QUARTER 3
2018

SPAREBANKEN SØR

Contents

Income statement (NOK million)	Q3 2018	Q3 2017	30/09/2018	30/09/2017	31/12/2017
Net interest income	424	422	1 282	1 240	1 679
Net commission income	78	80	236	234	312
Net income from financial instruments	-3	21	51	30	88
Other operating income	-2	2	21	9	18
Total net income	**497**	**525**	**1 590**	**1 513**	**2 097**
Total operating expenses before losses	200	194	630	601	811
Operating profit before losses	**297**	**331**	**960**	**912**	**1 286**
Losses on loans, guarantees and unused credit	3	4	8	32	20
Profit before taxes	**294**	**327**	**952**	**880**	**1 266**
Tax expenses	75	80	217	208	282
Profit for the period	**219**	**247**	**735**	**672**	**984**
Profit as a percentage of average assets					
Net interest income	1.40 %	1.51 %	1.46 %	1.53 %	1.53 %
Net commission income	0.26 %	0.29 %	0.27 %	0.29 %	0.28 %
Net income from financial instruments	-0.01 %	0.07 %	0.06 %	0.04 %	0.08 %
Other operating income	-0.01 %	0.01 %	0.02 %	0.01 %	0.02 %
Total net income	**1.64 %**	**1.87 %**	**1.81 %**	**1.87 %**	**1.92 %**
Total operating expenses before losses	0.66 %	0.69 %	0.72 %	0.74 %	0.74 %
Operating profit before losses	**0.98 %**	**1.18 %**	**1.09 %**	**1.12 %**	**1.17 %**
Losses on loans, guarantees and unused credit	0.01 %	0.01 %	0.01 %	0.04 %	0.02 %
Profit before taxes	**0.97 %**	**1.17 %**	**1.08 %**	**1.09 %**	**1.16 %**
Tax expenses	0.25 %	0.29 %	0.25 %	0.26 %	0.26 %
Profit for the period	**0.72 %**	**0.88 %**	**0.84 %**	**0.83 %**	**0.90 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	7.8 %	9.8 %	9.0 %	9.0 %	9.7 %
Costs as % of income	40.2 %	37.0 %	39.6 %	39.7 %	38.7 %
Costs as % of income, excl. net income from financial instruments	40.0 %	38.5 %	40.9 %	40.5 %	40.4 %
Key figures, balance sheet					
Total assets			121 702	111 315	114 310
Average total assets	120 100	111 100	117 600	108 400	109 500
Net loans to customers			101 868	96 003	97 518
Growth in loans as %, last 12 mths.			6.1%	6.6%	7.2%
Customer deposits			56 460	54 605	55 580
Growth in deposits as %, last 12 mths.			3.4%	6.6%	7.8%
Deposits as % of net loans			55.4%	56.9%	57.0%
Equity (incl. hybrid capital)			11 666	10 831	11 108
Losses on loans as % of net loans, annualised			0.01 %	0.04 %	0.02 %
Gross non-performing loans (over 90 days) as % of gross loans			0.28 %	0.27 %	0.28 %
Other key figures					
Liquidity reserve (LCR) (Group)			177.0%	144.0%	139.0%
Common equity tier 1 capital ratio, when including share of partly owned companies			14.8%	14.7%	14.9%
Tier 1 capital ratio			16.6%	16.3%	16.7%
Total capital ratio			19.1%	18.1%	18.9%
Common equity tier 1 capital			10 339	9 625	9 890
Tier 1 capital			11 413	10 700	10 965
Net total primary capital			13 162	11 881	12 347
Leverage ratio			9.0%	9.1%	9.2%
Number of branches			34	34	34
Number of FTEs in banking operations			431	431	432
Key figures, equity certificates					
Equity certificate ratio, weighted average over the period	17.9%	18.7%	17.9%	18.7%	18.7%
Number of equity certificates issued			15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent Bank)	1.7	2.1	6.1	6.2	8.9
Profit/diluted earnings per equity certificate (Group)	2.4	2.8	7.9	7.6	11.2
Dividend last year per equity certificate			6.0		6.0
Book equity per equity certificate			121.0	116.8	120.0
Price/book value per equity certificate			0.8	0.9	0.9
Listed price on Oslo Stock Exchange at end of period			99.80	103.00	104.00

Board of Directors' report

General

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

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

Highlights in Q3 2018

- Good results from ordinary operations
- Purchase of shares in Frende Holding AS
- Efficient operations and low costs
- Very low level of losses on loans
- Year-on-year loan growth of 6.1 percent
- Year-on-year deposit growth of 3.4 percent
- Return on equity after tax of 7.8 percent
- Common equity tier 1 capital ratio of 14.8 percent
- Leverage ratio of 9.0 percent

Highlights after 9 months

- Good results from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments
- Efficient operations and low costs
- New model implemented for calculating impairment losses on loans
- Very low level of losses on loans
- Return on equity after tax of 9.0 percent

Financial framework conditions

The key interest rate increased on 20 September 2018 from 0.5 percent to 0.75 percent, having been unchanged since March 2016. The reason for the increase was the continued upturn in the Norwegian economy and the fact that the underlying inflation rate was close to the inflation target of 2 percent. Analysis by Norges Bank indicates a gradual rise in interest rates in years to come. The central bank has indicated that the key interest rate most likely will have a further upward adjustment in Q1 2019.

Both domestic and foreign capital markets have functioned efficiently during the reporting period, with relatively stable development in credit spreads, providing the Group with easy access to funding through covered bonds and senior debt during 2018.

At the end of September the annual growth in the general public`s gross domestic debt (C2) was 5.6 percent, while debt growth for households and industry amounted to 5.9 and 5.2 percent respectively.

Earnings

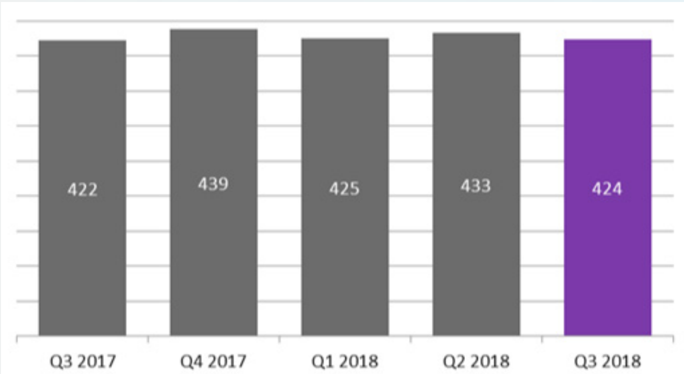
The bank posted a profit before tax of NOK 294 million in Q3 2018, compared with NOK 327 million in the same period in 2017. The decrease in profit is mainly due to a reduction in income from financial instruments. Profits from ordinary operations* were stable due to low costs and very low losses on loans.

The Group's return on equity after tax was 7.8 percent in Q3 2018, compared with 9.8 percent in Q3 2017. The Group is well-capitalized with a common equity tier 1 capital ratio of 14.8 percent and a leverage ratio of 9.0 when including 80 percent of retained earnings.

Profit before tax for the first nine months of 2018 amounted to NOK 952 million, compared with 880 million in the same period in 2017. The return on equity after tax was 9.0 percent after Q3 2018, at the same level as in Q3 2017.

Net interest income

Quarterly net interest (NOK million)



At NOK 424 million, net interest income in Q3 2018 was up NOK 2 million on the Q3 2017 figure of NOK 422 million. The increase in net interest income is mainly attributable to loan growth in the period.

Net interest income as a percentage of average total assets in Q3 2018 was 1.40 percent, down from 1.51 percent in the same period in 2017.

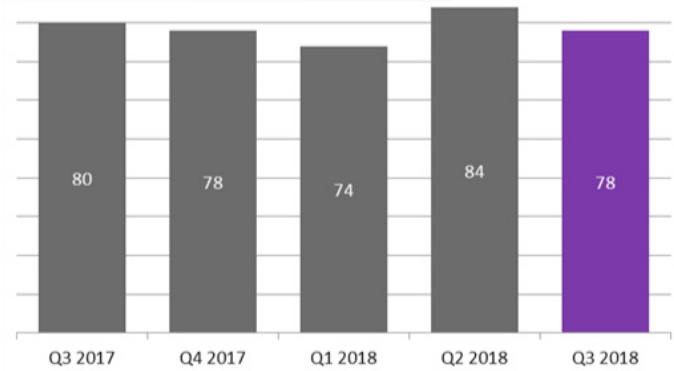
Interbank interest rates continued their development from the first months of 2018, with a moderate increase in Q3 2018. Particularly in the retail market, this has led to lower margins on loans to customers in 2018. Margins in the corporate market, where 80 percent of the loan portfolio is linked to NIBOR, have been less affected. Higher interbank interest rates have affected margins on deposits positively.

To deal with the increased pressure on margins, Sparebanken Sør decided on 24 September 2018 to raise interest rates on loans and deposits. This was in line with the increase in Norges Bank's key policy rate at the last monetary policy meeting. The changes in interest rates are expected to have a positive effect in Q4 and full effect as of Q1 2019

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

Commission income

Quarterly net commission income (NOK million)



Net commission income amounted to NOK 78 million in Q3 2018, compared with NOK 80 million in Q3 2017, while gross commission income closed on NOK 97 million, compared with NOK 98 million in in Q3 2017.

