QUARTER 4
2018

SPAREBANKEN SØR

Contents

Key figures Group

Income statement (NOK million)	Q4 2018	Q4 2017	31/12/2018	31/12/2017
Net interest income	447	439	1 729	1 679
Net commission income	82	78	318	312
Net income from financial instruments	-49	58	2	88
Other operating income	3	9	23	18
Total net income	**483**	**584**	**2 072**	**2 097**
Total operating expenses before losses	255	210	884	811
Operating profit before losses	**228**	**374**	**1 188**	**1 286**
Losses on loans, guarantees and unused credit	-44	-12	-36	20
Profit before taxes	**272**	**386**	**1 224**	**1 266**
Tax expenses	68	74	285	282
Profit for the period	**204**	**312**	**939**	**984**
Profit as a percentage of average assets				
Net interest income	1.46 %	1.54 %	1.46 %	1.53 %
Net commission income	0.27 %	0.27 %	0.27 %	0.28 %
Net income from financial instruments	-0.16 %	0.20 %	0.00 %	0.08 %
Other operating income	0.01 %	0.03 %	0.02 %	0.02 %
Total net income	**1.58 %**	**2.05 %**	**1.75 %**	**1.92 %**
Total operating expenses before losses	0.83 %	0.74 %	0.75 %	0.74 %
Operating profit before losses	**0.74 %**	**1.32 %**	**1.00 %**	**1.17 %**
Losses on loans, guarantees and unused credit	-0.14 %	-0.04 %	-0.03 %	0.02 %
Profit before taxes	**0.89 %**	**1.36 %**	**1.03 %**	**1.16 %**
Tax expenses	0.22 %	0.26 %	0.24 %	0.26 %
Profit for the period	**0.67 %**	**1.10 %**	**0.79 %**	**0.90 %**
Key figures, income statement				
Return on equity after tax (adjusted for hybrid capital)	7.2 %	12.0 %	8.5 %	9.7 %
Costs as % of income	52.8 %	36.0 %	42.7 %	38.7 %
Costs as % of income, excl. net income from financial instruments	48.0 %	39.9 %	42.7 %	40.4 %
Key figues, balance sheet				
Total assets			121 125	114 310
Average total assets	121 400	112 800	118 600	109 500
Net loans to customers			102 942	97 518
Growth in loans as % last 12 mths.			5.6 %	7.2 %
Customer deposits			56 537	55 580
Growth in deposits as % last 12 mths.			1.7 %	7.8 %
Deposits as % of net loans			55 %	57 %
Equity (incl. hybrid capital)			11 845	11 108
Losses on loans as % of net loans, annualised			-0.17 %	0.02 %
Gross non-performing loans over 90 days as % of gross loans			0.21 %	0.28 %
Other key figures				
Liquidity reserve (LCR) Group			190 %	139 %
Liquidity reserve (LCR) Group - Euro			4727 %	3105 %
Liquidity reserve (LCR) Parent Bank			180 %	134 %
Common equity tier 1 capital ratio, including share of partly owned companies			14.8 %	14.9 %
Tier 1 capital ratio			16.6 %	16.7 %
Total capital ratio			18.7 %	18.9 %
Core equity tier 1 capital			10 517	9 890
Tier 1 capital			11 591	10 965
Net total primary capital			13 096	12 347
Leverage ratio			9.1 %	9.2 %
Number of branches			34	34
Number of FTEs in banking operations			434	432
Key figures, equity certificates				
Equity certificate ratio, weighted avarage over the period	17.9 %	18.7 %	17.9 %	18.7 %
Number of equity certificates issued			15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	1.6	2.8	7.7	8.9
Profit/diluted earnings per equity certificate (Group)	2.2	3.6	10.1	11.2
Dividend last year per equity certificate			6.0	6.0
Book equity per equity certificate			123.2	120.0
Price/book value per equity certificate			0.8	0.9
Listed price on Oslo Stock Exchange at end of period			96.90	104.00

Board of Director's report

General

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

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

Highlights in Q4 2018

- Positive development in net interest income
- Increased net commission income
- Net entry on losses in Q4
- Good results from ordinary operations
- Acquisition of shares in Frende Holding AS

Highlights in 2018

- Positive development in net interest income
- Increased net commission income
- Efficient operations and low costs
- Net entry on losses on loans in 2018
- Year-on-year loan growth of 5.6 percent
- Year-on-year deposit growth of 1.7 percent
- Return on equity after tax of 8.5 percent
- Common equity tier 1 capital ratio of 14.8 percent and leverage ratio of 9.1 percent
- The Board of Directors will propose a dividend for 2018 of NOK 6 per equity certificate

Financial framework conditions

The key interest rate increased on 20 September 2018 from 0.50 percent to 0.75 percent. The reason for the increase was the continued upturn in the Norwegian economy and the fact that the underlying inflation rate was close to the target of 2 percent. Norges Bank kept the key interest rate unchanged on 24 January 2019. Analysis by Norges Bank indicates a gradual rise in interest rates in years to come. The central bank has indicated that there will most likely be a further upward adjustment in the key interest rate in March 2019.

The Norwegian mainland economy experienced further growth in 2018. According to Norges Bank, GDP growth closed on a probable growth of 2.4 percent, up 0.4 percent from 2017. The first half of 2018 showed a better trend than the second half, among other things due to lower oil prices and lower future growth prospects. In the labour market there was a further positive trend in 2018. The employment rate rose and unemployment fell further.

Both domestic and foreign capital markets have worked efficiently, providing the Group with access to funding through covered bonds and senior debt in 2018. Credit spreads increased slightly in Q4 2018.

Annual growth in the general public's gross domestic debt (C2) was 5.4 percent at the end of 2018. Debt growth for households and businesses was 5.5 percent and 5.1 percent respectively.

The Ministry of Finance decided to raise the requirement for a countercyclical capital buffer from 2.0 percent to 2.5 percent with effect from 31 Dec. 2019. The increase is in line with the recommendation made by Norges Bank.

The Norwegian Financial Supervisory Authority (NFSA) proposed in October 2018 changes related to regulation and identification of systemically important financial institutions. The proposal indicates that Sparebanken Sør in the future will be considered systemically important. The proposal is currently under consideration and has not been finally adopted.

Earnings

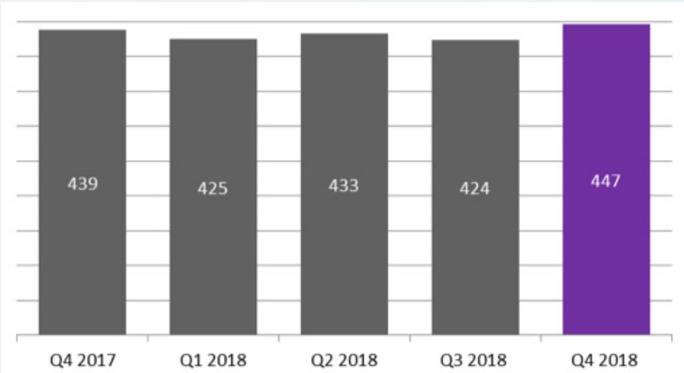
The bank posted a profit before tax of NOK 272 million in Q4 2018, compared with NOK 386 million in the same period in 2017. The decrease in profit is mainly due to a reduction in income from financial instruments, increased expenses and net entry on losses on loans.

The Group’s return on equity after tax was 7.2 percent in Q4 2018, compared with 12.0 percent in Q4 2017. The Group is well-capitalised with a common equity tier 1 capital ratio of 14.8 percent and a leverage ratio of 9.1 percent.

Profit before tax for 2018 was NOK 1 224 million, compared with 1 266 million in the same period of 2017. Return on equity after tax was 8.5 percent, compared with 9.7 percent in 2017. Profit from ordinary operations* was relatively stable during the year.

Net interest income

Quarterly net interest income (NOK million)



Net interest income totalled NOK 447 million in Q4 2018, compared with NOK 439 million in Q4 2017. Following the interest rate meeting on 24 Sept. 2018 in Norges Bank, the Group raised the interest rate on loans and selected deposits. The change took full effect from 5 November, and alone contributed approximately NOK 23 million to the Group’s net interest income.

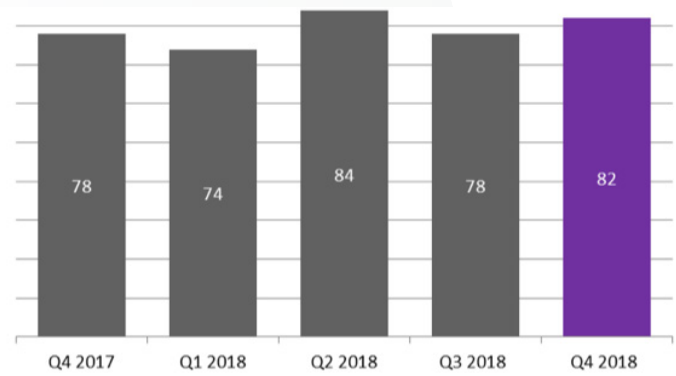
Net interest income as a percentage of average total assets in Q4 2018 was 1.46 percent, down from 1.54 percent in the same period in 2017.

Interbank interest rates continued their trend from the first months of 2018, with a modest increase in Q4 2018. Particularly in the retail market, this has led to lower margins on loans to customers in 2018. Margins in the corporate market, where 80 percent of the loan portfolio is linked to NIBOR, have been less affected. Higher interbank interest rates have had a positive impact on margins on deposits.

*Net interest income adjusted for accounting changes, commission income, other income and cost-adjusted for conversion of the pension scheme. See also the appendix for details of calculation.

