Annual report
2017

SPAREBANKEN SØR

Contents

The year 2017

POSITIVE MACROECONOMIC DEVELOPMENT

Whilst 2016, both in Norway and in the bank's geographical market area, was a year characterised by challenging readjustment and limited growth, 2017 has represented a clear change. Business in the region has coped well with the adjustment and we are seeing increasing economic growth. The continued low Norwegian exchange rate has contributed to strengthened competitive power, and along with the low interest rate and expansive national finance policies, this has led to positive growth impulses in the domestic market.

CONTINUED PROSPERITY

Profit from ordinary operations in Sparebanken Sør has never been better than in 2017. The high profit of MNOK 1226 (pre-tax) is a result of good volume growth and a very positive development in net interest income, a solid increase in commission income and a profit contribution from wholly owned and associated companies, stable low costs and historically low losses.

GOOD GROWTH IN DEPOSITS AND LOANS

Throughout the year, the bank has reinforced its market position among private customers, businesses and the public sector. The growth in loans has shown a positive development during the year, and amounted to 7.2 percent. The growth in deposits has also been very good, and the year ended with a growth of 7.8 percent. Net loans to customers represent NOK 97.5 billion and deposits represent NOK 55.6 billion, which constitutes a deposit-to-loan ratio of a satisfactory 57 percent. The bank has good capacity for growth, with growth ambitions that lie somewhat above the market growth in our core business areas.

VERY POSITIVE LOSS DEVELOPMENT

Net losses on loans represented NOK 20 million in 2017, which corresponds to a historically low 0.02 percent of net loans. Corresponding figures in 2016 were NOK 50 million and 0.05 percent of net loans. Parallel with a large reduction in losses over the last three years, the quality of the loan portfolio has steadily improved during this period. This was highlighted in particular last year through a continual reduction in defaults and loan losses.

SOLID CAPITAL RATIO AND SATISFACTORY RETURN ON EQUITY

In the last few years, Sparebanken Sør has strengthened its core capital significantly, primarily through solid profit developments. The bank's common equity tier 1 capital ratio was 14.9 percent at the end of the year; thereby fulfilling the bank's ambition, public authority requirements and market expectations. The bank's leverage ratio, a favourable 9.2 percent, places the bank among the strongest of the major banks in Norway - and thereby among the best in Europe. With such a high leverage ratio, the return on equity of 9.7 percent in 2017 is considered very satisfactory.

LEADING IN COST EFFICIENCY

The bank upholds it position as one of the most cost-efficient banks in the country. The cost-income ratio at year-end was 38.7 percent compared to 37.3 percent at the same time last year. Measured as a percentage of the bank's total assets, the expence ratio is a strong 0.74 percent, down from 0.75 percent in 2016. This good cost position has been developed through continual adjustment of the business and ongoing efficiency improvements to the bank's operations.

HIGH AND RISING CUSTOMER SATISFACTION

In EPSI's recognised national customer satisfaction survey for 2017, Sparebanken Sør was rated as one of the best Norwegian banks in the private market – and is also the bank with the the best progress. The bank receives a high score in a number of important areas, such as service quality, value for money, product quality and reputation.

GOOD AND DIVERSIFIED FUNDING

The finance market has shown positive development in 2017, with somewhat lower credit spreads in money market funding. At the same time, the NIBOR interest rate has decreased somewhat, which has led to lower deposit costs. The bank's funding structure has been strengthened in 2017 as a result of an increase in common equity tier 1 capital and subordinated capital via issuances of hybrid capital and subordinated bonds, solid growth in deposits and further diversified funding through covered bonds in Euro. The bank has continued its adaptation of risk management and business activities to the new EU directives which have been included in Norwegian law, including EMIR, MiFID2 and PSD2.

RAPID CHANGES IN CUSTOMER BEHAVIOUR REQUIRE QUICKER ADJUSTMENT

The foundation for the high profit has been created through long-term and systematic efforts, in which our employees' willingness and ability to adjust and improve performance has been decisive. This ability to adapt will continue to be important in the future, in a finance industry in which rapid changes within technology, customer behaviour and distribution models will dominate.

Our ambition – through long-term planning, nearness and local decision-making power – is to be the accessible bank with a level of customer satisfaction among the very best. At the same time, through continual change and improvement, we must adapt to a future in which our customers will use banks in new ways. New digital technology will be able to improve the customer experience in a number of areas and at the same time, we will be able to strengthen our leading cost position even further.

Therefore, the bank is investing significant resources in areas that will help to safeguard our position among the digitised bank customers of the future. These efforts encompass, among other things, improved mobile banking solutions and payment services, robotisation and new CRM solutions. Our ambition is that these efforts will provide a better customer experience in all channels and strengthen the bank's future profitability and growth ability.

Sparebanken Sør, at the start of 2018, is well capitalised for further growth, and positioned to fulfil the bank's vision of creating growth and development in the region. We shall continue to be a relational bank, and combine this with cost effectiveness on a par with the best. Along with high quality in the bank's customer credit assessments, good future-proofed digital solutions and strong market position, Sparebanken Sør will continue to be a good and solid bank, also in the coming years.

Geir Bergskaug

Geir Bergskaug
CEO

Key figures Group

NOK MILLION	31.12.2017	31.12.2016 2)	31.12.2015 2)	31.12.2014 1)	31.12.2013 1)
Resultat					**Proforma**
Net interest income	1 679	1 565	1 544	1 511	1 443
Net commission income	312	293	300	284	252
Net income from financial instruments	88	224	-66	184	201
Other operating income	18	28	14	23	22
Total net income	**2 097**	**2 110**	**1 792**	**2 002**	**1 918**
Total expenses	811	787	817	834	800
Profit before losses on loans	**1 286**	**1 323**	**975**	**1 168**	**1 118**
Losses on loans and guarantees	20	50	97	268	126
Profit before taxes	**1 266**	**1 273**	**878**	**900**	**992**
Tax expenses	282	284	231	215	219
Profit for the period	**984**	**989**	**647**	**685**	**773**
Income statement as percentage of average assets					
Net interest income	1.53 %	1.49 %	1.58 %	1.60 %	1.60 %
Net commission income	0.28 %	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.08 %	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.02 %	0.03 %	0.01 %	0.02 %	0.03 %
Total net income	**1.92 %**	**2.01 %**	**1.83 %**	**2.12 %**	**2.13 %**
Total expenses	0.74 %	0.75 %	0.83 %	0.88 %	0.89 %
Profit before losses on loans	**1.17 %**	**1.26 %**	**0.99 %**	**1.24 %**	**1.24 %**
Losses on loans and guarantees	0.02 %	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	**1.16 %**	**1.21 %**	**0.90 %**	**0.96 %**	**1.10 %**
Tax expenses	0.26 %	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	**0.90 %**	**0.94 %**	**0.66 %**	**0.73 %**	**0.86 %**
Average total assets	109 500	104 950	98 000	94 300	90 200
Balance sheet					
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
Growth 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 (Hybrid capital incl.)	11 108	10 051	8 263	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 %	45.6 %	41.7 %	41.7 %
Cost as % of income. ex net income from financial instruments	40.4 %	41.7 %	44.0 %	45.9 %	46.6 %
Return on equity after tax (Adjusted for hybrid capital)	9.7 %	11.6 %	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	139 %	128 %	108 %		
Common equity tier 1 capital ratio	15.1 %	14.7 %	12.7 %	13.1 %	12.8 %
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 %	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 subordinated 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 (Weighted average for the year)	18.7 %	17.5 %	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/diluted earnings per equity certificate (Parent bank)	8.9	8.5	10.6	12.2	10.3
Profit/diluted earnings per equity certificate (Group)	11.2	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2016)	6.0	6.0	9.0	10.0	10.0
Book equity per equity certificate	120.0	115.2	219.0	212.0	187.0
Price/Book value per equity certificate	0.9	0.8	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	104.0	91.3	139.0	196.0	150.0

1) excl. Negative goodwill

2) the Group has reclassified hybrid capital from debt to equity with effect from 1 January 2015.

The Board of Directors report

The Board of Directors report

THE NATURE OF THE BUSINESS

Sparebanken Sør is an independent financial institution that engages in banking, securities and real estate brokerage activities in Vest-Agder, Aust-Agder and Telemark. Additionally, The Group established a new branch in Rogaland in 2017. The Sparebanken Sør Group (The Group) engages in sale of insurance, leasing, car loans, consumer credit and securities through partly owned product companies. The Bank also engages in mortgaging through the wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The bank has 34 branch offices, and the head office is located in Kristiansand.

HIGHLIGHTS

Sparebanken Sør Group delivered a very solid profit in 2017 and the Board of Directors would like to point out the following highlights:

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income from the Group´s real estate agency, Sørmegleren
- Efficient operations and low costs
- Very low losses on loans
- Few non-performing loans
- A good loan growth of 7.2 percent
- High deposit growth of 7.8 percent
- Successful establishment 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 by the end of the year
- The Board will propose to the Bank's Supervisory Board to distribute a dividend for 2017 of NOK 6.00 per Equity Certificate.

FRAMEWORK 2017

Higher growth in the Norwegian economy

Growth in the Norwegian economy has picked up in 2017 after a 2016 with the weakest economic growth since the financial crisis. The economic growth almost doubled in 2017, to just under 2 percent, which is at level with Norges Bank's expectations the coming years. The falling oil prices, with the consequential fall in oil service investments, has been a weighting factor in the overall Norwegian economic growth. However, there was a positive development in the oil price in 2017, and oil investments are expected to increase ahead. House prices in the bank's main market have had a moderate trend over several years.

The Annual growth in the general public's gross domestic debt (C2) increased in 2017, to 6.3 percent at the end of the year. Debt growth for households and industry amounted to 6.5 percent and 6.4 percent respectively.

The key interest rate

Norges Bank did not consider the positive development in the Norwegian economy to be at a level where an increase from the current key interest rate of 0.5 was appropriate. The central bank emphasized that they should act carefully when deciding the key interest rate. However, with a continuation of the current economic development, both domestically and internationally, an increase in the key interest rate is not expected to be far ahead.

Developments in financial markets

The Group has good access to funding, both at home and abroad, through covered bonds and senior debt. The capital markets have been well functioning in 2017, and credit spreads have been relatively stable.

BUSINESS SEGMENTS

Retail banking market

The Bank has in 2017 reinforced its position as the leading bank for private customers, clubs and associations in the region. Gross loans to retail customers amounted to NOK 63.8 billion at the end of the year, equivalent to about 65 percent of the bank's total loans. The growth was 6.7 percent. Deposits from retail customers increased by 3.9 percent to NOK 25.9 billion, and amounted at year end to 47 percent of the bank's total deposits.

The retail market division made further developments in its organisation through 2017. Further merger synergies have been realized, competence is built at both executive and advisory level, the automatization work has made an important step forward, a large portion of cash handling has been streamlined and new digital customer solutions have been launched.

The Banks establishment of a new branch in Rogaland went according to plan, and there has been a very positive development since startup in April.

Some offices have been closed down since the merger, others converted into offices "open for appointment". The retail market division has since the merger downsized by about 75 FTEs. The organisation will be further developed in order to adapt to current and future customer needs.

The Bank offers both life and general insurance to the retail market through Frende Forsikring and car financing through Brage Finans.

Corporate marked

The Bank has through 2017 maintained its position as the business bank for southern Norway, strengthened its poisition in Telemark, and is today a natural first choice for businesses in many parts of the bank's scope.

Corporate loans increased by NOK 2.6 billion to NOK 34.1 billion in 2017, corresponding to a growth of 8.1 percent.

Corporate deposits increased by NOK 3.0 billion to NOK 29.6 billion. This corresponds to a growth of 11.5 percent.

The bank's corporate clients constitute a balanced and solid portfolio, reflecting the business community in the region in a good way.

The Bank has strengthened its cooperation with Kristen-Norges interessefellesskap (KNIF - Norwegian Christian interest organisation) through 2017. The customer segment is included in the corporate market and is considered a low-risk segment which includes hospitals and other businesses in the healthcare sector, schools, kindergartens, church entities, real estate companies, missionary organisations and children and youth organisations. Through cooperation with KNIF the bank has received several interesting new customers also in 2017, and growth in this segment has for several years shown a positive development.

The Bank has defined the public sector as a separate priority area, which includes municipalities, counties, municipal corporations, state and local government owned corporations. 27 municipalities and counties of Agder and Telemark use Sparebanken Sør as their primary bank. Growth in this segment has in recent years been very positive.

The Bank offers general insurance, pension and group life insurance to business customers through Frende Forsikring and leasing through Brage Finans.

PROFIT FOR THE YEAR

Accounting principles

The financial statement for Sparebanken Sør has been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles are explained in the notes to the financial statements.

The financial statements have been prepared under the assumption of going concern. The group has adequate results and equity. In the opinion of the Board of Directors there are no factors indicating anything other than going concern.

The figures referred to in the directors' report are group figures, unless it is specified that the figures concern the parent bank.

Profit for the Year

In 2017, Sparebanken Sør achieved a profit before tax of NOK 1.266 million, compared with NOK 1.273 million in 2016. This is equivalent to 1.16 percent of the average total assets, compared with 1.21 percent in 2016.

The Group had a solid profit before tax because of a positive development in net interest income, low costs and low losses. Profit from from ordinary operations (ref. appendix for calculations) had a positive development of NOK 105 million from 2016.

Profit after tax totalled NOK 984 million, compared with NOK 989 million in 2016. This is equivalent to a return on equity, adjusted for hybrid capital, of 9.7 percent in 2017, and

11.6 percent in 2016.

Other comprehensive income was negative NOK 10 million due to changes in pension assumptions. Total comprehensive income was NOK 974 million.

Net interest income

Net interest income amounted to NOK 1.679 million in 2017, compared with NOK 1.565 million in 2016, an increase of NOK 114 million. This was equivalent to 1.53 percent of average total assets, compared with 1.49 percent in 2016.

Interest on hybrid capital amounted to NOK 46.6 million in 2017, compared with NOK 32.6 million in 2016. Interest on hybrid capital has been deducted from equity as surplus disposal.

Loan rates have been under pressure in retail and corporate market in 2017. The market rates have had a downward trend in the period, resulting in reduced costs on the Groups bond portfolio linked to 3 month NIBOR. Additionally, the bank has made adjustments to the terms on customer deposits. This has resulted in a positive development in net interest income for the Group when measured as a percentage of total assets. The volume growth has also had a positive effect on net interest income.

Commission income

Net comission income amounted to NOK 312 million, compared with NOK 293 million in 2016. This is equivalent to 0.28 percent of average total assets, which is the same as last year. The increase was mainly caused by higher revenues in the Group's real estate business, Sørmegleren, and other product companies. Revenues from other product areas have consistently shown a stable trend throughout the year.

Financial instruments

Net income from financial instruments amounted to NOK 88 million in 2017, compared with NOK 224 million in 2016. This is equivalent to 0.08 percent of average total assets, compared with 0.21 percent in 2016. There has been a positive development in the Group´s liquidity and stock portfolio in 2017, even though it was weaker than last year. The Group also has revenue linked to the development in fixed interest loans to customers, and foreign currency. Losses tied to buyback of own debt have also been accounted for in 2017. Basis swaps, used when hedging fixed interest debt in Euro, have had a negative development in 2017.

Costs

Group costs were NOK 811 million in 2017, compared with NOK 787 million in 2016. This is equivalent to 0.74 percent of average total assets, and 0.75 in 2016. The expenses-income ratio, ex. financial instruments, was 40.4 percent, compared with 41.7 percent in 2016.

Personnel costs have increased compared with 2016. The increase was first and foremost a consequence of the extraordinarily low personnel costs in 2016, caused by the conversion of the defined pension scheme. Additionally, a new financial tax calculated as 5 percent of wages has been enforced. When adjusting for these two accounting events, personnel costs are at about the same level as in 2016. Even though the Bank has opened a new branch in Rogaland in 2017, there has been a decrease in FTEs. There has been an increase in FTEs in the Groups real estate business following the new establishments in Telemark.

There has been a downturn in depreciation and write-downs on fixed assets, while other operating expenses were at about the same level as last year. More resources were used on new digital solutions in 2017 than in 2016. In total this will result in a reduced overall cost.

Losses and defaulted loans

NOK 20 million in net losses has been recognised in the income statement, which is equivalent to 0.02 percent of net loans. The corresponding figures for 2016 were NOK 50 million and 0.05 percent of net loans. Collective write-downs were reduced by NOK 30 million in 2017.

The Group implemented as of 1 January 2018 the new standard IFRS 9, which has consequences for measuring the Groups loan impairments. IAS 39, the applicable standard in 2017, was based on an incurred loss model. IFRS 9 introduces a new model which is based on future expected losses. The Bank has the last few years been working on a model to meet the new requirements. The calculated expected losses as at 1 January 2018 causes a decrease in impairments losses on loans of NOK 2 million. As a consequence, the Group´s equity will increase by NOK 1.5 million following the implementation of IFRS 9. For further information, refer to Note 6 about credit risk, Note 10 about Losses on loans and guarantees and Note 38 about IFRS 9 and the effects of transition.

The bank´s individual losses on loans amounted to NOK 388 million at year end, amounting to 0.40 percent of gross loans.

Losses on groups of loans were reduced by NOK 30 million in 2017, and amounted to NOK 180 million at year end, or 0.18 percent of gross loans. The reduction was a consequence of the positive development that has been in the loan portfolio.

Gross non-performing loans amounted to NOK 273 million, corresponding to 0.28 percent of gross loans. The corresponding figure in 2016 was NOK 276 million, representing 0.30 percent of gross loans.

*) See appendix for the annual report.

BALANCE

Total assets

At year-end 2017, total assets amounted to NOK 114.3 billion, compared with NOK 105.5 billion in the previous year. This is equivalent to a growth of NOK 8.9 billion or 8.4 percent.

Loans

Net loans to customers were NOK 97.5 billion, compared with NOK 90.9 billion in 2016. Equivalent to a growth of NOK 6.6 billion or 7.2 percent. The growth in loans to customers is in line with the Banks ambition of a growth which is higher than growth in the markets where the Bank is represented.

Gross loans to retail banking customers amounted to NOK 63.8 billion, compared to NOK 59.8 billion in 2016. This resulted in a growth of NOK 4 billion or 6.7 percent. On a national basis, household lending growth has been 6.5 percent. At year-end 2017, loans totalling NOK 31 billion were transferred to Sparebanken Sør Boligkreditt AS, which is an important instrument for the bank in achieving competitive terms in the retail banking market. Loans to the retail market were 65 percent of the Group's total loans, compared with 66 percent in 2016.

Gross loans to corporate customers amounted to NOK 34.1 billion in 2017, compared with NOK 31.5 billion in 2016. This corresponds to a growth of NOK 2.6 billion, or 8.1 percent. On a national basis, industry lending growth has been 6.4 percent.

Deposits

At year-end, total deposits were NOK 55.6 billion, compared with NOK 51.6 billion in 2016. This resulted in a growth of NOK 4 billion or 7.8 percent.

Deposits from retail customers amounted to NOK 25.9 billion, compared with NOK 24.9 billion in 2016. This resulted in a growth of NOK 1 billion or 3.9 percent. In the Corporate Market, the deposits totalled NOK 29.6 billion, compared with NOK 26.6 billion in 2016. This is equivalent to a growth of NOK 3 billion, or 11.5 percent. A large reason for the growth in customer deposits is increase in deposits from the public sector, which is a focus area for the bank.

As at 31 December 2017, deposit-to-loan ratio was 57 percent, compared with 56.7 percent in 2016.

Debt established through issuance of securities and debt to financial institutions

The bank obtains funding in the capital market through issuance of interest-bearing securities. The Group's debt from securities amounted to NOK 44.3 billion at the end of 2017 compared with NOK 41.2 billion at the end of 2016. Long-term bond funding is established as covered bonds and senior debt. Covered bonds amounted to 60 percent of long-term bond funding at the end of 2017.

The Group has arranged for long term financing from the international market though the established EMTN (European Medium Term Bond Note) program in Sparebanken Sør and EMTCN (European Medium Term Covered Bond Note) program in Sparebanken Sør Boligkreditt. This was utilized in Q2 2017, when Sparebanken Sør Boligkreditt AS issued covered bonds in Euro with 5 years maturity.

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

Securities

At year-end, the Group's portfolio of certificates and bonds totalled NOK 13.5 billion.

The portfolio is part of the bank's liquid reserves, which has been established to ensure sufficient liquidity during turbulent market conditions. The portfolio can be used as collateral for loans from Norges Bank, and is included in the bank's LCR portfolio.

The Group's liquidity indicator for long term funding was 109 percent at the end of 2017. The Group's liquidity reserve (LCR) amounted to 139 percent as at 31 December 2017 (119 percent in Parent bank).

Investments in stocks and equity certificates amounted to NOK 572 million.

Subordinated capital

The Bank has strengthened its subordinated capital in 2017 through a solid profit, customized growth in risk-weighted assets, an issuance of NOK 250 million in hybrid capital and issuance of NOK 200 million in subordinated bonds.

Net subordinated capital amounted to NOK 12.3 billion at year-end. 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 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 standard method in the Basel II regulations.

As of Q1 2017, the Group has reported capital ratios with a partial consolidation of the Groups cooperating companies. For Sparebanken Sør, this applies to Brage Finans, where bank has an ownership interest of more than 10 percent. The Group´s common equity tier 1 capital ratio, with the cooperating companies partially consolidated, amounted to 14.9 percent, tier 1 capital amounted to 16.6 percent, the (total) capital ratio amounted to 18.7 percent.

For the Parent Bank, the respective figures are 15.5 percent common equity tier 1 capital, 17.5 percent tier 1 capital ratio and 19.9 per cent (total) capital ratio at the end of 2017.

The Group has fulfilled the capital requirements for financial institutions with effect as of 31 December 2017 at 12 percent in common equity tier 1 capital, 13.5 percent in tier 1 capital and 15.5 in (total) capital. The capital requirements, when including the pillar 2 addition of 2.1 percent, is 14.1 percent in common equity tier 1 capital, 15.6 percent in tier 1 capital ratio and 17.6 percent in (total) capital ratio respectively. Further adaptation of the buffer beyond this level will depend on market expectations and the Norwegian Financial Supervisory Authority´s feedback on the Banks ICAAP

(Internal Capital Adequacy Assessment Process).

An important ambition for the Bank is to achieve a common equity tier 1 capital ratio at level with comparable banks. Of the large regional banks, Sparebanken Sør is the only bank that uses the standard method when calculating the capital ratios. The Board of Directors decided in November to send an application by the end of 2019 for using the IRB method.

The Group's leverage ratio amounted to 9.2 percent at the end of 2017, compared with 8.6 percent at the end of 2016.

The bank's financial strength is considered very satisfactory in light of the current regulatory requirements.

ALLOCATION OF PROFIT

In the view of the Board of Directors, the presented financial statements give a fair view of the Group and the parent bank's position and result. The Board of Directors is not aware of any circumstances that have arisen after the turn of the year, which would change its view in this respect.

The parent bank's profit totalling NOK 795 million after tax has been proposed allocated as follows:

Dividend:	NOK 94 million
Interest on hybrid capital:	NOK 47 million
Transferred to donation fund:	NOK 40 million
Transferred to equalisation fund:	NOK 46 million
Transferred to primary capital:	NOK 568 million
Total transferred:	NOK **795** million

EQUITY CERTIFICATES AND DIVIDEND

The Bank had issued 15 663 944 equity certificates with a nominal value of NOK 50 at 31 December 2017.

A summary of the 20 largest equity certificate owners as at 31.12.2017 is presented in note 36. The profit per equity certificate was NOK 8.9 for the parent bank and NOK 11.2 for the Group.

The ownership ratio has been 18.7 percent in 2017. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

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 profit will be distributed between the equity certificate capital (equity certificate owners) and the subordinated 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.

An ambition is that approximately half of the equity certificate capital share of annual profits after tax shall be awarded as dividend.

The Board of Directors will propose a dividend for 2017 of NOK 6 per equity certificate, corresponding to a dividend of approximately 54 percent of the Group´s profit per equity certificate.

In addition, it will be proposed to allocate NOK 40 million to the donation fund.

The Bank's equity certificate ratio amounted to 18.7 percent before allocation of profit. With the proposed dividend and allocation to the donation fund the equity certificate ratio is reduced to 17.9 percent.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør Boligkreditt

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

At year-end, NOK 31 billion in loans had been transferred to the company. The average debt-to-asset ratio was 57 percent. At year-end, NOK 26.6 billion in covered bonds were issued. The cover pool totalled NOK 31.8 billion and the over-collateralisation ratio was 19.3 percent.

The company had a profit before tax of NOK 248 million. At year-end, the capital adequacy ratio was 17.4 percent. The company has entered into agreements with the parent bank, which include financing commitments and support services such as loan administration, staff and treasury functions.

In Q2 2017 the Company issued EUR 500 million in covered bonds under the company's EMTCN program. By the end of 2017, the Group had two benchmark bonds issued in EUR. The loans are swapped to floating-interest funding in Norwegian kroner.