Gross commission income in the first nine months of 2018 amounted to NOK 282 million, compared with NOK 277 million in the same period in 2017. The increase is mainly attributable to income from payment services and a non-recurring transfer of NOK 5 million linked to commission from the sale of life insurance in Q1 2018.

Commission income	Q3 2018	Q3 2017	Change	Q1-Q3 2018	Q1-Q3 2017	Change
Payment services	46	47	-1	128	126	2
Real estate brokerage	28	28	0	82	84	-2
Others	23	23	0	72	67	5
Total	**97**	**98**	**-1**	**282**	**277**	**5**

Financial instruments

Net income from financial instruments in Q3 2018 totaled NOK -3 million, compared with NOK 21 million in the corresponding prior-year period.

Net income from financial instruments	Q3 2018	Q3 2017	Change	Q1-Q3 2018	Q1-Q3 2017	Change
Bonds and certificates	-12	2	-14	-15	29	-44
Shares incl. dividends	-7	7	-14	39	27	12
Fixed rate loans	9	10	-1	28	1	28
Securities issued - hedge accounting	3	-4	7	-7	-27	20
Repurchase of issued bonds	-2	-	-2	-12	-22	10
Other financial instruments	6	6	-	17	21	-4
Total	**-3**	**21**	**-24**	**51**	**30**	**21**

On 30 August Sparebanken Sør entered into an agreement with Fana Sparebank to purchase 10.2 percent of the shares in Frende Holding AS. The purchase price was NOK 246.2 million. The transaction price was somewhat lower than Sparebanken Sør's book value for the shares in Frende Holding AS, resulting in a stock write-down of NOK 18.9 million. The agreement was subject to an approval given by the Norwegian Financial Supervisory Authority. This approval was granted on 3 October and the purchase was completed on 10 October. Following the acquisition of these shares in Frende Holding AS, Sparebanken Sør owns 22.19% of the company and will consolidate the company's earnings from next quarter onwards. The reported dividend from Frende Holding AS in 2018 is NOK 6.5 million.

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

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

Operating expenses

Quarterly operating expenses (NOK million)

Operating expenses closed on NOK 200 million in Q3 2018, up from NOK 194 million in the same period in 2017. The increase is mainly attributable to the bank's strategic focus on digital solutions, the establishment of a new branch in Bryne, as well as Sørmegleren's establishment of new estate agencies in Telemark. In addition, there has been an increase in pension costs in 2018 when compared with 2017, when pension costs were extraordinarily low. This is due to the conversion of the bank's collective defined-benefit pension scheme.

Total operating expenses as a percentage of average assets amounted to 0.66 percent (0.69 percent) in Q3 2018. The cost-income ratio was 40.2 percent (37.0 percent). The cost-income ratio, excl. financial instruments, closed on 40.0 percent (38.5 percent).

Total operating expenses in the first nine months of 2018 amounted to NOK 630 million, compared with NOK 601 million in the same period in 2017. The increase is mainly attributable to an increase in pension costs, which were NOK 21 million higher in the third quarter of 2018 when compared with the same period in 2017. The cost-income ratio was 39.6 percent (39.7 percent), while the cost-income ratio excluding financial instruments closed on 40.9 percent (40.5 percent).

Losses and non-performing loans

Net losses on loans amounted to NOK 3 million in Q3 2018, which is equivalent to 0.01 percent of net loans. The corresponding figures for 2017 were NOK 4 million and 0.01 percent respectively.

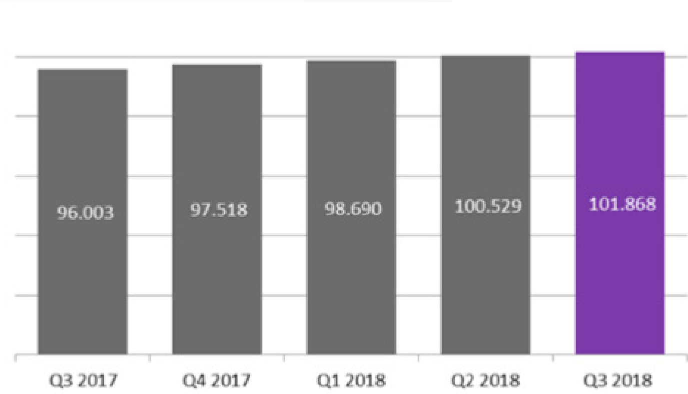
Net losses on loans amounted to NOK 8 million in the first nine months of 2018, which is equivalent to 0.01 percent of net loans. The corresponding figures for 2017 were NOK 32 million and 0.04 percent respectively.

Effective 1 January 2018, IFRS 9 Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement. Under the new standard, the Group is applying a new model to calculate losses. The model for impairment losses and the transitional effects are described in Note 38 to the 2017 annual financial statements. The Group's impairment lossess at the end of Q3 2018 are based on the new model, and there were no material accounting effects in the period. At the end of Q3 2018, the Group's impairment losses were calculated at NOK 535 million, equivalent to 0.52 percent of gross loans.

Gross non-performing loans more than 90 days overdue totalled NOK 270 million, which equates to 0.28 percent of gross loans. This is an increase from the corresponding figures for Q3 2017, which were NOK 256 million and 0.27 percent respectively.

Loans

Loans (NOK million)



Over the past 12 months net loans increased by NOK 5.9 billion to a total of NOK 101.9 billion, representing a growth of 6.1 percent.

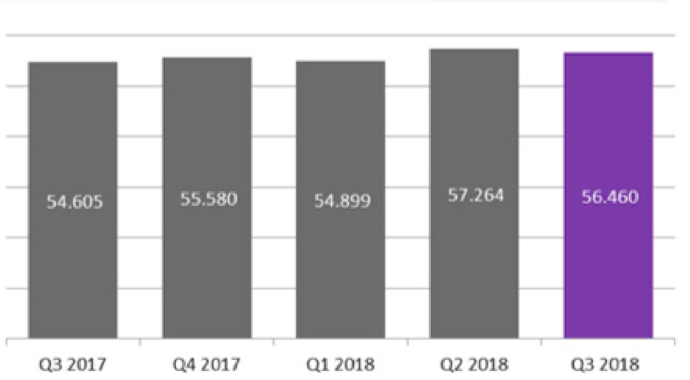
Loan growth in Q3 2018 was NOK 1.3 billion, which is equivalent to an annualized growth of 5.3 percent. This has strengthened the bank's market share in the markets where we operate, and is also in line with the bank's targets.

Gross loans to retail customers rose by NOK 3.5 billion (5.6 percent) over the last 12 months to NOK 66.6 billion, while in the same period gross loans to corporate customers increased by NOK 2.2 billion (6.7 percent) to NOK 35.6 billion.

Loans to retail customers accounted for 66 percent of total loans at the end of Q3 2018, unchanged from the previous year.

Deposits

Deposits (NOK million)



During the past 12 months, customer deposits rose by NOK 1.9 billion (3.4 percent) to NOK 56.5 billion.

Over the same period deposits from retail customers increased by NOK 0.9 billion (3.7 percent) to NOK 26.8 billion, while deposits from corporate customers rose by NOK 0.9 billion (3.2 percent) to NOK 29.3 billion.

At the reporting date, Sparebanken Sør's deposits equated to 55.4 percent of net loans, down from 56.9 percent at the end of Q3 2017.

Wholesale funding and liquidity portfolio

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

At the end of Q3 2018, wholesale funding amounted to NOK 48.8 million, of which 63 percent was sourced through covered bonds and 88 percent through long-term financing.

At the reporting date, the Group's portfolio of interest-bearing securities totalled NOK 16.1 billion, while the liquidity indicator for long-term financing closed on 108 percent.

At the same date, the Group's liquidity reserves (LCR) were 177 percent (Parent Bank: 170 percent).

Rating

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

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

Subordinated capital and capital adequacy

At the end of Q3 2018, net subordinated capital amounted to NOK 13.2 billion, while hybrid capital closed on NOK 1.1 billion and subordinated loans totaled NOK 1.7 billion. At the same date, the common equity tier 1 (CET1) capital ratio was 15.0 percent; the tier 1 capital ratio was 16.6 percent and the (total) capital ratio for the Sparebanken Sør Group was 19.1 percent (based on Basel II). Common equity tier 1 capital includes 80 percent of profit after tax at the end of Q3 2018.

Sparebanken Sør has a 15.5 percent shareholding in Brage Finans and accordingly, has consolidated a proportion of its cooperative companies when calculating the capital ratio. The common equity tier 1 capital ratio, including the Group's cooperative companies, amounts to 14.8 percent. The tier 1 capital ratio amounts to 16.4 percent and the (total) capital ratio to 18.9 percent.

For the Parent Bank, the respective figures at the end of Q3 2018 were a CET1 capital ratio of 15.2 percent, a tier 1 capital ratio of 17.1 percent and a (total) capital ratio of 20.0 percent.

