it strengthens the bank's competitiveness on mobile solutions in the future.

The Bank shall in accordance with its strategy focus on cost and long-term value creation. The Bank's investments in technology will continue, which will contribute to cost efficient operations and enable streamlining of the office structure. This, together with high quality in customer credit assessments, will contribute to a continued profitable growth and development for Sparebanken Sør.

Events since the end of the quarter

There have been no recorded incidents since 31 December 2017 that affect the quarterly accounts.

Arendal, 9 February 2018

Stein A. Hannevik
Chairman

Torstein Moland
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen
Employee representative

Gunnhild T. Golid
Employee representative

Geir Bergskaug
CEO

Income statement

PARENT BANK				NOK million		GROUP			
31.12.	31.12.	Q4	Q4				Q4	Q4	31.12.
2016	2017	2016	2017		Notes	2017	2016	2017	2016
2 194	2 205	552	553	Interest income		740	733	2 953	2 928
963	884	220	218	Interest expenses		301	325	1 274	1 363
1 231	1 321	332	335	Net interest income		439	408	1 679	1 565
309	321	77	83	Commission income		93	82	370	345
52	58	12	15	Commission expenses		15	12	58	52
257	263	65	68	Net commission income		78	70	312	293
22	23			Dividend				15	10
228	121	52	58	Net income from other financial instruments		58	67	73	214
250	144	52	58	Net income from financial instruments		58	67	88	224
29	16	9	7	Other operating income		9	8	18	28
1 767	1 744	458	468	Total net income		584	553	2 097	2 110
359	374	84	103	Wages and other personal expenses		123	99	453	425
34	29	12	8	Depreciation and write-down of fixed assets and intangible assets		9	13	30	36
310	309	80	75	Other operating expenses		78	82	328	326
703	712	176	186	Total operating expenses		210	194	811	787
1 064	1 032	282	282	Profit before losses on loans		374	359	1 286	1 323
50	20	15	-12	Losses on loans and guarantees	2	-12	15	20	50
1 014	1 012	267	294	Profit before taxes	7	386	344	1 266	1 273
216	217	54	52	Tax expenses	12	74	73	282	284
798	795	213	242	Profit for the period		312	271	984	989
				Minority interests		1		1	1
798	795	213	242	Majority interests		311	271	983	988
8,5	8,9	2,6	2,8	Profit/ Diluted profit per equity certificate (In whole NOK)		3,6	3,3	11,2	10,7
Other comprehensive income									
798	795	213	242	Profit for the period		312	271	984	989
Items not reclassified to the profit and loss account									
15	-13	15	-13	Recognised estimate deviation, pensions		-13	15	-13	15
-3	3	-3	3	Tax effect of recognised estimate deviation, pensions		3	-3	3	-3
810	785	225	232	Other comprehensive income		302	283	974	1 001

PARENT BANK		NOK million		GROUP	
31.12.	31.12.			31.12.	31.12.
2016	2017	ASSETS	Notes	2017	2016
797	1 143	Cash and receivables from central banks		1 143	797
2 211	3 516	Loans to credit institutions		236	156
62 869	66 595	Net loans to customers	2,3,5,7,8	97 518	90 928
10 957	12 660	Bonds and certificates	8	13 468	11 815
542	572	Shares	8	572	542
453	385	Financial derivatives	8,9	754	604
1 259	1 256	Shareholdings in group companies			
9	39	Shareholdings in associated companies		39	9
18	15	Intangible assets		15	21
		Deferred tax assets			
417	387	Fixed assets		416	472
58	81	Other assets		149	111
79 590	86 649	TOTAL ASSETS	7,8	114 310	105 455
		LIABILITIES AND EQUITY CAPITAL			
232	974	Debts to credit institutions		902	178
51 577	55 593	Deposits from customers	4,7,8	55 580	51 562
16 584	17 848	Debt incurred due to issue of securities	8,10	44 343	41 217
366	283	Financial derivatives	8,9	306	616
195	228	Payable taxes		299	269
222	219	Other liabilities		256	258
77	87	Provisions for commitments		87	77
36	43	Deferred tax		25	24
1 203	1 404	Subordinated loan capital	8,10	1 404	1 203
70 492	76 679	Total liabilities		103 202	95 404
1 531	1 529	Equity certificate capital	11	1 529	1 531
825	1 075	Hybrid capital		1 075	825
6 742	7 366	Other equity		8 504	7 695
9 098	9 970	Total equity capital	6	11 108	10 051
79 590	86 649	TOTAL LIABILITIES AND EQUITY CAPITAL	7,8	114 310	105 455