Sørmegleren

Sørmegleren, the bank's own real estate agency, has now operated in 4 years after the merger between ABCenter and Plussmegleren was completed. The company is the leading real estate agency business in Southern Norway (Sørlandet) with a market share of around 30 percent. In 2017, there has been a positive trend with a profit before tax of NOK 12.5 million. In cooperation with Porsgrunn Bamble Borgestad Boligbyggelag (PBBL), Sørmegleren has had a very successful establishment of offices in Skien and Porsgrunn in 2017, and has already gained a market share of about 10 percent after the first year in operation. Sørmegleren has 14 branch offices and 75 employees.

Other subsidiaries

The bank's other subsidiaries mainly manage commercial properties where the bank has operations.

PARTLY-OWNED PRODUCT COMPANIES

Frende Forsikring

Through Frende Forsikring the bank's retail banking and corporate customers are offered good general and life insurance products. Frende Forsikring is owned by 15 independent savings banks. Sparebanken Sør has a 10 percent ownership interest. The company has continued its strong growth in regards to customers and premiums within both general and life insurance. Frende Forsikring has had a good year, and achieved a profit before tax of NOK 301 million in 2017.

Brage Finans

Brage Finans is a financing company which offers leasing, car financing and consumer loans to the corporate and retail markets. Brage Finans is owned by 12 independent savings banks. Sparebanken Sør has a 15 percent ownership interest. The company achieved a profit before tax of NOK 58 million in 2017.

Norne Securities

Norne Securities is an investment firm that provides online trading, traditional brokerage and corporate finance services. The company is owned by 14 independent Norwegian savings banks and Sparebanken Sør has an ownership of 17.6 per cent. The company achieved a profit before tax of NOK 4 million in 2017.

Balder Betaling

Balder Betaling is a newly established company and is owned by Sparebanken Sør (22.4 percent) together with the 14 other owners of Frende. The company has a 12 percent ownership interest in Vipps AS, and the company`s task is to further develop Vipps together with the other shareholders.

RISK MANAGEMENT

Risk is a fundamental aspect of the banking business, and risk management represents a key area of the Bank's day-to-day operations and follow-up by the Board of Directors.

The bank's risk management and internal control shall help to ensure that the bank's risk is managed in a way which supports the bank's strategic goals, contributing to the bank's long-term wealth and value creation. The overall framework of the Bank's risk management and exposure is assessed and determined annually by the Board of Directors in conjunction with the maintenance of the Bank's internal strategy- and policy documents.

The Board of Directors determines the framework for risk appetite, including specific management objectives and risk tolerance limits for the various risk categories, such as credit - , market -, funding - and operational risk. Systems and structure have been established for measurement, management, follow-up and control of risk in addition to authorisations that include reporting systems for the management and the Board of Directors for the various risk categories. The Bank's aim is to have a low level of risk exposure, and there is a continual process aimed at further developing and improving the Bank's risk management.

The most significant risk factors can be classified as financial risk, operational risk, plus strategic and business risk.

Financial risk includes credit risk, market risk (related to the Bank's exposure in the interest rate-, foreign exchange- and stock markets) and funding risk. Operational risk is defined as the risk of loss which may be incurred due to insufficient or failing internal processes, systems, human errors or external events. Strategic risk is related to the strategies, plans and changes which the Bank has or is planning to have in connection with its marketing efforts, while business risk is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic cycles, competition, customer behaviour, lack of business development and regulation by public authorities.

Risk is a fundamental aspect of banking operations, and risk management is essential for the daily operations of the Bank and the Board's supervision.

The Bank has an ongoing process relating to the monitoring and assessment of the different risk factors. Against the background of rules and regulations for risk management and internal control, all main areas have been subject to internal control processes. The bank's group management processes cases related to risk management on an ongoing basis and submits periodic reports to the Board of Directors' risk management committee. In view of the Board of Directors, the bank's risk management is well functioning.

Credit risk

Credit risk is the most important risk category for the bank and is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the bank. As a consequence of this, work on credit risk has top priority in the daily operations and in the Board of Director's follow-up. The Board of Directors approves the bank's credit strategy and policy. Credit risk is also managed through credit management routines, credit processes, and credit allocation authorisations. The Board of Directors has determined objectives and indication of direction, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the bank's credit policy is monitored by the Risk Management Division, which is an entity independent from the customer departments.

The bank's risk classification system is used both in the credit rating process and in the ongoing follow-up of risk at portfolio level. Under the risk classification system, customers are classified in categories based on probability of default, where the probability of default over a 12-month period is estimated on the basis of internal and external financial data.

A score card is used to divide the customers into 10 different risk classes and a risk class for defaulted loans and loans where write-downs have been implemented, but no default has occurred. Risk development in the portfolio and migration is assessed using the risk classification system.

Market risk

Market risk includes risk associated with profit variations in unsecured interest rate, currency and equity capital positions. Losses may arise due to fluctuations in interest rates, including credit spread, foreign exchange rates and share prices.

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

The Board of Directors has established management objectives for investment in shares, bonds and positions in the interest rate and currency market. Compliance with the management objectives is followed-up on an ongoing basis and is reported to the group management and the Board of Directors.

The interest rate risk limit is determined as an upper limit for how large the loss on unsecured interest rate positions can be in case of a shift or twist in in the yield curve. Interest rate risk which arises in the group's ordinary operations in the form of fixed rate customer loans, fixed rate investments and funding, are identified on an ongoing basis. At year end, the group's net interest rate risk was NOK 58 million.

Beyond the interest rate risk limit, an upper risk tolerance level has been set for profit effects due to a general market change in credit spread which may lead to changes in value of the Group's interest-bearing securities portfolio. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The bank's credit spread exposure is related to the liquidity portfolio. At year-end 2017, 85 percent of the board-adopted limit had been used.

The Group is subject to fluctuations in the foreign exchange market through its activities with customers. Foreign exchange exposure is identified using derivatives (foreign exchange futures and swaps). Foreign exchange exposure is measured as a 10 percent change in the exchange rate in the foreign exchange position. Individual exposure limits have been set for foreign exchange.

With financing in foreign currency arises interest and exchange rate risk, as a result of financing carried out at fixed interest terms and in currencies other than NOK. The same applies to the purchase of debt securities in foreign exchange. The Bank reveals interest and foreign exchange exposure by entering derivative contracts with reputable financial counterparties. The contracts are entered under ISDA (International Swaps and Derivatives Association) with CSA (Credit Support Annex) agreements. When financing in foreign exchange and disclosure of currency risk, hedge accounting is applied for the changes in value.

At year-end, the Group's total investments in shares were NOK 572 million. Among the largest single items were the product companies Frende Forsikring, Norne Securities, Brage Finans and Balder Betaling.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or not having the capacity to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, overall guidelines and routines and through the established credit issuance authorisation. Important operational management parameters are; the requirement for the deposit-to-loan ratio, the indicator for long-term funding, the stress indicator for liquidity outputs within 30 days (LCR), and additional guidelines for survival in situations where there is no access to market funding. The liquidity risk is also managed by ensuring a well distributed funding from the capital market with different maturities, funding sources and instruments. The liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the group.

Deposits from customers are the most important and stable source of funding. The Board of Directors emphasises that the relationship between deposits from customers and loans must be satisfactory and adjusted according to the Group's total funding situation. The group's deposits to loan ratio was 57 percent at the end of the year.

Sparebanken Sør Boligkreditt AS represents an important funding instrument, which ensures access to long-term funding through issue of covered bonds. To be able to issue covered bonds, mortgages equivalent to 49 percent of the total loan portfolio to the retail market had been transferred to Sparebanken Sør Boligkreditt at the end of 2017.

Board-adopted target requirements for the bank's liquidity risk are in accordance with the guidelines given by the Financial Supervisory Authority. At year-end, the indicator values for Sparebanken Sør were within these requirements.

The liquidity indicator for long-term funding was 109 percent. The available liquidity buffer meant that under normal operations, the Group could have survived for more than 12 months without supply of new funding from the market.

The Group has an extensive liquidity reserve in the form of liquid interest-bearing securities. The bank also has mortgages that are ready for transfer to Sparebanken Sør Boligkreditt. The bank's interest-bearing liquidity portfolio consists of government securities, other zero-weighted securities, covered bonds and municipal bonds. The Groups holdings of interest-bearing liquidity reserves amounted to NOK 14,6 billion NOK at 31. December 2017.

The bank's short-term liquidity risk is among others managed through the use of a regulatory Liquidity Coverage Requirement (LCR). At year-end 2017, the LCR indicator for Sparebanken Sør (Group and Parent bank) and Sparebanken Sør Boligkreditt AS was sufficient to meet all the projected liquidity maturities within the next 30 days under a stress scenario with a good margin. The Group and the parent company's LCR ratio was 139 percent and 134 percent respectively as at 31 December 2017. The regulatory requirement as at 31 December 2017 was 100 percent.

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

Operational risk

Operational risk is the risk of financial losses or loss of reputation, from various sources of potential loss, related to the ongoing operations of the Bank. This may result from inadequate or failed internal procedures and processes, human error or inadequate expertise, failure of IT systems, crime or internal fraud, error from subcontractors, etc.

The Bank has routines which cover all significant areas. Risk management and internal control is the process of identifying, analysing, managing and following-up the risks so that the total risk exposure agrees with the strategic objectives and ensures compliance with applicable laws and regulations, and also internal routines and guidelines. Internal control is an important tool for reducing the operational risk, both for identification and follow-up. The banks operational risk is considered to be low.

Compliance

The Group aims to have good processes to ensure compliance with applicable laws and regulations. Compliance risk is the risk that the Group incurs public sanctions, loss of licences, financial loss or impaired reputation due to lack of compliance with laws, regulations and industry standards. A continuous work is going on to obtain the best adaptation to new regulations in order to maintain compliance and efficiency in the organisation. New regulations that have impact on the Group's operations are implemented in the bank's procedures and guidelines.

The bank's compliance function is handled by the Risk Management Division, and the function is organised independently of the business units. Risk management has overall responsibility for frameworks, follow-up and reporting within the area of compliance.

Ownership risk

Ownership risk is the risk that the Group will incur negative results from ownership interests in strategic owned companies and / or must supply new equity to these companies. Ownership is defined as companies where Sparebanken Sør has significant ownership or influence.

The management and boards of directors of subsidiaries will be protected in accordance with the provisions of the Limited Liabilities Companies Act. Several of the companies use managers and / or employees from the Group in the Board of Directors or in other functions.

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

Capital management

Capital management will ensure that the Group has a capital adequacy that meets the regulatory requirements and that ensures good financial stability and a satisfactory return in relation to the risk profile.

Sparebanken Sør uses the standard method for credit risk and the basic method for operational risk under the current capital adequacy calculations. As a "standard bank", the bank has a slightly higher Risk Weighted Assets in comparison with the IRB banks. The Board of Directors approved in November 2017 the initiation of the process of applying the Financial Supervisory Authority (FSA) for the use of the internal ratings-based approach (IRB). The aim is to send an application to FSA by the end of 2019.

The bank's capital requirements are assessed annually based on an estimated total risk. The internal capital adequacy assessment process (ICAAP) enables the bank to have good risk management and an overview of the risk of which the bank is exposed, while ensuring that sufficient equity and subordinated capital is established at any time.

The bank received the final assessment of the Group's capital (SREP) in Q4 2016, and the FSA concluded with a pillar 2-addition of 2.1 percent of risk-weighted assets. Based on FSAs division of banks, Sparebanken Sør shall receive SPREP at least every other year, and the bank expects to get a reconsidered pillar 2-addition in the first half of 2018. The capital requirement including the Pillar 2 Supplement of 2.1 percent thus constitutes 14.1 percent at the end of 2017. Based on an overall assessment, and partly as a result of the bank's ICAAP, market expectations, and the need for an operational buffer, the Bank has adjusted to a level of at least 14.5 percent in common equity tier 1 capital.

An important objective for the Bank is to achieve a common equity tier 1 capital ratio at least at level with comparable banks. Of the largest regional banks, Sparebanken Sør is the only bank using the standard method in the capital adequacy calculations. Despite this the bank had a common equity tier 1 capital ratio of 14.9 percent by the end of 2017. If the bank had made the calculations after the IRB-method this would have given a significantly higher common equity tier 1 capital ratio. The bank's financial strength is considered satisfactory in light of the current regulatory requirements. This is supported by the Group's high Leverage Ratio of 9.2 percent.

The Group's capital adequacy is followed-up through periodic reporting to the Board of Directors.

RATING

In order to expand the possibilities for funding both internationally and from various investors, the bank has an international rating from Moody's, one of the world's most recognised rating agencies. In addition to the fact that the rating outcome has a value for the bank, the Board considers the actual rating process and maintenance of the rating as a value for the bank in terms of improving the quality of various processes and procedures.

Sparebanken Sør has a long term rating of A1 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 a rating of Aaa.

CORPORATE GOVERNANCE

Sparebanken Sør's principles and policy for corporate governance are based on the Norwegian Code of Practice for Corporate Governance, prepared by the Norwegian Corporate Governance Board (NUES). The Financial Supervisory Authority of Norway's model for evaluation of overall management and control, which reflects principles from the European Banking Authority (EBA), is used as far as this is relevant to the Group.

Sparebanken Sør principles and policy shall ensure that the bank's corporate governance is in line with generally accepted perceptions and standards, and applicable laws and regulations. Furthermore, corporate governance shall ensure good cooperation between the bank's different stakeholders, such as owners of equity certificates, lenders, customers, employees, governing bodies, management and the society at large. The Board believes that the bank's corporate governance is satisfactory and consistent with its principles and policy. See the full report in the annual report.

PERSONNEL AND WORKING ENVIRONMENT

At year-end 2017, the bank had 432 FTEs at work and 503 FTEs in the Group. The number of employees in the bank has been reduced by 87 FTE since 2013.

Sickness absence has remained at a stable low level. In 2017, sickness absence was 3.7 percent, the same level as the year before, and down from 4.6 percent in 2015. The majority of this was long-term absence. Through participation in the IA Agreement, it's important for the bank to work systematically on the reduction and monitoring of sick leave. The Bank has made arrangements for employees with disabilities. New constructions and retrofit have received universal design which means that the buildings are designed so that everyone can use them without special modifications or aids.

The Bank continuously strives to ensure that the bank's employees have the skills they need for their position. Throughout 2017 there have been conducted a number of training-exercises within the authorization schemes and the credit and money laundering area. The conversion processes in the Bank place large demands on management. Within the management teams of the Banks divisions, the Bank has through 2017 been working for improved competence in change management.

The Bank has a well-functioning organisation with a good working environment and high job satisfaction, in combination this provides stable and good working conditions. The Bank continues to invest in various social activities for employees in areas such as company sports, art club and cabins.

Equality and diversity

The bank had at year-end in all 449 employees compared with 461 at the same time in 2016. Among the 449 employees there were 232 women and 217 men. There were a female proportion of 34 percent among the Bank's leaders, an increase from 33 percent in 2016. In the Bank's governing bodies, the female representation in the Board of Trustees amounted to 39 percent and 50 percent in the Board of Directors.

The Bank focuses on equality and diversity. Sparebanken Sør has a long term objective to achieve a relatively even distribution of gender at all levels in the organisation, and aims to increase the proportion of women in senior positions. When recruiting, the best female will always be assessed against the best male applicant. In addition, the best candidate from an ethnic minority background will always be assessed against the best male and best female candidates.

When recruiting, the best applicant with ethnical background shall be included in the interview process. The Bank is participating in the project "Likestilt arbeidsliv (Equality in employment)" which has the aim of establishing a certification scheme for equal entities. "Likestilt arbeidsliv" is a joint project between Vest-Agder County Council, Aust-Agder County Council, The Department of Children, Youth and Family Affairs and the Chamber of Commerce in the Kristiansand region. The bank is currently conducting a pilot certification program that includes 15 other organisations from the private and public sector in the region.

RESEARCH AND DEVELOPMENT

The Group does not conduct any research.

SOCIAL RESPONSIBILITY

In the last few years, there has been increasing awareness that the business community has a responsibility to society over and above making profit. Finance Norway (FNO), the Norwegian Savings Banks Association and the Confederation of Norwegian Enterprises have placed corporate social responsibility high on the agenda.

Sparebanken Sør's social responsibility is expressed in the bank's fundamental idea to contribute to growth and development in the region. Through banking operations, the bank contributes to value creation and growth for people and businesses. Sparebanken Sør also gives some of the profit back in form of donations and initiatives for the benefit of the region and for the local communities. The bank has prepared a separate document on social responsibility. See the full report in the appendix for the annual report.

Climate challenges and external environment

The bank does not use input factors or production methods that directly pollute the external environment. The bank prepares an annual climate report to identify emissions, quantify pollution and to enable the bank to implement targeted measures. The report is based on the international standard "A Corporate Accounting and Reporting Standard". The report covers consumption related to transport, energy, waste and air travel. The bank is not aware of other environmental impact beyond consumerism that can be translated into CO2 and therefore has no reporting on emissions to soil, water or noise.

The bank encourages environmental awareness as regards use of paper, waste management, recycling, transportation and traveling. To reduce emissions and costs in connection with travel to and from meetings, the bank has invested in technology to conduct video conferences at several branches. In addition, all offices have technology that enables PC-supported teleconferences.

The bank has a diversified business portfolio. Several of the bank's corporate customers have operations that will have an impact on the external environment. Through providing credit, the Group has indirect possibilities to impact the external environment.

Human rights

Sparebanken Sør respects and supports the protection of international human rights. All Sparebanken Sør's operations are located in Norway and the bank has no customers of importance with addresses outside Norway. The few corporate customers registered with NUF or Ltd is reviewed in particular.

Human rights, employee rights and social circumstances follow acknowledged and required norms for Norwegian companies located in Norway. The bank is a member of Finance Norway and is bound by tariff agreements within this tariff area. The bank has also entered into a separate tariff agreement (company agreement) with employee representatives in the company.

Money laundering and terror funding

The bank has its own anti-money laundering procedures and terrorist financing measures, and it has been an aim to strengthen the quality of compliance with the laws and regulations.

A new money laundering directive is expected to be implemented in 2018. This will reinforce requirements for banks within the money laundering area. It is expected that the authorities will have increased focus on checking the banks compliance with money laundering legislation. Based on the emphasis that reporting providers shall have a risk-based approach to the scope of the directive, the bank implemented a comprehensive overall risk analysis of the money laundering area in 2017. Through this analysis there have been identified various measures that will be taken into consideration, and that can accommodate improvements.

The anti-money laundering procedures govern relations with customers and a number of checks and reporting to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental crime) are made during the year.

Code of ethics, measures against corruption and internal alerts

According to the bank's code of ethics, employees must act with diligence and honesty. Employees should endeavour to have a behaviour that is trustworthy and according to applicable standards, laws and regulations. This will affect all our activities so that the bank achieves market confidence and ensures it's competitive and power and reputation. The code of ethics shows the expectations and requirements Sparebanken Sør has for its employees' conduct and behaviour. Management, employees, employee representatives, temporary personnel and hired consultants must follow the code of ethics. Everyone who must follow these standards must not conduct themselves in a manner that weakens confidence in Sparebanken Sør. Employees are obliged to register gifts from customers / other external parties in a separate gift book. Travel, especially abroad, is checked as regards possible irregularities and tax consequences. Travel for employees initiated by suppliers to the bank must be approved by a superior. No breach of the Code of Ethics has been reported in 2017.

The bank is working actively to prevent corruption related to employees, customers and other partners. Internally this is particular taken care of in the ethical regulations. No cases that can be defined as corruption have been reported.

The bank revised in 2017 its routines when it comes to internal alerts. Sparebanken Sør has good procedures for altering of unwanted events, critical circumstances, threats, etc. Alerts are sent to neutral instance (internal auditor). The routine is easily accessible to the bank employees. The bank has in 2017 not had any matters or alerts that concern harassment or internal conditions.

GIFTS FOR THE PUBLIC BENEFIT

Sparebanken Sør has defined donations as a strategic priority area. When awarding donations, the bank is concerned that chosen projects benefit the community in some way. In this way, making donations provides the opportunity to stimulate growth and development in society and the business community. A sustainable society and business community are major factors which affect the bank's future financial results. Donations give the bank a competitive advantage and are important in building the bank's reputation.

The bank granted in 2016, 10 million NOK to Stiftelsen Sparebanken Sør Instrumentfond (The Foundation Sparebanken Sør Instrument Fund). The foundation aims to be a support for developing music in the region, to be a contributor in increasing the general interest of classical music, to contribute to increased musical activity and encouraging talented and promising youths to pursue a musical career. This will be done by building a collection of first-class old string instruments. The instruments shall be available to profiled and dedicated musicians through Kristiansand Symphony Orchestra and / or other musicians. The foundation was established at year-end 2016/2017, and was well received when presented spring 2017.

In 2017, the donations committee has dealt with 444 cases. Of these, 190 were granted a total amount of NOK 26.8 million. Children and young people have been a priority target group and the allocations have largely been aimed at projects within childhood, sport and culture. The bank has prioritised broad rather than narrow target groups and teams rather than individual performers. The Board of Directors proposes allocation of NOK 40 million of the bank's profit for 2017 for distribution in 2018.

OUTLOOK

The Board of Directors is very satisfied with the result for 2017. The bank has had a positive development in profit from ordinary operations through increased net income, increased commission income, good cost control and low losses on loans.

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 have 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 have experienced a moderate growth over several years. Statistics for 2017 show a flattening and then a negative house prices development in the region. 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. It's 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 ratio, 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 Authoritys' response to the banks ICAAP in 2018.

The Group expects growth to be higher than the overall credit growth in 2018. 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 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.

CLOSING REMARKS

The Board of Directors would like to thank the bank's employees for their valuable contribution to what has been a good year for Sparebanken Sør. At the same time, the Board of Directors would also like to thank the bank's customers, equity certificate holders and other business relations for supporting the bank and for the confidence they have shown in the bank over the last year.

The Board of Directors

From left: Torstein Moland, Marit Kittilsen, Gunnhild T. Golid, Erling Holm, Stein Hannevik, Inger Johansen, Tone T. Vareberg and Jan Erling Tobiassen.

Kristiansand, 27 February 2018

Stein A. Hannevik Chairman	Torstein Moland Deputy Chairman	Inger Johansen	Erling Holm	Marit Kittilsen
Tone T. Vareberg	Jan Erling Tobiassen	Gunnhild T. Golid	Geir Bergskaug CEO	

Income statement

PARENT BANK		NOK MILLION		GROUP	
2016	**2017**		**Notes**	**2017**	**2016**
2 194	2 205	Interest income	14,33	2 953	2 928
963	884	Interest expenses	14,33	1 274	1 363
1 231	**1 321**	**Net interest income**	**5,14**	**1 679**	**1 565**
309	321	Commission income	15,33	370	345
52	58	Commission expenses		58	52
257	**263**	**Net commission income**		**312**	**293**
22	23	Dividend		15	10
228	121	Net income from other financial instruments	11,12	73	214
250	**144**	**Net income from financial instruments**	**16**	**88**	**224**
29	16	Other operating income		18	28
1 767	**1 744**	**Total net income**		**2 097**	**2 110**
359	374	Wages and other personal expenses	17,34	453	425
34	29	Depreciation and write-down of fixed assets and intangible assets	29	30	36
310	309	Other operating expenses	18,33	328	326
703	**712**	**Total operating expenses**	**5**	**811**	**787**
1 064	**1 032**	**Profit before losses on loans**		**1 286**	**1 323**
50	20	Losses on loans and guarantees	10	20	50
1 014	**1 012**	**Profit before taxes**	**5**	**1 266**	**1 273**
216	217	Tax expenses	19	282	284
798	**795**	**Profit for the period**		**984**	**989**
		Minority interests		1	1
798	**795**	**Majority interests**		**983**	**988**
8,5	8,9	Profit/diluted earnings per equity certificate	36	11,2	10,7

Other comprehensive income

PARENT BANK		NOK MILLION		GROUP	
2016	**2017**		**Notes**	**2017**	**2016**
798	795	Profit for the period		984	989
		Items that will not be reclassified to profit and loss account			
15	-13	Recognised estimate deviation, pensions	17	-13	15
-3	3	Tax effect of recognised estimate deviation, pensions	17,19	3	-3
810	**785**	**Comprehensive income for the period**		**974**	**1 001**
		Minority interests	17,19	1	1
810	**785**	**Majority interests**		**973**	**1000**

Notes 1 to 39 are an integral part of the consolidated financial statements.

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2016	31.12.2017		Notes	31.12.2017	31.12.2016
		Assets			
797	1 143	Cash and receivables from central banks	20,21	1 143	797
2 211	3 516	Loans to credit institutions	20,21,28	236	156
62 869	66 595	Net loans to customers	5,6,7,8,9,20,21,33,34	97 518	90 928
10 957	12 660	Bonds and certificates	20,21,22	13 468	11 815
542	572	Shares	20,21,23	572	542
453	385	Financial derivatives	20,21,26	754	604
1 259	1 256	Shareholdings in group companies	24		
9	39	Shareholdings in associated companies	25	39	9
18	15	Intangible assets	29	15	21
		Deferred tax assets	19		
417	387	Fixed assets	29	416	472
58	81	Other assets		149	111
79 590	**86 649**	**TOTAL ASSETS**	**5**	**114 310**	**105 455**
		Liabilities and equity capital			
232	974	Debts to credit institutions	13,20,21,28,32	902	178
51 577	55 593	Deposits from customers	5,13,20,21,30,32,33	55 580	51 562
16 584	17 848	Debt incurred due to issue of securities	13,20,21,27,32	44 343	41 217
366	283	Financial derivatives	20,21,26	306	616
195	228	Payable taxes	19	299	269
222	219	Other liabilities	31	256	258
77	87	Provisions for commitments	17	87	77
36	43	Deferred tax	19	25	24
1 203	1 404	Subordinated loan capital	4,13,20,21,27	1 404	1 203
70 492	**76 679**	**Total liabilities**	**5,13**	**103 202**	**95 404**
1 531	1 575	Equity certificate capital	4,36	1 575	1 531
825	1 075	Hybrid capital	4	1 075	825
6 742	7 320	Other equity	4	8 458	7 695
9 098	**9 970**	**Total equity capital**	**4**	**11 108**	**10 051**
79 590	**86 649**	**TOTAL LIABILITIES AND EQUITY CAPITAL**	**5**	**114 310**	**105 455**

Notes 1 to 39 are an integral part of the consolidated financial statements.