In July, the bank received the Financial Supervisory Authority's assessment and decision regarding Pillar 2 requirement. The assessment was made in conjunction with the capital appreciation process (SREP) for 2018, and the Pillar 2 requirement for Sparebanken Sør was set at 2.0 percent of the risk-weighted assets. This requirement is related to an assessment of risk factors not covered by the Pillar 1 requirements, and also includes a new method of calculating capital requirements associated with partly owned insurance companies. The capital requirement relating to the shareholding in Frende Holding AS alone accounts for 0.3 percentage points. The new Pillar 2 requirement is thus a clear downward adjustment from the Group's previous Pillar 2 requirement of 2.1 percent.

The Group satisfied the respective capital requirements for financial institutions effective from 30 September 2018 of 14.0 percent for common equity tier 1 capital, 15.5 percent for tier 1 capital and 17.5 percent for (total) capital. Further adjustment of the buffer beyond the current level will depend on market expectations.

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

At the end of Q3 2018, the Group's leverage ratio was 9.0 percent, compared with 9.1 percent at the end of Q3 2017. The bank's capital is deemed to be highly satisfactory.

Board of Directors' report

The bank's equity certificates

As of 30 September 2018, the bank had issued 15,663,944 equity certificates. Profit (Group) per equity certificate was NOK 2.4 in Q3 2018 and NOK 7.9 for the first nine months of 2018. The ownership ratio in Q3 2018 was 17.9 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Dividends

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

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

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

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

Subsidiaries and partner businesses

The bank's wholly owned subsidiary **Sparebanken Sør Boligkreditt AS** is licensed to issue covered bonds which are used as an instrument in the bank's long-term funding strategy. As of 30 September 2018, the bank had transferred NOK 35.6 billion to Sparebanken Sør Boligkreditt AS, equivalent to 52.7 percent of all loans to the retail market.

Sørmegleren is the bank's own real estate agency and the leading estate agency business in southern Norway. Together with Porsgrunn Bamble Borgestad Boligbyggelag, the agency established new branches in Skien and Porsgrunn in 2017. The agency had positive earnings in the first nine months of 2018, although these were weaker when compared with the prior year corresponding period.

Frende Holding (10% shareholding) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provide general insurance and life insurance to retail and corporate customers. The company reports strong growth in its customer base and premiums within both general and life insurance, and has delivered good results in recent years. Sparebanken Sør will acquire an additional 10.2 percent of the shares in Frende Holding in Q4 2018, and from this point on will consolidate Frende Holding's results into the Group on an ongoing basis.

Brage Finans (15.5% shareholding) is a financing company that offers leasing and loans secured by the purchased objects in the corporate and retail markets. The company is continuing to generate profitable growth.

Norne Securities (17.6% shareholding) is an investment firm offering online trading, traditional brokerage and corporate finance services. The company has a positive growth in earnings.

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

Outlook

The Board of Directors is satisfied with the Group's financial performance after Q3 2018. The bank's profit from ordinary operations has developed well as a result of customized growth, stable commission income, good cost control and low losses on loans. This development is expected to continue in Q4 2018.

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

The rise in house prices in the bank's main markets has been positive but moderate over several years. Statistics for the first nine months of 2018 reveal a slightly positive growth in house prices where the bank has its main market. The Group's mortgage portfolio has a satisfactory LTV, and the Group is well positioned to absorb a fall in house prices. This view is also supported by the stress tests that have been carried out.

On 20 September 2018 Norges Bank decided to raise the key interest rate from 0.5 percent to 0.75 percent. Analysis by Norges Bank indicates a gradual rise in interest rate in years to come. The central bank has indicated that there is likely to be a further increase in the key policy rate in Q1 2019.

The Group has increased interest rates on loans and some deposits. The changes in interest rates are expected to have a positive effect in Q4 and full effect as of Q1 2019.

The Group's common equity tier 1 capital requirement, including the new Pillar 2 add-on of 2.0 percent, amounts to 14.0 percent. The Group aims for a common equity tier 1 capital ratio of 14.8 percent. At the end of Q3 2018, the common equity tier 1 capital ratio closed on 14.8 percent.

The acquisition of 10.2 percent of the shares in Frende Holding AS means that the investment is classified as significant and will have a higher capital weighting under Pillar 1 in calculating the risk-weighted balance. This will have an effect on the Group's common equity tier 1 capital ratio of approximately 0.3 percentage points as from Q4 2018.

On 19 October 2018, the Norwegian Financial Supervisory Authority sent a letter to the Ministry of Finance recommending an amendment of the regulatory criteria regarding systemically important institutions. An approval of the regulatory amendment is likely to result in Sparebanken Sør being considered as systemically important and could thus increase the requirement for common equity tier 1 capital.

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

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

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

Events after the reporting period

No events have been reported since 30 September 2018 that affect the quarterly financial statements.

Arendal, 1 November 2018

Stein A. Hannevik
Chairman

Inger Johansen
Deputy Chairman

Tom Erik Jebsen

Erling Holm

Marit Kittilsen

Mette Ramfjord Harv

Jan Erling Tobiassen
Employee Representative

Gunnhild Tveiten Golid
Employee Representative

Geir Bergskaug
CEO

Income statement

PARENT BANK					NOK million		GROUP				
31/12/ 2017	**30/09/ 2017**	**30/09/ 2018**	**Q3 2017**	**Q3 2018**		**Notes**	**Q3 2018**	**Q3 2017**	**30/09/ 2018**	**30/09/ 2017**	**31/12/ 2017**
2 205	1 652	1 697	548	578	Interest income	3	785	741	2 318	2 213	2 953
884	666	694	220	243	Inerest expenses	3	361	319	1 036	973	1 274
1 321	**986**	**1 003**	**328**	**335**	**Net interest income**	**3**	**424**	**422**	**1 282**	**1 240**	**1 679**
321	238	252	86	86	Commission income		97	98	282	277	370
58	43	45	19	18	Commission expenses		19	18	46	43	58
263	**195**	**207**	**67**	**68**	**Net commission income**		**78**	**80**	**236**	**234**	**312**
23	23	16	-	0	Dividend		-	-	7	15	15
121	63	60	27	-6	Net income from other financial instruments		-3	21	44	15	73
144	**86**	**76**	**27**	**-6**	**Net income from financial instruments**		**-3**	**21**	**51**	**30**	**88**
		17		-1	Income from associated companies		-1		17		
16	9	7	2	2	Other operating income		-1	2	4	9	18
16	**9**	**24**	**2**	**1**	**Total other income**		**-2**	**2**	**21**	**9**	**18**
1 744	**1 276**	**1 310**	**424**	**398**	**Total net income**		**497**	**525**	**1 590**	**1 513**	**2 097**
374	271	294	92	98	Wages and other personnel expenses		115	109	355	330	453
29	21	20	7	7	Depreciation, amortization and impairment of non-current assets		6	7	20	21	30
309	234	242	73	76	Other operating expenses		79	78	255	250	328
712	**526**	**556**	**172**	**181**	**Total operating expenses before losses**		**200**	**194**	**630**	**601**	**811**
1 032	**750**	**754**	**252**	**217**	**Operating profit before losses**		**297**	**331**	**960**	**912**	**1 286**
20	32	10	4	5	Losses on loans, guarantees and unused credit	4	3	4	8	32	20
1 012	**718**	**744**	**248**	**212**	**Profit before taxes**	**2**	**294**	**327**	**952**	**880**	**1 266**
217	165	163	59	54	Tax expenses		75	80	217	208	282
795	**553**	**581**	**189**	**158**	**Profit for the period**		**219**	**247**	**735**	**672**	**984**
					Minority interests		1		1	0	1
795	**553**	**581**	**189**	**158**	**Majority interests**		**218**	**247**	**734**	**672**	**983**
8,9	6,2	6,1	2,1	1,7	Profit/diluted earnings per equity certificate (in whole NOK)		2,4	2,8	7,9	7,6	11,2
					Other comprehensive income						
					Items that will not be reclassified subsequently to profit or loss						
-13					Recognized estimate deviation, pensions						-13
3					Tax effect						3
					Items that may be reclassified to profit or loss						
		0		0	Change in value, basis swaps		-1		-14		
					Change in value, customer mortgages						
		0		0	Tax effect		0		-4		
-10	**0**	**0**	**0**	**0**	**Total other comprehensive income**		**-1**	**-**	**-18**	**0**	**-10**
785	**553**	**581**	**189**	**158**	**Comprehensive income for the period**		**218**	**247**	**718**	**672**	**974**
					Minority interests		1	0	1	0	1
					Majority interests		**217**	**247**	**717**	**672**	**973**
8,8	6,2	6,1	2,1	1,7	Comprehensive income/diluted earnings per equity certificate		2,3	2,8	7,7	7,6	11,1