Cash flow statement

PARENT BANK		NOK million	GROUP	
31.12. 2016	31.12. 2017		31.12. 2017	31.12. 2016
2 249	2 212	Interest payment received	2 951	2 972
-1 005	-922	Interest payment made	-1 317	-1 417
330	312	Other payments received	337	371
-719	-677	Operating payments	-794	-800
14	11	Established on confirmed losses	11	14
-138	-185	Period tax paid	-259	-237
-33	-21	Gifts paid	-21	-33
3 201	4 006	Change in customers deposits	4 008	3 214
-304	-3 790	Change in loans to customers	-6 650	-2 719
3 595	946	Net cash flow from operational activities	-1 734	1 365
10 155	8 179	Payments received regarding securities	8 278	10 519
-10 567	-9 826	Payments made regarding securities	-9 874	-11 688
13	30	Payments received regarding sale of fixed assets	66	27
-30	-24	Payments made regarding purchase of fixed assets	-28	-59
337	62	Change in other assets	-178	337
-92	-1 579	Net income from investing activities	-1 736	-864
-194	-1 305	Change in loans to credit institutions	-80	1
-393	742	Change in deposits from credit institutions	724	-397
300	4 550	Payments received, bond debt	10 810	9 560
-3 311	-3 174	Payments made, bond debt	-8 069	-9 774
-76	-141	Payments made, dividend and interest hybrid capital	-141	-76
314	450	Issuance of hybrid capital	450	314
	-200	Buy back of hybrid capital	-200	
	200	Issuance of subordinated loans	200	
582		Issuance of ECs		582
-260	-143	Change in other liabilities	122	-246
-3 038	979	Net cash flow from financing activities	3 816	-36
465	346	Net change in liquid assets	346	465
332	797	Cash and cash equivalents as at 01.01	797	332
797	1 143	Cash and cash equivalents at end of period	1 143	797

GROUP NOK million	Dividend								TOTAL
	Equity certificates	Premium fund	equalization- fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31 Dec. 2015	474	175	256	510	6 002	41	803	2	8263
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-33					-33
Profit per 31 Des. 2016				33			955	1	989
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
Balance 31 Dec. 2016	783	451	297	825	6 606	42	1 044	3	10 051
Dividends distributed for 2016							-94		-94
Issuance of hybrid capital				450	-1				449
Repaid hybrid capital				-200					-200
Interest on hybrid capital				-47					-47
Profit per 31 Des. 2017				47			936	1	984
Recognised estimate deviations, pension			-2		-11				-13
Tax effect estimate deviations, pension					3				3
Allocated gift fund						-21			-21
Other changes							-2	-2	-4
Balance 31 Dec. 2017	783	451	295	1 075	6 597	21	1 884	2	11 108
PARENT BANK									
Balance 31 Dec. 2015	474	175	256	510	6 002	41	43		7 501
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-33					-33
Profit per 31 Des. 2016			40	33	596	35	94		798
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
Balance 31 Dec. 2016	783	451	297	825	6 606	42	94	0	9 098
Dividends distributed for 2016							-94		-94
Issuance of hybrid capital				450	-1				449
Repaid hybrid capital				-200					-200
Interest on hybrid capital				-47					-47
Profit per 31 Des. 2017				47			748		795
Recognised estimate deviations, pension			-2		-11				-13
Tax effect estimate deviations, pension					3				3
Allocated gift fund						-21			-21
Balance 31 Dec. 2017	783	451	295	1 075	6 597	21	748	2	9 970

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with the International Standards for Financial Reporting (IFRS), including IAS 34. The applied accounting principles are the same as used in the 2016 annual financial statements.

The bank has changed its accounting principle regarding the fee to the Banks' Guarantee Fund in 2017. In accordance with the Guarantee Funds own regulations, the fee is determined based on an average of risk weighted assets for previous quarters. The new accounting principle has been adopted as a result of the new regulation for withdrawals from the Banks' Guarantee Fund. The regulatory amendment gives the right to a proportionate deduction in the fee on exit. As a consequence of the new regulation, and according to IFRIC 21, banks have to accrue the fee to the Norwegian Banks' Guarantee Fund. Comparative figures have not been restated, and the tax was expensed as a whole with NOK 37 million in Q1 2016.

There are no new standards applicable for 2017 that have a significant effect on the financial statements.

2. LOSSES ON LOANS AND GUARANTEES

PARENT BANK		NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
		Individual write-downs		
517	385	Individual write-downs at start of period	385	517
159	50	- Period's confirmed loss where individual write-down has been performed previously	50	159
74	27	+ Increased individual write-downs during the period	27	74
85	50	+ New individual write-downs during the period	50	85
132	24	- Reversal of individual write-downs during the period	24	132
385	388	= Individual write-downs at end of period	388	385

PARENT BANK			GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
		Collective write-downs on loans		
200	204	Collective write-downs of loans at start of period	210	206
4	-30	+ Change in collective write-downs during the period	-30	4
204	174	= Collective write-downs of loans at end of period	180	210

PARENT BANK			GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
		Loss expenses on loans during the period		
-132	3	Change in individual write downs during the period	3	-132
4	-30	+ Change in collective write-downs during the period	-30	4
159	50	+ Period's confirmed loss where individual write-downs has been performed previously	50	159
43	8	+ Period's confirmed loss where no individual write-downs has been performed previously	8	43
-11	4	+ Recognised as interest income	4	-11
14	11	- Period's recoveries relating to previous losses	11	14
1	-4	+ Change in write downs on guaranties	-4	1
50	20	= Loss expenses during the period	20	50

3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK		NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
275	273	Gross non-performing loans	273	276
89	60	Individual write-downs	60	89
186	213	Net non-performing loans	213	187
0,43 %	0,41 %	Gross non-performing loans in % of gross loans	0,28 %	0,30 %
634	619	Other doubtful loans	619	634
296	328	Individual loss-provisions	328	296
338	292	Net doubtful loans	292	338

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

4. CUSTOMERS DEPOSITS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
24 984	25 945	Retail customers	25 946	24 983
7 597	9 332	Public administration	9 332	7 597
495	485	Primary industry	485	495
1 523	2 257	Manufacturing industry	2 257	1 523
462	797	Real estate development	782	462
1 043	1 002	Building and construction industry	1 002	1 043
2 394	2 778	Property management	2 778	2 394
875	552	Transport	552	875
953	1 016	Retail trade	1 016	940
161	172	Hotel and restaurant	172	161
260	215	Housing cooperatives	215	260
5 346	5 265	Financial/commercial services	5 265	5 346
5 477	5 761	Social services	5 761	5 477
7	17	Accrued interests	17	7
51 577	55 593	Total deposits from customers	55 580	51 562

The distribution is based on official industry codes, and corresponds with what the Group reports internally.

5. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
31 789	32 896	Retail customers	63 844	59 861
334	413	Public administration	413	334
798	858	Primary industry	858	801
899	1 135	Manufacturing industry	1 136	899
3 399	4 160	Real estate development	4 112	3 396
1 421	1 515	Building and construction industry	1 515	1 427
15 645	16 275	Property management	16 273	15 629
565	666	Transport	666	570
1 023	1 147	Retail trade	1 147	985
371	610	Hotel and restaurant	610	372
898	1 438	Housing cooperatives	1 438	897
2 217	1 072	Financial/commercial services	1 072	2 221
3 970	4 812	Social services	4 812	3 977
129	144	Accrued interests	175	155
63 458	67 143	Total gross loans	98 071	91 523
589	562	Write-downs on lending	568	595
62 869	66 580	Total net loans	97 503	90 928

The distribution is based on official industry codes, and corresponds with what the Group reports internally.

6. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK		NOK million	GROUP	
31.12.16	31.12.17		31.12.17	31.12.16
9 098	9 970	Total equity	11 108	10 051
		Tier 1 capital		
-825	-1 074	Equity not eligible as common equity tier 1 capital	-1 088	-825
-94	-94	Share of profit not eligible as common equity tier 1 capital	-94	-94
-18	-15	- Deduction for intangible assets and deferred tax assets	-15	-18
0	-20	- Deduction for additional value adjustments (AVA)	-21	0
8 160	8 767	Total common equity tier 1 capital	9 890	9 114
		Other tier 1 capital		
825	1 075	Hybrid capital	1 075	825
0	0	Deduction in other tier 1 capital	0	0
8 985	9 842	Total tier 1 capital	10 965	9 939
		Additional capital over tier 1 capital		
1 204	1 404	Subordinated loan capital	1 404	1 204
-22	-22	Deduction in additional capital	-22	-22
1 204	1 404	Total additional capital	1 382	1 182
10 167	11 224	Net subordinated capital	12 347	11 121
		Minimum requirement for subordinated capital Basel II calculated according to the standard method:		
7	3	Engagements with local and regional authorities	3	7
59	59	Engagements with institutions	17	36
197	168	Engagements with enterprises	170	198
455	475	Engagement with mass market	498	473
2 881	3 048	Engagement secured in property	3 991	3 728
50	47	Engagement which have fallen due	47	50
0	0	Engagement which are high risk	0	0
260	284	Engagement in covered bonds	79	67
144	143	Engagement in collective investment funds	43	44
48	43	Engagement, other	44	48
4 101	4 270	Capital requirements for credit- and counterparty risk	4 892	4 651
5	1	Capital requirements for position-, currency- and product risk	1	5
198	219	Capital requirements for operational risk	280	259
26	23	CVA addition	65	45
0	0	Deduction from the capital requirement	0	0
4 330	4 513	Total minimum requirement for primary capital	5 238	4 960
54 125	56 401	Risk-weighted balance (calculation basis)	65 475	62 000
15.1 %	15.5 %	Common equity tier 1 capital ratio. %	15.1 %	14.7 %
16.6 %	17.5 %	Tier 1 capital ratio. %	16.7 %	16.0 %
18.8 %	19.9 %	Total capital ratio. %	18.9 %	17.9 %
8.0 %	8.4 %	Leverage ratio	9.2 %	8.6 %

As of Q1 2017 the Group has consolidated a proportion of its cooperative companies when calculating the capital ratio. For Sparebanken Sør, this applies to Brage Finance, where the bank has an ownership interest of more than 10 percent.

NOK million	Cooperative groups	
	31.12.17	31.12.16
Proportion of common equity tier 1 capital	111	0
Proportion of tier 1 capital	126	
Proportion of net primary capital	140	
Deductions from internal eliminations	-124	0
Common equity tier 1 capital after proportionate consolidation	9 877	9 114
Tier 1 capital after proportionate consolidation	10 967	9 939
Net primary kapital after proportionate consolidation	12 363	11 121
Porportion of risk weighted balance	793	0
Deductions from internal eliminations	-147	0
Risk weighted balance after propoortonate consolidation	66 121	62 000
Common equity tier 1 capital after proportionate consolidaton, %	14,9 %	14,7 %
Tier 1 capital after proportionate consolidation, %	16,6 %	16,0 %
(Total) capital after proportionate consolidation, %	18,7 %	17,9 %
Leverage ratio after proportionate consolidation, %	9,2 %	8,6 %