Kristiansand, 31 December 2017 / 27 February 2018

Stein A. Hannevik
Chairman

Torstein Moland
Deputy Chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen

Gunnhild T. Golid

Geir Bergskaug
CEO

Equity statement

NOK MILLION	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP									
Balance 31.12.2015	**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 expense hybrid capital				-33					-33
Profit per 31 Des. 2016			40	33	596	35	284	1	989
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
Balance 31.12.2016	**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 expense hybrid capital				-47					-47
Profit per 31 Des. 2017			46	47	568	40	282	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 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 230**	**2**	**11 108**
PARENT BANK									
Balance 31.12.2015	**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 expense 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 31.12.2016	**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 expense hybrid capital				-47					-47
Profit per 31 Des. 2017			46	47	568	40	94		795
Recognised estimate deviations, pension			-2		-11				-13
Tax effect estimate deviations, pension					3				3
Allocated gift fund						-21			-21
Balance 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**94**	**0**	**9 970**

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 received	2 951	2 972
-1 005	-922	Interest paid	-1 317	-1 417
330	312	Other payments received	337	371
-719	-677	Operating payments	-794	-800
14	11	Loan recoveries	11	14
-138	-185	Corporate income 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 cash flow from investing activites**	**-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
		Payments received, subordinated loan capital		
		Payments made, subordinated loan capital		
-76	-141	Payments made, dividend and interest, hybrid capital	-141	-76
314	450	Issuance of hybrid capital	450	314
	-200	Paid hybrid capital	-200	
	200	Issuance of subordinated loan capital	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 01.01**	**797**	**332**
797	**1 143**	**Cash and cash equivalents 31.12**	**1 143**	**797**

The cash flow shows receipts and payments and cash equivalents during the year. Statement has been prepared in accordance with the direct method. Cash flows are classified as operating activities, investment activities or financing activities. Cash is defined as cash and claims on central banks.

Notes 1 to 39 are an integral part of the consolidated financial statements.

Notes 2017 - Sparebanken Sør

NOTE 1 – ACCOUNTING PRINCIPLES

1. GENERAL INFORMATION

The Sparebanken Sør Group consists of the parent bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, Bankbygg AS, AS Eiendomsvekst, Prosjektutvikling AS and Transitt Eiendom AS. The subsidiary Rettighetskompaniet AS was reported dissolved in 2017 and deleted on 31.12.2017. The Group conducts banking operations in 34 locations and real estate brokerage business in 12 locations in the Agder counties, Telemark and Rogaland.

Within the framework of the statutes and the applicable legislation at any time, the bank may conduct all business and services that banks in general are licensed to perform. The bank has a license as an investment firm. In the Sparebanken Sør Group, Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary. Sparebanken Sør Boligkreditt AS was established to offer mortgages within 75 percent of the property value.

The Sparebanken Sør is an equity certificate bank. The Bank and the real estate brokerage business have its registered office in Kristiansand.

The consolidated financial statements for 2017 were approved for issuance by the Board of Directors on 27 February 2018, and will be finally approved by the Board of Trustees on 22 March 2018. The Board of Trustees is the Bank's highest body.

2. BASIS FOR THE FINANCIAL STATEMENT

Use of IFRS

The consolidated and parent bank financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act. The financial statements for Sparebanken Sør have been prepared in Norwegian kroner (NOK), which is the functional currency for all entities in the Group. Unless stated otherwise, all amounts used in the financial statements have been rounded to the nearest million. The measurement basis for both the parent bank and consolidated financial statements is historical cost with the exception of the financial assets and liabilities, including derivatives that are assessed at fair value through profit and loss.

Consolidation and group companies

The group accounts include the parent bank and the subsidiaries, where the bank alone, or together with subsidiaries, has controlling interest, usually as a result of an ownership interest of more than 50 percent. Internal transactions and balances are eliminated.

When a subsidiary is acquired, the cost price of the shares in the parent company is netted out against the equity in the subsidiary at the time of the acquisition. The difference between the cost price and net book value of assets in the subsidiary at the time of the acquisition is added to the assets to which the surplus value relates. The total value of the respective assets after the added surplus is set to no higher than market value. The part of the cost price that cannot be added to specific assets represents goodwill. If the value of the acquired assets exceeds the cost price, the difference is carried to income.

In the parent bank's accounts, the assets are recognised at the cost price on initial recognition. The shares are tested annually for any impairment in value and if necessary, a write-down to the recoverable amount is made.

Associated companies

Associated companies are companies in which the bank has significant interest. Significant interest exists when the bank has an equity stake between 20 % and 50 %. Associated companies are incorporated in the group accounts according to the equity method. This means that on initial recognition, the assets are recognised at cost price and then adjusted for the bank's share of the associated company's result.

In the parent bank's account, the assets are recognised at the cost price on initial recognition. The shares are tested annually for any impairment in value and if necessary, a write-down to the recoverable amount is made.

3. REVENUE

Interest income and costs related to assets and liabilities which are measured at amortised cost are expensed as incurred using the effective interest method. All charges related to interest-bearing loans and borrowings are included in the calculation of the effective interest rate and are amortised over the expected term. Interest income and costs related to instruments that are measured at fair value through the income statement are presented as part of the net interest income. Changes in value, including changes in value related to the interest element, are recognised as net income from other financial instruments.

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

Dividends are recognised when these are paid out.

4. FINANCIAL INSTRUMENTS

From 01.01.2018, the new accounting standard IFRS 9 is introduced. When presenting the accounts for 2017, the regulations in IAS 39 are used. For information about the effects on implementation and principles of IFRS 9, see item 16 and note 38.

4.1. Recognition and derecognition

Financial assets and liabilities are recognised when the bank becomes a party to the contractual decisions.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the bank transfers the financial asset in such a way that the risk and profit potential of the asset in question is substantially transferred. A financial liability is derecognised when the financial liability is discharged, cancelled or has expired.

4.2 Offsetting

Financial assets and liabilities are only offset and recognised as a net amount in the balance sheet when the Group has a legally enforceable entitlement to offset, and intends to realize the asset and settle the liability simultaneously.

4.3 Classification

Financial instruments are classified into one of the following categories at initial recognition.

- Financial instruments subject to fair value through profit or loss
- Financial derivatives designated as hedging instruments
- Financial instruments subject to voluntary categorised at fair value through profit or loss
- Loans and receivables at amortised cost
- Other liabilities at amortised cost

4.3.1 Financial instruments recognised at fair value / financial derivatives

Financial derivatives must be valued at fair value with changes in value recognised via the income statement. Sparebanken Sør has used the following financial derivatives: Interest rate swaps, exchange rate futures and exchange rate swaps. Financial derivatives will be recognised in the balance sheet at fair value through profit or loss.

4.3.2 Financial derivatives designated as hedging instruments

The category encompasses interest swaps, used as hedging instruments for actual security of bonds issued with fixed interest rates. Hedge accounting is also addressed in Item 5.

4.3.3 Financial instruments that are voluntary valued at fair value

The group chooses at initial recognition to define any assets or liabilities at fair value through profit or loss if:

- Classification reduces a mismatch in the measurement or recognition that otherwise would have occurred as a result of different rules for measurement of assets and liabilities. This applies to fixed rate loans that are hedged using derivatives.
- The financial instruments are included in a portfolio that is continuously measured and reported at fair value. In these portfolios, certificates and bonds, fixed rate loans and shares are included.

4.3.4 Loans and receivables at amortised cost

This category includes loans and receivables that are measured at amortised cost.

4.3.5 Other liabilities at amortised cost

This category includes loans and commitments that are measured at amortised cost.

4.4 Measurement on initial recognition

All financial assets and liabilities are recognised in the balance sheet at the fair value. For instruments that are not derivatives or measured at fair value through profit or loss, transaction costs which are directly attributable to the acquisition or issue of the financial asset or financial liability.

4.5 Subsequent measurement

4.5.1 Valuation at fair value

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

4.5.1.1 Measuring of financial instruments which are traded in active markets

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

4.5.1.2 Measurement of financial instruments which are not traded in an active market

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

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

In calculating the fair value of swaps entered into, the market value of the relevant inter-bank interest rate curve is used at all times.

For shares that are not listed or traded actively, the change in value is based primarily on valuations carried out by others. If this is not available, the value of the shares is based on the available accounting information.

Fixed rate loans are not traded in an active market. The bank must therefore establish a market spread to estimate a fair value of loans as at 31.12. For fixed rate loans in the private market, the average of the 10 best mortgage deals published on www.finansportalen.no are used as market interest rates.

4.5.2 Measurement of financial guarantees

Financial guarantees are measured at fair value on initial recognition. At subsequent measurements, issued financial guarantees are considered to the highest amount of consideration received for the guarantee, less any amortised recognition and best estimate in the eventual redemption of the guarantee.

4.5.3 Measurement of amortised cost

Financial instruments not measured at fair value, are measured at amortised cost. Revenues are calculated as the instrument's effective interest rate.

Amortised cost is defined as the book value at the initial measurement, adjusted for received/paid instalments and any cumulative accrual of fees, commissions etc., with any write-downs.

The effective interest method calculates the amortised cost and the accrued interest income/expenses for the relevant period. Interest income is recognised using the effective interest method. The effective interest rate is the interest rate that by discounting the loan's cash flows over the anticipated term gives a value equal to the loan's amortised cost on the date of establishment. This means that any difference between the loan's original book value and the accrued value is being amortised over the loan's expected maturity. This means that any difference between the loan's original amortised cost and book value is accrued over the expected maturity.

4.5.4 Write-down of financial assets

Losses on loans are calculated as the difference between the book value and net present value of estimated future cash flows, discounted using the effective interest rate. Use of the effective interest method means that interest income on impaired loans is recognised in the income statement. These loans are recognised at the internal interest rate at the date adjusted for changes in interest rates until the time of impairment. The income rates are based on the loan's recorded value.

In the balance sheet, write-down on loan engagement reduces the carrying amount. In the income statement, losses on loans consist of realised losses, changes in impairment losses on loans and provisions for guarantees, as well as payment on past realised losses. Losses on loans are based on an assessment of the Bank's loan and guarantee portfolio in accordance with IAS 39. The Bank determines the losses on loans and guarantees on a quarterly basis. Defaulted and doubtful loans are followed up with regular reviews.

4.5.4.1 Reduction in value of loans and individual write-down losses

Impairment loss is made when there is objective evidence that a loan is impaired as a result of credit losses. An impairment loss is reversed when the loss is reduced and can be related objectively to an event occurring after the impairment date. All loans that are considered material will be assessed to see whether there is objective evidence of impaired credit, and the objective indication is likely to result in reduced future cash flows to the service of the engagement. Objective evidence may be defaults, bankruptcies, debt settlement, and lack of liquidity or other significant financial problems.

4.5.4.2 Collective write-downs

Loans that have not been subject to individual impairment write-downs are included in the Group's write-downs. Loans are divided into groups with similar risk characteristics, with regard to ability to pay. Collective write-downs are calculated on sub-groups of loans where there is objective evidence that shows that the future cash flow for the service of the engagements is weakened. Collective write-downs made in order to cover expected credit losses caused by incidents that have occurred, shall take into account losses in the portfolio at the time of measurement, but that are not yet identified at the individual's commitment level. Objective events could be a negative trend in risk classification, adverse developments in security values or negative industry developments.

4.5.4.3 Realised losses

When it is highly probable that a loss is final, it is recognised as a realised loss. Some realised losses will be covered through the previous decision made on individual loan loss write-downs, and booked against the former provision. Realised losses, without coverage in individual impairment loss, as well as over-or under cover in relation to previous impairment loss, are recognised.

4.6 Presentation in balance sheet and income statement

4.6.1 Loans

Loans are recorded as either both loans and receivables from credit institutions or loans to customers. Interest is included in the income statement. Changes in value due to write-downs are included in the income statement under losses on loans and guarantees.

Changes in value of fixed rate loans, which are selected at fair value, are included in the income statement under net income from financial instruments.

4.6.2 Bond and certificates

The balance sheet item includes the Group's certificates and bond portfolio. All changes in value are recognised in the income statement under net income from financial instruments.

4.6.3 Shares

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

4.6.4 Financial derivatives (equity and debt)

The balance sheet includes financial derivatives and value adjustments related to derivative instruments, which are recognised in the income statement under net income from financial instruments.

4.6.5 Debt to credit institutions, and deposits from customers

Balance sheet items include liabilities to credit institutions and customers. Interest is recognised as interest expenses in the income statement.

4.6.6 Debt incurred by issuing securities

The balance sheet item includes securities debt. Interest is recognised as interest expenses in the income statement. In case of early redemption or buy-back of issued bonds, any gains and losses are recorded under net income from financial instruments.

4.6.7 Subordinated loan capital

The balance sheet includes issued subordinated loans and perpetual subordinated loans. Interest is recognised as interest expenses in the income statement.

5. HEDGE ACCOUNTING

Sparebanken Sør utilises hedge accounting in relation to the bank's funding at fixed rate terms and foreign currency. Hedge accounting covers the interest- and currency risk on the bonds.

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

- The hedge accounting is anticipated to be very effective, in that it counteracts changes in the fair value of the bond issued.
- The effectiveness of the hedge accounting must be expected to be effective within the range of 80% to 125%.
- The effectiveness must be able to be reliably measured.
- Satisfactory documentation has been established prior to hedging that among other things shows that the hedging is effective and is expected to remain effective throughout the entire period.

Sparebanken Sør utilises fair value hedging. Hedging is measured and documented every quarter to ensure that the hedging is effective. As a method of measuring the effectiveness of hedging, the dollar-offset method is used.

When the hedging is established and effective, interest swaps will be added to the balance sheet at fair value and added to the income statement under "Net income from financial instruments".

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

If circumstances should occur in which the hedging is not effective, the bank/group will amortise the change in value associated with the hedged object over the remaining period. The associated hedging instrument will continue to be measured at fair value through profit or loss.

6. ACCOUNTING OF EXCHANGE RATE EFFECTS

Income and expenses in foreign currency are converted into Norwegian kroner at the exchange rate on the transaction date.

Balance sheet items denominated in foreign currency are hedged by using a similar position on the opposite side of the balance sheet, or through hedging transactions. Currency derivatives (exchange rate futures) traded with customers are hedged in a similar manner with an external party (back-to-back). Assets and liabilities in foreign currencies are translated into Norwegian kroner at the bank´s middle rates on the balance sheet date. Foreign exchange gains and losses are recognised in the income statement under net income from other financial instruments.

7. FIXED ASSETS

Fixed assets are recognised at cost deducted for accumulated depreciation and amortisation. Depreciation is computed at a straight-line basis over the expected economic life of the asset. There will be an annual reassessment of the remaining useful life and residual values for each asset.

At each reporting date, it will be evaluated as to whether there are any indications of impairment. If there are indications of impairment in the value of an asset, the bank will obtain valuations or calculate the utility value of the asset. The asset is written-down to the higher of the fair value and the utility value. The basis of previous write-downs is considered at the same time.

There has been decomposition in the estimated value of property, plants and building. Property is not depreciated. Buildings and technical facilities are depreciated over their estimated useful life and are not considered to have any residual value. Improvements and periodic maintenance are amortised over the estimated useful life.

8. PENSION COST AND - OBLIGATIONS

Defined benefit pension scheme

In accordance with IAS 19, both obligations related to collective schemes in life insurance companies and unsecured obligations contained in the financial statements in accordance with the calculations performed by an external actuary. Net pension expense consists of the present value of net pension and interest cost on pension obligations, net of expected return on pension plan assets. Net pension expenses are included in the balance sheet item “wages and other personnel expenses”. Changes in estimate deviations are accounted for through other comprehensive income and plan changes will be added to the income statement consecutively. The defined benefit pension scheme in the life insurance company is closed. The arrangement was concluded in 2016 with the conversion to the defined contribution scheme.

The defined contribution scheme

The arrangement means that the bank will not guarantee a future pension. The bank pays an annual contribution to employees’ collective pension savings. Payments to the arrangement are registered directly as expenses.

9. INCOME TAX

Income tax is accrued as a cost, irrespective of the time of payment. The tax charge therefore reflects this year’s and future taxes payable as a result of this year’s activity. The tax is expected to offset net income included in this year’s tax cost and in the balance sheet as payable tax. Deferred tax is calculated on the basis of differences between the reported tax and accounting results that will be offset in the future. Tax increasing and tax reducing that have temporary differences within the same time interval is offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax reducing differences will be realised.

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

10. EQUITY

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

To calculate the equity share, equity certificates, share premium accounts and equalisation fund shall be divided by total equity, minus other equity and hybrid capital.

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

Proposed distribution of dividends is presented as other equity until final decision of distribution has taken place. Distribution is then presented as allocated dividends until payment has been made.

Sparebanken Sør owns 5 168 own equity certificates as at 31.12.2017.

11. LEASE AGREEMENTS

Leases where a significant part of the risk and return which is associated with that the ownership of the asset are not transferred, are classified as operating lease agreements. Lease payments are classified as operating expenses and the income statement displays them linearly over their lifetime. Sparebanken Sør has not entered into financial lease agreements.

12. SEGMENT / SEGMENT ACCOUNTING

Segment Reporting is distributed according to how the different areas are reported and monitored internally by the Management and the Board.

Sparebanken Sør has two operating segments;

- RM - Retail markets which includes loans transferred to Sparebanken Sør Boligkreditt AS.
- CM – Corporate marked which includes loans transferred to Sparebanken Sør Boligkreditt AS.

The Bank's own investment activities and real estate agency business are not a separate reportable segment and are reported as undistributed.

13. CASH FLOW STATEMENT

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

14. RECLASSIFICATION OF HYBRID CAPITAL

Hybrid capital (mutual fund bonds) is a bond with an agreed upon interest rate. Hybrid capital has no maturity date and the bank has a unilateral right to refrain from paying interest to investors under specified terms. Hybrid capital does not satisfy the definition of a financial liability in accordance with IAS 32 and is classified as equity. Interest is not presented as an interest expense in the income statement, but as a reduction in other equity.

15. CHANGES IN ACCOUNTING PRINCIPLES AND NOTES

The bank has applied the following standards and changes in standard with effect from 1 January 2017.

Information Initiatives - Amendments to IAS 17

Information shall be provided that allows the user of the accounts to assess changes in liabilities arising from financing activities, including changes resulting from cash flows and changes that do not have cash effects, see notes 27, 28 and 36.

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

The following new standards and interpretations to existing standards have been published and are mandatory for the company and consolidated financial statements in future accounting periods, but Management has not chosen early adoption:

IFRS 9 Financial instruments

In July 2014, IASB published the latest sub-project in IFRS 9 and the standard has now been completed. IFRS 9 will have consequence for classification and measurement, hedge accounting and write-downs. IFRS 9 will replace IAS 39, Financial instruments – Recognition and measurement. The parts of IAS 39 that have not been changed as part of this project have been transferred and included in IFRS 9.

The standard was adopted by the European Commission on November 22, 2016 and taken into Norwegian law on December 18, 2017.

Note 38 present a more detailed statement of principles, assessments and effects regarding the implementation of IFRS 9 from 01.01.2018.

IFRS 15 Revenue from Contracts with Customers

IASB and FASB have released a new common standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue. The core principle of IFRS 15 is that revenue is recognised to reflect the transfer of contracted goods or services to customers, and then to an amount that reflects the consideration the company expects to be entitled in exchange for those goods or services. The standard applies with a few exceptions; all income-generating contracts with customers and provides a model for recognition and measurement of the sale of certain non-financial assets (f. Ex. Sales of property, plant and equipment). The group is also considering clarifications in IFRS 15 issued by the IASB in April 2016 and will follow up any further changes to the standard.

IFRS 15 shall be implemented using either full retrospective or modified retrospective method. The standard is in effect as of 1 January 2018.

In 2017, the Group conducted an assessment of the effects of IFRS 15. It appears that the implementation of new standard will have an insignificant effect on the Group's income statement, due to a high degree of financial assets in the balance sheet and income statement.

IFRS 16 Leases

IFRS 16 Leases replace the existing IFRS standard for leases, IAS 17 as of January 1, 2018. IFRS 16 sets out the principles for recognition, measurement, presentation and lease terms for both parties in a lease agreement, ie the customer (tenant) and offers (landlord).

The new standard requires the tenant to recognize assets and liabilities for most leases, which is a significant change from today's principles. For landlords, IFRS 16 continues the essential principles of IAS 17. In line with this, a landlord shall continue to classify its leases as operational or financial leases and account for these two types of leases differently.

A tenant can chose to make use of the standand either with the fully retrospective method, or the modified retrospective method.

The standard will come into force from 1 January 2019 and shall be implemented either using full retrospective or modified retrospective method.

IFRS 16 is expected to have marginal effects. Sparebanken Sør (Group) is in most cases counting as landlord and it will therefore be few changes from the original standard.

In addition to the above new standards and interpretations there are changes in other standards that could affect the future reporting. The effects of the changes in those standards are by the management considered to have little impact on the company and consolidated accounts.

NOTE 2 – DISCRETIONARY JUDGMENTS, ESTIMATES AND ASSUMPTIONS

With the preparation of financial statements, the management makes estimates and judgments. Areas that are largely comprised of discretionary estimates have a high degree of complexity, and where assumptions and estimates are significant to the parent company the consolidated financial statements are presented below.

General

In applying the Group's accounting policies, the company's management has exercised discretion in some areas and made assumptions about future events. There will naturally be an inherent uncertainty in the financial records based on the use of discretion and assumptions about future events. When exercise discretion and determining assumptions about future events, management will look to available information at the balance sheet date, historical experience with similar assessments, as well as market and third-party assessments of current conditions. Although the management considers that estimates are based on the best estimates available, one must expect that the actual outcome in some cases may differ materially from the accounting estimates. Estimates, assumptions and conditions that represent a significant risk of substantial changes in the carrying value of assets and liabilities within the next financial year are discussed below.

Write-downs on loans

Assessment of individual and group-related write-downs will always be based on a significant degree of discretion.

Predictions based on historical information may prove to be incorrect because it can never be known for certain what relevance historical data has as a basis for making decisions. When the collateral values are related to specific items or industries that are in crisis, the security must be realised in illiquid markets, and the assessment of the values will in such situations be associated with significant uncertainty.

Fair value of financial instruments

The fair value of financial instruments is partly calculated based on assumptions that are not observable in the market. This is particularly relevant when determining the premiums for credit risk, when determining the fair value of fixed interest securities in the form of deposits, loans and securities issued by others. The management has, in these cases, based its assessments on information available in the market in combination with own estimates. Such information will include credit reviews conducted by leading market participants.

NOTE 3 – RISK MANAGEMENT

Sparebanken Sør shall maximize its long term value creation. With this objective, it is essential that the risk is subject to an active and satisfactory management. Part of the Group's business strategy is to keep a low to moderate risk profile for the whole enterprise. Taking risks is a basic feature of banking, and risk management is therefore a key area in both daily operations as well as in the Board's ongoing work. We also refer to the Bank's Pilar 3 document, which is available on the Bank's website.

ORGANISATION

Board of Directors

The Board has overall responsibility for the bank's total risk management and aims to ensure that the bank has appropriate systems in place for risk management and internal control. The Board of Directors determine risk strategies, framework for risk appetite, risk profile and risk tolerance. The Board of Directors also determines the strategy and guidelines for the capital plan and composition of the capital and approves the process to ensure an acceptably adequate capital level at any time (ICAAP).

Audit committee and risk committee

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

The Bank's management

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

The CEO has delegated duties in accordance with the formal responsibility for internal control and risk management.

The responsibility for the implementation of the annual assessment of the risk situation and the capital has been delegated to the division Risk management. This analysis should be coordinated and integrated with other planning and strategy work in the Bank. It is further delegated to the various inspections and line managers within the framework of agreed principles, instructions and authorisations.

Risk management covers the entire Group and does not perform activities which the control function is intended to monitor. The unit will identify, measure and evaluate the bank's overall risk and have the responsibility for compliance.

Internal auditor

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

Risk control process

There are justifiable and appropriate strategies and processes for risk management and the assessment of capital needs and how this can be maintained. The term for this is ICAAP (the Internal Capital Adequacy Assessment Process).

RISK CATEGORIES

All risks are managed through a framework for risk appetite. There are targets for the different risk parameters. Sparebanken Sør operates with the following risk categories:

Credit risk / counterparty risk

Credit risk is the risk of loss due to the Group's counterparties or customers not having the ability or willingness to meet its payment obligations. Credit risk concerns all claims on counterparties/customers. Credit risk arises when the borrower does not fulfil the loan agreement, and when the established collateral doesn't cover the commitment.