PARENT BANK			NOK million		GROUP		
31/12/ 2017	**30/09/ 2017**	**30/09/ 2018**	**ASSETS**	**Notes**	**30/09/ 2018**	**30/09/ 2017**	**31/12/ 2017**
1 143	752	518	Cash and receivables from central banks		518	752	1 143
3 516	2 001	5 141	Loans to credit institutions		1 541	168	236
66 595	66 705	66 333	Net loans to customers	4,5,6,8,10	101 868	96 003	97 518
12 660	11 890	14 502	Bonds and certificates	10	16 117	12 700	13 468
572	560	613	Shares	10	613	560	572
385	366	191	Financial derivatives	10,11	288	477	754
1 256	1 258	1 856	Shareholdings in group companies				
39	35	102	Shareholdings in associated companies		102	35	39
15	24	28	Intangible assets		28	27	15
387	419	396	Property, plant and equipment		421	451	416
81	61	117	Other assets		206	142	149
86 649	**84 071**	**89 797**	**TOTAL ASSETS**	**2,10**	**121 702**	**111 315**	**114 310**
			LIABILITIES AND EQUITY CAPITAL				
974	976	1 962	Liabilities to credit institutions		1 902	905	902
55 593	54 619	56 473	Deposits from customers	2,7,10	56 460	54 605	55 580
17 848	16 627	18 375	Liabilities related to issue of securities	10,12	48 831	42 648	44 343
283	290	233	Financial derivatives	10,11	392	456	306
228	207	220	Payable taxes		278	244	299
219	267	301	Other liabilities		353	320	256
87	72	59	Provisions for commitments		59	72	87
43	49	38	Deferred tax		12	31	25
1 404	1 203	1 749	Subordinated loan capital	10,12	1 749	1 203	1 404
76 679	**74 310**	**79 410**	**Total liabilities**		**110 036**	**100 484**	**103 202**
1 575	1 531	1 576	Equity certificate capital	13	1 576	1 531	1 575
1 075	1 075	1 075	Hybrid capital		1 075	1 075	1 075
7 320	7 155	7 736	Other equity		9 015	8 225	8 458
9 970	**9 761**	**10 387**	**Total equity**	**9**	**11 666**	**10 831**	**11 108**
86 649	**84 071**	**89 797**	**TOTAL LIABILITIES AND EQUITY**	**2,10**	**121 702**	**111 315**	**114 310**

Cash flow statement

PARENT BANK			NOK million	GROUP		
31/12/ 2017	**30/09/ 2017**	**30/09/ 2018**		**30/09/ 2018**	**30/09/ 2017**	**31/12/ 2017**
2 212	1 708	1 830	Interest received	2 476	2 277	2 951
-922	-759	-836	Interest paid	-1 192	-1 074	-1 317
312	227	268	Other payments received	287	234	337
-677	-506	-526	Operating expenditure	-599	-580	-794
11	6	6	Loan recoveries	8	6	11
-185	-139	-178	Tax paid for the period	-249	-225	-259
-21	-17	-19	Gift expenditure	-19	-17	-21
4 006	3 042	880	Change in customer deposits	880	3 043	4 008
-3 790	-3 896	196	Change in loans to customers	-4 417	-5 134	-6 650
946	**-334**	**1 621**	**Net cash flow from operating activities**	**-2 825**	**-1 470**	**-1 734**
8 179	6 858	9 610	Payments received, securities	10 660	6 957	8 278
-9 826	-7 753	-11 463	Payments made, securities	-13 323	-7 804	-9 874
30	16	5	Payments received, sale of property, plant and equipment	13	38	66
-24	-22	-28	Payments made, purchase of property, plant and equipment	-32	-22	-28
	0	-45	Investments in subsidiaries and associated companies	-45		
62	43	-516	Change in other assets	313	55	-178
-1 579	**-858**	**-2 437**	**Net cash flow from investing activites**	**-2 414**	**-776**	**-1 736**
-1 305	210	-1 625	Change in loans to credit institutions	-1 305	-12	-80
742	744	986	Change in deposits from credit institutions	1 000	727	724
4 550	2 150	3 900	Payments received, bond debt	13 770	8 410	10 810
-3 174	-2 005	-3 118	Payments made, bond debt	-8 571	-6 900	-8 069
-141	-129	-137	Payments made, dividends and interest on hybrid capital	-138	-129	-141
450	450		Issue of hybrid capital	0	450	450
-200	-200		Buyback of hybrid capital	0	-200	-200
200		500	Issue of subordinated loan capital	500		200
		-155	Buyback of subordinated loan capital	-155		
-143	-73	-160	Change in other liabilities	-487	-145	122
979	**1 147**	**191**	**Net cash flow from financing activities**	**4 614**	**2 201**	**3 816**
346	**-45**	**-625**	**Net change in liqiud assets**	**-625**	**-45**	**346**
797	797	1 143	Cash and cash equivalents as at 1 Jan	1 143	797	797
1 143	**752**	**518**	**Cash and cash equivalents at end of period**	**518**	**752**	**1 143**

Statement of changes in equity

GROUP NOK million	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
Balance 31/12/2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**1 044**	**3**	**10 051**
Dividend distributed for 2016							-94	-2	-96
Profit as at 30/09/2017				35			637		672
Buyback of hybrid capital				-35					-35
Interest on hybrid capital				-200					-200
Issue of hybrid capital				450	-1				449
Allocated from gift fund						-10			-10
Balance 30/09/2017	**783**	**451**	**297**	**1 075**	**6 605**	**32**	**1 587**	**1**	**10 831**
Profit 01/10/2017-31/12/2017			46	12	568	40	-355	1	312
Buyback of hybrid capital				-12					-12
Recognized estimate deviation, pensions			-2		-11				-13
Tax effect of estimate deviation, pensions					3				3
Issue of hybrid capital									0
Other comprehensive income									0
Allocated from gift fund						-11			-11
Other changes							-2		-2
Balance 31/12/2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**1 230**	**2**	**11 108**
Dividend distributed for 2017							-94	-1	-95
Accounting effects on transition to IFRS 9			1		4		-3		2
Profit as at 30/09/2018				44			690	1	735
Interest on hybrid capital				-44					-44
Other comprehensive income							-9		-9
Allocated from gift fund						-31			-31
Balance 30/09/2018	**783**	**451**	**342**	**1 075**	**7 169**	**30**	**1 814**	**2**	**11 666**

PARENT BANK	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
Balance 31/12/2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**94**		**9 098**
Dividend distributed for 2016							-94		-94
Profit as at 30/09/2017				35			518		553
Buyback of hybrid capital				-35					-35
Interest on hybrid capital				-200					-200
Issue of hybrid capital				450	-1				449
Allocated from gift fund						-10			-10
Balance 30/09/2017	**783**	**451**	**297**	**1 075**	**6 605**	**32**	**518**	**0**	**9 761**
Profit 01/10/2017-31/12/2017			46	12	568	40	-424		242
Buyback of hybrid capital				-12					-12
Issue of hybrid capital				0					0
Recognized estimate deviation, pensions			-2		-11				-13
Tax effect of estimate deviation, pensions					3				3
Other comprehensive income									0
Allocated from gift fund						-11			-11
Balance 31/12/2017	**783**	**451**	**341**	**1 075**	**7 165**	**61**	**94**	**0**	**9 970**
Dividend distributed for 2017							-94		-94
Accounting effects on transition to IFRS 9			1		4				5
Profit as at 30/09/2018				44			537	0	581
Interest on hybrid capital				-44					-44
Other comprehensive income									0
Allocated from gift fund						-31			-31
Balance 30/09/2018	**783**	**451**	**342**	**1 075**	**7 169**	**30**	**537**	**0**	**10 387**

Unaudited

1. ACCOUNTING POLICIES

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

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

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

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

2. SEGMENT REPORTING

	30/09/2018				30/09/2017			
Report per segment			**Undistrib. and**				**Undistrib. and**	
Income statement (NOK million)	**RM**	**CM**	**elimin.**	**Total**	**RM**	**CM**	**elimin.**	**Total**
Net interest income	742	512	28	1 282	756	487	-3	1 240
Net other operating income	145	52	111	308	135	50	88	273
Operating expenses	281	72	277	630	271	68	262	601
Profit before losses per segment	**606**	**492**	**-137**	**960**	**621**	**468**	**-177**	**912**
Losses on loans and guarantees	1	13	-6	8	2	30	0	32
Profit before tax per segment	**605**	**479**	**-132**	**952**	**619**	**438**	**-177**	**880**
Net loans to customers	67 450	34 349	69	101 868	63 603	32 448	-48	96 003
Other assets			19 834	19 834			15 312	15 312
Total assets per segment	**67 450**	**34 349**	**19 903**	**121 702**	**63 603**	**32 448**	**15 264**	**111 315**
Deposits from and liabilities to customers	28 833	21 894	5 733	56 460	27 756	21 738	5 111	54 605
Other balances/liabilities	38 617	12 455	2 504	53 576	35 847	10 710	-677	45 879
Total liabilities per segment	**67 450**	**34 349**	**8 237**	**110 036**	**63 603**	**32 448**	**4 433**	**100 484**
Equity			11 666	11 666			10 831	10 831
Total liabilities and equity per segment	**67 450**	**34 349**	**19 903**	**121 702**	**63 603**	**32 448**	**15 264**	**111 315**

3. INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			Interest income	GROUP		
31/12/17	**30/09/17**	**30/06/18**	**NOK million**	**30/09/18**	**30/09/17**	**31/12/17**
			Interest income from financial instruments at amortised cost:			
42	30	55	Interest on receivables from credit institutions	7	6	9
1 836	1 370	977	Interest on loans given to customers	2 045	1 945	2 605
1 878	**1 401**	**1 031**	**Total interest from financial instruments at amortised cost**	**2 051**	**1 951**	**2 614**
			Interest income from financial instruments at fair value:			
172	133	109	Interest on loans given to customers (fixed rate loans)	109	133	172
156	119	140	Interest on cerificates and bonds	157	128	168
327	**252**	**249**	**Total interest from financial instruments at fair value via profit or loss**	**267**	**261**	**340**
			Interest income from financial instruments at fair value via OCI			
		417	Interest on loans given to customers (mortgages)			
		417	Total interest from financial instruments at fair value over OCI			
2 205	**1 652**	**1 697**	**Total interest income**	**2 318**	**2 213**	**2 953**

PARENT BANK			Interest expences	GROUP		
31/12/17	**30/09/17**	**30/06/18**	**NOK million**	**30/09/18**	**30/09/17**	**31/12/17**
			Interest expenses from financial instruments at amortised cost:			
6	1	11	Interest on liabilities to credit institutions	11	0	5
521	397	403	Interest on customer deposits	403	397	517
281	211	222	Interest on issued securities	564	519	675
32	24	29	Interest on subordinated loans	29	24	32
45	34	29	Fee to the Norwegian Banks`Guarantee Fund and other interest expenses	30	34	45
884	**666**	**694**	**Interest expenses from financial instruments at amortised cost**	**1 036**	**974**	**1 274**
884	**666**	**694**	**Total interest expenses**	**1 036**	**974**	**1 274**

4. LOSSES ON LOANS, GUARANTEES AND UNUSED CREDITS

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

Figures for Q3 2017 and as of 31 December 2017 were calculated in accordance with IAS 39 and the loss model applied at that time. Consequently, figures for the current period are not directly comparable with previous periods.

PARENT BANK			NOK million	GROUP		
31/12/17	**30/09/17**	**30/09/18**	**Loss expense on loans during the period**	**30/09/18**	**30/09/17**	**31/12/17**
		-3	Change in impairment losses for the period, stage 1	-3		
		19	+ Change in impairment losses for the period, stage 2	17		
		-37	+ Change in impairment losses for the period, stage 3	-40		
		53	+ Confirmed losses for the period	53		
3	4		Change in individual impairment losses during the period		4	3
-30	0		+ Change in collective impairment losses during the period		0	-30
50	28		+ Confirmed losses for the period included in individual impairment losses in previous years		28	50
8	3		+ Confirmed losses for the period not included in individual impairment losses in previous years		3	8
4	4	-18	+ Recognised as interest income	-12	4	4
11	6	3	- Period's recoveries relating to previous losses	6	6	11
-4	-1	0	+ Change in impairment losses on guarantees	0	-1	-4
20	**32**	**10**	**= Loss expenses during the period**	**8**	**32**	**20**

GROUP

NOK million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Total
Provisions for loan losses as at 01/01/2018	**51**	**99**	**416**	**566**
Transfers				
Transferred to stage 1	32	-30	-2	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	9	17	21	47
Losses on deducted loans*	-6	-12	-82	-100
Losses on older loans and other changes	-35	40	19	23
Provisions for loan losses as at 30/09/2018	**45**	**118**	**372**	**535**

*Losses on deducted loans relate to losses on loans redeemed in the period.

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

PARENT BANK

NOK million	Stage 1 Expected losses in the next 12 months	Stage 2 Lifetime expected credit losses	Stage 3 Lifetime expected credit losses	Totalt
Provisions for loan losses as at 01/01/2018	**49**	**91**	**415**	**555**
Transfers				
Transferred to stage 1	28	-26	-2	0
Transferred to stage 2	-5	5	0	0
Transferred to stage 3	0	-1	1	0
Losses on new loans	9	16	21	46
Losses on deducted loans*	-6	-11	-82	-98
Losses on older loans and other changes	-30	40	15	24
Provisions for loan losses as at 30/09/2018	**45**	**114**	**367**	**526**

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

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

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

PARENT BANK		NOK million	GROUP	
31/12/17	**30/09/18**	**Individual impairment losses**	**30/09/18**	**31/12/17**
385	385	Individual impairment losses at start of period	385	385
50	28	- Confirmed losses for the period included previously in individual impairment losses	28	50
27	15	+ Increased individual impairment losses during the period	15	27
50	34	+ New individual impairment losses during the period	34	50
24	17	- Reversal of individual impairment losses during the period	17	24
388	**389**	**= Individual impairment losses at end of period**	**389**	**388**

PARENT BANK			GROUP	
31/12/17	**30/09/18**	**Collective impairment losses on loans**	**30/09/18**	**31/12/17**
204	204	Collective impairment losses on loans at start of period	210	210
-30	0	+ Change in collective impairment losses during the period	0	-30
174	**204**	**= Collective impairment losses on loans at end of period**	**210**	**180**

5. NON-PERFORMING LOANS

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

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

MORBANK			NOK million	KONSERN		
31/12/17	**30/09/17**	**30/09/18**		**30/09/18**	**30/09/17**	**31/12/17**
273	256	285	Gross non-performing loans	285	256	273
60	72		Individual impairment losses		72	60
		55	Stage 3 impairment losses	55		
213	**185**	**230**	**Net non-performing loans**	**230**	**185**	**213**
0.41 %	**0.38 %**	**0.43 %**	**Gross non-performing loans as % of gross loans**	**0.28 %**	**0.27 %**	**0.28 %**

6. IMPAIRMENT LOSSES BY SECTOR, INDUSTRY AND STAGE

PARENT BANK				NOK million	GROUP			
Stage 1	**Stage 2**	**Stage 3**	**Total losses as at 30/09/2018**		**Total losses as at 30/09/2018**	**Stage 3**	**Stage 2**	**Stage 1**
3	13	30	46	Retail customers	55	31	20	5
0	0	0	0	Public administration	0	0	0	0
0	1	1	2	Primary industry	2	1	1	0
2	2	35	39	Manufacturing industry	39	36	2	2
10	11	70	91	Real estate development	91	71	11	9
3	4	90	97	Building and construction industry	98	91	3	3
20	73	107	200	Property management	199	108	72	19
1	1	1	3	Transport	2	1	1	1
1	4	22	28	Retail trade	28	22	4	1
0	0	0	1	Hotel and restaurant	1	0	0	0
1	0	0	1	Housing cooperatives	1	0	0	1
1	3	9	13	Financial/commercial services	13	9	3	1
4	2	2	8	Social services	8	2	2	4
45	**114**	**367**	**526**	**Total impairment losses on loans, guarantees and unused credit**	**535**	**372**	**118**	**45**

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

Calculated losses as at 30 September 2018 based on the different stages in the model.

NOK million **Group**	**Stage**	**Commitment**	**in %**	**Calculated loss**	**in %**
Corporate customers	1	32 771	29.3%	40	7.6%
	2	6 229	5.6%	98	18.3%
	3	842	0.8%	341	63.8%
Corporate customers total		**39 841**	**35.6%**	**479**	**89.7%**
Retail customers	1	64 983	58.0%	5	0.8%
	2	6 938	6.2%	20	3.7%
	3	233	0.2%	31	5.7%
Retail customers total		**72 154**	**64.4%**	**55**	**10.3%**
Total		**111 995**	**100.0%**	**535**	**100.0%**

NOK million **Parent bank**	**Stage**	**Commitment**	**in %**	**Calculated loss**	**in %**
Corporate customers	1	32 771	43.1%	42	8.0%
	2	6 229	8.2%	101	19.1%
	3	842	1.1%	337	64.0%
Corporate customers total		**39 841**	**52.4%**	**480**	**91.2%**
Retail customers	1	32 115	42.2%	3	0.6%
	2	3 903	5.1%	13	2.5%
	3	212	0.3%	30	5.7%
Retail customers total		**36 231**	**47.6%**	**46**	**8.8%**
Total		**76 072**	**100.0%**	**526**	**100.0%**

7. CUSTOMER DEPOSITS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31/12/17	**30/09/17**	**30/09/18**		**30/09/18**	**30/09/17**	**31/12/17**
25 945	25 894	26 846	Retail customers	26 847	25 895	25 946
9 332	8 891	10 267	Public administration	10 267	8 891	9 332
485	471	449	Primary industry	449	471	485
2 257	1 385	1 484	Manufacturing industry	1 484	1 385	2 257
797	419	543	Real estate development	527	404	782
1 002	907	863	Building and construction industry	863	907	1 002
2 778	2 614	3 235	Property management	3 235	2 614	2 778
552	623	408	Transport	408	623	552
1 016	903	1 020	Retail trade	1 020	903	1 016
172	156	164	Hotel and restaurant	164	156	172
215	276	216	Housing cooperatives	216	276	215
5 265	5 196	4 482	Financial/commercial services	4 482	5 196	5 265
5 761	6 581	6 196	Social services	6 196	6 581	5 761
17	302	302	Accrued interest	302	302	17
55 593	**54 619**	**56 473**	**Total deposits from customers**	**56 460**	**54 605**	**55 580**

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

8. LOANS TO CUSTOMERS BY SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31/12/17	**30/09/17**	**30/09/18**		**30/09/18**	**30/09/17**	**31/12/17**
32 896	33 731	31 045	Retail customers	66 578	63 059	63 844
413	392	427	Public administration	428	392	413
858	833	915	Primary industry	915	833	858
1 136	871	909	Manufacturing industry	909	871	1 136
4 162	3 550	4 496	Real estate development	4 449	3 502	4 113
1 516	1 438	1 537	Building and construction industry	1 538	1 438	1 516
16 282	16 590	18 192	Property management	18 202	16 588	16 280
667	647	673	Transport	673	647	667
1 148	1 007	1 111	Retail trade	1 112	1 007	1 148
611	335	298	Hotel and restaurant	298	335	611
1 439	1 092	1 131	Housing cooperatives	1 131	1 092	1 438
1 072	2 228	1 088	Financial/commercial services	1 096	2 228	1 072
4 814	4 442	4 868	Social services	4 871	4 442	4 814
144	141	145	Accrued interest	178	169	175
67 158	**67 297**	**66 836**	**Total gross loans**	**102 379**	**96 602**	**98 086**
562	593	503	Impairment losses on lending*	511	599	568
66 595	**66 705**	**66 333**	**Total net loans**	**101 868**	**96 003**	**97 518**

*Impairment losses on lending relate only to loans to customers and do not include impairment losses on unused credit and guarantees. Impairment losses in this note are not comparable to other figures relating to losses.