Commission income

Quarterly net commission income (NOK million)



Net commission income totalled NOK 82 million in Q4 2018, compared with NOK 78 million in Q4 2017.

Gross commission income in Q4 2018 totalled NOK 98 million, compared with NOK 93 million in Q4 2017.

Gross commission income in 2018 totalled NOK 380 million, compared with NOK 370 million in 2017. The increase is mainly due to income from payment services, Brage Finans AS and a non-recurring transfer of NOK 5 million linked to commission from the sale of life insurance in Q1 2018.

Commission income	Q4 2018	Q4 2017	Change	2018	2017	Change
Payment services	45	43	2	173	169	4
Real estate brokerage	23	25	-2	105	109	-4
Others	30	25	5	102	92	10
Total	**98**	**93**	**5**	**380**	**370**	**10**

Financial instruments

Net income from financial instruments totalled minus NOK 49 million in Q4 2018, compared with NOK 58 million in the same period in 2017. Q4 2018 provided increased lending margins related to fixed rate loans, resulting in negative changes in value on fixed rate loans recognised at fair value. Simultaneously, credit spreads in the bond market showed a slight increase in Q4, resulting in negative changes in value of the bank's liquidity portfolio.

Net income from financial instruments	Q4 2018	Q4 2017	Changes	2018	2017	Changes
Bonds and certificates	-18	-3	-15	-33	26	-59
Shares incl. dividends	-3	48	-51	45	75	-30
Fixed rate loans	-29	4	-33	-1	5	-6
Securities issued - hedge accounting	-3	1	-4	-10	-26	16
Repurchase of issued bonds	-3	-1	-2	-15	-22	7
Other financial instruments	7	9	-2	16	30	-14
Total	**-49**	**58**	**-107**	**2**	**88**	**-86**

On 31 January 2019 Sparebanken Sør entered into an agreement to purchase 4.34 percent of the shares in Brage. The purchase price was NOK 47.4 million. After the acquisition Sparebanken Sør holds a stake of 19.87 percent after the investment in Brage. The bank intends from time of purchase to change the accounting policies of the investment in Brage, which as at 31 Dec. 2018 was recognised at fair value. The investment is after the acquisition defined as an investment in associated companies, and going forward the Group will apply the equity method. The acquisition and reclassification will result in an accounting gain of around NOK 7 million in Q1 2019.

The bank made no value adjustments related to its ownership interests in Brage or Norne in 2018.

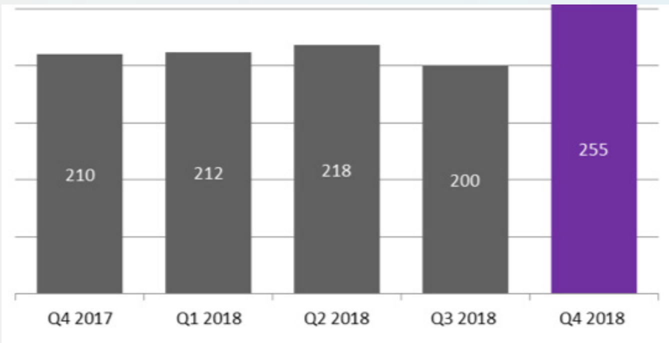
The accounting effects linked to hedge accounting are mainly caused by changes in the value of basis swaps. Basis swaps are used to hedge fixed-rate debt issued in euros. The value of basis swaps fluctuates due to market changes, and the fluctuations are recognised in the income statement. These are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

Associated companies

In Q3 2018 Sparebanken Sør entered into an agreement with Fana Sparebank to purchase 10.2 percent of the shares in Frende Holding AS. Following the acquisition, Sparebanken Sør owns 20.2 percent and classifies Frende as an associated company. The investment is now recognised according to the equity method, and an acquisition analysis has been carried out in connection with the reclassification. The acquisition analysis shows added value beyond the share of booked equity in Frende of NOK 213 million. The added value will be amortised over the expected life, and the bank amortized NOK 5 million in Q4. At the same time, the Group has recognised NOK 1 million in the income statement as share of profit after tax in Frende.

Operating expenses

Quarterly operating expenses (NOK million)



Operating expenses closed on NOK 255 million in Q4 2018, compared with NOK 210 million in the same period in 2017.

Total operating expenses as a percentage of average assets were 0.83 percent (0.74 percent) in Q4 2018. Cost-income ratio was 52.8 percent in the Group (36.0 percent). The cost-income ratio, excl. financial instruments, was 48.0 percent (39.9 percent).

Operating expenses are higher than normal in Q4, mainly due to non-recurring costs related to upgrading of the bank's headquarters, increased pension costs and strategic digital investments.

Total operating expenses were NOK 884 million in 2018, compared with NOK 811 million in 2017. The increase is due to non-recurring costs related to upgrading of the bank's headquarters in Q4, pension costs (which were NOK 28 million higher at the end of Q4 2018 compared with the same period in 2017), and costs related to strategic digital investments. The cost-income ratio was 42.7 percent (38.7 percent), while the cost-income ratio, excl. financial instruments, was 42.7 percent (40.4 percent).

The bank expects operating expenses in 2019 to be at the same level as in 2018.

Losses and non-performing loans

Net entry on losses on loans totalled NOK 44 million in Q4 2018, equivalent to NOK 12 million in Q4 2017.

Net entry on losses on loans in 2018 totalled NOK 36 million, compared with net losses on loans of NOK 20 million in 2017.

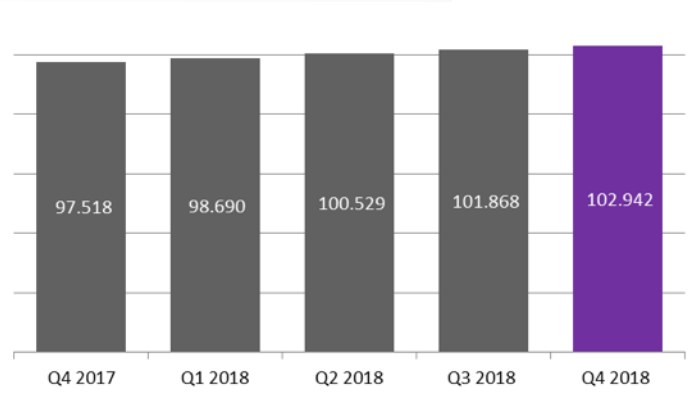
Effective 1 January 2018, IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement. Under the new standard, the bank has applied a new model to calculate losses. The model for impairment losses and the transitional effects are described in Note 38 to the 2017 annual financial statements. The Group's impairment losses at the end of Q4 2018 are based on the new model, and there were no significant accounting effects in the period. At the end of Q4 2018, the Group's impairment losses were calculated at NOK 473 million, which is equivalent to 0.46 percent of gross loans.

Gross non-performing loans more than 90 days in arrears totalled NOK 213 million, which is equivalent to 0.21 percent of gross loans. This is a significant decrease from the corresponding figures of Q4 2017, which were NOK 273 million and 0.28 percent respectively.

Board of Director's report

Loans

Loans NOK million



Over the past 12 months net loans increased by NOK 5.4 billion to a total of NOK 102.9 billion, representing a growth of 5.6 percent.

Loan growth in Q4 was NOK 1.1 billion, which is equivalent to annualised growth of 4.2 percent.

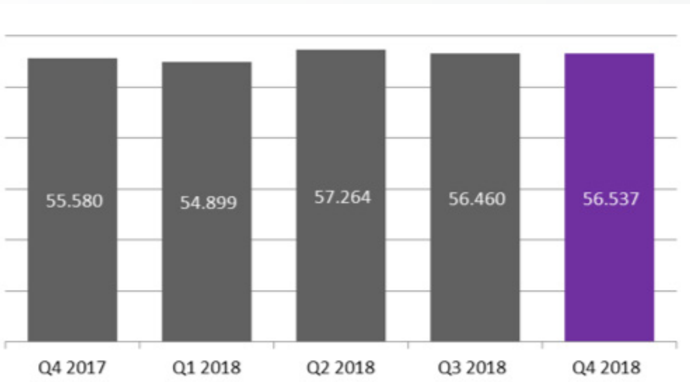
Over the past 12 months, gross loans to retail customers rose by NOK 3.4 billion to NOK 67.3 billion, a rate of growth of 5.3 percent. This growth is slightly lower than the rate of credit growth in Norway. Nevertheless, analyses indicate an increase in market shares of mortgages in the bank's main market.

Gross loans to corporate customers rose by NOK 1.9 billion to NOK 35.9 billion over the last 12 months, representing a rate of growth of 5.5 percent.

Loans to retail customers accounted for 65 percent (66 percent) of total loans at the end of 2018.

Deposits

Deposits NOK million



Over the past 12 months, customer deposits rose by NOK 1.0 billion to NOK 56.5 billion, a growth rate of 1.7 percent.

Deposits from retail customers increased by NOK 0.9 billion to NOK 26.8 billion, a growth rate of 3.3 percent.

Deposits from corporate customers rose by 0.1 billion to NOK 29.7 billion, a growth rate of 0.4 percent.

At the end of the reporting date, Sparebanken Sør's deposits equated to 55 percent of net loans, down from 57 precent at the same time last year.

Wholesale funding and liquidity portfolio

The Group's liquidity situation is satisfactory. The liquidity buffers are adequate and the maturity structure of the funding is well-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.

At the end of Q4 2018, wholesale funding amounted to NOK 48.3 billion, of which 63 percent was sourced through covered bonds and 90 percent through long-term financing.