Credit risk is the Group's highest risk, and the risk that requires the most capital. The bank's policy is for the credit exposure to be low to moderate. The Board approves the Group's credit strategy and credit policy, and credit is controlled by fixed tolerance limits and goals associated with the risk profile and exposure at portfolio level. The Board, the management and the supervisory bodies receive regular credit risk reports. Central to this is the trend in loans divided into different risk classes and moving between classes.

Consentration risk

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

The Bank shall have a moderate overall concentration risk. Added risk due to debtor concentration is present in the Bank's opinion, but does not represent a significant risk for the Group. This is a result of low exposure when taking into account the quality of their collateral. A similar reasoning can be applied in relation to tenant concentration.

The largest concentration risk of Sparebanken Sør is related to "Real estate". Thus, this part of the portfolio will be exposed to risk factors that affect property companies specifically. These risk factors are first and foremost vacancy, rental prices and interest rates. The latter is a general macro variable, but property companies are more heavily exposed to interest rates than many other industries owing to a high loan interest, and because property is an asset with longevity.

At an individual level, there will be large variations in a loans relation to the sensitivity to these factors, and thereby how the loan contributes to the portfolios concentration risk. This depends among others on the tenancy, property location and type of building. In addition, the debtor's financial situation has a major impact.

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

Settlement risk

Settlement risk is a form of credit risk where a contracting party fails to fulfil its obligations regarding settlements in the form of cash or securities, and that the Bank has given notice of the payment or transfer of a security or safety. Settlement risk that the Group is exposed to is considered low.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or is unable to fund its assets, and also that funding cannot be achieved without incurring significant additional costs, in the form of an impairment in value of assets that must be realised, or in the form of funding at an above normal cost level. Liquidity risk also includes the risk that the financial markets which the bank wishes to use will cease to function.

Sparebanken Sør shall have a moderate to low liquidity risk. Liquidity risk should be on par with comparable banks, but be reconciled with the bank's overall risk profile and the Board's approved capital requirements. The risk profile should be adapted to the current market situation and outlook. The monitoring is done by controlling exposure in relation to approved limits and by control of the qualitative requirements.

Market risk

Market risk includes risks related to profit variations on unsecured interest rate -, exchange rate - and equity transactions due to changes in interest and exchange rate and adjustments in share prices, and can be divided into interest rate-, exchange rate-, share- and credit spread risk. Sparebanken Sør shall have a low market risk.

Interest rate risk

Interest rate risk is defined as the risk of revenue losses arising from changes in interest rates if the fixed rate period for the Bank's liabilities and assets in and off balance, don't coincide. The interest rate risk limit is determined as an upper limit for how large the loss on unsecured interest rate positions may be in case of a parallel shift or twist in the interest rate curve.

Exchange rate risk

Risk of financial (earnings-related) losses arising from a disadvantageous change in the value of asset and liability

items (on and off the balance sheet) measured in the base exchange rate (NOK) due to changes in the exchange rates. Exposure is measured as the size of the potential losses in a stress scenario where the exchange rates change by 10 percent and the exchange rate risk is regulated by limits for maximum aggregated exchange rate position. Limits have been set for exposure in individual currencies.

Share risk

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

Spread risk

Spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in the credit spread. A general increase in credit spreads would lead to a reduction in value of a portfolio of interest-bearing securities. Changes in the credit spread are a consequence of changes in investors' requirement for risk premium for a shift in anticipated credit risk and / or changes in other market conditions. The bank's credit spread exposure is mainly related to the liquidity portfolio.

Business risks

Business risk is defined as the risk of unexpected revenue fluctuations based on factors other than credit risk, market risk and operational risk. The risk can occur in various business and product segments and is linked to cyclical fluctuations and changes in customer behaviour. Business risk can also arise as a result of government regulations. The risks also include reputational risk, which is the risk, associated with increased losses, reduced income and/or increased costs as a result of the Bank's reputation having been damaged.

Strategic risk

Strategic risks are defined as internal matters on which the strategic risks relate to the strategies, plans and changes that the Bank either has or has proposed.

Operational risk

Operational risk on the Group is related to financial losses or loss of reputation due to inadequate or failing internal processes or systems, human errors or external events. Operational risk includes risk of default. Examples of operational risk can be several types of adverse actions and events, including money laundering, corruption, embezzlement, insider trading, fraud, robbery, threats to employees, authorisation failures and violations of adopted procedures, the failure of IT systems, among other things.

The monitoring of operational risk is done by regular qualitative assessments. The estimated capital requirement for operational risk are carried out under the basic method, and are assessed under ICAAP capital calculations as adequate. It is considered that the Group has a low operational risk.

HEDGING INSTRUMENTS

The Group uses the following hedging instruments:

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

The purpose for using interest and exchange rate instruments is to lower the Banks interest and exchange rate exposure.

NOTE 4 – CAPITAL ADEQUACY

Sparebanken Sør has a goal of maximising long-term value creation. The Group also has a goal of a moderate to low risk profile. This means that effective risk and capital management is a key strategic element.

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

The Board of Directors establishes a capital plan to ensure that the bank at any time has a total capital ratio which meets the regulatory requirements and expectations. In order to have better flexibility in terms of strategic choices and business opportunities, the bank has a higher equity and subordinated loan capital than the requirement which is calculated in ICAAP.

The minimum requirement for common equity tier 1 capital ratio was 12.0 percent, tier 1 capital ratio 13.5 percent and (total) capital ratio 15.5 percent as at 31.12.2017.

In addition, the bank must adapt to the Financial Supervisory Authority's assessment of the Group's capital requirement (SREP) , which concluded with a pillar-2 addition of 2.1 percent in 2016.

The capital requirements, when including a pillar 2 - addition of 2.1 percent, amounts to 14.1 percent in common equity tier 1 capital ratio, 15.6 percent in tier 1 capital ratio and 17.6 percent in (total) capital ratio. Further adaptiation beyond this level will depend on market expectations and the Norwegian financial authority's response to the Bank's Internal Capital Adequacy Assessment Process.

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

PARENT BANK		NOK MILLION	GROUP	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
9 098	**9 970**	**Total equity**	**11 108**	**10 051**
		Tier 1 capital		
-825	-1 075	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 aditional 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
1 182	**1 382**	**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.

	COOPERATIVE GROUPS	
NOK MILLION	31.12.2017	31.12.2016
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 proportonate consolidation	**66 121**	**62 000**
Common equity tier 1 capital ratio after proportionate consolidaton. %	14.9 %	14.7 %
Tier 1 capital ratio after proportionate consolidation. %	16.6 %	16.0 %
(Total) capital ratio after proportionate consolidation. %	18.7 %	17.9 %
Leverage ratio after proportionate consolidation. %	**9.2 %**	**8.6 %**

NOTE 5 – SEGMENT REPORTING

Sparebanken Sør has two operating segments: Retail market (RM) and Corporate market (CM). The Bank's own investment activities are not a separate reporting segment and are included under 'Undistributed and eliminated'. For more information about the segments, refer to Note 1 - accounting principles. Retail marked (RM) and Corporate market (CM) deviates in this context from retail customers and corporate customers as reported in note 8.

The segments' revenue and cost drivers are actually revenues and costs relating to loans and deposits in the balance. All employees are related to the various segments. When there is a liquidity shortfall in the segments, an interest is paid based on an internal rate, which is determined each month.

The group's offices are geographically located in the Agder counties, Telemark and Rogaland. The Group also have customers in other geographical areas that are serviced by the established offices. Loans are in note 8 divided into geographically distributed areas.

None of the Group's customers account individually for more than 10% of the turnover. This applies to both 2017 and 2016.

Report per segment	**GROUP 31.12.2017**				**GROUP 31.12.2016**			
NOK MILLION	RM	CM	Undistrib. and elimin.	Total	RM	CM	Ufordelt og elimin.	Total
Net interest 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 and liabilities to 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**

Sparebanken Sør Group does not report segments in the parent bank separately. Sparebanken Sør Boligkreditt AS is an integral part of the retail banking market in the group and consequently it would be misleading to report segments on the parent bank isolated.

NOTE 6 – CREDIT AND CREDIT RISK

Credit risk represents the greatest risk factor for the Group. The Board defines the Group's credit strategy, which toghether with the Bank's credit policies and guidelines for credit processes, shall ensure that the customer portfolio has an acceptable risk profile and contributes to maximise the Groups long-term value creation.

Sparebanken Sør has Agder counties, Telemark and Rogaland as its core markt area. In addition, the Bank has a national market area, with the organisations that are part of KNIF (Kristen-Norges Innkjøpsfellesskap) and their employees.

The Bank's risk classes are:

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

Loans distributed in risk classes

The models used for calculating probability of default (PD) the next 12 months and expected losses (EL) at customers and portfolio level are based on internal and external data. Retail customers and corporate customers are scored each month, and are divided into 11 classes (A – K) based on the probability of default. Clas K are defaulted loans and loans with individual write-downs. Default is also deemed to exist when there are debt settlement proceedings, bankruptcy, or when legal steps have been taken to collect the debt. The definitions of default in the class K thus differ somewhat from the definition of defaulted and non-performing commitments in Note 9. The table below shows the intervals for the different risk classes based on probability of default.

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

TOTAL COMMITMENTS DISTRIBUTED BY RISK GROUPS

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

PARENT BANK				NOK MILLION	GROUP			
31.12.2016		31.12.2017			31.12.2017		31.12.2016	
				Retail banking customers:				
27 917	79.7 %	28 648	78.0 %	Low risk	55 933	79.8 %	53 896	82.4 %
6 028	17.2 %	7 062	19.2 %	Medium risk	12 603	18.0 %	10 116	15.5 %
711	2.0 %	771	2.1 %	High risk	1 209	1.7 %	1 002	1.5 %
34 656		**36 481**		**Total non-matured or written down**	**69 745**		**65 014**	
376	1.1 %	334	0.9 %	Commitment in default and write-downs comm.	348	0.5 %	376	0.6 %
35 032	**100 %**	**36 815**	**100 %**	**Total retail banking customers**	**70 094**	**100 %**	**65 390**	**100 %**
				Corporate customers:				
19 418	50.0 %	21 128	52.0 %	Low risk	21 122	51.9 %	19 483	50.1 %
14 587	37.5 %	15 138	37.2 %	Medium risk	15 134	37.2 %	14 591	37.5 %
3 737	9.6 %	3 408	8.4 %	High risk	3 407	8.4 %	3 737	9.6 %
37 742		**39 674**		**Total non-matured or written down**	**39 663**		**37 811**	
1 107	2.9 %	1 071	2.6 %	Commitment in default and write-downs comm.	1 071	2.6 %	1 107	2.8 %
38 850	**100 %**	**40 745**	**100 %**	**Total corporate customers**	**40 734**	**100 %**	**38 919**	**100 %**
73 882		**77 560**		**Total commitments**	**110 827**		**104 309**	

GROSS LOANS DISTRIBUTED IN RISK GROUPS

PARENT BANK				NOK MILLION	GROUP			
31.12.2016		31.12.2017			31.12.2017		31.12.2016	
				Retail banking customers:				
24 879	78.6 %	25 077	76.2 %	Low risk	50 150	78.6 %	48 629	81.4 %
5 790	18.3 %	6 799	20.7 %	Medium risk	12 229	19.2 %	9 797	16.4 %
677	2.1 %	752	2.3 %	High risk	1 184	1.9 %	966	1.6 %
31 346		**32 629**		**Total non-matured or written down**	**63 563**		**59 392**	
313	1.0 %	268	0.8 %	Commitment in default and write-downs comm.	281	0.4 %	313	0.5 %
31 660	**100 %**	**32 897**	**100 %**	**Total retail banking customers**	**63 844**	**100 %**	**59 706**	**100 %**
				Corporate customers:				
14 877	47.0 %	17 260	50.6 %	Low risk	17 235	50.6 %	14 866	47.0 %
12 738	40.2 %	12 990	38.1 %	Medium risk	12 970	38.1 %	12 742	40.2 %
3 073	9.7 %	2 949	8.6 %	High risk	2 944	8.6 %	3 073	9.7 %
30 689		**33 199**		**Total non-matured or written down**	**33 150**		**30 682**	
980	3.1 %	918	2.7 %	Commitment in default and write-downs comm.	917	2.7 %	980	3.1 %
31 669	**100 %**	**34 117**	**100 %**	**Total corporate customers**	**34 067**	**100 %**	**31 662**	**100 %**
129		**144**		Accrued interest	**175**		**155**	
63 458		**67 158**		**Total gross loans**	**98 086**		**91 523**	

MIGRATION BETWEEN RISK GROUPS DURING THE YEAR

There has been a minor negative migration in the retail market portfolio for the Group. The total risk for the retail market portfolio is considered as very satisfactory.

The corporate portfolio has had a slightly positive migration in 2017. Gross loans with low to medium risk represent approximately 88.7 percent of the portfolio.

The classification does not take collateral into account, only solvency.

Collateral

The Group uses a variety of collaterals to reduce risk depending on the market and type the of transaction. The main principle for assessing collateral is that the value is estimated to what it would be in a situation where the bank has need for the collateral. With the exception of commitments with write-downs, the collateral is calculated under the assumption of continued operation. The valuation of the collateral take into account the estimated sales-cost. The main types of collateral used are real property (residential / commercial), bail (consumer guarantees and surety), the registering of personal property (inventory, operating supplies) and receivables. The estimated value of collateral for mortgages and loans that are transferred to Sparebanken Sør Boligkreditt AS are updated quarterly, while collateral for other loans are updated at the very least with the processing of new credit applications or the commitment follow-up. The Group's loans generally have very good collateral.

Collateral in the retail market

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

Loan to value ratio (LTV), mortgages as at 31.12.2017

	PARENT BANK		GROUP	
LTV 31.12.2017	NOK MILLION	%	NOK MILLION	%
Under 40 %	2 322	8.9 %	7 542	13.2 %
40 - 50 %	1 869	7.2 %	5 679	10.0 %
50 - 60 %	3 175	12.2 %	9 180	16.1 %
60 - 70 %	5 688	21.8 %	15 574	27.3 %
70 - 75 %	2 927	11.2 %	7 054	12.4 %
75 - 80 %	2 571	9.9 %	3 889	6.8 %
80 - 85 %	2 614	10.0 %	3 065	5.4 %
85 - 90 %	1 779	6.8 %	1 850	3.2 %
90 - 95 %	1 229	4.7 %	1 257	2.2 %
95 - 100 %	1 027	3.9 %	1 056	1.9 %
Over 100 %	842	3.2 %	847	1.5 %
TOTAL	**26 044**	**100 %**	**56 993**	**100 %**

Loan to value ratio (LTV) loans secured with mortgage in permanent housing as at 31.12.2016

	PARENT BANK		GROUP	
LTV 31.12.2016	NOK MILLION	%	NOK MILLION	%
Under 40 %	1 827	7.3 %	7 680	14.4 %
40 - 50 %	1 760	7.0 %	5 510	10.4 %
50 - 60 %	2 950	11.8 %	8 411	15.8 %
60 - 70 %	5 347	21.3 %	13 975	26.3 %
70 - 75 %	3 034	12.1 %	6 328	11.9 %
75 - 80 %	2 699	10.8 %	3 468	6.5 %
80 - 85 %	2 494	9.9 %	2 733	5.1 %
85 - 90 %	1 854	7.4 %	1 928	3.6 %
90 - 95 %	1 162	4.6 %	1 186	2.2 %
95 - 100 %	1 059	4.2 %	1 074	2.0 %
Over 100 %	917	3.7 %	923	1.7 %
TOTAL	**25 103**	**100 %**	**53 216**	**100 %**

It has been emphasised that the LTV is distributed in a traditional way where the entire loan is placed in the interval where “the last part” of the loan belongs. This means that the actual LTV distribution will be lower than shown in the table. For a loan that is embedded with a high loan-to-value ratio, only part of this loan volume will lie in the interval with a high loan to value ratio, while most of the loan will be in the lower intervals.

Collateral in corporate market

The calculation and evaluation of collateral for corporate loans are more complex than for the retail market, and will present a greater uncertainty in the estimates at portfolio level. However, the bank frequently reviews the collaterals in its loan portfolio on an individual level.

NOTE 7 – LOANS DISTRIBUTED BY TYPE OF LOAN

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Loans valued at amortised cost		
8 080	7 273	Overdraft- and working capital facilities	14 791	14 839
4 285	3 974	Building loans	3 974	4 284
43 450	49 449	Installment loans	72 830	64 731
55 815	**60 696**	**Total loans valued at amortised cost**	**91 595**	**83 854**
		Loan designated at fair value through income statement		
7 514	6 316	Fixed rate loans	6 316	7 514
7 514	**6 316**	**Total loans designated at fair value through income statement**	**6 316**	**7 514**
129	145	Accrued interest	175	155
63 458	**67 157**	**TOTAL GROSS LOANS**	**98 086**	**91 523**
-589	-562	Write-downs on lending	-568	-595
62 869	**66 595**	**TOTAL NET LOANS**	**97 518**	**90 928**

For impairment see note 10 Losses on loans and guarantees, etc.

NOTE 8 – LOANS AND GUARANTEES BROKEN DOWN BY GEOGRAPHICAL AREA, SECTOR AND INDUSTRY

Gross loans distributed by geographical areas

PARENT BANK					GROUP			
31.12.2016		31.12.2017		NOK MILLION	31.12.2017		31.12.2016	
30 240	47.7 %	31 635	47.1 %	Vest-Agder	45 306	46.2 %	42 578	46.5 %
15 901	25.1 %	16 299	24.3 %	Aust-Agder	24 906	25.4 %	23 898	26.6 %
6 576	10.4 %	7 418	11.0 %	Telemark	10 466	10.7 %	9 141	9.8 %
4 918	7.7 %	5 616	8.4 %	Oslo	7 936	8.1 %	7 109	7.8 %
1 035	1.6 %	1 119	1.7 %	Akershus	2 393	2.4 %	2 114	2.2 %
1 213	1.9 %	1 616	2.4 %	Rogaland	2 240	2.3 %	1 733	1.9 %
3 446	5.4 %	3 311	4.9 %	Others	4 664	4.8 %	4 794	5.1 %
129	0.2 %	145	0.2 %	Accrued interest	175	0.2 %	155	0.2 %
63 458	**100.0 %**	**67 157**	**100.0 %**	**TOTAL GROSS LOANS**	**98 086**	**100.0 %**	**91 523**	**100.0 %**

Geographical distribution is based on the customer's residential/work address.

Gross loans distributes by sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
31 789	32 896	Retail customers	63 844	59 861
334	413	Public administration	413	334
798	858	Primary industry	858	801
899	1 136	Manufacturing industry	1 136	899
3 399	4 162	Real estate development	4 113	3 396
1 421	1 516	Building and construction industry	1 516	1 427
15 645	16 282	Property management	16 280	15 629
565	667	Transport	667	570
1 023	1 148	Retail trade	1 148	985
371	611	Hotel and restaurant	611	372
898	1 439	Housing cooperatives	1 438	897
2 217	1 072	Financial/commercial services	1 072	2 221
3 970	4 814	Social services	4 814	3 977
129	144	Accrued interests	175	155
63 458	**67 157**	**TOTAL GROSS LOANS**	**98 086**	**91 523**
589	562	Write-downs on lending	568	595
62 869	**66 595**	**TOTAL NET LOANS**	**97 518**	**90 928**

Guarantees distributed by sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
39	27	Retail customers	27	39
1	1	Public administration	1	1
3	20	Primary industry	20	3
283	234	Manufacturing industry	234	283
284	375	Real estate development	375	284
240	262	Building and construction industry	262	240
451	230	Property management	230	451
160	100	Transport	100	160
155	175	Retail trade	175	155
7	8	Hotel and restaurant	8	7
41	37	Financial/commercial services	37	41
36	35	Social services	35	36
1 700	**1 504**	**TOTAL GUARANTEES**	**1 504**	**1 700**

Unused credit distributed by sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
3 205	3 823	Retail customers	6 111	5 490
499	311	Public administration	311	499
111	122	Primary industry	122	112
412	386	Manufacturing industry	386	413
606	956	Real estate development	1 004	610
472	530	Building and construction industry	530	474
1 543	1 326	Property management	1 327	1 559
88	64	Transport	64	89
395	361	Retail trade	362	437
51	52	Hotel and restaurant	52	52
98	11	Housing cooperatives	12	99
214	157	Financial/commercial services	157	217
1 031	800	Social services	800	1 036
8 725	**8 899**	**TOTAL UNUSED CREDIT**	**11 238**	**11 086**

Commitments distributed by sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
35 032	36 747	Retail customers	69 983	65 390
834	726	Public administration	726	834
913	1 000	Primary industry	1 000	916
1 593	1 756	Manufacturing industry	1 756	1 595
4 289	5 493	Real estate development	5 493	4 289
2 133	2 308	Building and construction industry	2 308	2 141
17 639	17 837	Property management	17 837	17 639
813	830	Transport	830	819
1 573	1 684	Retail trade	1 684	1 577
429	671	Hotel and restaurant	671	431
996	1 450	Housing cooperatives	1 450	996
2 472	1 266	Financial/commercial services	1 266	2 479
5 036	5 649	Social services	5 649	5 049
129	144	Accrued interests	175	155
73 882	**77 560**	**TOTAL COMMITMENTS**	**110 827**	**104 309**

NOTE 9 – DEFAULTED LOANS

A client's commitment is considered to be in default if a payment is not paid within 90 days after the due date, or a credit facility has been overdrawn for more than 90 days. When a customer has one or more defaulted loans, it is the customer's total loans that is reported as being in default and not the individual loan. When there is a default, objective evidence implies that the need for impairment losses should be considered.

Total defaulted loans/credits

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
275	273	Gross non-performing loans	273	276
89	60	Individual write-downs	60	89
186	**213**	**Net non-performing loans**	**213**	**187**
32.3 %	22.0 %	Provision ratio defaulted loans	22.0 %	32.2 %
0.43 %	**0.41 %**	**Gross non-performing loans in % of gross loans**	**0.28 %**	**0.30 %**

Corporate market

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
174	141	Gross non-performing loans	141	174
71	48	Individual write-downs	48	71
103	**93**	**Net non-performing loans**	**93**	**103**
41.0 %	34.1 %	Provision ratio defaulted loans	34.1 %	40.8 %

Retail market

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
101	132	Gross non-performing loans	132	102
17	12	Individual write-downs	12	18
83	**120**	**Net non-performing loans**	**120**	**84**
17.2 %	9.0 %	Provision ratio defaulted loans	9.0 %	17.4 %

As at 31 December 2017, the fair value of collaterals on defaulted loans to customers was NOK 214 million. At the same time last year, the fair value of collaterals on defaulted loans to customers amounted to NOK 225 million.

Other doubtful commitments

Commitments that are not in default, but where the customer's financial situation has caused the Bank to make individual write-downs, or when it is highly probable that the Bank have to make write-downs, are classified as doubtful.

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
634	619	Other doubtful loans	619	634
296	328	- Individual write-downs	328	296
339	**292**	**Net doubtful loans**	**292**	**338**
46.7 %	53.0 %	Provision ratio doubtful loans	53.0 %	46.7 %

Gross defaulted loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
101	90	Retail banking customers	90	102
174	183	Corporate customers	183	174
275	**273**	**Total defaulted loans**	**273**	**276**
0	0	Public administration	0	0
1	17	Primary industry	17	1
0	0	Manufacturing industry	0	0
35	21	Real estate development	21	35
13	41	Building and construction industry	41	13
79	82	Property management	82	79
7	2	Transport	2	7
5	0	Retail trade	0	5
2	0	Hotel and restaurant	0	2
0	0	Housing cooperatives	0	0
11	15	Financial/commercial services	15	11
21	5	Social services	5	21
174	**183**	**Total corporate customers**	**183**	**174**

NOTE 10 – LOSSES ON LOANS AND GUARANTEES

Losses on loans

The various elements included in losses and write-downs on loans are described under Note 1 - Accounting Principles. Also, refer to the notes “Risk management in Sparebanken Sør” and “Credit and credit risk”.

Individual write-downs

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
517	385	Individual write-downs at start of period	385	517
159	50	- Period's confirmed loss where individual write-downs 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 the end of period**	**388**	**385**

Collective write-downs

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
200	204	Collective write-downs on loans at start of period	210	206
4	-30	+ Change in collective write-downs during the period	-30	4
204	**174**	**=Collective write-downs on loans at the end of period**	**180**	**210**

Loss expense on loans during the period

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
-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-down has been performed previously	50	159
43	8	+ Period's confirmed loss where no individual write-down 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 guarantees	-4	1
50	**20**	**= Loss expense during the period**	**20**	**50**

Individual write-downs distributed by sector and industry (parent bank = group)

NOK MILLION	31.12.2017	31.12.2016
Retail banking customers	32	35
Corporate customers	356	350
Total individual write-downs	**388**	**385**
Public administration	0	0
Primary industry	2	2
Manufacturing industry	35	41
Real estate development	72	70
Building and construction industry	58	75
Property management	143	115
Transport	1	2
Retail trade	11	12
Hotel and restaurant	4	2
Housing cooperatives	0	0
Financial/commercial services	25	28
Social services	5	3
Total corporate customers	**356**	**350**

The expected average annual net loss

There is NOK 388 million in individual write-downs as at 31.12.2017 (NOK 385 million as at 31.12.2016). Group write-downs of NOK 180 million as at 31.12.2017 (NOK 210 million as at 31.12.2016) are distributed among the various risk classes.