7. SEGMENT REPORTING

Report per segment	Group 31.12.2017				Group 31.12.2016			
	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Income statement (NOK millon)								
Net interest and commision income	1 021	653	5	1 679	948	618	-1	1 565
Net other operating income	187	67	164	418	183	67	295	545
Operating expenses	371	95	345	811	371	91	325	787
Profit before losses per segment	837	625	-176	1 286	761	594	-32	1 323
Losses on loans and guarantees	7	46	-33	20	8	40	2	50
Profit before tax per segment	830	579	-143	1 266	753	554	-34	1 273
Net loans to customers	64 545	33 025	-51	97 518	60 069	30 915	-56	90 928
Other assets			16 792	16 792			14 527	14 527
Total assets per segment	64 545	33 025	16 741	114 310	60 069	30 915	14 471	105 455
Deposits from customers	27 771	21 387	6 423	55 580	26 473	20 270	4 819	51 562
Other liabilities	36 774	11 638	-790	47 622	33 596	10 645	-399	43 842
Total liabilities per segment	64 545	33 025	5 633	103 202	60 069	30 915	4 420	95 404
Equity			11 108	11 108			10 051	10 051
Total liabilities and equity per segment	64 545	33 025	16 741	114 310	60 069	30 915	14 471	105 455

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

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

Level 2:

Instruments where the value is based on valuation techniques in which all assumptions (all input) are based on directly or indirectly observable market data. Values in this regard may be obtained from external market players or reconciled against external market players offering these types of services. This includes interest rate swaps, currency swaps, contracts listed on Bloomberg or Reuters, basis swaps and interest and currency derivatives against customers.

Level 3:

Instruments where the value are based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. Evaluation of equity and debt, estimated cash flows and other valuation methods are used for significant variables that are based on unobservable input.

This category includes investments in unlisted companies and fixed rate loans where no necessary market information is available.

For a more detailed description, see Note 21 Fair value of financial instruments in the 2016 annual financial statements.

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

PARENT BANK				NOK million	GROUP			
Recognized value	Fair value			31.12.2016	Recognized value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortized cost								
797		797		Cash and receivables from central banks	797		797	
2 211		2 211		Loans to credit institutions	156		156	
55 355			55 355	Net loans to customers (floating interest rate)	83 414			83 414
Assets recognized at fair value								
7 514			7 514	Net loans to customers (fixed interest rate)	7 514			7 514
10 957		10 957		Bonds and certificates	11 815		11 815	
542	33		509	Shares	542	33		509
453		453		Financial derivatives	604		604	
77 829	33	14 418	63 378	Total financial assets	104 842	33	13 372	91 437
Liabilities recognized at amortised cost								
232		232		Debt to credit institutions	178		178	
51 577			51 577	Deposit from customers	51 562			51 562
16 584		16 616		Debt incurred due to issue of securities	41 217		41 362	
1 203		1 195		Subordinated loan capital	1 203		1 195	
Liabilities recognized at fair value								
366		366		Financial derivatives	616		616	
69 962	0	18 409	51 577	Total financial liabilities	94 776	0	43 351	51 562

Movement level 3

GROUP / PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares	Of which credit risk
Recognized value as at 1 Jan. 2016	8 290	-62	464	0
Acquisitions 2016	644		16	
Of which, transferred from level 1 or 2				
Change in value recognized during the period	-122	48	55	0
Disposals 2016	-1 298		-27	
Recognized value as at 31 Dec. 2016	7 514	-14	509	0
Acquisitions 2017	235		21	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-48	12	59	0
Disposals 2017	-1 385		-21	
Recognized value as at 31 Dec. 2017	6 316	-2	567	0

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	31.12.2017	31.12.2016
Loans to customers	16	22
- of which, loans to corporate market (CM)	5	6
- of which, loans to retail market (RM)	11	16

9. OFFSETTING

GROUP

NOK million	31.12.2017	31.12.2017 (1) Net presented	31.12.2016	31.12.2016 (1) Net presented
Assets				
Financial derivatives	754	507	604	297
Liabilities				
Financial derivatives	306	58	616	309

PARENT BANK

NOK million	31.12.2017	31.12.2017 (1) Net presented	31.12.2016	31.12.2016 (1) Net presented
Liabilities				
Financial derivatives	385	180	453	159
Liabilities				
Financial derivatives	283	78	366	73

(1) Financial derivatives indicate assets and liabilities in cases where the bank and the Group have recognized their financial derivatives net in relation to each individual counterparties.

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

10. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities – Parent bank

NOK million	31.12.2017	31.12.2016
Bonds, nominal value	17 580	16 204
Value adjustments	131	192
Accrued interest	137	188
Debt incurred due to issue of securities	17 848	16 584

Change in debt securities – Parent bank

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	31.12.2017
Bonds, nominal value	16 204	4 550	-3 174		17 580
Value adjustments	192			-61	131
Accrued interest	188			-51	137
Debt incurred due to issue of securities	16 584	4 550	-3 174	-112	17 848

Debt securities - Group

NOK million	31.12.2017	31.12.2016
Bonds, nominal value	43 990	40 922
Value adjustments	125	42
Accrued interest	228	253
Debt incurred due to issue of securities	44 343	41 217

Change in debt securities - Group

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	31.12.2017
Bonds, nominal value	40 922	10 810	-8 069	327	43 990
Value adjustments	42			83	125
Accrued interest	253			-25	228
Debt incurred due to issue of securities	41 217	10 810	-8 069	385	44 343

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

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	31.12.2017
Subordinated loans	1 200	200			1 400
Accrued interest	3				4
Total subordinated loan capital	1 203	200	0	0	1 404

11. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as at 31 December 2017.