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

9. SUBORDINATED CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31/12/17	**30/09/17**	**30/09/18**		**30/09/18**	**30/09/17**	**31/12/17**
9 970	**9 760**	**10 387**	**Total equity**	**11 662**	**10 831**	**11 108**
			Tier 1 capital			
-1 074	-1 075	-1 075	Equity not eligible as common equity tier 1 capital	-1 075	-1 075	-1 088
-94	-99	-148	Share of profit not eligible as common equity tier 1 capital	-148	-98	-94
-15	-24	-28	Deductions for intangible assets and deferred tax assets	-28	-24	-15
-20		-21	Deductions for aditional value adjustments (AVA)	-23		-21
		-49	Other deductions	-49	-7	
8 767	**8 562**	**9 066**	**Total common equity tier 1 capital**	**10 339**	**9 627**	**9 890**
			Other tier 1 capital			
1 075	1 075	1 075	Hybrid capital	1 075	1 075	1 075
0	0	0	Deductions from other tier 1 capital			
9 842	**9 637**	**10 141**	**Total tier 1 capital**	**11 413**	**10 702**	**10 965**
			Additional capital supplementary to tier 1 capital			
1 404	1 203	1 749	Subordinated loan capital	1 749	1 203	1 404
-22	-22	0	Deductions from additional capital	0	-22	-22
1 382	**1 181**	**1 749**	**Total additional capital**	**1 749**	**1 181**	**1 382**
11 224	**10 818**	**11 890**	**Net subordinated capital**	**13 162**	**11 883**	**12 347**
			Minimum requirement for subordinated capital Basel II calculated according to the standard method:			
3	3	3	Engagements with local and regional authorities	3	3	3
59	35	81	Engagements with institutions	30	11	17
168	215	159	Engagements with enterprises	161	217	170
475	494	455	Engagements with mass market	455	494	498
3 048	3 043	3 175	Engagements secured in property	4 304	3 964	3 991
47	52	44	Engagements which have fallen due	42	52	47
0	0	2	Engagements which are high risk	2	0	0
284	276	326	Engagements in covered bonds	91	73	79
143	147	220	Engagements in collective investment funds	72	47	43
43	47	49	Engagements, other	53	48	44
4 270	**4 312**	**4 514**	**Capital requirements for credit and counterparty risk**	**5 213**	**4 909**	**4 892**
1	**6**	**1**	**Capital requirements for position, currency and product risk**	**1**	**7**	**1**
219	**219**	**240**	**Capital requirements for operational risk**	**298**	**280**	**280**
23	**23**	**3**	**CVA addition**	**3**	**51**	**65**
0	**0**	**0**	**Deductions from the capital requirement**	**0**	**0**	**0**
4 513	**4 560**	**4 758**	**Total minimum requirement for subordinated capital**	**5 515**	**5 247**	**5 238**
56 401	57 001	59 472	Risk-weighted balance (calculation basis)	68 930	65 582	65 475
15.5 %	15.0 %	15.2 %	Common equity tier 1 capital ratio. %	15.0 %	14.7 %	15.1 %
17.5 %	16.9 %	17.1 %	Tier 1 capital ratio. %	16.6 %	16.3 %	16.7 %
19.9 %	19.0 %	20.0 %	Total capital ratio. %	19.1 %	18.1 %	18.9 %
8.4 %	8.4 %	8.2 %	Leverage ratio	9.0 %	9.1 %	9.2 %

NOK million	Cooperative groups 30/09/2018	30/09/2017	31/12/2017
Proportion of common equity tier 1 capital	172	104	111
Proportion of tier 1 capital	187	119	126
Proportion of net subordinated capital	212	133	140
Deductions for internal eliminations	-187	-124	-124
Common equity tier 1 capital after proportionate consolidation	**10 324**	**9 607**	**9 877**
Tier 1 capital after proportionate consolidation	**11 414**	**10 697**	**10 967**
Subordinated capital after proportionate consolidation	**13 187**	**11 863**	**12 363**
Porportionate share of calculation basis	1 212	793	793
Deductions for internal eliminations	-484	-147	-147
Risk weighted balance after proportonate consolidation	**69 658**	**66 228**	**66 121**
Common equity tier 1 capital after proportionate consolidation, %	14.8%	14.5%	14.9%
Tier 1 capital after proportionate consolidation, %	16.4%	16.2%	16.6%
(Total) capital after proportionate consolidation, %	18.9%	17.9%	18.7%
Leverage ratio after proportionate consolidation, %	9.0%	9.1%	9.2%

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

PARENT BANK				NOK million	GROUP			
Recognized	Fair value			30/09/2018	Recognized	Fair value		
value	Level 1	Level 2	Level 3		value	Level 1	Level 2	Level 3
				Assets recognized at amortised cost				
518		518		Cash and receivables from central banks	518		518	
5 141		5 141		Loans to credit institutions	1 541		1 541	
34 950			34 950	Net loans to customers (floating interest rate)	96 086			96 086
				Assets recognized at fair value				
5 782			5 782	Net loans to customers (fixed interest rate)	5 782			5 782
25 601			25 601	Net loans to customers (mortgages)				
14 502		14 502		Bonds and certificates	16 117		16 117	
613	5		608	Shares	613	5		608
191		191		Financial derivatives	288		288	
87 298	**5**	**20 352**	**66 941**	**Total financial assets**	**120 945**	**5**	**18 464**	**102 476**
				Liabilities recognized at amortised cost				
1 962		1 962		Liabilities to credit institutions	1 902		1 902	
56 473			56 473	Deposits from customers	56 460			56 460
18 375		18 479		Liabilities from issue of securities	48 831		49 047	
1 749		1 756		Subordinated loan capital	1 749		1 756	
				Liabilities recognized at fair value				
233		233		Financial derivatives	392		392	
78 792	**-**	**22 430**	**56 473**	**Total financial liabilities**	**109 334**	**-**	**53 097**	**56 460**

PARENT BANK				NOK million	GROUP			
Recognized	Fair value			31/12/2017	Recognized	Fair value		
value	Level 1	Level 2	Level 3		value	Level 1	Level 2	Level 3
				Assets recognized at amortized cost				
1 143		1 143		Cash and receivables from central banks	1 143		1 143	
3 516		3 516		Loans to credit institutions	236		236	
60 279			60 279	Net loans to customers (floating interest rate)	91 202			91 202
				Assets recognized at fair value				
6 316			6 316	Net loans to customers (fixed interest rate)	6 316			6 316
12 660		12 660		Bonds and certificates	13 468		13 468	
572	5		567	Shares	572	5		567
385		385		Financial derivatives	754		754	
84 871	**5**	**17 704**	**67 162**	**Total financial assets**	**113 691**	**5**	**15 601**	**98 085**
				Liabilities recognized at amortised cost				
974		974		Liabilities to credit institutions	902		902	
55 593			55 593	Deposits from customers	55 580			55 580
17 848		17 944		Liabilities from issue of securities	44 343		44 648	
1 404		1 415		Subordinated loan capital	1 404		1 415	
				Liabilities recognized at fair value				
283		283		Financial derivatives	306		306	
76 102	**0**	**20 616**	**55 593**	**Total financial liabilities**	**102 535**	**0**	**47 271**	**55 580**