All loans to the corporate market are priced individually based on, among other things, requirements for profitability, risks and competition. Pricing therefore reflects the risk of the commitment, and interest rate margins are generally increasing with higher risk.

Mortgage loans are priced based on a price matrix in which both the loan and the risk rating are reflected.

The Group has implemented the IFRS 9 standard from 1 January 2018. The implementation will affect the calculation of the Group's loss expense. The Group shall make impairment losses based on expected losses. Because of this, larger fluctuations in the loss expense is expected in the future. Based on the composition of the bank's loan portfolio, the economic development cycle and local market conditions, losses are expected to remain at a low level for Sparebanken Sør in 2018. For the period 2019-2021, the bank maintains its ambition of a loss to gross loan ratio below 0.20 percent.

NOTE 11 – EXCHANGE RATE RISK

The table indicates the net foreign exchange position for Sparebanken Sør, including financial derivatives. According to the Bank's internal regulations, the net positions must not exceed NOK 20 million and the maximum effect on profit in the event of a 10% rate change shall be a maximum of NOK 10 million.

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
2	1	Net total foreign currency position	1	2
0	0	Income effect at 10 % change	0	0

NOTE 12 – INTEREST RATE RISK

Interest rate risk occurs in connection with the Bank's ordinary lending and borrowing activities and in relation to the activety in the Norwegian and international money and capital markets. Interest risk occurs when reprising dates on assets and liabilities, including off-balance instruments, does not matched. Interest rate risk shall be assessed on the basis of a stress test scenario where there is a two percentage point parallel shift in the yield curve. An assessment will also be made on how the stress test scenarios (6 scenarios) with varying twists in the yield curve will affect the bank's positions. The scenario with the greatest loss potential shall be emphasized for measuring the interest rate risk. The interest rate risk framework also includes interest rate risk in foreign currency.

The Board of Directors decides the limits for maximum interest rate risk, and the Bank has quarterly reports to the Board of Directors. At year-end, the bank's interest rate risk was well within the approved limits.

Interest rate risk is managed by the controlling fixed interest rates of assets and liabilities, by using financial derivatives.

Interest rate sensitivity

The table indicates the effect of the bank`s earnings by a two percentage points parallel shift or twist in interest rate curve will have on the bank's total interest positions. According to the bank's internal regulations the effect shall be limited to NOK 125 million. The table shows the results at the end of the last 2 years.

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
50	17	Parallel shift and twist in the yield curve	24	54

NOTE 13 – LIQUIDITY RISK

Liquidity risk is defined as the risk for the Group beeing unable to meets its obligations, or beeing unable to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, general guidelines and procedures and through established loan grant authorizations. Key operational management parameters are the requirement for deposit-to-loan ratio, indicator value for long-term funding, stress indicator for liquidity coverage within 30 days (LCR) and also guidelines for liquidity capacity in situations where there is no access to market funding. The liquidity risk is also managed by ensuring funding from the capital market with various maturities, and a variation of funding sources and instruments.

Deposits from customers are the bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2017, the Group's deposit-to-loan ratio was 57.0 percent, an increase from 56.7 percent as at 31 December 2016.

In addition, Sparebanken Sør Boligkreditt AS is also an important funding instrument, which ensures access to long-term funding through issuance of covered bonds. In order to issue covered bonds, as at 31 December 2017, mortgages equivalent to 52 percent of the total mortgages were transferred from the parent bank to Sparebanken Sør Boligkreditt AS (50 percent as at 31 December 2016).

Board-adopted target requirements for the bank's liquidity risk follow the guidelines issued by the Financial Supervisory Authority of Norway. At year-end, the indicator values for Sparebanken Sør were within the Board-adopted requirements. The liquidity indicator for long-term funding was 109 percent. The available liquidity buffer meant that under normal operations, the Group could survive for longer than 12 months without a supply of new funding from the market.

The Group has an extensive liquid reserve in the form of liquid, interest-bearing securities. The bank also has mortgages that are ready for transfer to the mortgage company. At year-end, the bank's interest-bearing liquidity portfolio composed of government securities, other zero-weighted securities, covered bonds and municipal bonds totalled NOK 13.5 billion.

The bank's short-term liquidity risk is managed, among other things, throught the Liquidity Coverage Requirement (LCR). At year-end 2017, the LCR indicator for Sparebanken Sør was 139 percent (128 percent as at 31.12.2016), and thereby sufficient to meet all projected liquidity maturities within the next 30 days under a stress scenario. The requirement was 100 percent as at 31 December 2017, and increased from 70 percent at 31 December 2016. The requirement is applicable at any time.

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

LIQUIDITY RISK

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

						GROUP 31.12.2017
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	935	163	11	11	750	
Deposits from customers	55 580	53 665	1 403	512		
Debt incurred due to issue of securities	46 327	905	553	2 740	38 745	3 384
Other liabilities	614	94	85	336	6	93
Subordinated loan capital	2 807	1	19	469	2 185	133
Loan commitments and unused credit facilities	12 513	12 513				
Total liabilities	**118 776**	**67 341**	**2 071**	**4 068**	**41 686**	**3 610**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-10 681	-123	-545	-159	-9 854	
Payment received	9 913	134	160	158	9 461	
Total derivative obligations	**-768**	**11**	**-385**	**-1**	**-393**	**0**

PARENT BANK 31.12.2017						
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	1 007	235	11	11	750	
Deposits from customers	55 593	53 678	1 403	512		
Debt incurred due to issue of securities	18 886	885	481	1 897	13 223	2 400
Other liabilities	538	89	82	268	6	93
Subordinated loan capital	2 807	1	19	469	2 185	133
Loan commitments and unused credit facilities	10 174	10 174				
Total liabilities	**89 005**	**65 062**	**1 996**	**3 157**	**16 164**	**2 626**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-834	-123	-545	-159	-7	
Payment received	459	134	160	158	7	
Total derivative obligations	**-375**	**11**	**-385**	**-1**	**0**	**0**

GROUP 31.12.2016						
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	178	178				
Deposits from customers	51 569	50 174	1 167	228		
Debt incurred due to issue of securities	43 443	806	1 335	2 220	36 347	2 735
Other liabilities	597	114	89	305	6	83
Subordinated loan capital	1 303	1	7	25	1 270	
Loan commitments and unused credit facilities	11 881	11 881				
Total liabilities	**108 971**	**63 154**	**2 598**	**2 778**	**37 623**	**2 818**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-6 048	-189	-958	-120	-4 781	
Payment received	5 844	190	968	120	4 566	
Total derivative obligations	**-204**	**1**	**10**	**0**	**-215**	**0**

PARENT BANK 31.12.2016						
NOK MILLION	Total	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institutions	232	232				
Deposits from customers	51 569	50 174	1 167	228		
Debt incurred due to issue of securities	18 641	786	1 237	2 010	12 890	1 718
Other liabilities	519	110	86	234	6	83
Subordinated loan capital	1 303	1	7	25	1 270	
Loan commitments and unused credit facilities	9 520	9 520				
Total liabilities	**81 784**	**60 823**	**2 497**	**2 497**	**14 166**	**1 801**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 288	-189	-958	-120	-21	
Payment received	1 299	190	968	120	21	
Total derivative obligations	**11**	**1**	**10**	**0**	**0**	**0**

Maturity structure of issued bonds as at 31.12.2017

NOK MILLION

ISIN Number	Ticker	Currency	Nominal	Of which owned by the bank	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010635055	SOR13 PRO	NOK	841		882	882	Fixed rate	No installment	26.01.2018
NO0010672793	SOR25 PRO	NOK	420		421	421	NIBOR 3 mths	No installment	05.03.2018
NO0010649338	SOR14 PRO	NOK	1 000		1 041	1 043	Fixed rate	No installment	11.05.2018
NO0010692643	SOR27 PRO	NOK	599		601	604	NIBOR 3 mths	No installment	29.10.2018
NO0010731128	SOR32 PRO	NOK	800		801	803	NIBOR 3 mths	No installment	20.02.2019
NO0010675358	SOR15 PRO	NOK	400		417	420	Fixed rate	No installment	17.06.2019
NO0010742992	SOR37 PRO	NOK	1 455		1 454	1 463	NIBOR 3 mths	No installment	12.08.2019
NO0010680093	SOR26 PRO	NOK	1 000		1 033	1 042	Fixed rate	No installment	16.09.2019
NO0010708019	SOR01 PRO	NOK	1 500		1 501	1 510	NIBOR 3 mths	No installment	19.03.2020
NO0010708027	SOR02 PRO	NOK	650		688	692	Fixed rate	No installment	19.03.2020
NO0010729502	SOR30 PRO	NOK	1 665		1 657	1 673	NIBOR 3 mths	No installment	21.08.2020
NO0010724081	SOR29 PRO	NOK	1 100		1 119	1 126	Fixed rate	No installment	24.11.2020
NO0010692189	SOR16 PRO	NOK	300		326	330	Fixed rate	No installment	28.04.2021
NO0010736960	SOR35PRO	NOK	500		517	518	Fixed rate	No installment	26.05.2021
NO0010782253	SOR45PRO	NOK	500		501	505	NIBOR 3 mths	No installment	17.02.2022
NO0010781214	SOR44PRO	NOK	550		563	568	Fixed rate	No installment	22.03.2022
NO0010735327	SOR33PRO	NOK	500		516	518	Fixed rate	No installment	06.05.2022
NO0010807910	SOR48PRO	NOK	1 500		1 499	1 501	NIBOR 3 mths	No installment	11.11.2022
NO0010805385	SOR50PRO	NOK	1 500		1 494	1 493	Fixed rate	No installment	13.09.2023
NO0010735418	SOR34PRO	NOK	500		519	516	Fixed rate	No installment	12.05.2025
NO0010754849	SOR41PRO	NOK	300		300	317	Fixed rate	No installment	23.12.2025
Issued by Parent bank				**-**	**17 848**	**17 944**			
NO0010673296	SORB21	NOK	4 500		685	688	NIBOR 3 mths	No installment	14.09.2018
NO0010679806	SORB10	NOK	5 000		5 005	5 032	NIBOR 3 mths	No installment	22.05.2019
NO0010664659	SORB07	NOK	28		28	28	NIBOR 3 mths	No installment	27.11.2019
NO0010714058	SORB24	NOK	5 000		4 971	5 017	NIBOR 3 mths	No installment	24.06.2020
XS1383921803		EURO	500		4 919	4 978	Fixed rate	No installment	22.03.2021
NO0010778954	SORB 27	NOK	5 000		5 007	5 056	NIBOR 3 mths	No installment	22.11.2021
XS1622285283		EURO	500		4 898	4 921	Fixed rate	No installment	30.05.2022
NO0010671597	SORB09	NOK	350		393	395	Fixed rate	No installment	13.02.2023
NO0010670409	SORB08	NOK	500		590	589	Fixed rate	No installment	24.01.2028
Issued by Subsidiary				**-**	**26 495**	**26 704**			
Total bonds				**-**	**44 343**	**44 648**			

Sparebanken Sør Boligkreditt AS has the opportunity to extend the maturity period for 1 year on all issued bonds.

The fair value is added to the accrued interest in order to be comparable with the recognised amount.

At year-end 2017, the average residual maturity of the portfolio of senior bond debt and covered bonds was 3.0 years, compared with 3.2 years at year-end 2016.

Maturity structure of issued subordinated loans as at 31.12.2017

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010697063	SOR28 PRO	400	401	404	NIBOR 3 mths + 1,80%	No installment	27.11.2023
NO0010730112	SOR31 PRO	200	201	203	NIBOR 3 mths + 1,65%	No installment	30.01.2025
NO0010737026	SOR36 PRO	300	301	303	NIBOR 3 mths + 1,52%	No installment	03.06.2025
NO0010743255	SOR38 PRO	300	301	304	NIBOR 3 mths + 1,55%	No installment	25.08.2025
NO0010809460	SOR49 PRO	200	201	201	NIBOR 3 mths + 1,40%	No installment	02.11.2027
Subordinated loans		**1 400**	**1 404**	**1 415**			

Liquidity indicators

Sparebanken Sør (Group) calculates liquidity indicators following the Financial Supervisory Authority's standards, and the status is reported to the Board as part of the risk reporting.

The model calculates the ratio of the illiquid assets that are long-term funded, i.e. with a remaining maturity of more than 1 year (liquidity indicator 1). In addition, indicator 2 includes financing with a liquidity maturity from 1 month to 1 year. The model which is used is as follows:

$$\text{Liquidity Indicator 1(2)} = \frac{\text{Financing with maturity of over 1 year (1 mth.)}}{\text{Illiquid assets}}$$

PARENT BANK			GROUP	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
116.5	118.4	Liquidity indicator 1	109.03	109.0
119.4	121.8	Liquidity indicator 2	112.24	112.2

The enterprise shall in addition comply with requirements for a liquidity reserve(LCR). The requirement was 70 percent as at 31 December 2016 and 80 percent as of 1 January 2017. From 31 December 2017 the requirement is 100 percent.

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

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

At year-end 2017, LCR was 139 percent for the group and 134 percent for the parent bank. Corresponding numbers for 2016 was 139 for the Group and 135 percent for the parent bank.

NOTE 14 – INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
36	42	Interest on loans given to credit institutions	9	10
1 980	2 007	Interest on loans given to customers	2 776	2 738
178	156	Interest on certificates and bonds	168	180
2 194	**2 205**	**Total interest income**	**2 953**	**2 928**
5	5	Interest on debt to credit institutions	5	5
561	521	Interest on debt to customers	517	557
323	281	Interest on issued securities	675	727
33	32	Interest on subordinated loans	32	33
41	45	Fee to The Norwegian Banks' Guarantee Fund	45	41
963	**884**	**Total interest expenses**	**1 274**	**1 363**
1 231	**1 321**	**Net interest income**	**1 679**	**1 565**

NOTE 15 – COMMISSION INCOME

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
25	27	Guarantee commission	22	20
18	19	Security trading and management	19	18
169	172	Payment transmission	172	169
28	29	Insurance services	29	28
		Real estate turnover and management	109	96
69	74	Fees from other activities	19	14
309	**321**	**Total commission income**	**370**	**345**

NOTE 16 – INCOME FROM FINANCIAL INSTRUMENTS

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
-122	-49	Changes in value - fixed rate loans - designated at fair value through profit	-49	-122
157	54	Changes in value - derivatives fixed rate loans - liable to fair value through profit	54	157
35	**5**	**Net fixed rate loans**	**5**	**35**
61	26	Gains(losses) and change in value - certificates and bonds	26	60
22	23	Share dividend	15	10
114	61	Gains(losses) and change in value - shares	61	114
197	**110**	**Certificates, bonds and shares - designated at fair value through profit**	**101**	**184**
167	69	Change in value - bonds at fixed interest rate - hedge accounting	-504	377
-169	-70	Change in value - derivatives fixed rate bonds - liable to fair value through profit	478	-411
-2	**0**	**Net issued securities at fixed rate - hedge accounting**	**-25**	**-34**
IA	IA	Effect of earnings on interest rate swaps	-31	-32
0	-1	Gains (losses) from buy-back of own bonds - amortised cost	-22	19
21	23	Currency gains (losses)	23	21
-1	6	Other financial derivatives - liable to fair value through profit	6	-1
20	**29**	**Net other financial instruments and derivatives**	**7**	**39**
250	**144**	**Net income from financial instruments**	**88**	**224**

Changes in value on fixed-rate loans include value changes associated with changes in interest rates and margins. Refer to note 21 for further information.

NOTE 17 – WAGES AND PENSION

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
292	283	Wages to employees and fee to elected representatives (1)	343	345
46	44	Payroll tax	53	54
	16	Financial tax	16	
5	14	Pension costs	16	6
16	17	Other personnel costs	25	20
359	**374**	**Total personnel costs**	**453**	**425**
439	432	Number of man-years as at 31.12	503	499
444	**435**	**Average number of man-years per year**	**501**	**503**

1) Remuneration in the Bank consist of fixed salary and a bonus scheme. The scheme covers all employees, with the exception of chief of internal audit. Depending on achieved objectives, a bonus payment of a maximum of 1 month salary per employee can be provided. Board members are also not included in the bonus scheme.

All employees can borrow up to 5 x gross annual salary at 1.5% lower interest rate than the bank's current applicable mortgage interest rate. This is on the premise that the loan is within 85% of the market value of the collateral.

Pension

On 1 November 2016 the Bank's collective defined pension scheme for employees, via Nordea Liv and Storebrand Livsforsikring, was discontinued and replaced with a collective defined contribution scheme in Storebrand Livsforsikring. Remaining liabilities in the defined benefit schemes are linked to disability / partial disability. Employees who receive an estimated pension loss resulting from this change will be compensated.

The funded defined benefit plan now includes 21 people who are disabled / partially disabled. The bank also has pension liabilities covering 38 persons who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These schemes are considered defined benefit schemes. Actuarial gains and losses are recognised directly as other comprehensive income. The new pension scheme, which was introduced in 2010, is treated as a defined contribution scheme as at 31 December 2017.

The pension scheme fulfils requirements stipulated by the Act relating to Mandatory Occupational Pensions.

The Bank uses the OMF (covered bond) rate as the reference rate. The markets for these bonds are considered to be sufficiently liquid at the reporting date.

In the actuarial computations, which has been carried out by an external actuary, the following assumptions have been applied as a basis:

	2017	2016
Discounting interest rate	2.3 - 2.40 %	2.60 %
Expected wage adjustment	2.25 - 2.50 %	2.50 %
Expected pension adjustment	0 - 2.25 %	0.50 %
Expected 'G' -adjustment	2 - 2.25 %	2.25 %
Expected investment return on pension resources	2.40 %	2.60 %
Voluntary retirement	0.00 %	0.00 %

When calculating the pension costs for 2017, the assumptions as at 31 December 2016 have been used. The financial assumptions have been considered in a long-term perspective. The assumptions are the same as the Norwegian Accounting Standard Board's recommendations. The calculation, as of 31 December 2017, is based on mortality table FNH2013 and was at 31. December 2016 based on the ordinary table K2013.

Breakdown of pension costs for the year

	31.12.2017		31.12.2016	
NOK MILLION	Funded	Unfunded	Funded	Unfunded
Pension earnings for the year		3	21	3
Net scheme-change			-41	
Interest costs on the pension commitments		2	14	2
Recognised return on pension funds			-12	
Total pension costs - defined benefit schemes	**-**	**5**	**-18**	**5**
New AFP and permium deposit pension		11	21	
Total pension costs recognised in the income statement	**-**	**16**	**3**	**5**
Estimate deviations recognised in the total result		13	-16	1
Total pension costs	**-**	**29**	**-13**	**6**
Movements - pension commitments				
Commitments at the beginning of the period	23	73	635	73
Pension earnings for the year		3	21	3
Interest costs on the pension commitments		2	14	2
New commitment			-607	
Actuariel losses/gains		13	-16	1
Pension payments		-7	-24	-6
Pension commitments at end of period	**23**	**84**	**23**	**73**
Movements - pension funds				
Pension funds at the beginning of the period	19		548	
Return on pension funds			12	
Actuariel losses/gains				
New commitment			-566	
Payment into pension funds	1		49	
Pension payments			-24	
Pension funds at end of period	**20**	**-**	**19**	**-**
Net pension commitments at end of period	**3**	**84**	**4**	**73**

Active members in the different schemes

	2017	2016
Active members of the benefit pension scheme	0	0
Pensioners and disabled in the scheme	21	21
Total number of persons who are included in the benefit scheme	**21**	**21**
Active members of non-insured schemes	12	14
Pensioners and disabled people in non-secured schemes	26	31
Total number of people in non-secured schemes	**38**	**45**
Active members of contribution scheme	466	461
Total number of people in the contribution scheme	**466**	**461**

Sensitivity analysis, pension calculation

The Bank converted from a defined benefit scheme to a defined contribution scheme as of 1 November 2016. The pension commitments were thus significantly reduced. The sensitivity analysis is therefore considered to be insignificant, and has therefore not been performed in 2017.

NOTE 18 – OTHER OPERATING EXPENSES

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
36	36	Marketing	40	38
128	138	IT costs	141	132
34	30	Operating costs - real estate	34	34
13	16	External fees	18	15
10	10	Office supplies	10	10
14	11	Wealth tax	11	14
75	68	Other operating expenses	74	83
310	**309**	**Total other operating expenses**	**328**	**326**

Remuneration to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2016	2017	NOK THOUSAND	2017	2016
706	941	Ordinary audit fees	1 279	1 135
97	52	Tax advice	52	97
557	497	Other attestation services	860	954
366	487	Fees from other services	491	366
1 726	**1 977**	**Total remuneration of elected auditor (incl. VAT)**	**2 682**	**2 552**

NOTE 19 – TAX

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Deferred tax and deferred tax asset		
60	58	Fixed assets	55	57
1	13	Securities	13	1
51	39	Loans	39	51
-19	-22	Pension commitments	-22	-19
-47	-29	Bonds loans	-151	-77
-10	-18	Derivatives	89	11
	2	Other accounting provisions	2	
36	**43**	**Total deferred tax and deferred tax assets**	**25**	**24**
		Composition of tax cost for the year		
39	**7**	**Change in deferred tax**	**1**	**32**
-3	3	Deferred tax recognised in the total result	3	-3
		Comprehensive income		
		Other change in deferred tax		
36	**10**	**Deferred tax recognised in the profit for the year**	**4**	**29**
181	215	Tax payable on net income	286	255
36	10	Recognised deferred tax	4	29
-1	-8	Excess provision previous years	-8	
216	**217**	**Tax cost for the year**	**282**	**284**
		Tax payable on net income		
253	253	25% of profit before tax	318	318
-36	-28	25% of permanent differences	-28	-34
-36	-10	Recognised deferred tax	-4	-29
181	**215**	**Tax payable on net income**	**286**	**255**
		Balanseført betalbar skatt		
181	215	Tax payable on net income	286	255
14	13	Wealth tax	13	14
195	**228**	**Payable tax in the balance sheet**	**299**	**269**

Wealth tax is included in payable tax in the balance sheet; however, wealth tax is presented under other operating expenses in the income statement.

NOTE 20 – FINANCIAL INSTRUMENTS BY CATEGORY

GROUP 31.12.2017					
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				1 143	1 143
Loans to and receivables from credit institutions				236	236
Net loans to customers			6 316	91 202	97 518
Bonds and certificates			13 468		13 468
Shares			572		572
Financial derivatives	216	538			754
Ownership in associated companies				39	39
Total financial assets	**216**	**538**	**20 356**	**92 620**	**113 730**
Debts to credit institution				902	902
Deposits from customers				55 580	55 580
Debt incurred due to issue of securities				44 343	44 343
Financial derivatives	274	32			306
Subordinated loan capital				1 404	1 404
Total financial liabilities	**274**	**32**	**0**	**102 229**	**102 535**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 19 786 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

PARENT BANK 31.12.2017					
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				1 143	1 143
Loans to and receivables from credit institutions				3 516	3 516
Net loans to customers			6 316	60 279	66 595
Bonds and certificates			12 660		12 660
Shares			572		572
Financial derivatives	258	127			385
Ownership in group companies				1 256	1 256
Ownership in associated companies				39	39
Total financial assets	**258**	**127**	**19 548**	**66 233**	**86 166**
Debts to credit institution				974	974
Deposits from customers				55 593	55 593
Debt incurred due to issue of securities				17 848	17 848
Financial derivatives	265	18			283
Subordinated loan capital				1 404	1 404
Total financial liabilities	**265**	**18**	**0**	**75 819**	**76 102**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 18 978 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
					GROUP 31.12.2016
Cash and receivables from central banks				797	797
Loans to and receivables from credit institutions				156	156
Net loans to customers			7 514	83 414	90 928
Bonds and certificates			11 815		11 815
Shares			542		542
Financial derivatives	305	299			604
Ownership in associated companies				9	9
Total financial assets	**305**	**299**	**19 871**	**84 376**	**104 851**
Debts to credit institution				178	178
Deposits from customers				51 562	51 562
Debt incurred due to issue of securities				41 217	41 217
Financial derivatives	369	247			616
Subordinated loan capital				1 203	1 203
Total financial liabilities	**369**	**247**	**0**	**94 160**	**94 776**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 19 343 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
					PARENT BANK 31.12.2016
Cash and receivables from central banks				797	797
Loans to and receivables from credit institutions				2 211	2 211
Net loans to customers			7 514	55 355	62 869
Bonds and certificates			10 957		10 957
Shares			542		542
Financial derivatives	266	187			453
Ownership in group companies				1 259	1 259
Ownership in associated companies				9	9
Total financial assets	**266**	**187**	**19 013**	**59 631**	**79 097**
Debts to credit institution				232	232
Deposits from customers				51 577	51 577
Debt incurred due to issue of securities				16 584	16 584
Financial derivatives	363	3			366
Subordinated loan capital				1 203	1 203
Total financial liabilities	**363**	**3**	**0**	**69 596**	**69 962**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 18 486 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

NOTE 21 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Methods to determine fair value

GENERAL

For financial instruments, for which the carrying value is a reasonable approximation of fair value, valuation methods to calculate fair value are not used. This relates mainly to assets and liabilities within short maturities (three months) or where interest is due or fixed within a short period of time (three months).