At the reporting date, the Group's portfolio of interest-bearing securities totalled NOK 14.6 billion, while the liquidity indicator for long-term financing was 110 percent.

At the same date, the Group's liquidity reserves (LCR) were 190 percent (Parent Bank: 180 percent).

Rating

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

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

Subordinated capital and capital adequacy

At the end of Q4 2018, net subordinated capital amounted to NOK 13.1 billion, while hybrid capital closed on NOK 1.1 billion and subordinated loans totalled NOK 1.6 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.0 percent; the tier 1 capital ratio was 16.6 percent and the (total) capital ratio for the Sparebanken Sør Group was 18.7 percent (based on Basel II).

Sparebanken Sør has a 15.5 percent shareholding in Brage Finans and accordingly, has consolidated a proportion of its cooperative companies when calculating the capital ratio. The common equity tier 1 capital ratio, including the Group's partner companies, amounts to 14.8 percent. The tier 1 capital ratio is 16.4 percent and the (total) capital ratio is 18.5 percent.

For the Parent Bank, the respective figures at the end of Q4 2018 were a CET1 capital ratio of 15.2 percent, a tier 1 capital ratio of 17.0 percent and a (total) capital ratio of 19.5 percent.

In July 2018, the bank received the Financial Supervisory Authority's assessment and decision regarding the Pillar 2 requirements. The assessment was made in conjunction with the capital appreciation process (SREP) for 2018, and the Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of the risk-weighted assets. This requirement is related to an assessment of risk factors not covered by the Pillar 1 requirements, and also includes a new method of calculating capital requirements associated with partly owned insurance companies. The capital requirement relating to the shareholding in Frende Holding AS alone accounts for 0.3 percentage points.

The Group met the respective capital requirements for financial institutions effective from 31 December 2018 of 14.0 percent for common equity tier 1 capital, 15.5 percent for tier 1 capital and 17.5 percent for (total) capital.

The Group has stated a target of achieving a CET1 capital ratio of 14.8 percent. The Ministry of Finance decided in December 2018 to increase the countercyclical capital buffer by 0.5 percent with effect from 31 December 2019. The Group will adjust to the new requirements during 2019. Further adjustment of the buffer beyond the current level will depend on market expectations.

One of the bank's key goals is to achieve a CET1 capital ratio at least equal to comparable banks. Sparebanken Sør is the only one of the major regional banks to apply the standard method in calculating capital adequacy. Sparebanken Sør decided to initiate a process to request approval from NFSA to apply the internal ratings-based approach (IRB). The bank aims to submit the application by the end of 2020.

At the end of Q4 2018, the Group's leverage ratio was 9.1 percent, compared with 9.2 percent at the end of Q4 2017. The bank's capital is considered highly satisfactory.

Board of Director's report

The bank's equity certificates

As of 31 December 2018, the bank had issued 15 663 944 equity certificates. Profit (Group) per equity certificate was NOK 2.2 in Q4 2018 and NOK 10.1 for the whole of 2018. The ownership ratio in Q4 2018 was 17.9 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Dividends

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

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

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

The bank aims to distribute approximately half of the equity certificate holders' share of earnings after tax as dividend.

The Board of Directors will propose a dividend for 2018 of NOK 6.0 per equity certificate. This is equivalent to approximately 59 percent of the Group result per equity certificate. In relation to the share price as at 31 December 2018 of NOK 96.90, this represents a return of 6.2 percent. Additionally, NOK 40 million will be proposed for distribution to the gift fund.

Subsidiaries and partner businesses

The bank's wholly owned subsidiary **Sparebanken Sør Boligkreditt AS** is licensed to issue covered bonds which are used as an instrument in the bank's long-term funding strategy. As of 31 December 2018, the bank had transferred NOK 38.7 billion to Sparebanken Sør Boligkreditt AS, equivalent to 58 percent of all loans to the retail market.

Sørmegleren is the bank's own real estate agency and the leading estate agency business in southern Norway. The agency had positive earnings in 2018, although these were weaker than in 2017.

Frende Holding AS (20.2 percent shareholding) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provide general insurance and life insurance to retail and corporate customers.

In 2018, Frende Holding AS posted a profit of NOK 84.7 million (301 million) before tax and a return on equity of 4.0 percent (19.9 percent). The first nine months of 2018 were notable for challenging conditions related to Frende Skade. However, Q4 2018 turned out to be one of the best quarters in the company's history in terms of insurance claims. The combined ratio for Q4 was 85.5 percent. Frende Liv provided good risk results in 2018, although with a slightly weaker trend in Q4.

Q4 alone produced a profit before tax of NOK 24.2 million (NOK 81.5 million). The result is notable for good operations in general insurance, while the life insurance company showed a slightly negative trend in Q4. Financial return in Q4 was affected by turmoil in the financial markets and closed at minus NOK 48.4 million.

In 2018 **Frende Skade** posted a profit before tax of NOK 10.9 million (NOK 177.4 million), greatly affected by many fire and car insurance claims during the first nine months, but with a positive trend in Q4. The company possesses a total portfolio of insurances of NOK 1.994 million (1.789 million), broken down by 164 000 customers. This represents an increase of NOK 205 million in 2018. Return on equity for Frende Skade was 0 percent in 2018 (15.7 percent).

The loss ratio was 81.5 percent in 2018 (76.9 percent), and the combined ratio was 100.4 percent (96.2 percent). Financial return amounted to NOK 16.6 million in 2018 (NOK 114.3 million), equivalent to 0.7 percent.

The market share in general insurance rose by 0.2 percentage points to 3.5 percent.

Frende Liv posted a profit before tax of NOK 78.7 million (NOK 127.2 million) in 2018. The company provides good risk results and shows a positive cost trend. The total insurance portfolio at the end of 2018 was NOK 895 million. The return on equity for Frende Liv was 16.9 percent (34.2 percent).

Looking back on a relatively weak year, both for the company and the insurance industry in general, results in finance and insurance in 2019 are expected to be back to a normal level and provide a significant improvement in earnings for the group.

Brage Finans AS (15.5 percent shareholding) is a financing company that offers leasing and loans secured by the purchased objects in the corporate and retail market. The company headquarters is located in Bergen and there are branches in Ålesund, Stavanger and Kristiansand. Distribution of the products is provided mainly through owner banks and retailers, in addition to the company's own organisation.

In 2018 Brage Finans AS (Brage) posted a profit before tax of NOK 93.9 million, an improvement of NOK 35.7 million (61 percent) from the previous year. A major factor in the improvement is significant growth in lending, in both the retail market and the corporate market, resulting in return on equity of 7.6 percent in 2018, compared with 6.5 percent in 2017.

The expense ratio is 39 percent in 2018, down from 44 percent in 2017.

Norne Securities AS (17.6 percent shareholding) is an investment firm offering online trading, traditional brokerage and corporate finance services.

Q4 saw a significant decline in stock markets, adversely affecting Norne Securities, regarding both online trading and traditional brokerage. As a consequence, implementation of projects related to corporate finance was postponed. Norne further enhanced its role as Norway`s leading adviser and facilitator regarding equity certificates in 2018, with more than ten issuances.

The company has further concentrated its business in two market areas: online stock and fund trading related to the retail market, and Corporate Finance and Investment Advice to the corporate market and professional investors.

Balder Betaling AS (22 percent shareholding) is owned by Sparebanken Sør together with 14 other savings banks. The company has a 10.5 percent shareholding in Vipps AS and aims to develop the Vipps mobile payment application further together with its other shareholders.

Outlook

The Board of Directors is satisfied with the Group's financial performance in 2018.

2018 has been a year with pressure on margins and lower income from financial instruments than previous years. The bank showed a positive trend in Q4 from ordinary operations, through increased interest and commission income, and net entry on losses on loans. The bank is well positioned to attain good results in 2019. The prospects for the Norwegian economy and for Sparebanken Sør in the future seem good.

Housing prices in the bank's main markets have shown a positive, but modest trend for several years. The 2018 statistics showed slightly positive growth in housing prices in the bank's market area. Mortgage loans on housing are well secured, and the Group is well positioned to absorb a fall in house prices. This view is also supported by the stress tests that have been carried out.

On 20 September 2018 Norges Bank decided to raise the key interest rate from 0.50 percent to 0.75 percent. Analysis by Norges Bank indicates a gradual rise in interest rates in years to come. The central bank has indicated that there is likely to be a further increase in the key interest rate in March 2019.

Board of Director's report

The Group's common equity tier 1 capital requirement, including the new Pillar 2 add-on of 2.0 percent, is 14.0 percent. With effect from 31 December 2019, the Ministry of Finance decided in December 2018 to increase the countercyclical capital buffer by 0.5 percent, and the Group's common equity tier 1 capital requirement will rise to 14.5 percent. The Board of Directors will during 2019 undergo a process regarding future capital requirements. The new requirement will be taken into account in this process. If the amandment regarding systemically important financial institutions is adopted, this will also be taken into account. The Group has a target of achieving a CET1 capital ratio of 14.8 percent. At the end of 2018 the CET1 capital ratio was 14.8 percent.

On 19 October 2018 the Financial Supervisory Authority's proposed changes to the NFSA relating to regulation and identification of systemically important financial institutions. The proposal indicates that Sparebanken Sør in future will be considered systemically important, and as a result the CET1 capital requirements will probably increase.

The Group expects loan growth to outstrip overall credit growth in 2019, and has set a target return on equity of 9 percent.