NAME	NUMBER OF EC	SHARE OF EC-CAP. %	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1. Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00	11. Gumpen Bileiendom AS	154 209	0.98
2. Arendal Kom. pensjonskasse	450 000	2.87	12. Allumgården AS	151 092	0.96
3. Pareto AS	417 309	2.66	13. Landkreditt Utbytte	150 000	0.96
4. Bergen Kom. Pensjonskasse	410 491	2.62	14. Ottersland AS	100 000	0.64
5. Holta Invest AS	405 700	2.59	15. Wenaas Kapital AS	100 000	0.64
6. EIKA utbytte VPF c/o Eika kapitalforv.	399 148	2.55	16. MP Pensjon PK	85 523	0.55
7. Glastad Invest AS	387 467	2.47	17. Artel AS	82 131	0.52
8. Merrill Lynch	329 080	2.10	18. Profond AS	77 115	0.49
9. Wenaasgruppen AS	186 000	1.19	19. Apriori Holding AS	72 575	0.46
10. Otterlei Group AS	168 200	1.07	20. Varodd AS	70 520	0.45
Total - 10 largest owners	11 142 074	71.12	Total - 20 largest owners	12 185 239	77.77

The weighted average ownership ratio as at 1 January 2017 was 18.7 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Sparebanken Sør owns 5 168 of its own equity certificates as at 31 December 2017. The equity certificate capital was NOK 783 197 200 NOK distributed over 15 663 944 equity certificates with a nominal value of NOK 50.

12. TAX EXPENSES

The ordinary tax rate of 25 % is used for calculation of payable tax.

13. IFRS 9 TRANSITION EFFECTS

On the 1st of January 2018, IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments - recognition and measurement. As of this date, the Group will change its accounting principles according to the new standard.

Classification and measurement of financial instruments

The transition to the new standard on the 1st of January 2018, will cause the following changes in balance sheet items.

GROUP					
NOK million	IAS 39		IFRS 9		
	Measurement	Book value	Measurement	Book value	Change
Financial assets					
Cash and receivables from central banks	Amortized cost	1 143	Amortized cost	1 143	0
Loans to credit institutions	Amortized cost	236	Amortized cost	236	0
Net loans to customers		97 518		97 520	2
- Fixed rate	Fair value option	6 316	Fair value option	6 316	0
- Others	Amortized cost	91 202	Amortized cost	91 204	2
Bonds and certificates	Fair value option	13 468	Fair value option	13 468	0
Shares	Fair value option	572	Fair value option	572	0
Financial derivatives	Fair value	754	Fair value	754	0
Shareholdings in associated companies	Amortized cost	39	Amortized cost	39	0
Financial liabilities					
Debts to credit institutions	Amortized cost	902	Amortized cost	902	0
Deposits from customers	Amortized cost	55 580	Amortized cost	55 580	0
Debt incurred due to issuance of securities	Amortized cost	44 353	Amortized cost	44 353	0
Financial derivatives	Virkelig verdi	306	Virkelig verdi	306	0
Subordinated loan capital	Amortized cost	1 404	Amortized cost	1 404	0
PARENT BANK					
NOK million	IAS 39		IFRS 9		
	Measurement	Book value	Measurement	Book value	Change
Financial assets					
Cash and receivables from central banks	Amortized cost	1 143	Amortized cost	1 143	0
Loans to credit institutions	Amortized cost	3 516	Amortized cost	3 516	0
Net loans to customers		66 595		66 602	7
- Residential mortgages (1)	Amortized cost	27 963	Fair value through OCI	27 954	-9
- Fixed rate	Fair value option	6 316	Fair value option	6 316	0
- Others	Amortized cost	32 316	Amortized cost	32 332	16
Bonds and certificates	Fair value option	12 660	Fair value option	12 660	0
Shares	Fair value option	572	Fair value option	572	0
Financial derivatives	Fair value	385	Fair value	385	0
Shareholdings in associated companies	Amortized cost	39	Amortized cost	39	0
Financial debt					
Debt to credit institutions	Amortized cost	974	Amortized cost	974	0
Deposits from customers	Amortized cost	55 593	Amortized cost	55 593	0
Debt incurred due to issuance of securities	Amortized cost	17 848	Amortized cost	17 848	0
Financial derivatives	Fair value	283	Fair value	283	0
Subordinated loan capital	Amortized cost	1 404	Amortized cost	1 404	0

1) In accordance with IAS 39, residential mortgages have been measured at amortized cost. However, IFRS 9 introduces a new business-based classification model. All residential mortgages will at some time in the future be available for sale to the bank's wholly owned subsidiary Sparebanken Sør Boligkreditt. In accordance with IFRS 9, residential mortgages will consequently be classified and measured at fair value through OCI.

Basisswaps established until 31.12.2017 have been recognized at fair value through profit or loss, and will be recognized similarly until maturity. According to IFRS 9, basisswaps established as of 1.1.2018 will be recognized at fair value through other comprehensive income (OCI).

Write-downs according to IAS 39 have been based on objective evidence of credit impairment losses, or an accrued loss model. Write-downs according to the new IFRS 9 standard are based on an expected credit loss model. The calculation of expected credit losses in the company as at 1.1.2018, will lead to a decrease of NOK 2 million (NOK 7 million in the parent bank).