INTEREST RATE SWAPS AND EXCHANGE RATE SWAPS

Valuation of interest rate swaps at fair value is done through the use of valuation techniques, in which the expected future cash flows are discounted to the present value. The calculation of expected cash flows and the discounting of these are carried out by the use of observable market rates for different currencies and observable exchange rates. The estimated present value is controlled against the corresponding estimates from the counterparties in the contracts.

CERTIFICATES AND BONDS

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

LOANS

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

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

BORROWINGS

Debt valued at fair value, are valued at the quoted prices, when available, and the securities are traded in a liquid market. For other securities the valuation is made through the use of valuation techniques and the discounting of expected future cash flows. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. The mark-up for credit is made on the basis of the ongoing assessments which other market players make on the Bank's creditworthiness.

DEPOSITS

For deposits rated at fair value, the valuation occurs through the use of valuation techniques in which the expected future cash flows are discounted to present values. A risk-free interest rate is regarded as the interest rate on loans between particularly credit-worthy banks. Premiums for credit are made on the basis of the ongoing assessments which other market players make on the Bank's creditworthiness. The mark-up for margins is done on the basis of the initial margin, but with subsequent adjustment of the margin in line with the margin changes in the markets.

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

SHARES

Shares are valued at quoted prices when they are available. Other shares are valued by using valuation techniques.

In some cases, shares in local companies are considered to be a support for a positive activity in their community. For such shares, the fair value is set to the share purchase price, or written down to NOK 1, when it is obvious that the shares have no commercial value.

Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

Includes financial assets and liabilities valued using the unadjusted observable market values. This includes listed shares, derivatives traded on active market places and other securities with quoted market values.

Level 2:

Instrument value based on valuation techniques in which all the assumptions (all input) is based on directly or indirectly observable market data. Values can be obtained from external market players or reconciled with the external market players, which offer these types of services.

Level 3:

Instruments are based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. This category includes investments in companies and fixed rate loans where there is no market information.

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

PARENT BANK				31.12.2016	GROUP			
Recognised value	Fair value Level 1	Level 2	Level 3	NOK MILLION	Recognised value	Fair value Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
797		797		Cash and receivables from central banks	797		797	
2 211		2 211		Loans to and receivables from credit institutions	156		156	
55 355			55 355	Net loans to customers (floating interest rate)	83 414			83 414
				Assets recognised at fair value				
7 514			7 514	Net loans to customers (fix 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 recognised 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 recognised 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**

There have been no movements between level 1 and 2 in 2017 or 2016.

Movements in values recognised at fair value categorised at level 3

	GROUP / PARENT BANK		
NOK MILLION	Net loan to customers	Of which credit risk	Shares
Recognised value 01.01.2016	**8 290**	**-62**	**464**
Acquisition 2016	644		16
Of which, transferred from level 1 or 2			
Change in value recognised during the period	-122	48	55
Disposal 2016	-1 298		-27
Recognised value 31.12.2016	**7 514**	**-14**	**509**
Acquisition 2017	235		21
Of which, transferred from level 1 or 2	0		
Change in value recognised during the period	-48	12	59
Disposal 2017	-1 385		-21
Recognised value 31.12.2017	**6 316**	**-2**	**567**

Changes in value recognised through the year relate primarily to financial instruments which are recognised in the balance as at 31.12.

Net loans to customers

Loans to customers in level 3 consist exclusively of fixed rate loans. When valuating fixed rate loans, the bank uses three categories; retail market (RM), large commercial loans and other business commitments. Regarding the retail market, credit spread has been assessed according to current market prices for fixed-rate loans.

For large commercial loans (loan commitment above NOK 20 million), the customers and spreads are individually assessed based on what each customer would have been given as spread / margin as of 31.12. For other commercial loans, the value is calculated with a spread that represents a cut of what the smaller fixed-rate loans to corporate customers would be as of 31.12.

Shares

Concerns shares and investments in companies where there is no or low turnover and discretion must be exercised in the valuation. In the valuation, multiples have been used to a greater extent and to a lesser extent earning-based method. The valuation is affected by the discretionary assessment.

Sensitivity analysis, Level 3

The sensitivity for fixed rate loans is estimated by the changing margin requirement by 10 basis points. In the valuation of fixed-rate loans to private customers, the available market interest rate is applied as a basis. For the corporate market, there is a greater degree of general appraisal in determining the market spread/margin as at 31.12.

	GROUP / PARENT BANK	
NOK MILLION	31.12.2017	31.12.2016
Loan to customers	**16**	**22**
- of which, loans to the corporate market (CM)	5	6
- of which, loans to the retail market (RM)	11	16

Hedge accounting

The Bank uses hedge accounting for debt issued as fixed rate and currency bonds. Financial instruments included in the hedge accounting are recognised at fair value. The bonds included in the hedge accounting are recognised at cost. Subsequent measurements are recorded at amortised cost, in addition to the change in fair value related to the hedged risk. The hedges cover the interest rate risk in issued fixed rate bonds. Hedge accounting requires the Bank to keep a system for measuring and documenting hedge effectiveness.

Each bond issued at a fixed rate or in foreign currency is included in the hedge accounting. Sparebanken Sør uses fair value hedges. The hedge is measured and documented every quarter to ensure that it is effective within 80-125%. The 'dollar offset method' is used to measure the effectiveness of the hedge.

Results of hedge accounting

PARENT BANK			GROUP	
2016	2017	NOK MILLION	2017	2016
		Result / ineffectiveness in hedge accounting		
-2	0	Net income from other financial instruments	-25	-34
-2	**0**	**Total**	**-25**	**-34**
IA	IA	Of which is due to the basis swap	-31	-32

Ineffectiveness in hedge accounting is recognised as interest expense and is presented in Note 16.

Hedge accounting in the balance sheet

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Recognitions concerning hedge accounting		
187	127	Financial derivatives	538	299
187	**127**	**Total financial assets used in hedging**	**538**	**299**
8 247	9 141	Nominal hedged items	19 445	13 859
189	114	Adjustment of hedged items – hedged risk	565	93
3	18	Financial derivatives	32	247
8 439	**9 273**	**Total financial liabilities used in hedgning**	**20 042**	**14 199**

The hedging instrument is recognised under financial instruments. Value related to the hedged risk is recognised under debt incurred due to issueance of securities and is presented in note 14.

Changes in value for the hedging instruments during the period

The table shows changes in value for the hedging instruments during the financial year.

Changes in the fair value of the hedged item that can be attributed to the hedged risk is recognised as a value adjustment of the hedged item in the balance sheet.

NOTE 22 – CERTIFICATES AND BONDS

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Short-term investments designated at fair value through profit and loss		
3 249	3 399	Certificates and bonds issued by public sector	3 550	3 449
7 708	9 261	Certificates and bonds issued by others	9 918	8 366
10 957	**12 660**	**Total short-term investments designated at fair value through profit and loss**	**13 468**	**11 815**
10 957	**12 660**	**Investment in securities**	**13 468**	**11 815**

Classification of financial investments

Certificates and bonds are rated by an external broker. If the securities have an official rating, this rating will be applied. In cases where there don't exist an official rating, a credit evaluation by an external broker will be used as basis for risk classification.

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

Certificates and bonds

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Certificates and bonds		
10 924	12 627	Lowest risk	13 436	11 783
0	0	Low risk	0	0
0	0	Medium risk	0	0
0	0	High risk	0	0
0	0	Highest risk	0	0
33	33	Accrued interest	32	32
10 957	**12 660**	**Total certificates and bonds**	**13 468**	**11 815**

NOTE 23 – SHARES

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

				GROUP 31.12.2017
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit or loss				
Frende Holding	675 324	10	260 000	152 148
Eksportfinans	4 026	1,5	81 000	74 082
Brage Finans	11 778 981	15	123 679	97 838
Visa Norge FLI			28 200	-
Norne Eierselskap	31 414 019	17,6	7 687	7 687
Sparebanken Vest	83 398		4 545	2 422
Norgesinvestor Proto	156 000	17,6	23 010	15 600
Norgesinvestor IV	98 750	2,1	13 035	8 058
Øvrige selskaper (46 stk)			9 884	11 806
Total shares valued at fair value			**551 041**	**369 641**
Other investments classified at fair value through profit and loss				
Skagerak Venture Capital 1 KS		12,43	18 454	18 454
Skagerak Seed Capital II AS			1 173	1 173
Skagerak Maturo Seed AS			1 950	1 950
Total other investments valued at fair value through profit and loss			**21 577**	**21 577**
TOTAL			**572 618**	**391 218**

				GROUP 31.12.2016
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value through profit or loss				
Frende Holding	675 324	10	205 000	152 148
Eksportfinans	4 026	1,5	85 000	74 082
Brage Finans	9 993 715	14	104 934	79 093
Visa Norge FLI			23 900	-
Eiendomskreditt	112 396	4,1	13 119	11 321
Norne Eierselskap	31 414 019	17,6	7 687	7 687
Sparebank1 SMN	222 189		14 442	12 165
Sparebank 1 SR Bank	169 925		10 323	10 111
Sparebanken Vest	162 684		7 890	5 839
Norgesinvestor Proto	156 000	17,6	20 132	15 600
Norgesinvestor IV	98 750	2,1	12 443	8 256
Other companies (44 stk)			16 382	12 150
Total shares valued at fair value			**521 251**	**388 452**
Other investments classified at fair value through profit or loss				
Skagerak Venture Capital 1 KS		9,7	17 876	17 876
Skagerak Seed Capital II AS			3 359	3 359
Skagerak Maturo Seed AS			450	450
Total other investments valued at fair value through profit or loss			**21 234**	**21 234**
TOTAL			**542 486**	**409 686**

Sparebanken Sør's subsidiaries which are included in the consolidated financial statements have to no significant investments in shares as at 31 December. The above overview is therefore the same for the parent bank and the Group.

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

The Group has committed to additional investments in Skagerak Venture Capital, Skagerakk Seed Capital and Skagerrak Maturo Seed AS. Uncalled capital amounted to NOK 13 548 000 as at 31.12.2017 (NOK 15 888 000 as at 31.12.2016).

Please refer to 'Note 33: Information of related parties' for additional information regarding transactions with associated companies.

NOTE 24 – OWNERSHIP INTEREST IN GROUP COMPANIES

					PARENT BANK 31.12.2017
NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Transitt Eiendom AS	Property management	Kristiansand	100 %	100	100
TOTAL					**1 255 713**

					PARENT BANK 31.12.2016
NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	5 728	6 983
Rettighetskompaniet AS	Management of name rights	Arendal	100 %	500	2 660
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Bankbygg AS	Property management	Arendal	51 %	51	191
Transitt Eieindom AS	Property management	Kristiansand	100 %	100	100
TOTAL					**1 258 564**

Ownership interests are equivalent to the percentage of voting rights. The subsidiary Rettighetskompaniet AS was reported dissolved in 2017 and deleted on 31.12.2017. Bankbygg AS was sold to Bygland Kommune in 2017.

Refer to 'Note 33: Information of related parties' for additional information regarding transactions with subsidiaries.

NOTE 25 – ASSOCIATED COMPANIES

				PARENT BANK 31.12.2017
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Åseral Næringshus AS	Property management	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	7 000
Balder Betaling AS	Funding	Bergen	22 %	30 258
Arendal Brygge AS	Property management	Arendal	35 %	500
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
Total				**39 333**

				PARENT BANK 31.12.2016
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Åseral Næringshus AS	Property management	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	7 000
Arendal Brygge AS	Property management	Arendal	35 %	500
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
Total				**9 075**

Refer to 'Note 33: Information of related parties' for additional information relating to transactions with subsidiaries.

NOTE 26 – FINANCIAL DERIVATIVES

GROUP				
NOK MILLION	31.12.2017	31.12.2017 (1) presented as net	31.12.2016	31.12.2016 (1) presented as net
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) presented as net	31.12.2016	31.12.2016 (1) presented as net
Assets				
Financial derivatives	385	180	453	159
Liabilities				
Financial derivatives	283	78	366	73

(1) Assets and liabilities if the Bank and group had netted their financial derivatives by each individual counterparty.

The bank and the Group's counter-claim rights adhere to Norwegian law. In case of certain events, the parent bank and Sparebanken Sør Boligkreditt AS has the right to offset other outstanding accounts through the ISDA agreements. The amounts have not been offset in the balance sheet as at 31 December 2017 or 31 December 2016 because the transactions are generally not settled on a net basis. Derivative agreements are entered into with other banks that has a solid rating.

NOTE 27 – DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

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
Total debt 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 adjustment	42			83	125
Accrued interest	253			-25	228
Total debt 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			1	4
Total subordinated loan capital	**1 203**	**200**		**1**	**1 404**

Debt securities – parent bank

NOK MILLION	31.12.2017	31.12.2016
Bonds, nominal value	17 580	16 204
Value adjustment	131	192
Accrued interest	137	188
Total debt 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 adjustment	192			-61	131
Accrued interest	188			-51	137
Total debt due to issue of securities	**16 584**	**4 550**	**-3 174**	**-112**	**17 848**

NOTE 28 – LOANS AND DEBTS TO CREDIT INSTITUTIONS

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Loans to credit institutions		
2 099	3 402	Without agreed maturity	122	44
112	114	With agreed maturity	114	112
2 211	**3 516**	**Total loan to credit institutions**	**236**	**156**
		Debts to credit institutions		
27	62	Without agreed maturity	62	27
205	912	With agreed maturity	840	151
232	**974**	**Total debts to credit institutions**	**902**	**178**

GROUP

NOK MILLION	31.12.2016	Issue debt	Net change credits	31.12.2017
Loans to and receivables from credit institutions	156	0	80	236
Debt to credit institutions	178	750	-26	902
Total net debt to credit institutions	**-22**	**-750**	**106**	**-666**

PARENT BANK

NOK MILLION	31.12.2016	Issue debt	Net change credits	31.12.2017
Loans to and receivables from credit institutions	2 211	0	1 305	3 516
Debt to credit institutions	232	750	-8	974
Total net debt to credit institutions	**1 979**	**-750**	**1 313**	**2 542**

NOTE 29 – FIXED ASSETS

GROUP	Machinery, inventory and transport equipments		Real estate		Intangible assets	
NOK MILLION	2017	2016	2017	2016	2017	2016
Acquisition cost 01.01.	**220**	**238**	**570**	**568**	**182**	**176**
Additions during the year	8	11	13	30	7	18
Disposals during the year	-13	-29	-69	-28	-14	-12
Acquisition cost 31.12.	**215**	**220**	**514**	**570**	**175**	**182**
Accumulated depreciations and write-downs 31.12.	171	171	142	147	160	161
Book value as at 31.12	**44**	**49**	**372**	**423**	**15**	**21**
Ordinary depreciation	11	14	8	9	10	10
Impairments			1	3		
Gains/losses on sale			2	2		

PARENT BANK	Machinery, inventory and transport equipments		Real estate		Intangible assets	
NOK MILLION	2017	2016	2017	2016	2017	2016
Acquisition cost 01.01.	**207**	**225**	**516**	**527**	**81**	**75**
Additions during the year	8	11	9	1	7	18
Disposals during the year	-13	-29	-40	-12	-11	-12
Acquisition cost 31.12.	**202**	**207**	**485**	**516**	**77**	**81**
Accumulated depreciations and write-downs 31.12.	159	160	141	146	62	63
Book value as at 31.12	**43**	**47**	**344**	**370**	**15**	**18**
Ordinary depreciation	11	13	7	8	10	10
Impairments			1	3		
Gains/losses on sale			2	4		

Anticipated economic lifetime harmonises with the depreciation period for the individual groups of fixed assets. The fixed assets are depreciated linearly. The Group's buildings are located in the bank's own region and are mainly used by the bank.

The depreciation rate for buildings is in the range 2–5 percent and the depreciation rate for machinery, inventory, transport and intangible assets is in the range of 10–33 percent.

The Bank leases property and had an expenditure of NOK 16.1 million in 2017 (NOK 16.1 million in 2016) in annual rent. The normal rental period is 5 years, with an option for 5 further years.

NOTE 30 – DEPOSITS FROM CUSTOMERS

Deposits from customer according to sector and industry

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
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**

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
42 520	46 854	Deposits from customers with no fixed maturity	46 841	42 508
9 049	8 722	Deposits from customers with agreed maturity	8 722	9 047
51 570	**55 576**	**Total deposits from customers**	**55 563**	**51 555**
7	17	Accrued interest	17	7
51 577	**55 593**	**Total deposits from customers incl. accrued interest**	**55 580**	**51 562**

NOTE 31 – OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
15	14	Trade creditors	24	23
15	14	Tax withholdings	18	19
41	34	Clearing accounts	34	41
61	57	Other liabilities	65	68
33	34	Accrued holiday pay	43	39
57	66	Other incurred costs	72	68
222	**219**	**Total other liabilities**	**256**	**258**

NOTE 32 – AVERAGE INTEREST RATES

PARENT BANK			GROUP	
31.12.2016	31.12.2017		31.12.2017	31.12.2016
		Debt to credit institutions		
1.40 %	1.26 %	Debt to credit institutions	1.33 %	1.40 %
		Deposits from customers		
1.01 %	0.91 %	Deposits from customers	0.91 %	1.01 %
		Debt incurred due to issue of securities		
1.95 %	1.42 %	Bond debt - floating interest rate	1.26 %	1.71 %
3.52 %	3.11 %	Bond debt - fixed interest rate	3.18 %	3.24 %
		Bond debt - fixed interest rate EUR	0.19 %	0.25 %

The average interest rate has been calculated as a weighted average of the actual interest rate conditions as at 31 December, defined as annual arrears. No liabilities have special conditions.

The total liabilities to credit institutions are mainly in NOK. All debt established through issuance of securities is in NOK.

NOTE 33 – INFORMATION ON RELATED PARTIES

Sparebanken Sør has entered into transactions with related parties as described in this note and note 34. Transactions with subsidiaries have been eliminated in the consolidated financial statements. Sparebanken Sør's equity certificate owners appear in note 36. Besides loans granted on special terms to employees, all transactions with related parties have been established on market terms. Other than transactions identified in this note, note 34, and eliminated transactions with the Sparebanken Sør Group, there are no significant transactions or outstanding claims with related parties.

NOK THOUSAND	Group management	Board of Directors	Chairman of the Board of Trustees
Loans as at 31.12	14 325	9 763	2 362
Interest income	144	197	65
Deposits as at 31.12	5 111	5 735	43
Interest expense	65	39	0

Subsidiaries	Loans	Interest income	Deposits	Interest expense	Interest on bonds	Management fee
Prosjektutvikling AS	17 648	1	219	876		
Eiendomsvekst AS	5 000	10	5 322	0		
Transitt Eiendom AS	10 452	0	0	723		
Sørmegleren Holding AS	0	8	1 718	165		
Sparebanken Sør - Boligkreditt AS	3 359 909	645	54 284	33 474	80 449	45 000
Total	**3 393 009**	**664**	**61 543**	**35 238**	**80 449**	**45 000**

Associated companies	Loans	Interest income	Deposits	Interest expense
Arendal Brygge AS	49 638	0	284	1 516
Søndeled Bygg AS			0	0
Torvparkering AS	164 000	37	5 022	4 495
Total	**213 638**	**37**	**5 306**	**6 011**

Sparebanken Sør has deducted loans transferred to Sparebanken Sør Boligkreditt AS. The agreements have been written such that the loans qualify for deduction. The total balance of these loans has been stated below.

NOK MILLION	31.12.2017	31.12.2016
Sparebanken Sør Boligkreditt AS	30 968	28 125

Sparebanken Sør Boligkreditt AS purchases the majority of services from the bank. All transactions between the companies have been entered on market terms. As of 31 December 2017, Sparebanken Sør Boligkreditt has an overdraft facility of NOK 4 000 million with Sparebanken Sør. In addition Sparebanken Sør Boligkreditt AS has a revolving credit facility with the parent bank at all times, for which an annual commission is paid.

NOTE 34 – REMUNERATIONS, ETC

Information in this note applies to status for the Group's Board of Directors, management and employee representatives as of 31.12.

								2017
Group Management NOK THOUSAND	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	23 463	2 736	130	172	1 838	4 876	2 981
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 312	1 801	92	232	468	2 593	1 076
Gunnar Thomassen	Director, Retail market	1 430	1 647	88	188	249	2 172	3 047
Rolf H. Søraker	Director, Group support	868	1 360	76	137	248	1 821	781
Marianne Lofthus	Director, Capital market	0	1 274	73	173	276	1 796	0
Bjørn A. Friestad	Director, Risk management	2 393	1 408	78	180	309	1 975	1 565
Gry Moen	Director, Business development	118	1 312	73	174	269	1 828	4 876
Total		**30 584**	**11 538**	**610**	**1 256**	**3 657**	**17 061**	**14 325**

								2016
Group Management NOK THOUSAND	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	23 463	2 665	125	167	2 123	5 080	2 959
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 312	1 718	89	228	425	2 460	996
Gunnar Thomassen	Director, Retail market	1 430	1 608	84	188	173	2 053	2 648
Rolf H. Søraker	Director, Group support	868	1 321	74	143	129	1 667	979
Marianne Lofthus	Director, Capital market	0	1 242	70	172	240	1 724	16
Bjørn A. Friestad	Director, Risk management	2 393	1 374	75	185	226	1 860	1 761
Gry Moen	Director, Business development	118	1 241	70	175	236	1 722	5 527
Total		**30 584**	**11 169**	**587**	**1 258**	**3 552**	**16 566**	**14 888**

The CEO has an agreement of one year severance pay in case of imposed resignation before the end of the agreed period of tenure.

There is a bonus system for all the bank's employees including the Group's management. Ref. note 17.

							2017
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remuneration	Pension	Fringe benefits	Total	Loans and collateral
Stein A. Hannevik	Chairman	10 467	449	1 807	40	2 296	4 754
Torstein Moland	Deputy chairman	0	185			185	0
Inger Johansen	Member	0	146			146	3 417
Marit Kittelsen	Member	0	111			111	1 285
Erling Holm	Member	0	198			198	500
Tone Vareberg	Member	0	108			108	0
Jan Erling Tobiassen	Employee representative	0	100		16	116	257
Gunnhild Tveiten Golid	Employee representative	0	92		14	106	0
Total		**10 467**	**1 389**		**70**	**3 266**	**10 213**

							2016
Board of directors NOK THOUSAND	Role	Number of equity certificates	Remuneration	Pension	Fringe benefits	Total	Loans and collateral
Stein A. Hannevik	Chairman	10 467	696	1 760	65	2 521	5 325
Torstein Moland	Deputy chairman	0	245			245	2 231
Inger Johansen	Member	0	138			138	2 613
Marit Kittelsen	Member	0	116			116	1 389
Erling Holm	Member	0	242			242	0
Tone Vareberg	Member	0	79			79	0
Jan Erling Tobiassen	Employee representative	0	77			77	456
Sigrid Evenstad Moe	Employee representative	0	75			75	3 680
Siss June Ågedal 1)	Member	0	25			25	108
Jill Akselsen 1)	Member	0	27			27	0
Trond Bjørnenak 1)	Member	2 000	27			27	0
Bente Pedersen 1)	Employee representative	118	25			25	2 460
Per Adolf Bentsen 1)	Employee representative	118	25			25	2 580
Sum		**12 703**	**1 797**			**3 622**	**20 843**

1) Member of the Board of Directors in January and February 2016.

