SPAREBANKEN SØR

PILLAR 3 2020

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1. INTRODUCTION

The capital requirements regulations impose requirements for the disclosure of information on risk management and capital management. This document has been prepared to satisfy Sparebanken Sør's duty of disclosure in accordance with these regulations. The document will be updated each year and published at the same time as the bank's annual report. Information on capital requirements and own funds is updated each quarter and published as a disclosure note in the bank's quarterly financial statements.

For supplementary information on the Group's financial position and performance, including updated information on capital requirements and own funds, please refer to the annual and quarterly reports and presentations that are published on the bank's website: www.sor.no under Investor Information.

All amounts are stated as at 31 December 2020 and in million NOK, unless otherwise specified.

2. CAPITAL REQUIREMENTS REGULATIONS

The purpose of the Capital Requirements Regulations is to improve risk management at banks and ensure better alignment of risk and capital. On 19 December 2019, the Ministry of Finance adopted regulatory amendments that formally implemented the EU's Capital Requirements Regulation (CRR) / CRD IV (Capital Requirements Directive) in Norway effective 31 December 2019.

CRR and CRD IV are the third revision of the EU's capital requirements regulations and were adopted by the EU in 2013. The main purpose of the revised regulations is to implement the Basel III recommendations in the EU and help strengthen the banking sector by imposing more stringent requirements for own funds and new quantitative liquidity requirements. The CRD IV Directive implements the Basel III recommendations, including the general capital buffer requirements (in Pillar 1) and the bank-specific capital requirements (in Pillar 2), and continues previous directives' concession provisions and provisions relating to follow-up by the authorities and corporate governance in banks. The CRR scheme implements the Basel III recommendations on minimum requirements for own funds, liquidity and disclosure of financial information and continues previous directives' provisions in areas such as large exposures. The enactment of the scheme in effect reduced the capital requirements for lending to small and medium-sized enterprises (SMEs) and set aside the "Basel I floor".

The core content of the regulation has effectively been implemented in Norwegian law for a number of years through regulations mirroring the EU rules. As of 31 December 2019, these regulations have been rescinded and replaced by references to the CRR scheme and associated, supplementary schemes.

The Capital Requirements Regulations consist of three pillars:
Pillar 1 – Minimum requirements for own funds
Pillar 2 – Assessment of overall capital needs and appropriate follow-up
Pillar 3 – Disclosure of information

Pillar 1 deals with minimum requirements for capital adequacy. The aggregate calculation basis is the sum of the calculation bases for credit risk, market risk and operational risk.

In accordance with the regulations, individual banks may develop different methods to establish the calculation basis; however, some of the methods require the prior approval of Finanstilsynet (the Financial Supervisory Authority of Norway). The following methods can be used to establish the calculation basis:

Credit risk	**Market risk**	**Operational risk**
Standardised method	Standardised method	Basic method
Foundation IRB [1)]	Value-at-Risk (VaR) [1)]	Standardised method
Advanced IRB [1)]		AMA method [1)]

1) Individual banks must obtain Finanstilsynet's approval to apply the internal IRB, VaR and AMA methods, whereby the capital requirement is calculated based on internal models for each form of risk.

Sparebanken Sør uses the following methods to establish the calculation basis:

Credit risk:	Standardised method
Market risk:	Standardised method
Operational risk:	Basic method

Sparebanken Sør is the only one of the large regional banks in Norway to use the standard method to calculate capital adequacy. As a "standard bank", the Bank will therefore have a higher basis for calculating capital adequacy in relation to comparable regional banks that use IRB, and the Bank currently has a higher leverage ratio than the other regional banks. Sparebanken Sør has started a process to apply to Finanstilsynet for approval to use internal models for credit risk in the capital calculation (IRB). The work on preparing an IRB application is a highly prioritised area at the bank. This is a complex process, which is proving more extensive than originally assumed, partly as a result of changed requirements from the EBA affecting the Bank's model development.