Effects on the Equity statement

GROUP NOK million	Equity certificates	Premium fund	Equalization fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority Interests	TOTAL
Balance as at 31.12.2017	783	451	295	1 075	6 597	21	1 884	2	11 108
Changes as a result of IFRS 9							2		2
Effect on taxes as a result of IFRS 9							-1		-1
Balance at at 01.01.2018	783	451	295	1 075	6 597	21	1 885	2	11 109
PARENT BANK									
Balance as at 31.12.2017	783	451	295	1 075	6 597	21	748	0	9 970
Changes as a result of IFRS 9							7		7
Effect on taxes as a result of IFRS 9							-2		-2
Balance at at 01.01.2018	783	451	295	1 075	6 597	21	753	0	9 975

Changes in write-downs after the transition to IFRS 9 will have a positive net effect on equity, amounting to NOK 1 million for the group and to NOK 5 million for the parent bank.

Because the introduction of IFRS 9 will have a positive effect on the Group's equity capital, there is no need for Sparebanken Sør to make use of the rule of transition.

Further information regarding the calculation will be disclosed in the 2017 annual report.

Risk management ensures that the Group's risk exposure is known at any time and is instrumental in helping the Group to achieve its strategic objectives, in addition to being in compliance with legal and regulatory requirements. Governing targets have been established for the Group's overall risk level, while specific governing targets have been established for each risk area. Systems have been established to calculate, manage and control risk. The aim of capital management is to ensure that the Group has an acceptable tier 1 capital ratio, is financially stable and achieves a satisfactory return in relation to its risk profile. The Group's total capital ratio and risk exposure are monitored through periodic reports.

Credit risk

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

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

Market risk

Market risk generally arises from the Group's unsecured transactions in the interest rate, currency and equity markets. It can be divided into interest rate risk, currency risk, share risk and spread risk. The risk is linked to variations in results caused by changes in the interest rate, market prices and/or exchange rates. Guidelines and limits have been established by the Board of Directors for managing market risk.

Liquidity risk

Liquidity risk is risk linked to Sparebanken Sør's ability to finance its lending growth and fulfil its loan obligations subject to market conditions. Liquidity risk also includes the risk of the financial markets that the Group wishes to use, ceasing to function. Guidelines and limits for the management of liquidity risk have been established by the Board of Directors.

Operational risk

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

Business risk

Business risk is defined as the risk of unexpected revenue fluctuations based on factors other than credit risk, liquidity risk, market risk and operational risk. This risk could for example arise as a result of the authorities introducing amendments to regulations or the implementation of financial or monetary policy measures, including changes in tax, duty and currency legislation, which could have a negative impact on the business.

It is a precondition for Sparebanken Sør that risk must be subject to active and satisfactory management, based on objectives and limits established by the Board of Directors for risk exposure and risk tolerance.

Quarterly profit trend

NOK million	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Net interest income	439	422	417	401	408
Net commission income	78	80	83	71	70
Net income from financial instruments	58	21	-5	14	67
Other operating income	9	2	3	4	8
Total net income	584	525	498	490	553
Total operating expenses	210	194	208	199	194
Profit before losses	374	331	290	291	359
Losses on loans and guarantees	-12	4	13	15	15
Profit before taxes	386	327	277	276	344
Tax expenses	74	80	62	66	73
Profit for the period	312	247	215	210	271

% of average assets

Net interest income	1.54	1.51	1.54	1.54	1.54
Net commission income	0.27	0.29	0.31	0.27	0.26
Net income from financial instruments	0.2	0.07	-0.02	0.05	0.25
Other operating income	0.03	0.01	0.01	0.02	0.03
Total net income	2.05	1.87	1.84	1.88	2.08
Total operating expenses	0.74	0.69	0.77	0.76	0.73
Profit before losses	1.32	1.18	1.07	1.12	1.35
Losses on loans and guarantees	-0.04	0.01	0.05	0.06	0.06
Profit before taxes	1.36	1.17	1.02	1.06	1.29
Tax expenses	0.26	0.29	0.23	0.25	0.27
Profit for the period	1.10	0.88	0.80	0.81	1.02
Average total assets	112 800	111 100	108 400	105 680	105 400

Balance sheet

Total assets	114 310	111 315	110 907	105 895	105 455
Net loans to customers	97 518	96 003	94 649	92 632	90 928
Growth in loans as % last 12 mths.	7.2 %	6.6 %	4.9 %	3.8 %	2.9 %
Customers deposits	55 580	54 605	55 695	52 788	51 562
Growth in deposits as % last 12 mths.	7.8 %	6.6 %	8.7 %	8.4 %	6.6 %
Deposits as % of net loans	57.0 %	56.9 %	58.8 %	57.0 %	56.7 %
Equity	11 108	10 831	10 391	9 947	10 051
Losses on loans as % of net loans, annualised	-0.05 %	0.02 %	0.06 %	0.06 %	0.05 %
Gross defaulted loans over 90 days as % of gross loans	0.28 %	0.27 %	0.29 %	0.26 %	0.30 %