				2017
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remunerations	Loans
Øystein Haga	Chairman, Deposit elected	0	34	2 363
Tormod Nyberg 2)	Deputy Chairman. EC owner	30 495	4	0
Jorunn Aarrestad	Deposit elected	0	8	5 068
Kai Magne Strat	Deposit elected	0	10	835
Ingvild Hovden	Deposit elected	0	4	1 713
Oddbjørn Lia	Deposit elected	0	5	4 223
Øyvind Tveit	Deposit elected	0	35	0
Linda Gjertsen	Deposit elected	0	2	1 047
Mette Vestberg Sørensen	Deposit elected	0	16	0
Ole Tom Haddeland	Deposit elected	0	2	800
Ståle Rysstad	Deposit elected	0	26	0
Lisa Jensen	Deposit elected	0	4	0
Wigdis Hansen	Deposit elected	0	7	0
Anders Gaudestad	Deposit elected - deputy	0	4	7 892
Birgitte Midgaard	Deposit elected - deputy	0	2	197
Nils Johannes Nilsen	Public elected	0	4	0
Vidar Stang	Public elected	0	4	0
Harald Fauskanger Andersen	Public elected	0	15	1 926
Alf Albert	EC owner	50 000	2	821
Kristian Tørres Brøvig	EC owner	9 747	2	0
Helge Sandåker 3)	EC owner	0	4	959
Kari Anne Norbø 3)	EC owner	0	2	0
Svein Bringsjord 4)	EC owner	7 300	15	1 963
Karen Andersen	Elected by employees	0	10	1 668
Ellen Haugen	Elected by employees	118	4	1 514
Per Bø	Elected by employees	118	4	3 040
Nina Merete Olsen	Elected by employees	70	10	2 761
Bente Sørensen	Elected by employees	198	4	1 105
Hege Kirkhus	Elected by employees	118	4	3 078
Birger Sløgedal	Elected by employees	618	4	2 565
Total		**98 782**	**251**	**45 541**

1. Remuneration to the Board of trustees and the Election Committee
2. Represents Acto AS og Acan AS
3. Represents Sparebankstiftelsen Sparebanken Sør which owns 7 988 679 equity certificates
4. Represents Sparebankstiftelsen Sparebanken Sør and 7 300 own equity certificates

				2016
Board of Trustees NOK THOUSAND	Role	Number of equity certificates	1) Remunerations	Loans
Øystein Haga	Chairman, Deposit elected	0	37	2 341
Tormod Nyberg 2)	Deputy Chairman, EC owner	30 495	7	0
Jorunn Aarrestad	Deposit elected	0	2	2 503
Kai Magne Strat	Deposit elected	0	14	597
Oddbjørn Lia	Deposit elected	0	8	2 329
Øyvind Tveit	Deposit elected	0	43	0
Anders Gaudestad	Deposit elected	0	2	8 067
Mette Vestberg Sørensen	Deposit elected	0	10	29
Ole Tom Haddeland	Deposit elected	0	2	911
Ståle Rysstad	Deposit elected	0	29	0
Lisa Jensen	Deposit elected	0	7	0
Wigdis Hansen	Deposit elected	0	12	3
Yngvar Aulin	Deposit elected	0	12	670
Tor Kim Steinsland	Deposit elected	0	8	2 396
Terje Røsnes	Deposit elected	600	7	958
Birgitte Midgaard	Deposit elected	0	10	229
Erling Laland	Publicly elected	0	2	1 631
Harald Fauskanger Andersen	Publicly elected	0	24	2 987
Nils Johannes Nilsen	Publicly elected	0	0	0
Alf Albert	EC owner	50 000	0	1 935
Kristian Tørres Brøvig	EC owner	9 747	2	0
Helge Sandåker 3)	EC owner	0	2	1 035
Tone Helene Strat 3)	EC owner	0	18	972
Kari Anne Norbø 3)	EC owner	0	2	0
Svein Bringsjord 4)	EC owner	7 300	2	1 972
Egil Galteland	EC owner	6 020	4	0
Karen Andersen	Elected by employees	0	4	1 726
Ellen Haugen	Elected by employees	118	7	1 519
Per Bø	Elected by employees	118	7	3 106
Nina Merete Olsen	Elected by employees	70	2	3 125
Bente Sørensen	Elected by employees	198	24	1 236
Hege Kirkhus	Elected by employees	118	2	3 125
Birger Sløgedal	Elected by employees	618	26	2 634
Tommy Holter Moi	Elected by employees	118	2	3 448
Anne Efjestad	Elected by employees	118	4	495
Total		**105 638**	**344**	**51 980**

1. Remuneration to the Board of trustees and the Election Committee
2. Represents Acto AS og Acan AS
3. Represents Sparebankstiftelsen Sparebanken Sør which owns 8 125 679 equity certificates
4. Represents Sparebankstiftelsen Sparebanken Sør and 7 300 own equity certificates

NOTE 35 – ASSETS PLEDGED AS COLLATERAL AND GUARANTEE LIABILITIES

PARENT BANK			GROUP	
31.12.2016	31.12.2017	NOK MILLION	31.12.2017	31.12.2016
		Assets pledged as collateral		
8 801	10 300	Bonds pledged for drawing-rights in Norges Bank	10 300	8 801
		Guarantee liabilities		
567	405	Payment guarantees	405	567
1 036	1 021	Contract guarantees	1 021	1 036
0	0	Guarantees for taxes	0	0
97	88	Other guarantees	88	97
1 700	**1 514**	**Total guarantee liabilities**	**1 514**	**1 700**

NOTE 36 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

The 20 largest equity certificate owners as at 31.12.2017

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00
2.	Arendal Kom. pensjonskasse	450 000	2.87
3.	Pareto AS	417 309	2.66
4.	Bergen Kom. Pensjonskasse	410 491	2.62
5.	Holta Invest AS	405 700	2.59
6.	EIKA utbytte VPF c/o Eika kapitalforv.	399 148	2.55
7.	Glastad Invest AS	387 467	2.47
8.	Merrill Lynch	329 080	2.10
9.	Wenaasgruppen AS	186 000	1.19
10.	Otterlei Group AS	168 200	1.07
	Total - 10 largest owners	**11 142 074**	**71.12**

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Gumpen Bileiendom AS	154 209	0.98
12.	Allumgården AS	151 092	0.96
13.	Landkreditt Utbytte	150 000	0.96
14.	Ottersland AS	100 000	0.64
15.	Wenaas Kapital AS	100 000	0.64
16.	MP Pensjon PK	85 523	0.55
17.	Artel AS	82 131	0.52
18.	Profond AS	77 115	0.49
19.	Apriori Holding AS	72 575	0.46
20.	Varodd AS	70 520	0.45
	Total - 20 largest owners	**12 185 239**	**77.77**

As of 31 December 2017, the equity capital totalled NOK 783 197 200, divided into 15 663 944 equity certificates, with a nominal value of NOK 50.

Proposed, not approved dividend

	PARENT BANK	
	2017	2016
Total proposed dividend	NOK 94.0 million	NOK 94.0 million
Proposed dividend per equity certificate	NOK 6.0 per certificate	NOK 6.0 per certificate
Number of equity certificates	15 663 944	15 663 944

Dividends for the fiscal year 2017 have been classified as other equity as at 31.12.2017.
The dividend approved by the Board of Trustees 30 March 2017 for the financial year 2016 was paid in 2017.

Equity certificate capital and profit per equity certificate

NOK MILLION	31.12.2017	31.12.2016
Number of equity certificates	15 663 944	15 663 944
Nominal value	50	50
Equity certificate capital(1)	783	783
Premium fund (1)	451	451
Dividend equalisation fund(1)	341	297
Total equity share capital (A)	**1 575**	**1 531**
Total equity share capital (Parent bank)	9 970	9 098
- hybrid capital	(1 075)	(825)
- other equity	(94)	(94)
Equity share capital excl. Hybrid capital and other equity share capital (B)	**8 801**	**8 179**
Ownership ratio after allocation (A/B)	**17.9 %**	**18.7 %**
Ownership ratio, weighted average (1)	**18.7 %**	**17.5 %**

NOK MILLION	2017	2016
Profit for the year, parent bank	795	798
- interest on hybrid capital	(47)	(33)
Dividend basis, parent bank	**748**	**765**
Profit for the year per EC, Parent Bank (1)	8.9	8.5
Profit for the year, Group	984	989
- interest on hybrid capital	(47)	(33)
Dividend basis, the Group	**937**	**955**
Profit for the year per EC, Group (1)	11.2	10.7

1. Average ownership ratio is the basis for calculating earnings per share and allocation of profit. Sparebanken Sør adopted on 30 March 2016 a rights issue which was completed in Q2. Allocation of new equity certificates was made on 3 May and on this date increased ownership ratio from 13.0 percent to 19.8 percent. The weighted average ownership ratio for 2016 was 17.5 percent. There have been no issues in 2017 and the weighted average ownership ratio at 31. December 2017 amounts to 18.7 percent. Hybrid capital classified as equity is excluded when calculating the ownership ratio.

Earnings per. share is calculated by dividing net income attributable to the holders of equity certificates according to the EC ratio and the number of outstanding equity certificates at the end of the year.

Equity certificates owned by the Managing Director, leading employees, members of the Board of Directors, members of the Board of Trustees and control committee and their personal related parties defined according to the Accounts Act § 7–26 and supplementary regulations § 8–20 are stated in Note 34.

NOTE 37 – MERGER OF BUSINESS

It has not been made acquisitions or other forms of business combinations in 2016 and 2017.

NOTE 38 – ACCOUNTING EFFECTS OF TRANSITION FROM IAS 39 TO IFRS 9

On 1 January 2018, IFRS 9 Financial instruments will replace the current IAS 39, Financial instruments – Recognition and measurement. IFRS 9 includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as hedge accounting. From this point in time, the Group will change its accounting principles in accordance with the new standard. The Group has not chosen to make use of an early adaptation of IFRS 9, which means that all corresponding figures from previous periods have been prepared according to IAS 39.

The standard will be implemented retrospectively, with hedge accounting as an exception. Retrospective application means that Sparebanken Sør will prepare the opening balance of 1 January 2018 as if the new principles had always been applied.

The effect of the new principles on the opening balance for 2018 is charged to equity.

Recognition and derecognition

Financial assets and liabilities are initially recognised when the bank becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or the company transfers the financial asset in such a way that the risk and profit potential of the asset concerned is largely transferred. A financial liability is derecognised when the financial liability has been fulfilled, cancelled or has expired.

Classification and measurement of financial instruments

The measurement category is finally determined upon initial classification of the asset.

Compared with IAS 39, IFRS 9 has a more principle-based approach, as regards the assessment of whether financial assets must be measured at amortised cost or at fair value. The measurement categories for financial assets in IAS 39 (fair value through profit or loss, available for sale, held-to-maturity and amortised cost) have been replaced by the following three categories in IFRS 9: fair value with changes in value through profit, fair value with change in value through other comprehensive income (OCI) and amortised cost. Measurement of the financial asset is determined upon initial recognition of the asset. The business model for holding the financial instruments will be decisive for the choice of category. The principles for financial liabilities will essentially be the same, with a few exceptions. This concerns changes in value from own credit risk, where the liability is measured by using the fair value option and recognised through other comprehensive income (OCI).

Financial instruments held to collect contractual cash flows are initially measured at amortised cost.

Financial instruments held to collect contractual cash flows and for sale are initially measured at fair value through other comprehensive income (OCI).

Instruments with cash flows that are not solely payments of interest or where the purpose of owning the instrument is not to collect contractual cash flows, will be measured at the fair value through profit and loss.

Derivatives used in hedge accounting are measured according to the hedge accounting principles. Refer to separate paragraph.

Upon transition to the new standard on 1 January 2018, we see the following changes in the balance sheet items.

GROUP

NOK MILLION	IAS 39		IFRS 9		
Financial assets	**Measurement**	**Book value**	**Measurement**	**Book value**	**Change**
Cash and receivables from central banks	Amortised cost	1 143	Amortised cost	1 143	0
Loans to credit institutions	Amortised cost	236	Amortised 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	Amortised cost	91 202	Amortised 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 derivatived	Fair value	754	Fair value	754	0
Shareholdings in associated companies	Amortised cost	39	Amortised cost	39	0
Financial liabilities	**Measurement**	**Book value**	**Measurement**	**Book value**	**Change**
Debts to credit institutions	Amortised cost	902	Amortised cost	902	0
Deposits from customers	Amortised cost	55 580	Amortised cost	55 580	0
Debt incurred due to issue of securities	Amortised cost	44 353	Amortised cost	44 353	0
Financial derivatives	Fair value	306	Fair value	306	0
Subordinated loan capital	Amortised cost	1 404	Amortised cost	1 404	0

PARENT BANK

NOK MILLION	IAS 39		IFRS 9		
Financial assets	**Measurement**	**Book value**	**Measurement**	**Book value**	**Change**
Cash and receivables from central banks	Amortised cost	1 143	Amortised cost	1 143	0
Loans to credit institutions	Amortised cost	3 516	Amortised cost	3 516	0
Net loans to customers		66 595		66 602	7
- Residential mortgages (1)	Amortised cost	24 991	Fair value over OCI	25 002	11
- Fixed rate	Fair value option	6 316	Fair value option	6 316	0
- Others	Amortised cost	35 288	Amortised cost	35 284	-4
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 derivatived	Fair value	385	Fair value	385	0
Shareholdings in associated companies	Amortised cost	39	Amortised cost	39	0
Financial liabilities	**Measurement**	**Book value**	**Measurement**	**Book value**	**Change**
Debts to credit institutions	Amortised cost	974	Amortised cost	974	0
Deposits from customers	Amortised cost	55 593	Amortised cost	55 593	0
Debt incurred due to issue of securities	Amortised cost	17 848	Amortised cost	17 848	0
Financial derivatives	Fair value	283	Fair value	283	0
Subordinated loan capital	Amortised cost	1 404	Amortised cost	1 404	0

All changes are dues to the new measurement model. Additionally, mortgages in the parent bank have also been reclassified from amortised cost to fair value through other comprehensive income (OCI).

Amortised cost

Debt instruments whose sole purpose is to hold the instrument in order to collect contractual cash flows will be recognised at amortised cost. In the Group, all borrowing and lending with floating interest rates are classified at amortised cost.

In the parent bank's accounts there is an exception related to loans to retail customers with their real estate as collateral. Under IvvAS 39, such loans were classified at amortised cost, under IFRS 9 they will be classified at the fair value through other comprehensive income. This is due to the fact that the loans may be sold at a later date to the bank's wholly owned subsidiary Sparebanken Sør Boligkreditt AS.

Fair value through profit or loss

All derivatives will be measured at fair value with the changes in value through profit or loss. Derivatives designated as hedging instruments will be recognised in accordance with hedge accounting principles.

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

Fixed rate loans can be redeemed before maturity by paying a market margin that arise as a result of fluctuations in the market rate. Sparebanken Sør hedges the interest risk for this balance sheet item through derivatives. Derivatives shall always be measured at fair value. As the development in the value of the derivatives is recognised in the income statement, recognition of fixed rate loans at amortised cost will lead to significant fluctuations in the profit. Recognition at fair value through profit and loss will thus result in a more harmonised comparison of the derivative's profit and loss and the change in value of the fixed rate loan.

Fair value through other comprehensive income (ICO)

In the parent bank, loans to retail customers with real estate as collateral will be classified at fair value through other comprehensive income under IFRS 9. This is due to the fact that the loans may be sold at a later date to the bank's wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The purpose is not solely to collect contractual cash flows, but also onward sale.

Hedge accounting

IFRS 9 simplifies the hedge accounting requirements by linking hedging efficiency more closely to risk management activities, and thus provides greater scope for assessment. The requirement of a hedging efficiency of 80-125 percent has been removed and has been replaced by more qualitative requirements. Among other things, there must be an economic relationship between the hedging instrument and the hedged element, and the effect of credit risk must not dominate changes in value in the hedge relationship. In accordance with IFRS 9, a prospective efficiency test is sufficient, while the hedging efficiency in accordance with IAS 39 must be considered both retrospectively and prospectively. Inefficiency in hedging, defined as the difference between the value adjustment of the hedging instruments and the value adjustment of the hedging item is recognised in the income statement as it occurs. The exception is the part of the value adjustment that is due to a change in the basic spread associated with the hedging instruments.

For interest and currency swaps created from and including 1 January 2018, the changes in value due to changes in spreads, will be recognised through other comprehensive income as a hedging effect. Interest and currency swaps created prior to 1 January 2018 will be recorded at fair value through profit and loss until these mature.

Impairment and calculation of expected loss on 1 January 2018

In accordance with IAS 39, impairment losses have been based on objective evidence of impairment, an incurred loss model. In accordance with IFRS 9, from 1 January 2018 impairment losses will be based on an expected loss model. The impairment model under IFRS 9 has been described below. Calculation of the expected loss for the Sparebanken Sør Group as of 1 January 2018 results in a reduction in the total impairment losses of NOK 2 million (NOK 7 million in the parent bank). The implementation of IFRS 9 will have a positive effect on the Group's equity and subordinated capital and the Group has no need to use the transitional rule for calculation of capital adequacy.

Changes in equity

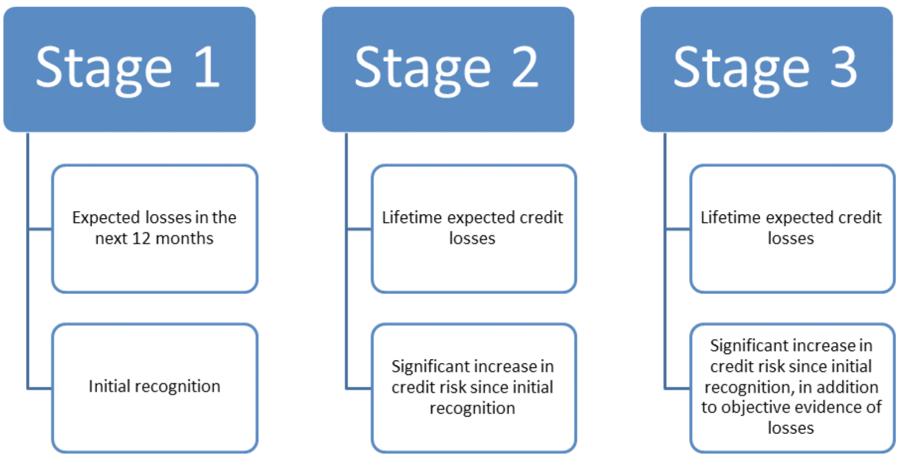
NOK MILLION	Equity certificates	Premium fund	Equalization fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority Interests	TOTAL
GROUP									
Balance as at 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 230**	**2**	**11 108**
Changes as a result of IFRS 9							2		2
Effect on taxes as a result of IFRS 9							-1		-1
Balance at at 01.01.2018	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 232**	**2**	**11 109**
PARENT BANK									
Balance as at 31.12.2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**94**	**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**	**341**	**1 075**	**7 165**	**61**	**99**	**0**	**9 975**

Impairment model

The model for impairment of financial assets under IFRS 9 applies to financial assets that are measured at amortised cost and financial assets that are measured at fair value through other comprehensive income. The new standard also requires loan loss provisions on new loans by making an impairment for expected credit loss due to expected defaults in the next twelve months. The model calculates the expected losses for all customers at account level. The model also includes loan commitments, guarantees and unused credit facilities. For loans where the credit risk has increased significantly since initial recognition, impairment should be recorded corresponding to expected credit losses over the term of the loan. This sets high requirements for the models used to calulate expected impairment losses

Through 2017, the bank has worked on model development in order to be able to meet the new requirements.

The model contains data for macro-conditions, and in the event of cyclical variations or macro-conditions, the relevant parameters must be changed accordingly before the model can be run. The model calculates the expected losses for all customers at account level. All loan commitments are placed in one of the three “stages” of the model based on their change in risk since initial recognition (change in credit risk). For a description of each “stage”, refer to the explanations below. On initial recognition, all commitments are placed in stage 1 and are moved at a later date to stage 2 or 3 in the cases where there has been a significant increase in credit risk. For commitments where individual write-downs for impairment have been made, these are removed from the calculation basis for the model-based loss impairments, and the individual write-downs for impairment are added to write-downs for impairment in stage 3.



Stage 1

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

Stage 2

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

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

- For commitments that qualify for a one-year loss calculation (stage 1), it will be checked whether there is a 30-day default/account overdrawn. If this exists, the loan commitment will be transferred to lifetime ECL (stage 2). This applies to overdraws from the first Norwegian krone, but older than 30 days.
- For commitments that qualify for a one-year loss calculation (stage 1), it will be checked whether there is a larger overdraw. If this exists, the loan commitment will be transferred to lifetime ECL (stage 2). This applies to overdraws exceeding the credit limit, starting from the first day,
- Commitment with changed payment obligations or refinancing (forbearance) is automatically moved to stage 2.
- The commitments are also checked against an internal watch list that will detect commitment-specific forward-looking risk.

Stage 3

Stage 3 includes assets that have had a significant change in credit risk since initial recognition and where there is objective evidence of loss at the time of reporting. The bank has defined this as commitments in default or commitments where individual write-downs have been made. In this stage, the model calculates an expected loss over the remaining term of the asset. If individual write-downs have been made, these override the model-based calculation.

The same model is used for the Group, parent bank and the wholly owned subsidiary Sparebanken Sør Boligkreditt AS, but with different date definitions as regards initial recognition. At group level, the account's approval date is used, while the transfer date is used for Sparebanken Sør Boligkreditt AS. As a general the approval date will be used for the parent bank, unless the account has been registered in Sparebanken Sør Boligkreditt AS. If so, the date of transfer to the parent bank is used.

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

The assessment of significance is based both on a relative increase in PD and absolute change. The level has been set so that the relative change is significant and that the absolute level in itself is not insignificant compared with what is considered low risk. In addition, if there is a major absolute change, it should nevertheless be considered as significant.

Calculated losses on 1 January are based on the different stages in the model.

NOK MILLION	Stage	Credit commitments	I %	Calculated loss	I %
GROUP					
RM	1	63 082	56.9 %	4.9	0.9 %
	2	6 785	6.1 %	23.6	4.2 %
	3	227	0.2 %	35.1	6.2 %
RM total		**70 094**	**63.2 %**	**63.6**	**11.2 %**
CM	1	34 636	31.3 %	45.9	8.1 %
	2	5 136	4.6 %	75.4	13.3 %
	3	962	0.9 %	380.7	67.3 %
CM total		**40 734**	**36.8 %**	**501.9**	**88.8 %**
Total		**110 827**	**100.0 %**	**565.5**	**100.0 %**

NOK MILLION	Stage	Credit commitments	I %	Calculated loss	I %
PARENT BANK					
RM	1	36 246	46.7 %	3.3	0.6 %
	2	4 265	5.5 %	15.6	2.8 %
	3	234	0.3 %	34.7	6.2 %
RM total		**40 745**	**52.5 %**	**53.6**	**9.6 %**
CM	1	31 305	40.4 %	45.9	8.3 %
	2	4 639	6.0 %	75.2	13.5 %
	3	871	1.1 %	380.7	68.5 %
CM total		**36 815**	**47.5 %**	**501.7**	**90.4 %**
Total		**77 560**	**100.0 %**	**555.3**	**100.0 %**

NOTE 39 – SUBSEQUENT EVENTS AND CONTINGENCIES

It has not been any events of major significance to the accounts after the balance sheet date.

Calculations

NOK MILLION	31.12.2017	31.12.2016
Return on equity adjusted for hybrid capital		
Profit after tax	984	989
Interest on hybrid capital	-47	-33
Profit after tax, incl. Interest on hybrid capital	**937**	**956**
IB Equity	10 051	7 753
IB Hybrid capital	-825	-510
IB Equity excl. Hybrid capital	**9 226**	**7 243**
UB Equity	11 108	10 051
UB Hybrid capital	-1 075	-825
UB Equity excl. Hybrid capital	**10 033**	**9 226**
Average equity	10 580	8 902
Average equity excl. Hybrid capital	**9 630**	**8 235**
Return on equity	9.3 %	11.1 %
Return on equity excl. Hybrid capital	**9.7 %**	**11.6 %**
Net interest income, adjusted for accounting changes		
Net interest income	1 679	1 565
Interest on hybrid capital	-47	-33
Net interest income, adjusted for accounting changes	**1 632**	**1 532**
Average total assets	109 500	104 950
As a percentage of total assets	**1.49 %**	**1.46 %**
Operating costs, adjusted for conversion of the pension scheme		
Operating costs	811	787
Conversion of pension scheme	8	28
Operating costs, adjusted for conversion of the pension scheme	**819**	**815**
Ordinary operations (Adjusted profit)		
Net interest income, adjusted for accounting changes	1 632	1 532
Net commision income	312	293
Other operating income	18	28
Operating costs, adjusted for conversion of the pension scheme	819	815
Ordinary operations (Adjusted profit), before tax	**1 143**	**1 038**
Profit excl. Finance, and adjusted for accoutning events		
Net interest income, adjusted for accounting changes	1 632	1 532
Net commision income	312	293
Other operating income	18	28
Operating costs, adjusted for conversion of the pension scheme	819	815
Losses on loans and guarantees	20	50
Profit excl. Finance, and adjusted for accoutning events	**1 123**	**988**
Tax (25 %)	281	247
Ordinary operations (Adjusted profit), after tax	**842**	**741**
Average equity, excl. Hybrid capital	9 630	8 235
Return on equity, profit excl. Finance and adjusted for accounting events	**8.7 %**	**9.0 %**

The Board of Directors report and some accounting presentations refers to adjusted results that are not defined in IFRS (Alternative Performance Measurements or Alternative Performance Measures (APM)). The background for presenting adjusted results is to bring out the underlying operation in a better way, and is not meant to replace the original reporting. The table above is set up to show the relationship between official numbers and the adjusted number sizes.

Corporate governance

Sparebanken Sør is an independent financial services group with principal activities in banking, securities and real estate in the Agder counties and Telemark. The Group has also established a new branch in Rogaland in 2017.

Sparebanken Sør Group consists, in addition to the parent company Sparebanken Sør, of the following companies:

					PARENT BANK 31.12.2017
NOK THOUSAND	Type of business	Office location	Owner share	Share capital	Nominal value
Sparebanken Sør Boligkreditt AS	Credit institution	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Estate agency firm	Kristiansand	91 %	5 728	6 983
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Transitt eiendom	Property management	Kristiansand	100 %	100	100
Total					**1 255 713**

The headquarter and registered address of the bank are in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal. The bank's organisation number is 937 894 538

This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" demand from Oslo Stock Exchange.

The company's intention with this document is:

- To clarify the role sharing of the bank's governing bodies and the management of day-to-day operations
- To optimise the company's values in a long-term perspective
- Equal and secure access to reliable and current information on the company's operations
- Equal treatment of the equity certificate holders

The corporate governance principles have been specified in various policy documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, Board instructions, instructions for the CEO, framework for management and control, ethical guidelines and procedures for own-account trading.