The minimum statutory requirement for own funds essentially corresponds to 8 per cent of the overall calculation basis. In other words,

$$\frac{\text{Total tier 1 Capital} + \text{Tier 2 Capital}}{\text{Credit risk} + \text{Market risk} + \text{Operational risk}} \geq 8 \text{ per cent}$$

In addition, the Bank must maintain sufficient capital to satisfy the regulatory requirements for buffer capital, which shall consist of common equity tier 1 capital. Enterprises must have a capital conservation buffer of 2.5 per cent and a systemic risk buffer. In December 2019, the Ministry of Finance decided that the systemic risk buffer should be raised from 3.0 per cent to 4.5 per cent from 31 December 2022 for banks that report in accordance with the standard method or the Foundation IRB method. For banks that report in accordance with the Advanced IRB method, the systemic risk buffer increased from 3.0 per cent to 4.5 per cent from 31 December 2020. The Ministry of Finance also sets requirements for countercyclical buffers and particular buffer requirements for systemically important financial institutions. The level of the countercyclical buffer is established by the Ministry of Finance each quarter. The countercyclical capital buffer was 2.5 per cent as at 31 December 2019. Because of the situation that arose with the spreading of the Covid-19 virus, the countercyclical capital buffer was reduced to 1.0 per cent with immediate effect on 13 March 2020. Maximum countercyclical buffer is 2.5 per cent. Sparebanken Sør was not defined as a systemically important bank as at 31 December 2020.

Total own funds is the sum of total tier 1 capital and tier 2 capital. The calculation basis, capital requirements and own funds are described in more detail in Chapter 4.

In accordance with Pillar 2 of the regulations, the institution must have a process for assessing the overall capital needs in relation to their risk profile, and banks must have a strategy to maintain their capital levels. The ICAAP (Internal Capital Adequacy Assessment Process) considers all risk to which the bank is exposed, including forms of risk not covered by Pillar 1. The Internal Liquidity Adequacy Assessment Process (ILAAP) will be an important part of the overall risk assessment.

Pillar 2 also provides guidelines on the authorities' review process (Supervisory Review Evaluation Process – SREP). Finanstilsynet will monitor and evaluate the institution's process under Pillar 2, while the supervisory authorities will implement measures if they do not regard the process as satisfactory. Sparebanken Sør's process for assessing risk and capital needs is described in Chapter 5.2.

Pillar 3 encompasses the requirements for disclosure of information, while Pillar 3, through the minimum requirements in Pillar 1 and the supervisory follow-up in Pillar 2, is intended to contribute to increased market discipline and a better comparison basis between enterprises. The banks must publish information that gives market players the opportunity to assess the enterprises' risk profile, capitalisation and risk management and control. The information is disclosed on the bank's website.

2.1. The EU's Bank Recovery and Resolution Directive

The EU's Bank Recovery and Resolution Directive (BRRD) entered into force in the EU in January 2016. In March 2018, the Norwegian Parliament (Stortinget) passed legislative amendments to implement the Directive in Norwegian law effective 1 January 2019.

The BRRD makes arrangements for banks, credit institutions and certain securities firms to be subject to crisis management or closed down without posing a threat to financial stability. Important considerations are that critical functions can be continued, and that losses are borne by owners and creditors, while deposits, client funds and public funds are protected. The Directive also facilitates arrangements for emergency response and preventive measures.

2.1.1. Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

A key element of the BRRD is the requirement for internal bail-in arrangements recapitalisation as a crisis measure in situations where capital instruments and debt are written down and/or converted to equity. Finanstilsynet will set a minimum requirement for the sum of own funds and eligible liabilities (MREL), and under the directive, it may require that eligible liabilities have lower priority in full or in part than other debt (typically unsecured debt).

The MREL consists of a loss absorption amount and a recapitalisation amount. It will initially be assumed that the ordinary capital requirements for enterprises to be liquidated through public administration in a crisis will be sufficient to absorb the losses. The minimum level for this part of the MREL is related to the applicable capital adequacy requirements. For enterprises where it is considered important that all or part of the operations continue, the MREL should also include a recapitalisation amount. The size of this amount is related to the expected capital needs after the crisis measures have been implemented, and the enterprise continues to operate. The MREL is determined based on the crisis management authority's crisis response plan for the enterprise in question.

Finanstilsynet established the minimum requirement for own funds and eligible liabilities for Sparebanken Sør and 13 other banks in December 2020.

The requirements are set as an MREL amount, where the MREL percentage is multiplied by the bank's risk-weighted calculation basis. For banks with wholly or partly owned mortgage company, adjustments have been made to reflect that the mortgage company is exempt from MREL requirements, and for the bank's obligations to the mortgage company in the form of guarantees etc. to be included in the MREL calculation. Sparebanken Sør's MREL requirement has been set at 32.0 per cent of the adjusted calculation basis.

The decisions state that the MREL requirement must be covered by own funds and convertible debt. Convertible debt that is to be included in satisfying the minimum requirement is required to be debt instruments with a lower priority than ordinary, unsecured, unprioritised debt (senior bond debt). The requirement for compliance (lower priority) must be satisfied in its entirety by 1 January 2024. Until that date, the bank can include unsecured senior debt with a remaining term to maturity of more than one year in satisfying the requirement for convertible debt. Phasing-in of subordinated debt must at minimum be linear, so that the Group in the course of 2021 must phase in at least 1/3 of the remaining need for subordination calculated as at 31 December 2020.