With effect from 1 January 2018, the Group has applied the new IFRS 9 standard, which has impacted calculation of the Group's impairment losses on loans. The Group has to make provisions for expected loan losses and this is expected to result in greater fluctuations in loan losses going forward. Based on the composition of the bank's loan portfolio, economic trends and local market conditions, net losses are expected to remain low in 2019.

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

Events after the reporting period

No events have been reported since 31 December 2018 that affect the quarterly financial statements.

Arendal, 7 February 2019

Stein A. Hannevik Chairman	Inger Johansen Deputy chairman	Tom Erik Jebsen	Erling Holm
Marit Kittilsen	Mette Ramfjord Harv	Jan Erling Tobiassen Employee representative	Gunnhild Tveiten Golid Employee representative
			Geir Bergskaug CEO

PARENT BANK				NOK million		GROUP			
31/12/	31/12/	Q4	Q4			Q4	Q4	31/12/	31/12/
2017	2018	2017	2018		Notes	2018	2017	2018	2017
1 878	1 291	516	342	Interest income	3	728	661	2 778	2 613
327	1 012	37	264	Interest income from assets at fair value through profit and loss	3	98	79	367	340
884	951	218	257	Interest expenses	3	379	301	1 416	1 274
1 321	**1 352**	**335**	**349**	**Net interest income**	**3**	**447**	**439**	**1 729**	**1 679**
321	346	83	93	Commission income		98	93	380	370
58	62	15	16	Commission expenses		16	15	62	58
263	**283**	**68**	**77**	**Net commission income**		**82**	**78**	**318**	**312**
23	16	-	-	Dividend		-	-	7	15
121	19	58	-41	Net income from other financial instruments		-49	58	-5	73
144	**35**	**58**	**-41**	**Net income from financial instruments**		**-49**	**58**	**2**	**88**
	13	-	-4	Income from associated companies		-4		13	
16	9	7	2	Other operating income		7	9	10	18
16	**22**	**7**	**-2**	**Total other income**		**3**	**9**	**23**	**18**
1 744	**1 692**	**468**	**383**	**Total net income**		**483**	**584**	**2 072**	**2 097**
374	415	103	121	Wages and other personnel expenses		144	123	499	453
29	29	8	8	Depriciation, amortization and impairment of non-current assets		10	9	30	30
309	338	75	98	Other operating expenses		101	78	355	328
712	**782**	**186**	**227**	**Total operation expenses before losses**		**255**	**210**	**884**	**811**
1 032	**910**	**282**	**156**	**Operating profit before losses**		**228**	**374**	**1 188**	**1 286**
20	-33	-12	-44	Losses on loans, guarantees and unused credit	4	-44	-12	-36	20
1 012	**943**	**294**	**200**	**Profit before taxes**	**2**	**272**	**386**	**1 224**	**1 266**
217	212	52	50	Tax expenses		68	74	285	282
795	**731**	**242**	**150**	**Profit for the period**		**204**	**312**	**939**	**984**
				Minority interests		1	1	1	1
795	**731**	**242**	**150**	**Majority interests**		**203**	**311**	**938**	**983**
8.9	7.7	2.8	1.6	Profit/diluted earnings per equity certificate (in whole NOK)		2.2	3.6	10.1	11.2
				Other comprehensive income					
				Items that will not be reclassified subsequently to profit or loss					
-13				Recognized estimate deviation, pensions				0	-13
3				Tax effect				0	3
				Items that may be reclassified to profit or loss					
	0		0	Change in value, basis swaps		-4		-20	
				Change in value, customer mortgages				0	
	0		0	Tax effect		-1		5	
-10	**0**	**0**	**0**	**Total other comprehensive income**		**-5**	**-**	**-15**	**-10**
785	**731**	**242**	**150**	**Comprehensive income for the period**		**199**	**312**	**924**	**974**
				Minority interests		1	0	1	1
				Majority interests		**198**	**312**	**923**	**973**
8.8	7.7	2.8	1.6	Comprehensive income/diluted earnings per equity certificate		2.1	3.6	9.9	11.1

Balance sheet

PARENT BANK		NOK million		GROUP	
31/12/ 2017	31/12/ 2018	**ASSETS**	**Notes**	**31/12/ 2018**	**31/12/ 2017**
1 143	1 287	Cash and receivables from central banks		1 288	1 143
3 516	3 010	Loans to credit instituitions		119	236
66 595	64 263	Net loans to customers	4,5,6,8,10	102 942	97 518
12 660	17 691	Bonds and certificates	10	14 598	13 468
572	369	Shares	10	370	572
385	197	Financial derivatives	10,11	619	754
1 256	1 858	Shareholding in group companies			
39	584	Shateholding in associated companies		584	39
15	22	Intangible asstes		22	15
387	387	Property, plant and equipment		413	416
81	90	Other assets		171	149
86 649	**89 758**	**TOTAL ASSETS**	**2,10**	**121 125**	**114 310**
		LIABILITIES AND EQUITY CAPITAL			
974	2 261	Liabilites to credit institutions		1 918	902
55 593	56 546	Deposits from customers	2,7,10	56 537	55 580
17 848	18 027	Liabilities related to issue of securities	10,12	48 323	44 343
283	179	Financial derivatives	10,11	179	306
228	223	Payable taxes		309	299
219	288	Other liabilities		328	256
87	61	Provisions for commitments		61	87
43	51	Deferred tax		21	25
1 404	1 604	Subordinated loan capital	10,12	1 604	1 404
76 679	**79 240**	**Total liabilities**		**109 280**	**103 202**
1 575	1 576	Equity certificate capital	13	1 576	1 575
1 075	1 075	Hybrid capital		1 075	1 075
7 320	7 867	Other equity		9 194	8 458
9 970	**10 518**	**Total equity**	**9**	**11 845**	**11 108**
86 649	**89 758**	**TOTAL LIABILITIES AND EQUITY**	**2,10**	**121 125**	**114 310**

Cash flow statement

PARENT BANK		NOK million	GROUP	
31/12/ 2017	**31/12/ 2018**		**31/12/ 2018**	**31/12/ 2017**
2 212	2 417	Interest received	3 258	2 951
-922	-1 059	Interest paid	-1 518	-1 317
312	348	Other payments received	380	337
-677	-716	Operating expenditure	-823	-794
11	8	Loan recoveries	8	11
-185	-225	Tax paid for the period	-291	-259
-21	-27	Gift expenditure	-27	-21
4 006	954	Change in customer deposits	958	4 008
-3 790	2 286	Change in loans to customers	-5 464	-6 650
21	246	Change in deposits from credit institutions	-41	35
967	**4 232**	**Net cash flow from operating activities**	**-3 560**	**-1 699**
8 179	15 353	Payments received, securities	17 414	8 278
-9 826	-20 473	Payments made, securities	-18 568	-9 874
30	6	Payments received, sale of property, plant and equipment	11	66
-24	-50	Payments made, purchase of property, plant and equipment	-51	-28
	-246	Investments in subsidiaries and associated companies	-246	
62	-474	Change in other assets	-3	-178
-1 579	**-5 884**	**Net cash flow from investing activities**	**-1 443**	**-1 736**
-1 305	506	Change in loans to credit institutions	117	-80
721	1 039	Change in deposits from credit institutions	1 055	689
4 550	3 900	Payments received, bond debt	13 770	10 810
-3 174	-3 656	Payments made, bond debt	-10 052	-8 069
-141	-150	Payments made, dividends and interest on hybrid capital	-150	-141
450		Issue of hybrid capital	-	450
-200		Buyback of hybrid capital	-	-200
200	600	Issue of subordinated loan capital	600	200
	-400	Buyback of subordinated loan capital	-400	
-143	-43	Change in other assets	208	122
958	**1 796**	**Net cash flow from financing activities**	**5 148**	**3 781**
346	**144**	**Net change in liquid assets**	**145**	**346**
797	1 143	Cash and cash equivalents as at 1 Jan	1 143	797
1 143	**1 287**	**Cash and cash equivalents at end of period**	**1 288**	**1 143**

Unaudited

Statement of changes in equity

GROUP NOK million	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
Balance 31/12/2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**1 044**	**3**	**10 051**
Dividend distributed for 2016							-94	0	-94
Profit 2017			46	47	568	40	282	1	984
Interest on hybrid capital				-47					-47
Buyback of hybrid capital				-200					-200
Issue of hybrid capital				450	-1				449
Other comprehensive income			-2		-8				-10
Allocated from gift fund						-21			-21
Other changes							-2	-2	-4
Balance 31/12/2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 230**	**2**	**11 108**
Dividend distributed for 2017							-94		-94
Accounting effects on transistion to IFRS9			1		4		-3		2
Profit 2018			0	56	0	0	883		939
Interest on hybrid capital				-56					-56
Other comprehensive income							-15		-15
Allocated from gift fund						-39			-39
Other changes							1	-1	0
Balance 31/12/2018	**783**	**451**	**342**	**1 075**	**7 169**	**22**	**2 002**	**1**	**11 845**

PARENT BANK	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
Balance 31/12/2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**94**		**9 098**
Dividend distributed for 2016							-94		-94
Profit 2017			46	47	568	40	94		795
Interest on hybrid capital				-47					-47
Buyback of hybrid capital				-200					-200
Issue of hybrid capital				450	-1				449
Other comprehensive income			-2		-8				-10
Allocated from gift fund						-21			-21
Other changes									0
Balance 31/12/2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**94**	**0**	**9 970**
Dividend distributed for 2017							-94		-94
Accounting effects on transistion to IFRS9			1		4				5
Profit 2018			0	56	0	0	675		731
Interest on hybrid capital				-56					-56
Other comprehensive income					0				0
Allocated from gift fund						-39			-39
Balance 31/12/2018	**783**	**451**	**342**	**1 075**	**7 169**	**22**	**675**	**0**	**10 518**

1. ACCOUNTING POLICIES

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

With effect from 1 January 2018, the Group changed its accounting policy for the recognition, derecognition, classification and measurement of financial assets and liabilities, as well as hedge accounting, from the previously applied IAS 39 to IFRS 9. Refer to Note 38 of the 2017 annual financial statements for more detailed descriptions of the accounting effects of the transition to the new standard, the new accounting policies and descriptions of the impairment model applied by the bank.