Other key figures

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

Cost as % of income	36.0 %	37.0 %	41.8 %	40.6 %	35.1 %
Cost as % of income, ex net income from financial instruments	39.9 %	38.5 %	41.4 %	41.8 %	39.9 %
Return on equity after tax	12.0 %	9.8 %	8.5 %	8.7 %	11.4 %
Liquidity reserve (LCR) (Group)	139 %	144 %	158 %	114 %	128 %
Common equity tier 1 capital ratio (added share of profit)	15.1 %	14.7 %	14.6 %	14.6 %	14.7 %
Common equity tier 1 capital ratio (incl. partly owned companies)	14.9 %	14.5 %	14.4 %	14.4 %	14.7 %
Tier 1 capital ratio	16.7 %	16.3 %	16.0 %	15.3 %	16.0 %
Total capital ratio	18.9 %	18.1 %	17.8 %	17.2 %	17.9 %
Common equity tier 1 capital	9 890	9 625	9 434	9 101	9 114
Tier 1 capital	10 965	10 700	10 309	9 726	9 939
Net total primary capital	12 347	11 881	11 490	10 904	11 121
Leverage ratio	9.2 %	9.1 %	9.0 %	8.8 %	8.6 %
Number of branches	34	34	34	33	34
Number of full-time equivalents in banking activity	432	431	430	431	439

Key figures. Equity certificates

Equity certificate ratio	18.70 %	18.7 %	18.7 %	18.7 %	19.8 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2.8	2.1	2.1	1.9	2.6
Profit/diluted earnings per equity certificate (Group)	3.6	2.8	2.4	2.4	3.3
Dividend last year per equity certificate	6.0	6.0	6.0	6.0	6.0
Book equity per equity certificate	120	116.6	113.9	111.6	115.2
Price/Book value per equity certificate	0.9	0.9	0.9	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	104	103	100.00	96.50	91.25

	31.12.2017	31.12.2016	31.12.2015	31.12.2014*	31.12.2013*
Income statement (NOK million)					Proforma
Net interest income	1 679	1 565	1 521	1 511	1 443
Net commission income	312	293	300	284	252
Net income from financial instruments	88	224	-66	184	201
Other operating income	18	28	14	23	22
Total net income	2 097	2 110	1 769	2 002	1 918
Total expenses	811	787	817	834	800
Profit before losses on loans	1 286	1 323	952	1 168	1 118
Losses on loans and guarantees	20	50	97	268	126
Profit before taxes	1 266	1 273	855	900	992
Tax expenses	282	284	231	215	219
Profit for the period	984	989	624	685	773
Income statement as percentage of average assets					
Net interest income	1.53 %	1.49 %	1.55 %	1.60 %	1.60 %
Net commission income	0.28 %	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.08 %	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.02 %	0.03 %	0.01 %	0.02 %	0.03 %
Total net income	1.92 %	2.01 %	1.81 %	2.12 %	2.13 %
Total expenses	0.74 %	0.75 %	0.83 %	0.88 %	0.89 %
Profit before losses on loans	1.17 %	1.26 %	0.97 %	1.24 %	1.24 %
Losses on loans and guarantees	0.02 %	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	1.16 %	1.21 %	0.87 %	0.96 %	1.10 %
Tax expenses	0.26 %	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	0.90 %	0.94 %	0.64 %	0.73 %	0.86 %
Average total assets	109 500	104 950	98 000	94 300	90 200
Balance					
Total assets	114 310	105 455	101 334	94 062	93 758
Net loans to customers	97 518	90 928	88 387	80 913	77 450
Grows in loans as % last 12 mths.	7.2 %	2.9 %	9.2 %	4.5 %	6.8 %
Customers deposits	55 580	51 562	48 349	48 250	43 740
Growth in deposits as % last 12 mths.	7.8 %	6.6 %	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	57.0 %	56.7 %	54.7 %	59.6 %	56.5 %
Equity	11 108	10 051	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	0.02 %	0.05 %	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.28 %	0.30 %	0.47 %	0.71 %	0.60 %
Other key figures					
Cost as % of income	38.7 %	37.3 %	46.2 %	41.7 %	41.7 %
Cost as % of income ex net income from financial instruments	40.4 %	41.7 %	44.5 %	45.9 %	46.6 %
Return on equity after tax	9.7 %	11.3 %	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	139.0 %	128.0 %	108.0 %		
Common equity tier 1 capital ratio (added share of profit)	15.1 %	14.7 %	12.7 %	13.1 %	12.8 %
Common equity tier 1 capital ratio (incl. partly owned companies)	14.9 %	14.7 %	12.7 %	13.1 %	12.8 %
Tier 1 capital ratio	16.7 %	16.0 %	13.5 %	14.4 %	14.2 %
Total capital ratio	18.9 %	17.9 %	15.5 %	15.1 %	15.1 %
Common equity tier 1 capital	9 890	9 114	7 700	7 092	6 376
Tier 1 capital	10 965	9 939	8 210	7 792	7 076
Net total primary capital	12 347	11 121	9 388	8 170	7 522
Leverage ratio	9.2 %	8.6 %	7.0 %	7.0 %	
Number of branches	34	34	40	40	44
Number of full-time equivalents in banking activity	432	439	449	454	489
Key figures. Equity certificates					
Equity certificate ratio before profit distribution	18.7 %	19.8 %	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	15 663 944	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent bank)	8.9	8.5	10.8	12.2	10.3
Profit per equity certificate (Group)	11.2	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	6.0	6.0	9.0	10.0	10.0
Book equity per equity certificate	120.0	115.2	219.0	212.0	187.0
Price/Book value per equity certificate	0.9	0.8	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	104	91.3	139	196	150