THE CONNECTION WITH THE BANKS OTHER POLICY DOCUMENTS

The Banks strategy document specifies the overall plans for the group, and to complement the totality of the group's governing documents there should be a close correlation between the overall strategy document and the complementary and more detailed governance documents.

The structure of the various documents is stated below.

Strategy document

Corporate governance	Ethics document	Compliance document
Risk and capital strategy	ICAAP document	Finance document
Credit document RM	Credit document CM	Operational risk and internal control
ICT document	Contingency plan operations	Recovery plan

For some policy documents there are in addition supplementary documents adopted by the administration. To ensure that the various control documents correspond with the Group's objectives the governing documents shall be revised and maintained regularly. An audit is normally carried out within a 12 month period with the decision of the relevant authority.

For operationalization of the Bank's strategic objectives, detailed annual action plans will be prepared, which also are related to the critical success factors included in the strategy document.

The document owner is responsible for ongoing maintenance including proposals for changes, and hereby to ensure that they are treated in accordance with the Bank's procedures. The document owner is responsible for implementing the governing documents in the organisation.

STATEMENT ON CORPORATE GOVERNANCE

Values

The bank's values and guidelines for ethics and social responsibility have great significance for how the company is perceived. It is even more important that it is perceived that actions by the company and each employee are taken in compliance with our values and guidelines.

Social responsibility

Sparebanken Sør wants to be a responsible and enthusiastic contributor to society. The bank's business objective cannot be achieved without acting in concert with the society in which we operate.

By being a community building company, Sparebanken Sør contributes toward sustainable industrial and social development through creating values for the region. The bank also supports projects within culture, sport and other areas that contribute positively in the local community where the bank has offices. In addition to traditional sponsorship of teams and clubs, as an independent savings bank we also continue our common, strong tradition of providing cash donations to non-profit organisations.

Ethical guidelines

The Board of Directors of Sparebanken Sør has adopted its own "Ethics document".

As a basis for its operations, the bank will follow stringent requirements for honesty and good business ethics. Therefore, the bank expects that employees will have a high degree of integrity and conduct in accordance with the bank's ethical guidelines.

The bank's ethical guidelines cover representatives and employees and provide guidance related to customer care, gifts, confidentiality, participation in other business and related-party transactions. The guidelines also include an information requirement for employees in case of breach of internal guidelines, laws and regulations. The procedure for how such information / notification shall be given is described in more detail.

One of the bank's aims is that advisers in Sparebanken Sør will be authorised. Through authorisation, each employee is tested both through theory and practical knowledge on ethical theory and dilemmas. It is the bank's intention that the ethical guidelines will be reviewed by a superior with all employees at least once a year.

Measures against money laundering and terror funding

Sparebanken Sør must comply with the authorities' anti-money laundering regulations contributing to the fight against money laundering and terror funding. This includes both an automatic reporting system for suspicious transactions and a responsibility for each employee to report individual cases and if necessary implement enhanced customer control. The bank has adopted procedures for this and provides continuous training of employees, especially those that deal directly with customers.

Environmental matters

Sparebanken Sør takes the climate challenges into consideration. It is increasingly important to protect the environment and the bank would like to do its part to contribute.

Sparebanken Sør has defined work on internal environmental efficiency as a priority area in the banks' climate work.

Deviations from the recommendation: No deviations.

OPERATIONS

The object of Sparebanken Sør is to promote saving by accepting deposits from an unrestricted number of depositors and to manage safely the funds they have been entrusted with in accordance with the statutory rules that apply to savings banks.

Sparebanken Sør can perform all normal banking transactions and services and provide investment services in accordance with the applicable regulations at any time.

See the articles of association on the bank's website www.sor.no.

Objectives and main strategies

Sparebanken Sør has a strategy to achieve high value creation in order to generate growth and development in the region – including providing good advice, proximity to the market, leading regional market position, local decision-making power, competitive products, motivated employees and cost-effective processes. One of the bank's aims is to create a financial centre in the region with capacity, diversification of risk, competitive power and profitability.

The bank's strategic position will be achieved through customer orientation, based on building relations, expertise, financial advice and cross-sales and in this way build reputation, ensure profitability and create loyal customers.

Sparebanken Sør has the counties of Agder and Telemark as its market base. The bank will also strengthen its position in the KNIF segment (Kristen-Norges Innkjøpsfelleskap), both in the Retail Banking and Corporate Market. Expansion in the KNIF segment will provide growth potential and diversification of risk. The growth will be controlled and based on profitability and low risk.

Deviations from the recommendation: No deviations

EQUITY AND DIVIDENDS

Equity

Sparebanken Sør's equity is complex for several reasons. The most important of these are the size of the Group, a stable market for long-term funding and the bank's aims in a long-term, strategic perspective. Through annual evaluation of management and control, including the Internal Capital Adequacy Assessment Process (ICAPP), the Group has strong focus on ensuring that equity is adapted to goals, strategies and risk profile. The capital situation is monitored closely through the year with internal estimates and reports.

Dividend

The risk-adjusted return is assumed to be high and competitive in the market. The equity certificate owners' mathematical share of the profit is divided between cash dividend and equalisation fund.

Emphasis is placed on the bank's equity development, solvency, liquidity situation and market adjustment when determining the size of the cash dividend and the share of the profit.

Board authorisations

The bank's articles of association have no provisions relating to purchase of own equity certificates. Decisions on this must be dealt with and approved by the Board of Trustees, which may authorise the Board of Directors. Such decisions / authorisation are otherwise based on the Financial Institutions' Act and the principles in the Public Limited Companies Act.

Deviations from the recommendation: No deviations.

EQUAL TREATMENT OF SHARE-HOLDERS AND TRANSACTIONS WITH CLOSE PARTIES

The bank will place strong emphasis on transparency in relation to those, who provide the bank with equity and funding, and those who have relations with the bank in other ways.

Sparebanken Sør has one equity certificate class and all equity certificate holders are treated equally. The bank follows the provisions of the Financial Institutions Act on restrictions in ownership and voting rights insofar as the provisions apply to savings bank with listed equity certificates. Existing equity certificates have preference in the event of increases in capital, unless special circumstances dictate that this is waived. The reasons for a waiver will then be given and this will be published in a stock exchange report.

In cases where the bank conducts transactions in its own equity certificates, these are done on the stock exchange.

Should significant transactions occur between the Sparebanken Sør Group and equity certificate holders, Board members, executive personnel or close associates of these, the Board of Directors shall ensure that a valuation has been made by an independent third party.

The bank is bound by the Stock Exchange's rules for reporting financial and other information to the market.

Deviations from the recommendation: No deviations

FREE NEGOTIABILITY

Sparebanken Sør's equity certificate has been listed on Oslo Stock Exchange and is freely negotiable.

The only restriction is statutory requirements which currently determine that acquisition of a qualified share of the equity capital, of 10 per cent or more, requires consent from the Ministry of Finance.

Listing on the stock exchange ensures that the bank follows the market guidlines which apply at any time in the equity market.

Deviations from the recommendation: No deviations.

THE BOARD OF TRUSTEES

A savings bank is basically an independent institution and management structure and the composition of the governing bodies differs from limited liability companies, to which bodies a savings bank shall have. Sparebanken Sør complies with the provisions in the Financial Institutions Act. This is believed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

The bank's highest governing body is the Board of Trustees, which shall ensure that the bank serves its purpose in accordance with the laws, articles of association and the Board of Trustees' resolutions.

The Board of Trustees consists of 28 members. 12 representatives of customers, 3 representatives from the public, 6 representatives of equity certificate holders and 7 representatives of the employees. It has been adopted a mechanisms to ensure geographical destribution in the representation of the Bank's market areas.

Notice to the Board of Trustees' meetings will be sent with at least 21 days' notice. The Board of Trustees does not make decisions in other cases than those specified in the notice of the meeting.

The Board of Directors and auditor attend the Board of Trustees.

Deviations from the recommendation: No deviations.

NOMINATING COMMITTEES

In accordance with the bank's articles of association, 4 nominating committees are elected;

- The Trustees Election Committee shall prepare the elections of Trustees. One nominating committee with 8 members is elected from among the members of the Board of Trustees and shall have representatives from all groups represented in the Board of Trustees.
- The Depositor Nomination Committee shall prepare the election of depositors to the Board of Trustees. One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- Nomination Committee for the equity certificate holders shall prepare the election of representatives of the equity owners to the Board of Trustees. One nominating committee with 4 members is elected from among the equity certificate-elected members of the Board of Trustees.
- The nomination committee for employees shall prepare the election of employee representatives to the Board of Trustees. The Nomination Committee consists of 6 members, of which 4 are appointed by the employees and 2 by the management.

Members of the various nominating committees are published on the bank's website www.sor.no.

The work of the nominating committees

The Board of Trustees' nominating committee prepares election of the Chairman and Deputy Chairman of the Board of Trustees, the Chairman, Deputy Chairman and other members and deputy members of the Board of Directors, excluding the employees' representatives. Likewise for elections of the Chairman, members and deputy members of the Nominating Committee.

The reasons for the recommendations of the Board of Trustees, the depositor-elected, equity certificate-elected and employees' nominating committees shall be given.

Deviations from the recommendation: No deviations.

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1. Starting with 2016, the Board of Directors will be composed of 7–8 members, of which at least two are from Vest-Agder, two from Aust-Agder and at least one from Telemark. Two members are also to be elected from the employees. 8 members for the Board of Trustees were elected by the Trustees March 2016.

It has been agreed that representation from the merged banks shall be balanced until 31 December 2019.

Board members are elected for two years.

The composition of the Board has been based on expertise, capacity and diversity and on the banks' articles of association as regards geographical distribution.

The Board of Directors' independence

None of the bank's day-to-day management is a member of the Board of Directors.

The Board members' independence

All the Board of Trustees elected Board members are independent of executive personnel. The Board members are also independent of significant business connections.

Deviations from the recommendation: No deviations.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors manages the bank's operations and the work of the Board follows a fixed annual plan and instructions. The Board of Directors is responsible for ensuring that the funds they have been entrusted with are managed in a safe and appropriate manner. The Board of Directors shall ensure satisfactory organisation of the bank's operations, keep abreast of the bank's financial position and ensure that its operation, accounting and asset management are subject to satisfactory control.

The Board of Directors shall oversee the daily management and the bank's operations in general.

The Board of Directors shall ensure that the bank has good management and control systems in order to meet the provisions that apply to the business.

The Board of Directors conducts an annual self-assessment.

The Audit Committee

The Audit Committee has separate instructions adopted by the Board of Directors. The committee is a preparatory and advisory committee for the Board of Directors to strengthen the work on financial reporting and internal control. At least one of the committee's members will be independent and have qualifications (formal or total qualifications) in accounting and auditing.

The Audit Committee prepares the Board of Directors' follow-up of the account reporting process, monitors the internal control and risk management systems, has ongoing contact with the bank's independent auditors, and assesses and monitors auditor independence.

The Board of Directors elects 4 members of the committee from among the Board members; The Chairman of the Board is elected as Chairman of the Audit Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Risk Committee

The Risk Committee has separate instructions adopted by the Board of Directors. The Risk Committee is a preparatory and advisory committee to the Board of Directors and shall ensure that risk and capital management in the Group supports the Group's strategic development and achievement of objectives while ensuring financial stability and prudent asset management. The Risk Committee shall monitor the overall risk and assess whether the group's management and control systems have been adjusted to the risk level and the scope of the business.

The Board of Directors elects 4 members of the committee from among the Board members. The Chairman of the Board is elected as Chairman of the Risk Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee will help to ensure that there is consistency between the bank's remuneration arrangements, the overall objectives, risk tolerance and long-term interests.

The committee prepares all cases relating to remuneration arrangements for the Board of Directors. The committee shall support the Board of Directors' work on determining and ensuring that the bank at any time has and practises the guidelines and frameworks for remuneration arrangements.

The bank has established a remuneration committee made up of 5 Board members, of which one member is an employee representative. The Chairman of the Board is elected as Chairman of the Remuneration Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

RISK MANAGEMENT AND INTERNAL CONTROL

The bank has established a separate risk management and control division. In accordance with the act and regulations, control and reporting procedures, and also internally adopted management, there is clear division of responsibility between the various governing bodies in the bank. Key bodies are the Board of Trustees, Control Committee, the Board of Directors, external auditing, internal auditing and group management.

Internal audit

The bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor shall ensure that adequate and efficient internal control and risk management has been established and implemented. Separate instructions have been prepared for the internal audit manager. The Board of Directors approves annually the internal audit's annual plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The bank has established guidelines and procedures for implementation of internal control based on the COSO- model. This model is an international standard for comprehensive risk management, and is often used within the financial sector. Responsible for the practical implementation of the Groups internal control processes is attended to Risk Management, organised independently of the business units.

Compliance

The bank emphasizes to have good processes to ensure compliance with applicable laws and regulations. The bank has established a compliance functions that is attended to by Risk Management, organised independently of the business units.

Risk management and total capital ratio

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives are given by the strategic business concept. The targeted return is decisive for the bank's activities and specification of targets. Focus is to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the bank's capital assessment. A process is implemented annually related to the bank's risk and capital adequacy assessment (ICAAP). Thus, the Board of Directors ensures that the bank has sufficient capital relatively to the desired risk and the bank's operations and ensures that the bank is adequately capitalised in respect of regulatory requirements. The ICAAP - process is based on requirements set out by the authorities in addition to the banks own assessments.

The bank must adhere to the Financial Supervisory Authority of Norway's provisions given by "Minimum total capital ratio requirement and provisions on major commitments with individual customers as regards the capital base".

Deviation from the recommendation: No deviations.

REMUNERATION TO THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviation from the recommendation: No deviations.

REMUNERATION TO EXECUTIVE PERSONNEL

Remuneration to the CEO and chief internal audit is determined by the Board of Directors, as proposed by the remuneration committee. Remunerations to directors in the group management are determined by the CEO following a recommendation from the Remuneration Committee. None of the directors have performance-based remuneration beyond participating in the bank's ordinary bonus scheme, which includes all employees in the bank. The internal audit manager does not have performance-based remuneration and also does not participate in the bank's ordinary bonus scheme.

Deviation from the recommendation: No deviations.

INFORMATION AND COMMUNICATION

The bank shall have an open and active dialogue with all stakeholders. It is the intention of the bank that customers, equity certificate holders, lenders (financial market players) and public authorities shall have simultaneous access to correct, clear, relevant and complete information on the bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, Investor Relations on the bank's website and accounting reports.

Deviation from the recommendation: No deviations.

COMPANY ACQUISITION

Sparebanken Sør is an independent institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law and no one may own more than 10 percent of the bank's equity capital. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

Sparebankstiftelsen Sparebanken Sør has an ownership interest of 51 percent of the equity certificates in the merged bank.

This is believed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviation from the recommendation: No deviations.

EXTERNAL AUDITOR

An external auditor is chosen by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor participates in the Board meeting that deals with the annual financial statements. The external auditor also attends meetings with the Audit Committee and has an annual meeting with the Board of Directors without the administration present. The external auditor's fees are dealt with by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also regulated in a separate engagement letter, which inter alia deals with the parties' responsibilities.

The Audit Committee shall monitor the auditor's independence, including any other services provided by the auditor.

Deviation from the recommendation: No deviations.

Corporate social responsibility report

Sparebanken Sør has a long and rich history, and is one of the country`s oldest savings bank with roots dating back to 1824. The bank was established for the local customers and community. The Bank's overall objective is still and has been, to create growth and development in the region, and to do this in a responsible and sustainable manner.

As a savings bank with both direct private ownership and community ownership, the ownership structure gives two clear but different purposes. Through solid operations, Sparebanken Sør shall deliver competitive returns to the bank's equity owners and, in addition, contribute to a good living environment and positive business development in the communities where the bank is represented. This shall be done through the allocation of primary capital.

With local knowledge and proximity to the customers, the bank makes daily assessments that concerns economy and risk in combination with the exercise of corporate social responsibility (CSR). Corporate social responsibility is done e.g by supplying the local community with capital for business development and housing construction, share expertise, and contributing to create good conditions for continued growth in local environment. A long term perspective is consistent in all of the banks decision making.

For Sparebanken Sør, social responsibility is a joint responsibility exercised by contributing to a sustainable economic, social and environmental development in the areas where the bank operates. The bank is committed to take the climate and the environment, social conditions and good business management into account in all its activities. This includes the development of products and services, consulting and sales, investment and credit decisions, production and operations. The Bank shall not contribute to the violation of human and labor rights, corruption, serious environmental damage or other acts which may be perceived as unethical.

Work with corporate social responsibility is integrated into the bank's strategy and routines, of which ensures that ethics, the environment and key social issues are on the agenda at all times. Ensuring that daily business, within all divisions, has a strong focus on creation of economic value is a very important part of the Bank's social responsibility.

The bank's social accounts are attached.

	2017	2016
Strategy		
Group strategy	Updated	Updated
CSR Strategy	Established	
Value creation (NOK MILLION)		
Tax payable (Group)	282	284
Wealth tax	11	14
Payroll tax	44	46
Financial tax	16	0
Tax paid by employees	93	96
Total tax payable	**446**	**440**
Net wages/pensions and other benefits	453	425
Cash dividend shareholders	94	94
Growth capital, retained profits	802	824
Society / Social conditions		
Number of man-years including tempts	432	439
Non absence degree	96,3 %	96,3 %
Proportion of women in senior positions	34 %	33 %
Mean age	51,8	50,9
IA Agreement	Continued	Continued
Senior employee strategy	Continued	Continued
Ethical guidelines	Continued	Continued
Number of alert cases	4	3
Gifts and sponsorships		
Sponsorships (NOK MILLION)	14,8	15,4
Number of gifts from giftcommittee	190	176
Total gifts from giftcommittee (NOK MILLION)	26,8	33,5
Environment		
MSW (ton)	21.2	23.3
Sorted waste	12.2	17.5
Power consumtion (kwh)	5 652 062	5 788 966
Number of flights Nordic countries (one way)	610	710
Number of flights outside Nordic countries	110	84
Kilometer remuneration (km)	533 715	568 219
Number of electric cars as a part og the car pool	5	5
Number of videoconferences	18	16

Declaration from the Board of Directors and CEO

Declaration in accordance with the Securities Trading Act, Paragraph § 5-5

The Board of Directors and Sparebanken Sør's Chief Executive Officer hereby confirm that the Bank and the Group's 2017 financial statements have been prepared in accordance with the currently valid accounting standards and that the information provided in the financial statements gives a true and fair view of the Bank's assets, liabilities, financial position and overall result of operations.

In addition, we confirm that the Board of Directors report give a true and fair view of the Bank's and the Group's development, result and financial position, together with a description of the most central risk and uncertainties facing the Bank and the Group.

Kristiansand, 31 December 2017 / 27 February 2018

Stein A. Hannevik Chairman	Torstein Moland Deputy Chairman	Inger Johansen	Erling Holm	Marit Kittilsen
Tone T. Vareberg	Jan Erling Tobiassen	Gunnhild T. Golid	Geir Bergskaug CEO	

To the Board of Trustees of Sparebanken Sør

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, other comprehensive income, equity statement, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, other comprehensive income, equity statement, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Independent Auditor's Report - Sparebanken Sør

of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters.

The bank's business activities have remained largely unchanged during 2017. We have not identified regulatory changes, transactions or events that materially affect the financial statements for 2017. Except for pension obligations, which was a key audit matter in our 2016 audit due to the bank discontinuing its collective defined benefit pension schemes, the focus areas of our audit have been the same in 2017 as in the previous year.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of loans to customers	
We focused on this area because management largely use subjective judgement when assessing the need for impairment of loans to customers. In addition, loans to customers represent a significant portion of total assets in the balance sheet. The bank's systems and controls for monitoring of loans and identification of impaired loans as well as assessment of such loans are central. Use of judgement may affect financial results for the period and classification of loans based on their risk profile may affect compliance with solvency regulations. At the end of each reporting period, accounting regulations require the bank to assess whether there are objective indicators that a loan is impaired. If objective indicators exist that a loss has incurred, impairment should be calculated as the difference between the carrying amount of the loan and the net present value of future cash flows from the loan. Both assessments require use of judgement. During the audit we paid special attention to: • Management's process of identifying loans with objective indications of impairment. • Managements' assumptions used in calculating the impairment loss on loans with objective indicators of	We assessed design and tested operating effectiveness of controls over valuation of loans to customers. These controls address identification of loans to customers showing objective indicators of being impaired and calculation of the impairment loss. We determined that we could rely on these controls for the purposes of our audit. We examined a sample of loans to customers to form our own judgement as to whether these loans showed objective indicators of being impaired and compared our judgement to that of management. We found that management's conclusions in respect of these loans were reasonable. Where impairment was individually calculated, we tested a sample by assessing the recoverable amount used by management to support the calculation of impairment loss. We challenged management's assessment by interviewing client account managers and management. We compared the recoverable amount to external evidence where available. The outcome of our testing showed that the assumptions used by management when calculating individual impairment losses were reasonable. Where impairment was calculated collectively for groups of loans, we assessed the data and assumptions used. The outcome of our testing showed that assumptions used in calculating impairment losses were reasonable. During 2017 the bank prepared for implementation of IFRS 9. Especially this entails developing and implementing a model for calculation of expected losses on loans to customers. The bank's calculations showed that the implementation of IFRS 9 will have little effect on the accounts at the time of implementation. We have reviewed the bank's documentation related to its model for calculating expected losses on loans to customers and

Independent Auditor's Report - Sparebanken Sør

impairment. See note 6, note 7 and note 10 to the financial statements for a description of the group's credit risk and impairment of loans to customers. See note 38 for description of the effects of implementing IFRS 9.	the assumptions applied in preparing the financial statements. Further, we reviewed the information presented in the financial statements related to implementation of IFRS 9 and found this information to be consistent with the bank's calculation of the effects of implementation.
IT systems supporting financial reporting	
We focused on this area because the bank's financial reporting system and business as a whole are dependent on complex IT and payment systems. Potential weaknesses in automated processes and related IT dependent manual controls may disrupt the continuous operation of the IT and payment systems and cause risk of misstatements.	The bank used external service organisations to operate certain key IT and payment systems. The auditors of the respective service organisations evaluated design and tested operating effectiveness of the controls addressing integrity of the IT and payment systems that are relevant to financial reporting. We satisfied ourselves regarding the auditor's objectivity and competence and examined the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the bank's IT systems and segregation of duties where this was considered necessary to our audit. Our assessments and tests showed that we could rely on the IT and payment systems relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, statements on Corporate governance and the Corporate responsibility report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s and the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company or the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and the statement on Corporate governance concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 27 February 2018
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Organisation

Board of Trustees

The Board of Directors

CEO
Geir Bergskaug

Deputy CEO / Director Corporate market	Director Retail banking	Director Capital market	Director Group support	Director Risk management	Director Business support
Lasse Kvinlaug	Gunnar Thomassen	Marianne Lofthus	Rolf H. Søraker	Bjørn Friestad	Gry Moen

THE BANK'S BRANCHES

The Group Management

GEIR BERGSKAUG (1960)

CEO from 1 January 2014. Former CEO of the "old" Sparebanken Sør from 1 November 2010. Worked in Gjensidige as Director and Executive Vice President (1999–2010), chairman of the board of Gjensidige Bank (2008–2010), General Manager / Director of DnB NOR (1988–1999). Master of Business and Economics from the Norwegian School of Economics and Business Administration. Additional education from Harvard Business School in Boston – GMP, INSEAD, Fontainebleau in France – MBA.

LASSE KVINLAUG (1961)

Deputy Chief Executive from 1 January 2014 and Corporate Market Director. Master of Business and Economics. Formerly worked in Sparebanken Pluss as Deputy Chief Executive, Director and General Manager (1997–2013). Also experience from Sparebanken NOR / Sparebanken ABC (1987–1997), as Assistant General Manager with responsibility for the corporate market in Kristiansand. Financial Consultant in Statoil (1984–87)

MARIANNE LOFTHUS (1961)

Capital Market Director from 1 January 2014 and General Manager of Sparebanken Sør Boligkreditt. Was CFO in Sparebanken Pluss (2003–2013) and has many years of experience from the financial operations in Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from the Norwegian School of Economics and Business Administration.

GUNNAR P. THOMASSEN (1965)

Retail Banking Market Director from 1 January 2014. Previously worked in Sparebanken Sør as director, regional director and bank manager (1999–2013) Also has experience from Ernst & Young Management Consulting and the Industrial Fund/SND Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology.

The Group Management

ROLF H. SØRAKER (1960)

Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Was Managing Director of Sør Boligkreditt (2008–2013). Also has experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master of Management.

BJØRN A. FRIESTAD (1959)

Risk Management Director from 1 January 2014. Was responsible for credit and business development in Sparebanken Plus (2001–2013). Has a wide range of experience from various business areas in Sparebanken Agder / Sparebanken Pluss since 1986. Master in Business and Economics and aut. financial analyst (AFA) from the Norwegian School of Economics and Business Administration.

GRY MOEN (1963)

Business Development Director from 1 January 2014. Has also worked in "old" Sparebanken Sør as Business Development Director from 2011. Was General Manager of ABCenter Holding (2009–2010) and Marketing Director in Sparebanken Sør (2006–2009). Has previous experience from Statoil, Telenor and LOS / Agder Energi. Education from Trondheim Business College / Ecôle Superiéure de Commerce Grenobles/Nantes.

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