PARENT BANK				NOK million	GROUP			
Recognized	Fair value			30/09/2017	Recognized	Fair value		
value	Level 1	Level 2	Level 3		value	Level 1	Level 2	Level 3
				Assets recognized at amortized cost				
752		752		Cash and receivables from central banks	752		752	
2 001		2 001		Loans to credit institutions	168		168	
60 012			60 012	Net loans to customers (floating interest rate)	89 310			89 310
				Assets recognized at fair value				
6 693			6 693	Net loans to customers (fixed interest rate)	6 693			6 693
11 890		11 890		Bonds and certificates	12 700		12 700	
560	41		519	Shares	560	41		519
366		366		Financial derivatives	477		477	
82 274	**41**	**15 009**	**67 224**	**Total financial assets**	**110 660**	**41**	**14 097**	**96 522**
				Liabilities recognized at amortised cost				
976		976		Liabilities to credit institutions	905		905	
54 619			54 619	Deposits from customers	54 605			54 605
16 627		16 745		Liabilities from issue of securities	42 648		42 956	
1 203		1 216		Subordinated loan capital	1 203		1 216	
				Liabilities recognized at fair value				
290		290		Financial derivatives	456		456	
73 715	**0**	**19 227**	**54 619**	**Total financial liabilities**	**99 817**	**0**	**45 533**	**54 605**

Movement level 3

GROUP / PARENT BANK

NOK million	Loans to and receivables from customers	Of which credit risk	Shares
Recognized value as at 01/01/2017	**7 514**	**-14**	**509**
Acquisitions Q1-Q3	216		22
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	-35	8	3
Disposals Q1-Q3	-1 002		-15
Recognized value as at 30/09/2017	**6 693**	**-6**	**519**
Acquisitions Q4	19		-1
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	-13	4	56
Disposals Q4	-383		-7
Recognized value as at 31/12/2017	**6 316**	**-2**	**567**
Acquisitions Q1-Q3	966		36
Of which transferred from level 1 or 2	0		
Change in value recognized during the period	9	28	51
Disposals Q1-Q3	-1 509		-6
Reclassified as associated company			-40
Recognized value as at 30/09/2018	**5 782**	**26**	**608**

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	30/09/2018	30/09/2017	31/12/2017
Loans to customers	18	17	16
- of which loans to corporate market (CM)	4	5	5
- of which loans to retail market (RM)	14	12	11

11. OFFSETTING

GROUP

NOK million	30/09/2018	30/09/2018 (1) Net presented	30/09/2017	30/09/2017 (1) Net presented
Assets				
Financial derivatives	288	151	77	224
Liabilities				
Financial derivatives	392	255	456	203

PARENT BANK

NOK million	30/09/2018	30/09/2018 (1) Net presented	30/09/2017	30/09/2017 (1) Net presented
Liabilities				
Financial derivatives	191	49	366	163
Liabilities				
Financial derivatives	233	91	290	87

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

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

12. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities - Group

NOK million	30/09/2018	30/09/2017	31/12/2017
Bonds, nominal value	48 661	42 282	43 990
Value adjustments	23	182	125
Accrued interest	147	184	228
Debt incurred due to issue of securities	**48 831**	**42 648**	**44 343**

Change in debt securities - Group

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	30/09/2018
Bonds, nominal value	43 990	13 770	-8 571	528	48 661
Value adjustments	125			-102	23
Accrued interest	228			-81	147
Debt incurred due to issue of securities	**44 343**	**13 770**	**-8 571**	**345**	**48 831**

Debt securities - Parent Bank

NOK million	30/09/2018	30/09/2017	31/12/2017
Bonds, nominal value	18 310	16 349	17 580
Value adjustments	-25	141	99
Accrued interest	90	137	169
Debt incurred due to issue of securities	**18 375**	**16 627**	**17 848**

Change in debt securities - Parent Bank

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	30/09/2018
Bonds, nominal value	17 580	3 900	-3 118	52	18 310
Value adjustments	99			-124	-25
Accrued interest	169			-79	90
Debt incurred due to issue of securities	**17 848**	**3 900**	**-3 118**	**-151**	**18 375**

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

NOK million	31/12/2017	Issued	Matured/ Redeemed	Other changes during the period	30/09/2018
Subordinated loans	1 400	500	-155		1 745
Accrued interest	4				4
Total subordinated loan capital	**1 404**	**500**	**-155**	**0**	**1 749**

13. EQUITY CERTIFICATE HOLDERS

The 20 largest equity certificate holders as at 30 September 2018 were as follows:

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %		NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	7 988 679	51.00	11.	Gumpen Bileiendom AS	174 209	1.11
2.	Arendal Kom. pensjonskasse	450 000	2.87	12.	Allumgården AS	151 092	0.96
3.	EIKA utbytte VPF c/o Eika kapitalforv.	423 351	2.70	13.	Landkreditt Utbytte	140 000	0.89
4.	Pareto AS	417 309	2.66	14.	Ottersland AS	100 000	0.64
5.	Holta Invest AS	378 765	2.42	15.	Wenaas Kapital AS	94 585	0.60
6.	Bergen Kom. Pensjonskasse	376 231	2.40	16.	MP Pensjon PK	85 523	0.55
7.	Gladstad Capital AS	368 765	2.35	17.	Artel AS	82 131	0.52
8.	Otterlei Group AS	228 144	1.46	18.	Profond AS	77 115	0.49
9.	Merrill Lynch	195 926	1.25	19.	Apriori Holding AS	72 575	0.46
10.	Wenaasgruppen AS	186 000	1.19	20.	Varodd AS	70 520	0.45
Total - 10 largest certificate holders		**11 013 170**	**70.30**	**Total - 20 largest certificate holders**		**12 060 920**	**76.97**

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

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

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

Credit risk

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

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

Market risk

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

Liquidity risk

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

Operational risk

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

Business risk

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

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

Quarterly profit trend

GROUP **Profit (NOK million)**	**Q3 2018**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**
Net interest income	424	433	425	439	422
Net commission income	78	84	74	78	80
Net income from financial instruments	-3	28	26	58	21
Other operating income	-2	21	2	9	2
Total net income	**497**	**566**	**527**	**584**	**525**
Total operating expenses before losses	200	218	212	210	194
Operating profit before losses	**297**	**348**	**315**	**374**	**331**
Losses on loans, guarantees and unused credit	3	5	0	-12	4
Profit before taxes	**294**	**343**	**315**	**386**	**327**
Tax expenses	75	65	77	74	80
Profit for the period	**219**	**278**	**238**	**312**	**247**

Profit as % of average assets					
Net interest income	1.40 %	1.48 %	1.49 %	1.54 %	1.51 %
Net commission income	0.26 %	0.29 %	0.26 %	0.27 %	0.29 %
Net income from financial instruments	-0.01 %	0.10 %	0.09 %	0.20 %	0.07 %
Other operating income	-0.01 %	0.07 %	0.01 %	0.03 %	0.01 %
Total net income	**1.64 %**	**1.93 %**	**1.85 %**	**2.05 %**	**1.87 %**
Total operating expenses before losses	0.66 %	0.74 %	0.75 %	0.74 %	0.69 %
Operating profit before losses	**0.98 %**	**1.19 %**	**1.11 %**	**1.32 %**	**1.18 %**
Losses on loans, guarantees and unutilized credit	0.01 %	0.02 %	0.00 %	-0.04 %	0.01 %
Profit before taxes	**0.97 %**	**1.17 %**	**1.11 %**	**1.36 %**	**1.17 %**
Tax expenses	0.25 %	0.22 %	0.27 %	0.26 %	0.29 %
Profit for the period	**0.72 %**	**0.95 %**	**0.84 %**	**1.10 %**	**0.88 %**
Key figures, income statement					
Return on equity after tax (adjusted for hybrid capital)	7.8 %	10.1%	9.1%	12.0%	9.8%
Costs as % of income	40.2%	38.5%	40.2%	36.0%	37.0%
Costs as % of income, excl. net income from financial instruments	40.0%	40.5%	42.3%	39.9%	38.5%
Key figures, balance sheet					
Total assets	121 702	118 479	116 319	114 310	111 315
Average total assets	120 100	117 400	115 300	112 800	111 100
Net loans to customers	101 868	100 529	98 690	97 518	96 003
Growth in loans as %, last 12 mths.	6.1%	6.2%	6.5%	7.2%	6.6%
Customer deposits	56 460	57 264	54 899	55 580	54 605
Growth in deposits as %, last 12 mths.	3.4%	2.8%	4.0%	7.8%	6.6%
Deposits as % of net loans	55.4%	57.0%	55.6%	57.0%	56.9%
Equity (incl. hybrid capital)	11 666	11 478	11 233	11 108	10 831
Losses on loans as % of net loans, annualised	0.01 %	0.02 %	0.00 %	-0.05 %	0.02 %
Gross non-performing loans (over 90 days) as % of gross lending	0.28 %	0.26 %	0.32 %	0.28 %	0.27 %
Other key figures					
Liquidity reserve (LCR), Group	177 %	167 %	165 %	139 %	144 %
Common equity tier 1 capital ratio (added share of profit)	15.0%	15.3%	15.2%	15.1%	14.7%
Common equity tier 1 capital ratio (incl. partly owned companies)	14.8%	15.0%	15.0%	14.9%	14.5%
Tier 1 capital ratio	16.6%	16.9%	16.8%	16.7%	16.3%
Total capital ratio	19.1%	19.1%	18.9%	18.9%	18.1%
Common equity tier 1 capital	10 339	10 236	10 079	9 890	9 625
Tier 1 capital	11 413	11 310	11 153	10 965	10 700
Net total primary capital	13 162	12 812	12 535	12 347	11 881
Leverage ratio	9.0%	9.2%	9.2%	9.2%	9.1%
Number of branches	34	34	34	34	34
Number of FTEs in banking operations	431	419	427	432	431
Key figures, equity certificates					
Equity certificate ratio, weighted average for the period	17.90 %	17.90 %	17.90 %	18.70 %	18.7 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent Bank)	1.7	2.5	1.9	2.8	2.1
Profit/diluted earnings per equity certificate (Group)	2.4	2.9	2.6	3.6	2.8
Dividend last year per equity certificate	6.0	6.0	6.0	6.0	6.0
Book equity per equity certificate	120.9	118.9	116.1	120	116.6
Price/book value per equity certificate	0.8	0.8	0.8	0.9	0.9
Listed price on Oslo Stock Exchange at end of period	99.80	97.2	98.6	104	103