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

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

2. SEGMENT REPORTING

	31/12/2018				31/12/2017			
Report per segment			**Undistrib. and**				**Undistrib. and**	
Income statement (NOK million)	**RM**	**CM**	**elimin.**	**Total**	**RM**	**CM**	**elimin.**	**Total**
Net interest income	1 000	686	43	1 729	1 021	653	5	1 679
Net other operating income	194	73	76	343	187	67	164	418
Operating expenses	383	99	402	884	371	95	345	811
Profit before losses per segment	**811**	**660**	**-283**	**1 188**	**837**	**625**	**-176**	**1 286**
Losses on loans, guarantees and unused credits	12	-25	-23	-36	7	46	-33	20
Profit before tax per segment	**799**	**685**	**-260**	**1 224**	**830**	**579**	**-143**	**1 266**
Net loans to customers	68 206	34 819	-84	102 942	64 545	33 025	-51	97 518
Other assets			18 183	18 183			16 792	16 792
Total assets per segment	**68 206**	**34 819**	**18 099**	**121 125**	**64 545**	**33 025**	**16 741**	**114 310**
Deposits from and liabilities to customers	28 719	21 208	6 610	56 537	27 771	21 387	6 423	55 580
Other balances/liabilities	39 488	13 611	-355	52 744	36 774	11 638	-790	47 622
Total liabilities per segment	**68 206**	**34 819**	**6 254**	**109 280**	**64 545**	**33 025**	**5 633**	**103 202**
Equity			11 845	11 845			11 108	11 108
Total liabilities and equity per segment	**68 206**	**34 819**	**18 099**	**121 125**	**64 545**	**33 025**	**16 741**	**114 310**

3. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK		Interest income	GROUP	
31/12/ 2017	**31/12/ 2018**	**NOK million**	**31/12/ 2018**	**31/12/ 2017**
		Interest income from financial instruments at amortised cost		
42	75	Interest on receivables from credit institutions	10	9
1835	1217	Interest on loans given to customers	2768	2606
1878	**1219**	**Total interest from financial instruments at amortised cost**	**2778**	**2615**
		Interest income from financial instruments at fair value		
172	150	Interest on loans given to customers (fixed rate loans)	150	172
156	198	Interest on certificates and bonds	217	168
328	**348**	**Total interest from financial instruments at fair value through profit or loss**	**367**	**340**
		Interest income from financial instruments at fair value through OCI		
	664	Interest on loans given to customers (mortgages)		
	664	**Total interest from financial instruments at fair value through OCI**		
2205	**2303**	**Total interest income**	**3144**	**2954**

PARENT BANK		Interest expenses	GROUP	
31/12/ 2017	**31/12/ 2018**	**NOK million**	**31/12/ 2018**	**31/12/ 2017**
		Interest expenses from financial instruments at amortised cost		
6	19	Interest on liabilities to credit institutions	19	5
521	547	Interest on customer deposits	543	517
281	305	Interest on issued securities	774	675
32	41	Interest on subordinated loans	41	32
45	39	Fees to the Norwegian Banks Guarantee Fund and other interest expenses	39	45
884	**951**	**Total interest expenses from financial instruments at amortised cost**	**1416**	**1274**
884	**951**	**Total interest expenses**	**1416**	**1274**

4. LOSSES ON LOANS, GUARANTEES AND UNUSED CREDITS

Provisions for losses on loans and losses for the period have been calculated in accordance with the new accounting principles in IFRS 9 and are based on expected credit losses (ECL), applying the three-stage method described in Note 38 to the 2017 annual financial statements.

Figures for the same period in 2017 and as of 31 December 2017 were calculated in accordance with IAS 39 and the loss model applied at that time. Consequently, figures for the current period are not directly comparable with previous periods.

PARENT BANK		NOK million	GROUP	
31/12/17	**31/12/18**	**Loss expenses on loans during the period**	**31/12/18**	**31/12/17**
	-3	Change in impairment losses for the period, stage 1	-3	
	-3	+ Change in impairment losses for the period, stage 2	-7	
	-44	+ Change in impairment losses for the period, stage 3	-43	
	22	+ Confirmed losses for the period	22	
3		Change in individual impairment losses during the period		3
-30		+ Change in collective impairment losses during the period		-30
50		+ Confirmed losses for the period included in individual impairment losses previous years		50
8		+ Confirmed losses for the period not included in individual impairment losses previous years		8
4	4	+ Recognised as interest income	4	4
11	8	- Periods recoveries relating to previous losses	8	11
-4	-1	+ changes in impairment losses on guarantees	-1	-4
20	**-33**	**= Loss expenses during the period**	**-36**	**20**

PARENT BANK

NOK million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Provisions for loan losses as at 01/01/2018	49	91	415	555
Transfers				
Transferred to stage 1	31	-28	-3	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	18	15	29	62
Losses on deducted loans *	-10	-15	-83	-108
Losses on older loans and other changes	-39	23	-29	-44
Provisions for loan losses as at 31/12/2018	**44**	**91**	**330**	**466**
Provisions for loan losses	38	85	327	450
Provisions for losses on guarantees and unused credits	6	6	3	16
Total provision for losses as at 31/12/2018	**44**	**91**	**330**	**466**

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

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

GROUP

NOK million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Totalt
Provisions for loan losses as at 01/01/2018	51	99	416	566
Transfers				
Transferred to stage 1	35	-32	-3	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	19	16	29	64
Losses on deducted loans	-10	-17	-83	-110
Losses on older loans and other changes	-44	23	-24	-46
Provisions for loan losses as at 31/12/2018	**45**	**94**	**335**	**473**
Provisions for loan losses	39	88	331	458
Provisions for guarantees and unused credits	6	6	3	16
Total provision for losses as at 31/12/2018	**45**	**94**	**335**	**473**

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

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

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

PARENT BANK	NOK million	GROUP
31/12/17	**Individual impairment losss**	31/12/17
385	Individual impairment losses at start of period	385
50	- Confirmed losses in the period included previosly in individual impairment losses	50
27	+ Increased individual impairment losses during the period	27
50	+ New individual impairment losses during the period	50
24	- Reversal of individual impairment losses during end of the period	24
388	**= Individual impairment losses at the end of the period**	**388**

PARENT BANK		GROUP
31/12/17	**Collective impairment losses on loans**	31/12/17
204	Collective impairment losses on loans at the start of the period	210
-30	+ Change in collective impairment losses during the period	-30
174	**Collective impairment losses on loans at the end of period**	**180**

5. NON-PERFORMING LOANS

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

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

PARENT BANK		NOK million	GROUP	
31/12/17	31/12/18		31/12/18	31/12/17
273	213	Gross non-performing loans	213	273
60		Individual impairment losses		60
	51	Stage 3 impairment losses	51	
213	**162**	**Net non-performing loans**	**162**	**213**
0.41 %	**0.33 %**	**Gross non-performing loans as % of gross loans**	**0.21 %**	**0.28 %**

6. IMPAIRMENT LOSSES BY SECTOR, INDUSTRY AND STAGE

PARENT BANK				NOK million	GROUP			
Stage 1	Stage 2	Stage 3	Total losses as at 31/12/2018		Total losses as at 31/12/2018	Stage 3	Stage 2	Stage 1
3	11	31	44	Retail customers	52	31	17	5
0	0	0	0	Public administration	0	0	0	0
0	0	1	2	Primary industry	2	1	0	0
1	2	35	38	Manufactoring industry	38	35	2	1
11	9	36	56	Real estate development	56	36	9	10
1	5	90	95	Building and construction industry	96	91	4	1
22	52	100	174	Property management	173	101	50	22
1	2	7	9	Transport	9	7	1	1
1	4	20	25	Retail trade	25	20	4	1
0	1	0	1	Hotel and restaurants	1	0	0	0
1	1	0	2	Housing cooperatives	2	0	1	0
1	3	9	13	Financial/commercial services	13	9	3	1
3	2	3	7	Sosial services	7	3	2	3
44	**91**	**330**	**466**	**Total impairment losses on loans, guarantees and unused credit**	**473**	**335**	**94**	**45**
38	85	327	450	Impairment losses on lending	458	331	88	39
6	6	3	16	Impairment losses on unused credits and guarantees	16	3	6	7
44	**91**	**330**	**466**	**Total impairment losses**	**473**	**335**	**94**	**45**

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

Calculated losses as at 31 Dec. 2018 based on the different stages in the model.