Calculations

	Q4	Q3	Q2	Q1	Q4	31.12.	31.12.
NOK million	2017	2017	2017	2017	2016	2017	2016
Return on equity adjusted for hybrid capital							
Profit after tax	312	247	215	210	271	984	989
Interest on hybrid capital	-12	-10	-15	-10	-10	-47	-33
Profit after tax, incl. interest on hybrid capital	300	237	200	200	261	937	956
IB Equity	10 831	10 391	9 947	10 051	9 800	10 051	8 263
IB Hybrid capital	-1 075	-875	-625	-825	-825	-825	-510
IB Equity excl. hybrid capital	9 756	9 516	9 322	9 226	8 975	9 226	7 753
UB Equity	11 108	10 831	10 391	9 947	10 051	11 108	10 051
UB Hybrid capital	-1 075	-1 075	-875	-625	-825	-1 075	-825
UB Equity excl. hybrid capital	10 033	9 756	9 516	9 322	9 226	10 033	9 226
Average equity	10 970	10 611	10 169	9 999	9 926	10 580	9 157
Average equity excl. hybrid capital	9 895	9 636	9 419	9 274	9 101	9 630	8 490
Return on equity	11.3 %	9.2 %	8.5 %	8.5 %	10.9 %	9.3 %	10.8 %
Return on equity excl. hybrid capital	12.0 %	9.8 %	8.5 %	8.7 %	11.4 %	9.7 %	11.3 %
Net interest income, adjusted for accounting changes							
Net interest income	439	422	417	401	408	1 679	1 565
Fee to the Norwegian Banks' Guarantee Fund					-9		
Interest on hybrid capital	-12	-10	-15	-10	-10	-47	-33
Net interest income, adjusted for accounting changes	427	412	402	391	389	1 632	1 532
Average total assets	112 800	111 100	108 400	105 680	105 400	109 500	104 950
As a percentage of total assets	1.50 %	1.47 %	1.49 %	1.50 %	1.47 %	1.49 %	1.46 %
Operating costs, adjusted for conversion of the pension scheme							
Operating costs	210	194	208	199	194	811	787
Conversion of pension scheme	8				28	8	28
Operating costs, adjusted for conversion of the pension scheme	218	194	208	199	222	819	815
Profit from ordinary operations							
Net interest income, adjusted for accounting changes	427	412	402	391	389	1 632	1 532
Nett commission income	78	80	83	71	70	312	293
Other operational income	9	2	3	4	8	18	28
Operating income, adjusted for conversion of pension scheme	218	194	208	199	222	819	815
Profit from ordinary operations, before tax	296	300	279	267	245	1 143	1 038
Profit excl. finance and adjusted for accounting changes							
Net interest income, adjusted for accounting changes	427	412	402	391	389	1 632	1 532
Net commission income	78	80	83	71	70	312	293
Other operational income	9	2	3	4	8	18	28
Operating income, adjusted for conversion of pension scheme	218	194	208	199	222	819	815
Losses on loans and guarantees	-12	4	13	15	15	20	50
Profit excl. finance and adjusted for accounting changes	308	296	266	252	230	1 123	988
Tax (25 %)	77	74	67	63	58	281	247
Ordinary operations / adjusted profit after losses and tax	231	222	200	189	173	842	741
Average equity, excl. Hybrid capital	9 895	9 636	9 419	9 274	9 101	9 630	8 490
Return on equity, profit excl. Finance and adjusted for accounting	9.3 %	9.1 %	8.5 %	8.3 %	7.5 %	8.7 %	8.7 %
Ordinary operations / adjusted profit after losses and tax							
Average interest / interest margins							
Average lending rate RM (Return)	2.72 %	2.75 %	2.77 %	2.83 %	2.78 %	2.78 %	2.86 %
Average lending rate CM (Return)	3.20 %	3.25 %	3.35 %	3.44 %	3.53 %	3.32 %	3.55 %
Average deposit rate RM	0.81 %	0.82 %	0.82 %	0.82 %	0.87 %	0.82 %	0.93 %
Average deposit rate CM	0.92 %	1.04 %	1.06 %	1.10 %	1.16 %	1.03 %	1.19 %
Average 3 month NIBOR	0.81 %	0.81 %	0.92 %	1.02 %	1.13 %	0.89 %	1.07 %
Lending margin RM (lending rate - 3 month NIBOR)	1.91 %	1.94 %	1.85 %	1.81 %	1.65 %	1.89 %	1.79 %
Lending margin CM (lending rate - 3 month NIBOR)	2.39 %	2.44 %	2.43 %	2.42 %	2.40 %	2.43 %	2.48 %
Deposit margin RM (3 month NIBOR - deposit rate)	0.00 %	-0.01 %	0.10 %	0.20 %	0.26 %	0.07 %	0.14 %
Deposit margin CM (3 month NIBOR - deposit rate)	-0.11 %	-0.23 %	-0.14 %	-0.08 %	-0.03 %	-0.14 %	-0.12 %

The report and accounting presentation from the Board of directors refer to certain adjusted numbers which are not defined by IFRS (Alternative Performance Measures (APM)). This is done to give a better picture of the banks underlying operations, and is not meant to replace the ordinary financial report. The table above explains the relation between the adjusted and the unadjusted numbers.

SPAREBANKEN SØR