Unaudited

Key figures Group 2013-2017

	2017	2016	2015	2014*	2013*
Income statement (NOK million)					**Proforma**
Net interest income	1 679	1 565	1 544	1 511	1 443
Net commission income	312	293	300	284	252
Net income from financial instruments	88	224	-66	184	201
Other operating income	18	28	14	23	22
Total net income	**2 097**	**2 110**	**1 792**	**2 002**	**1 918**
Total operating expenses before losses	811	787	817	834	800
Operating profit before losses	**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**
Profit as a 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 operating expenses before losses	0.74 %	0.75 %	0.83 %	0.88 %	0.89 %
Operating profit before losses	**1.17 %**	**1.26 %**	**0.99 %**	**1.24 %**	**1.24 %**
Losses on loans and guarantees	0.02 %	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	**1.16 %**	**1.21 %**	**0.90 %**	**0.96 %**	**1.10 %**
Tax expenses	0.26 %	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	**0.90 %**	**0.94 %**	**0.66 %**	**0.73 %**	**0.86 %**
Key figures, income statement					
Costs as % of income	38.7%	37.3%	45.6%	41.7%	41.7%
Costs as % of income, excl. 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%	11.3%	8.4%	10.1%	12.3%
Key figures, balance sheet					
Total assets	114 310	105 455	101 334	94 062	93 758
Average total assets	109 500	104 950	98 000	94 300	90 200
Net loans to customers	97 518	90 928	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	7.2%	7.1%	9.2%	4.5%	6.8%
Customer deposits	55 580	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	7.8%	6.6%	0.2%	10.3%	8.3%
Deposits as % of net loans	57.0%	56.7%	49.3%	51.2%	56.5%
Equity (incl. hybrid capital)	11 108	10 051	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	0.02 %	0.05 %	0.11 %	0.33 %	0.16 %
Gross non-performing loans (over 90 days) as % of gross lending	0.28 %	0.30 %	0.47 %	0.71 %	0.60 %
Other key figures					
Liquidity reserves (LCR), Group	139.0%	128.0%	108.0%		
Common equity tier 1 capital ratio	15.1%	14.7%	12.7%	13.1%	12.8%
Common equity tier 1 capital ratio (incl. partly owned companies)	14.9%	14.7%	12.7%	13.1%	12.8%
Tier 1 capital ratio	16.7%	16.0%	13.5%	14.4%	14.2%
Total capital ratio	18.9%	17.9%	15.5%	15.1%	15.1%
Common equity tier 1 capital	9 890	9 114	7 700	7 092	6 376
Tier 1 capital	10 965	9 939	8 210	7 792	7 076
Net total primary capital	12 347	11 121	9 388	8 170	7 522
Leverage ratio	9.2 %	8.6 %	7.0 %	7.0 %	
Number of branches	34	34	40	40	44
Number of FTEs in banking operations	432	439	449	454	489
Key figures, equity certificates					
Equity certificate ratio before profit distribution	18.7%	19.8%	13.5%	14.1%	7.1%
Number of equity certificates issued	15 663 944	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent Bank)	8.9	8.5	10.6	12.2	10.3
Profit per equity certificate (Group)	11.2	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent Bank)	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

* Excluding negative goodwill

Calculations

NOK million	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	30/09/ 2018	30/09/ 2017
Return on equity adjusted for hybrid capital							
Profit after tax	219	278	238	312	247	735	672
Interest on hybrid capital	-12	-20	-12	-12	-10	-44	-35
Profit after tax, incl. interest on hybrid capital	**207**	**258**	**226**	**300**	**237**	**691**	**637**
Opening balance, equity	11 478	11 233	11 108	10 831	10 391	11 108	10 051
Opening balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-875	-1 075	-825
Opening balance, equity excl. hybrid capital	**10 403**	**10 158**	**10 033**	**9 756**	**9 516**	**10 033**	**9 226**
Closing balance, equity	11 666	11 478	11 233	11 108	10 831	11 666	10 831
Closing balance, hybrid capital	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075	-1 075
Closing balance, equity excl. hybrid capital	**10 591**	**10 403**	**10 158**	**10 033**	**9 756**	**10 591**	**9 756**
Average equity	11 572	11 356	11 171	10 970	10 611	11 387	10 441
Average equity excl. hybrid capital	**10 497**	**10 281**	**10 096**	**9 895**	**9 636**	**10 312**	**9 491**
Return on equity	7.5%	9.8%	8.6%	11.3%	9.2%	8.6%	8.6%
Return on equity excl. hybrid capital	**7.8%**	**10.1%**	**9.1%**	**12.0%**	**9.8%**	**9.0%**	**9.0%**
Net interest income, incl. interest on hybrid capital							
Net interest income	424	433	425	439	422	1 282	1 240
Interest on hybrid capital	-12	-20	-12	-12	-10	-44	-35
Net interest income, incl. interest on hybrid capital	**412**	**413**	**413**	**427**	**412**	1 238	**1 205**
Average total assets	117 399	117 400	115 300	112 800	111 100	117 600	108 400
As a percentage of total assets	**1.39 %**	**1.41 %**	**1.45 %**	**1.50 %**	**1.47 %**	1.41 %	**1.49 %**
Operating expenses, adjusted for conversion of pension scheme							
Operating expenses	200	218	212	210	194	630	601
Conversion of pension scheme				8			
Operating expenses, adjusted for conversion of pension scheme	**200**	**218**	**212**	**218**	**194**	630	**601**
Profit from ordinary operations (adjusted earnings)							
Net interest income, incl. interest on hybrid capital	412	413	413	427	412	1 238	1 205
Nett commission income	78	84	74	78	80	236	234
Share of profit from associated companies (excl. value adjustment Balder Betaling/Vipps)	-1	-4				17	
Other operating income (excl. value adjustment Balder Betaling/Vipps)	2	3	2	9	2	5	7
Operating expenses, adjusted for conversion of pension scheme	200	218	212	218	194	630	601
Profit from ordinary operations (adjusted earnings), before tax	**291**	**278**	**277**	**296**	**300**	**866**	**845**
Profit excl. finance and adjusted for non-recurring items							
Net interest income, incl. hybrid capital)	412	413	413	427	412	1 238	1 205
Net commission income	78	84	74	78	80	236	234
Share of profit from associated companies (excl. value adjustment Balder Betaling/Vipps)	-1	-4					
Other operating income	-	2	2	9	2	5	7
Operating expenses, adjusted for conversion of pension scheme	200	218	212	218	194	630	601
Losses on loans, guarantees and unutilized credit	3	5	-	-12	4	5	28
Profit excl. finance and adjusted for non-recurring items	**286**	**272**	**277**	**308**	**296**	**844**	**817**
Tax (25%)	72	68	69	77	74	211	204
Average equity, excl. hybrid capital	**215**	**204**	**208**	**231**	**222**	**633**	**613**
Ordinary operations/adjusted earnings after losses and tax	10 497	10 281	10 096	9 895	9 636	10 312	9 491
Return on equity, profit excl. finance and adjusted for non-recurring items	**8,1 %**	**8,0 %**	**8,3 %**	**9,3 %**	**9,1 %**	**8,2 %**	**8,6 %**
Average interest rates/margins							
Average lending rate RM (return)	2.62 %	2.65 %	2.69 %	2.72 %	2.75 %		
Average lending rate CM (return)	3.26 %	3.42 %	3.26 %	3.20 %	3.25 %		
Average deposit rate RM	0.81 %	0.81 %	0.82 %	0.81 %	0.82 %		
Average deposit rate CM	1.04 %	1.00 %	0.97 %	0.92 %	1.04 %		
Average 3-month NIBOR	1.06 %	1.07 %	0.95 %	0.81 %	0.81 %		
Lending margin RM (lending rate - 3-month NIBOR)	1.56 %	1.58 %	1.74 %	1.91 %	1.94 %		
Lending margin CM (lending rate - 3-month NIBOR)	2.20 %	2.35 %	2.31 %	2.39 %	2.44 %		
Deposit margin RM (3-month NIBOR - deposit rate)	0.25 %	0.26 %	0.13 %	0.00 %	-0.01 %		
Deposit margin CM (3-month NIBOR - deposit rate)	0.02 %	0.07 %	-0.02 %	-0.11 %	-0.23 %		

The Board of Directors' report and accounting presentation refer to certain adjusted figures which are not defined by IFRS (Alternative Performance Measures – APM).

Alternative performance measures – APM

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

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

Sparebanken Sør's APMs and definitions

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

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