NOK million **GROUP**	Stage	Commitment	in %	Calculated loss	in %
Corporate customers	1	34 407	30.1 %	40	8.4 %
	2	5 787	5.1 %	79	16.6 %
	3	781	0.7 %	304	64.2 %
Corporate customers total		**40 974**	**35.8 %**	**422**	**89.2 %**
Retail customers	1	68 055	59.5 %	5	1.0 %
	2	5 205	4.5 %	15	3.2 %
	3	229	0.2 %	31	6.6 %
Retail customers total		**73 489**	**64.2 %**	**51**	**10.8 %**
Total		**114 463**	**100.0 %**	**473**	**100.0 %**

NOK million **PARENT BANK**	Stage	Commitment	in %	Calculated loss	in %
Corporate customers	1	34 402	45.8 %	41	8.8 %
	2	5 787	7.7 %	80	17.3 %
	3	781	1.0 %	300	64.4 %
Corporate customers total		**40 970**	**54.5 %**	**421**	**90.5 %**
Retail customers	1	30 518	40.6 %	3	0.7 %
	2	3 460	4.6 %	11	2.3 %
	3	215	0.3 %	31	6.6 %
Retail customers total		**34 192**	**45.5 %**	**44**	**9.5 %**
Total		**75 162**	**100.0 %**	**466**	**100.0 %**

Notes

7. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31/12/17	**31/12/18**		**31/12/18**	**31/12/17**
25 945	26 797	Retail customers	26 798	25 946
9 332	10 072	Public administration	10 073	9 332
485	442	Primary industry	442	485
2 257	1 672	Manufactoring industry	1 672	2 257
797	519	Real estate development	507	782
1 002	978	Building and construction industry	978	1 002
2 778	2 892	Property management	2 892	2 778
552	598	Transport	598	552
1 016	1 005	Retail trade	1 005	1 016
172	147	Hotel and restaurant	147	172
215	207	Housing cooperatives	207	215
5 265	5 176	Financial/commercial services	5 176	5 265
5 761	6 026	Social services	6 026	5 761
17	16	Accrued interest	16	17
55 593	**56 546**	**Total deposit from customers**	**56 537**	**55 580**

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

8. LOANS TO CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31/12/17	**31/12/18**		**31/12/18**	**31/12/17**
32 896	28 575	Retail customers	67 282	63 844
413	550	Public administration	551	413
858	947	Primary industry	948	858
1 136	971	Manufactoring industry	972	1 136
4 162	4 756	Real estate development	4 663	4 113
1 516	1 516	Building and construction industry	1 518	1 516
16 282	18 019	Property management	18 039	16 280
667	668	Transport	669	667
1 148	1 051	Retail trade	1 052	1 148
611	301	Hotel and restaurant	301	611
1 439	1 095	Housing cooperatives	1 096	1 438
1 072	1 150	Financial/commercial services	1 151	1 072
4 814	4 978	Social services	4 983	4 814
144	135	Accrued interest	173	175
67 158	**64 713**	**Total gross loans**	**103 400**	**98 086**
562	450	Impairment losses on lending *	458	568
66 595	**64 263**	**Total net loans**	**102 942**	**97 518**

*Impairment losses on lending relate only to loans to customers and do not include impairment losses on unused credit and guarantees.

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

9. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK		NOK million	GROUP	
31/12/17	**31/12/18**		**31/12/18**	**31/12/17**
9 970	**10 518**	**Total equity**	**11 845**	**11 108**
		Tier 1 capital		
-1 074	-1 075	Equity not eligible as common equity tier 1 capital	-1 075	-1 088
-94	-189	Share of profit not eligible as common equity tier 1 capital	-189	-94
-15	-22	Deductions for intagible assets and deferred tax assets	-22	-15
-20	-24	Deductions for additional value adjustements (AVA)	-21	-21
	-37	Other deductions	-21	
8 767	**9 171**	**Total common equity tier 1 capital**	**10 517**	**9 890**
		Other tier 1 capital		
1 075	1 075	Hybrid capital	1 075	1 075
0	0	Deductions from other tier 1 capital	0	
9 842	**10 246**	**Total tier 1 capital**	**11 591**	**10 965**
		Additional capital supplementary to tier 1 capital		
1 404	1 604	Subordinated loan capital	1 604	1 404
-22	-99	Deductions from additional capital	-99	-22
1 382	**1 505**	**Total additional capital**	**1 505**	**1 382**
11 224	**11 751**	**Net subordinated capital**	**13 096**	**12 347**
		Minimum requirement for subordinated capital Basel II calculated according to standard method		
3	3	Engagements with local and regional authorities	3	3
59	51	Engagements with institutions	20	17
168	148	Engagements with enterprises	150	170
475	452	Engagements with mass market	537	498
3 048	3 104	Engagements secured in property	4 213	3 991
47	76	Engagements which have fallen due	80	47
0	2	Engagements which are high risk	2	0
284	403	Engagements in covered bonds	86	79
143	299	Engagements in collective investment funds	151	43
43	49	Engagements, other	62	44
4 270	**4 587**	**Capital requirements for credit and counterparty risk**	**5 304**	**4 892**
1	**1**	**Capital requirements for position, currency and product risk**	**1**	**1**
219	**240**	**Capital requirements for operational risk**	**298**	**280**
23	**0**	**CVA addition**	**0**	**65**
0	**0**	**Deductions from the capital requirement**	**0**	**0**
4 513	**4 828**	**Total minimum requirement for subordinated capital**	**5 603**	**5 238**
56 401	60 354	Risk-weighted balance (calculation basis)	70 036	65 475
15.5 %	15.2 %	Common equity tier 1 capital ratio, %	15.0 %	15.1 %
17.5 %	17.0 %	Tier 1 capital ratio, %	16.6 %	16.7 %
19.9 %	19.5 %	Total capital ratio, %	18.7 %	18.9 %
8.4 %	7.9 %	Leverage ratio	9.2 %	9.2 %

Notes

NOK million	COOPERATIVE GROUPS 31/12/2018	31/12/2017
Proportion of common equity tier 1 capital	184	111
Proportion of tier 1 capital	199	126
Proportion of net subordinated capital	226	140
Deductions for internal eliminations	-187	-124
Common equity tier 1 capital after proportionate consolidation	**10 513**	**9 877**
Tier 1 capital after proportionate consolidation	**11 603**	**10 967**
Subordinated capital after proportionate consolidation	**13 134**	**12 363**
Porportionate share of calculation basis	1 336	793
Deductions for internal eliminations	-484	-147
Risk weighted balance after proportonate consolidation	**70 888**	**66 121**
Common equity tier 1 capital after proportionate consolidation, %	14.8 %	14.9 %
Tier 1 capital after proportionate consolidation, %	16.4 %	16.6 %
(Total) capital after proportionate consolidation, %	18.5 %	18.7 %
Leverage ratio after proportionate consolidation, %	9.1 %	9.2 %

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments
Financial instruments are classified at different levels.

Level 1:
Includes financial assets and liabilities measured using unadjusted observable market values. This includes listed shares, derivatives traded via active marketplaces and other securities with quoted market values.

Level 2:
Instruments measured using techniques in which all assumptions (all inputs) are based on directly or indirectly observable market data. Such values may be obtained from external market players or reconciled against external market players offering these types of services.

Level 3:
Instruments measured using techniques in which at least one essential assumption cannot be supported by observable market values. This category includes investments in unlisted companies and fixed-rate loans where no required market information is available.

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

PARENT BANK				NOK million	GROUP			
Recognized	**Fair value**			**31/12/2018**	**Recognized**	**Fair value**		
value	**Level 1**	**Level 2**	**Level 3**		**value**	**Level 1**	**Level 2**	**Level 3**
				Assets recognized at amortised cost				
1 287		1 287		Cash and receivables from central banks	1 288		1 288	
3 010		3 010		Loans to credit institutions	119		119	
37 656			37 656	Net loans to customers (floating interest rate)	97 228			97 228
				Assets recognized at fair value				
5 714			5 714	Net loans to customers (fixed interest rate)	5 714			5 714
20 893			20 893	Net loans to customers (mortgages)				
17 691		17 691		Bonds and certificates	14 598		14 598	
369	5		364	Shares	370	5		365
197		197		Financial derivatives	619		619	
86 817	**5**	**22 185**	**64 627**	**Total financial assets**	**119 936**	**5**	**16 624**	**103 307**
				Liabilities recognized at amortised cost				
2 261		2 261		Liabilities to credit institutions	1 918		1 918	
56 546			56 546	Deposits from customers	56 537			56 537
18 027		18 081		Liabilities from issue of securities	48 323		48 443	
1 604		1 601		Subordinated loan capital	1 604		1 601	
				Liabilities recognized at fair value				
179		179		Financial derivatives	179		179	
78 617	**0**	**22 122**	**56 546**	**Total financial liabilities**	**108 561**	**0**	**52 141**	**56 537**

PARENT BANK				NOK million	GROUP			
Recognized	**Fair value**			**31/12/2017**	**Recognized**	**Fair value**		
value	**Level 1**	**Level 2**	**Level 3**		**value**	**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 recognised at amortised cost				
974		974		Liabilties to credit institutions	902		902	
55 593			55 593	Deposits to customers	55 580			55 580
17 848		17 944		Liabilities from issuance of securities	44 343		44 648	
1 404		1 415		Subordinated loan capital	1 404		1 415	
				Liabilities recognised at fair value				
283		283		Financial derivatives	306		306	
76 102	**0**	**20 616**	**55 593**	**Total financial liabilities**	**102 535**	**0**	**47 271**	**55 580**

Movement level 3

GROUP

NOK million	Loans to and receivables from customers	Of which credit risk	Shares
Recognized value as at 01/01/2017	**7 514**	**-14**	**509**
Acquisition 2017	235		21
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	-48	12	59
Disposals 2017	-1 385		-22
Recognized value as at 31/12/2017	**6 316**	**-2**	**567**
Acquisition 2018	1 334		66
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	-69	1	45
Disposals 2018	-1 867		-13
Reclassified as associated company			-300
Recognized value as at 31/12/2018	**5 714**	**-1**	**365**

PARENT BANK

NOK million	Loans to and receivables from customers	Of which credit risk	Shares
Recognized value as at 01/01/2017	**7 514**	**-14**	**509**
Acquisition 2017	235		21
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	-48	12	59
Disposals 2017	-1 385		-22
Recognized value as at 31/12/2017	**6 316**	**-2**	**567**
Reclassification mortgages at fair value	25 002		
Acquisition 2018	1 334		66
Of which transferred from level 1 or 2	0		
Net transfers of mortgages to subsidiary	-1 686		
Changes in value recognized during the period	-69	1	45
Disposals 2018	-1 867		-13
Reclassified as associated company			-300
Recognized value as at 31/12/2018	**29 030**	**-1**	**365**

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	31/12/2018	31/12/2017
Loans to customers	18	16
- of which loans to corporate market (CM)	4	5
- of which loans to retail market (RM)	14	11

11. OFFSETTING

NOK million	31/12/2018	31/12/2018 (1) Net presented	31/12/2017	31/12/2017 (1) Net presented
				GROUP
Assets				
Financial derivatives	619	447	754	507
Liabilities				
Financial derivatives	179	7	306	58

NOK million	31/12/2018	31/12/2018 (1) Net presented	31/12/2017	31/12/2017 (1) Net presented
				PARENT BANK
Assets				
Financial derivatives	197	118	385	180
Liabilities				
Financial derivatives	179	101	283	78

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

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

12. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities - Group

NOK million	31/12/2018	31/12/2017
Bonds, nominal value	47 969	43 990
Value adjustments	170	125
Accrued interest	184	228
Debt incurred due to issuance of securities	**48 323**	**44 343**

Change in debt securities - Group

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	31/12/2018
Bonds, nominal value	43 990	13 770	-10 052	261	47 969
Value adjustments	125			45	170
Accrued interest	228			-44	184
Debt incurred due to issuance of securities	**44 343**	**13 770**	**-10 052**	**262**	**48 323**

Debt securities - Parent Bank

NOK Million	31/12/2018	31/12/2017
Bonds, nominal value	17 904	17 580
Value adjustments	13	99
Accrued interest	110	169
Debt incurred due to issuance of securities	**18 027**	**17 848**

Change in debt securities - Parent Bank

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	31/12/2018
Bonds, nominal value	17 580	3 900	-3 656	-80	17 904
Value adjustments	99			-86	13
Accrued interest	169			-59	110
Debt incurred due to issuance of securities	**17 848**	**3 900**	**-3 656**	**-225**	**18 027**

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

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	31/12/2018
Subordinated loans	1 400	600	-400		1 600
Accrued interest	4				4
Total subordinated loan capital	**1 404**	**600**	**-400**	**0**	**1 604**

13. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 31 December 2018 were as follows:

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %		NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00	11.	Varodd AS	151 092	0.96
2.	Arendal Kom. pensjonskasse	450 000	2.87	12.	Allumgården AS	147 977	0.94
3.	EIKA utbytte VPF c/o Eika kapitalforv.	434 214	2.77	13.	Landkreditt Utbytte	100 000	0.64
4.	Pareto AS	417 309	2.66	14.	Ottersland AS	100 000	0.64
5.	Bergen Kom. Pensjonskasse	376 231	2.40	15.	Wenaas Kapital AS	94 585	0.60
6.	Glastad Invest AS	368 765	2.35	16.	MP Pensjon PK	85 523	0.55
7.	Holta Invest AS	310 076	1.98	17.	Artel AS	82 131	0.52
8.	Otterlei Group AS	236 563	1.51	18.	Profond AS	77 115	0.49
9.	Wenaasgruppen AS	186 000	1.19	19.	Apriori Holding AS	72 575	0.46
10.	Gumpen Bileiendom AS	174 209	1.11	20.	Varodd AS	70 520	0.45
Total - 10 largest certificate holders		**10 942 046**	**69.85**	**Total - 20 largest certificate holders**		**11 923 564**	**76.12**

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

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

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

Credit risk

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

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

Market risk

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

Liquidity risk

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

Operational risk

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

Business risk

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

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

Quarterly profit trend

GROUP **Profit (NOK million)**	**Q4 2018**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**
Net interest income	447	424	433	425	439
Net commission income	82	78	84	74	78
Net income from financial instruments	-49	-3	28	26	58
Other operating income	3	-2	21	2	9
Total net income	**483**	**497**	**566**	**527**	**584**
Total operating expenses before losses	255	200	218	212	210
Operating profit before losses	**228**	**297**	**348**	**315**	**374**
Losses on loans, guarantees and unused credits	-44	3	5	0	-12
Profit before taxes	**272**	**294**	**343**	**315**	**386**
Tax expenses	68	75	65	77	74
Profit for the period	**204**	**219**	**278**	**238**	**312**
Profit as % of average assets					
Net interest income	1.46 %	1.40 %	1.48 %	1.49 %	1.54 %
Net commission income	0.27 %	0.26 %	0.29 %	0.26 %	0.27 %
Net income from financial instruments	-0.16 %	-0.01 %	0.10 %	0.09 %	0.20 %
Other operating income	0.01 %	-0.01 %	0.07 %	0.01 %	0.03 %
Total net income	**1.58 %**	**1.64 %**	**1.93 %**	**1.85 %**	**2.05 %**
Total operating expenses before losses	0.83 %	0.66 %	0.74 %	0.75 %	0.74 %
Operating profit before losses	**0.74 %**	**0.98 %**	**1.19 %**	**1.11 %**	**1.32 %**
Losses on loans, guarantees and unused credit	-0.14 %	0.01 %	0.02 %	0.00 %	-0.04 %
Profit before taxes	**0.89 %**	**0.97 %**	**1.17 %**	**1.11 %**	**1.36 %**
Tax expenses	0.22 %	0.25 %	0.22 %	0.27 %	0.26 %
Profit for the period	**0.67 %**	**0.72 %**	**0.95 %**	**0.84 %**	**1.10 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	7.2 %	7.8 %	10.1 %	8.5 %	12.0 %
Costs as % of income	52.8 %	40.2 %	38.5 %	40.2 %	36.0 %
Costs as % of income, excl. net income from financial instruments	48.0 %	40.0 %	40.5 %	42.3 %	39.9 %
Key figures, balance sheet					
Total assets	121 125	121 702	118 479	116 319	114 310
Average total assets	121 400	120 100	117 400	115 300	112 800
Net loans to customers	102 942	101 868	100 529	98 690	97 518
Growth in loans as %, last 12 mths.	5.6 %	6.1 %	6.2 %	6.5 %	7.2 %
Customer deposits	56 537	56 460	57 264	54 899	55 580
Growth in deposits as %, last 12 mths.	1.7 %	3.4 %	2.8 %	4.0 %	7.8 %
Deposits as % of net loans	54.9 %	55.4 %	57.0 %	55.6 %	57.0 %
Equity (incl. hybrid capital)	11 845	11 666	11 478	11 233	11 108
Losses on loans as % of net loans, annualised	-0.17 %	0.04 %	0.02 %	0.00 %	-0.05 %
Gross non-performing loans (over 90 days) as % of gross lending	0.21 %	0.26 %	0.26 %	0.32 %	0.28 %
Other key figures					
Liquidity reserves (LCR), Group	190.0 %	177 %	167 %	165 %	139 %
Common equity tier 1 capital ratio (added share of profit)	15.0 %	15.0 %	15.3 %	15.2 %	15.1 %
Common equity tier 1 capital ratio (incl. partly owned companies)	14.8 %	14.8 %	15.0 %	15.0 %	14.9 %
Tier 1 capital ratio	16.6 %	16.6 %	16.9 %	16.8 %	16.7 %
Total capital ratio	18.7 %	19.1 %	19.1 %	18.9 %	18.9 %
Common equity tier 1 capital	10 517	10 339	10 236	10 079	9 890
Tier 1 capital	11 591	11 413	11 310	11 153	10 965
Net total primary capital	13 096	13 162	12 812	12 535	12 347
Leverage ratio	9.2 %	9.0 %	9.2 %	9.2 %	9.2 %
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	434	431	419	427	432
Key figures, equity certificates					
Equity certificate ratio, weighted average for the period	17.9 %	17.9 %	17.9 %	17.9 %	18.7 %
Number of equity certificates issued	15 663 943	15 663 944	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent Bank)	2.8	1.6	2.5	1.9	2.8
Profit/diluted earnings per equity certificate (Group)	2.2	2.2	2.9	2.6	3.6
Dividend last year per equity certificate (Parent Bank)	6.0	6.0	6.0	6.0	6.0
Book equity per equity certificate	123.2	120.9	118.9	116.1	120
Price/book value per equity certificate	0.8	0.8	0.8	0.8	0.9
Listed price on Oslo Stock Exchange at end of period	96.9	99.8	97.2	98.6	104

Unaudited

Key figures Group 2013-2018

	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014*	31/12/2013*
Income statement (NOK million)						**Proforma**
Net interest income	1728	1 679	1 565	1 544	1 511	1 443
Net commission income	318	312	293	300	284	252
Net income from financial instruments	2	88	224	-66	184	201
Other operating income	25	18	28	14	23	22
Total net income	**2073**	**2 097**	**2 110**	**1 792**	**2 002**	**1 918**
Total operating expenses before losses	885	811	787	817	834	800
Operating profit before losses	**1188**	**1 286**	**1 323**	**975**	**1 168**	**1 118**
Losses on loans and guarantees	-36	20	50	97	268	126
Profit before taxes	**1224**	**1 266**	**1 273**	**878**	**900**	**992**
Tax expenses	285	282	284	231	215	219
Profit for the period	**939**	**984**	**989**	**647**	**685**	**773**
Profit as a percentage of average assets						
Net interest income	1.46 %	1.53 %	1.49 %	1.58 %	1.60 %	1.60 %
Net commission income	0.27 %	0.28 %	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.00 %	0.08 %	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.02 %	0.02 %	0.03 %	0.01 %	0.02 %	0.03 %
Total net income	**1.75 %**	**1.92 %**	**2.01 %**	**1.83 %**	**2.12 %**	**2.13 %**
Total operating expenses before losses	0.75 %	0.74 %	0.75 %	0.83 %	0.88 %	0.89 %
Operating profit before losses	**1.00 %**	**1.17 %**	**1.26 %**	**0.99 %**	**1.24 %**	**1.24 %**
Losses on loans and guarantees	-0.03 %	0.02 %	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	**1.03 %**	**1.16 %**	**1.21 %**	**0.90 %**	**0.96 %**	**1.10 %**
Tax expenses	0.24 %	0.26 %	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	**0.79 %**	**0.90 %**	**0.94 %**	**0.66 %**	**0.73 %**	**0.86 %**
Key figures, income statement						
Costs as % of income	42.70 %	38.7%	37.3%	45.6%	41.7%	41.7%
Costs as % of income, excl. net income from financial instruments	42.70 %	40.4%	41.7%	44.0%	45.9%	46.6%
Return on equity after tax (adjusted for hybrid capital)	8.50 %	9.7%	11.3%	8.4%	10.1%	12.3%
Key figures, balance sheet						
Total assets	121 125	114 310	105 455	101 334	94 062	93 758
Average total assets	118 600	109 500	104 950	98 000	94 300	90 200
Net loans to customers	102 942	97 518	90 928	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	5.6 %	7.2%	7.1%	9.2%	4.5%	6.8%
Customer deposits	56 537	55 580	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	1.7 %	7.8%	6.6%	0.2%	10.3%	8.3%
Deposits as % of net loans	54.9 %	57.0%	56.7%	49.3%	51.2%	56.5%
Equity (incl. hybrid capital)	11 845	11 108	10 051	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	-0.03 %	0.02 %	0.05 %	0.11 %	0.33 %	0.16 %
Gross non-performing loans (over 90 days) as % of gross lending	0.21	0.28 %	0.30 %	0.47 %	0.71 %	0.60 %
Other key figures						
Liquidity reserves (LCR), Group	190.0 %	139.0%	128.0%	108.0%		
Common equity tier 1 capital ratio (incl. partly owned companies)	14.8 %	14.9%	14.7%	12.7%	13.1%	12.8%
Tier 1 capital ratio	16.6 %	16.7%	16.0%	13.5%	14.4%	14.2%
Total capital ratio	18.7 %	18.9%	17.9%	15.5%	15.1%	15.1%
Common equity tier 1 capital	10 517	9 890	9 114	7 700	7 092	6 376
Tier 1 capital	11 591	10 965	9 939	8 210	7 792	7 076
Net total primary capital	13 096	12 347	11 121	9 388	8 170	7 522
Leverage ratio	9.2 %	9.2 %	8.6 %	7.0 %	7.0 %	
Number of branches	34	34	34	40	40	44
Number of FTEs in banking operations	434	432	439	449	454	489
Key figures, equity certificates						
Equity certificate ratio before profit distribution	17.9 %	18.7%	19.8%	13.5%	14.1%	7.1%
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent Bank)	7.7	8.9	8.5	10.6	12.2	10.3
Profit per equity certificate (Group)	10.1	11.2	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent Bank)	6.0	6.0	6.0	9.0	10.0	10.0
Book equity per equity certificate	123.2	120.0	115.2	219.0	212.0	187.0
Price/book value per equity certificate	0.8	0.9	0.8	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	96.9	104.0	91.3	139.0	196.0	150.0

Unaudited

*excl. negative goodwill

Calculations

NOK million	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	31/12/ 2018	31/12/ 2017
Return on equity adjusted for hybrid capital							
Profit after tax	204	219	278	238	312	939	984
Interest on hybrid capital	-12	-12	-20	-12	-12	-56	-47
Profit after tax, incl. interest on hybrid capital	**193**	**207**	**258**	**226**	**300**	**884**	**937**
Opening balance, equity	11 666	11 478	11 233	11 108	10 831	11 108	10 051
Opening balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-825
Opening balance, equity excl. hybrid capital	**10 591**	**10 403**	**10 158**	**10 033**	**9 756**	**10 033**	**9 226**
Closing balance, equity	11 845	11 666	11 478	11 233	11 108	11 845	11 108
Closing balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075
Closing balance, equity excl. hybrid capital	**10 770**	**10 591**	**10 403**	**10 158**	**10 033**	**10 770**	**10 033**
Average equity	11 756	11 572	11 356	11 171	10 970	11 477	10 580
Average equity excl. Hybrid capital	**10 681**	**10 497**	**10 281**	**10 096**	**9 895**	**10 402**	**9 630**
Return on equity	6.9 %	7.5 %	9.8 %	8.6 %	11.3 %	8.2 %	9.3 %
Return on equity, excl. hybrid capital	**7.2 %**	**7.8 %**	**10.1 %**	**9.1 %**	**12.0 %**	**8.5 %**	**9.7 %**
Net interest income, incl. interest on hybrid capital							
Net interest income, incl. interest on hybrid capital	447	424	433	425	439	1 729	1 679
Interest on hybrid capital	-11.7	-12	-20	-12	-12	-56	-47
Net interest income, incl. interest on hybrid capital	**435**	**412**	**413**	**413**	**427**	1 674	**1 632**
Average total assets	121 400	117 399	117 400	115 300	112 800	118 600	109 500
As percentage of total assets	**1.42 %**	**1.39 %**	**1.41 %**	**1.45 %**	**1.50 %**	1.41 %	**1.49 %**
Operating expenses, adjusted for conversion of pension scheme							
Operating expenses	255	200	218	212	210	884	811
Conversion of pension scheme					8		8
Operating expenses, adjusted for conversion of pension scheme	**255**	**200**	**218**	**212**	**218**	884	**819**
Profit from ordinary operations (adjusted earnings)							
Net interest income, incl. interest on hybrid capital	435	412	413	413	427	1 674	1 632
Net commission income	82	78	84	74	78	318	312
Share of profit from associated companies (excl. Value adjustment (Balder/Vipps)	-4	-1	-4			-9	
Other operating income	7	-	2	2	9	11	18
Operating expenses, adjusted for conversion of pension scheme	255	200	218	212	218	884	819
Profit from ordinary operations (adjusted earnings), before tax	**265**	**289**	**277**	**277**	**296**	**1 110**	**1 143**
Profit excl. finance and adjusted for non-recurring items							
Net interest income, incl. hybrid capital	435	412	413	413	427	1 674	1 632
Net commission income	82	78	84	74	78	318	312
Share of profit from associated companies (excl. Value adjustment Balder/Vipps)	-4	-1	-4				
Other operating income	7	-	2	2	9	11	18
Operating expenses, adjusted for conversion of pension scheme	255	200	218	212	218	884	819
Losses on loans, guarantees and unused credits	-44	3	5	-	-12	-36	20
Profit excl. Finance and adjusted for non-recurring items	**309**	**286**	**272**	**277**	**308**	**1 155**	**1 123**
Tax (25 %)	77	72	68	69	77	289	281
Ordinary operations /adjusted earnings after losses and tax	**232**	**215**	**204**	**208**	**231**	**866**	**842**
Average equity, excl. hybrid capital	10 681	10 497	10 281	10 096	9 895	10 402	9 630
Return on equity, profit excl. finance and adjusted for non-recurring items	**8.6 %**	**8.1 %**	**8.0 %**	**8.3 %**	**9.3 %**	**8.3 %**	**8.7 %**
Average interest rates/margins							
Average lending rate RM (return)	2.74 %	2.62 %	2.65 %	2.69 %	2.72 %		2.78 %
Average lending rate CM (return)	3.36 %	3.26 %	3.42 %	3.26 %	3.20 %		3.32 %
Average deposit rate RM	0.82 %	0.81 %	0.81 %	0.82 %	0.81 %		0.82 %
Average deposit rate CM	1.12 %	1.04 %	1.00 %	0.97 %	0.92 %		1.03 %
Average 3-month NIBOR	1.19 %	1.06 %	1.07 %	0.95 %	0.81 %		0.89 %
Lending margin RM (lending rate - 3-month NIBOR)	1.55 %	1.56 %	1.58 %	1.74 %	1.91 %		1.89 %
Lending margin CM (lending rate - 3-month NIBOR)	2.17 %	2.20 %	2.35 %	2.31 %	2.39 %		2.43 %
Deposit margin RM (3-month NIBOR - deposit rate)	0.37 %	0.25 %	0.26 %	0.13 %	0.00 %		0.07 %
Deposit margin CM (3-month NIBOR - deposit rate)	0.07 %	0.02 %	0.07 %	-0.02 %	-0.11 %		-0.14 %

Calculations

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

Alternative performance measures – APM

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

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

Sparebanken Sør's APMs and definitions

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

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

The Board of Directors and CEO of Sparebaken Sør hereby confirm that the bank and the group's financial statements for Q4 2018 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall results.

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

Arendal, 7 February 2019

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee representative

Gunnhild Tveiten Golid
Employee representative

Geir Bergskaug
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