2.1.2. National resolution fund

The crisis management authority may need funds to deal successfully with enterprises affected by a crisis, such as issuing guarantees and loans, purchasing assets and contributing to other types of effective solutions. The Bank Resolution and Recovery Directive (BRRD) therefore requires the establishment of a national resolution fund. If the authorities are to contribute funds from the national resolution fund, specific minimum requirements are stipulated for losses and contributions to recapitalisation that should already have been made by the relevant owners of shares, equity certificates, other capital instruments and eligible liabilities.

From 1 January 2019, the Norwegian Banks' Guarantee Fund was split into a national resolution fund and a deposit guarantee fund. The requirements for capitalisation of the deposit guarantee fund are established in the Deposit Guarantee Schemes Directive (DGSD). In future, the enterprises will be liable to pay annual contributions to both funds, where the rules for contributions are based on the principle that the contributions must be proportionate to the enterprises' risk profile. Many of the enterprises that are covered by these rules already pay contributions to the

Banks' Guarantee Fund. The total deposits for these enterprises will not significantly change; however, the proposed risk adjustment of the contributions will result in a greater degree of differentiation between institutions.

A requirement is imposed that owners of shares or equity certificates and debt must have incurred a loss before assistance can be paid from the national resolution fund.

2.2. The EU's banking package

In the spring of 2019, a number of changes in the EU's Capital Requirements Regulations (CRR/CRD IV) and the Bank Resolution and Recovery Directive (BRRD) were adopted for banks, based on recommendations from the Basel Committee on Banking Supervision and proposals from the EU Commission. The changes are referred to overall as the EU's banking package and entail significant regulatory changes in a number of different parts of the capital requirements and recovery and resolution regulations. The changes include a revised Capital Requirements Directive (CRD5) and a revised Capital Requirements Regulation (CRR2), as well as a revised Bank Recovery and Resolution Directive (BRRD2).

The regulatory changes were initially intended to enter into force in the EU two years after they were adopted, in other words, in the spring of 2021. However, several of the changes have already entered into force in the EU as a result of Regulation (EU) 2020/873, which accelerated already-adopted regulatory relief in the banking package and introduced new relief in some other regulations, as a response to the economic effects of the Covid-19 pandemic. The changes in the banking package and Regulation (EU) 2020/873 are relevant in the EEA but have not yet been included in the EEA Agreement.

The regulatory changes in the banking package include minimum requirement for leverage ratio, a requirement for stable and long-term financing (NSFR), narrowing of the supervisory authority's opportunity to establish Pillar 2 requirements for systemic risk, and greater flexibility for national authorities to implement measures to deal with various forms of systemic risk, including increased capital buffer requirements and minimum requirements for weighing risk of lending with real estate as collateral. In addition, the so-called SME discount is continued and expanded, and a new capital requirement discount is introduced for lending to certain infrastructure projects. Specific rules are introduced in the recovery and resolution regulations regarding how the recovery and resolution authority shall determine how much of the MREL requirement is to be met with subordinated debt. The regulations are expected to be implemented in Norwegian law in 2021.

3. GROUP RELATIONSHIPS AND CONSOLIDATION

3.1. List of Group companies

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

3.1.1. Fully consolidated companies – (subsidiaries)

					PARENT BANK 31.12.2020
NOK thousand	**Type of business**	**Registered office**	**Ownership**	**Share capital**	**Book value**
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	1.125.000	2.095.695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	10.739	11.499
AS Eiendomsvekst	Property management	Arendal	100 %	3.000	2.935
Arendal Brygge AS	Property management	Arendal	50 %	601	0
Prosjektutvikling AS	Property management	Arendal	100 %	100	0
Transitt Eiendom AS	Property management	Kristiansand	100 %	100	780
Total					**2.110.909**

Arendal Brygge AS is a joint venture and is not consolidated in the financial statements.

3.2. Limitations on transfer of capital or repayment of debt between Group companies

There are no contractual, private-law or other actual limitations on the transfer of capital between the companies. The right to transfer capital or repay debt between the Group companies is otherwise regulated in the prevailing legislation for the sector.

4. PILLAR 1: MINIMUM REQUIREMENTS FOR OWN FUNDS

4.1. Capital adequacy and Leverage Ratio

The Group satisfied the capital requirements for financial institutions with effect from 31 December 2020 of common equity tier 1 capital of 11.0 per cent, total tier 1 capital of 12.5 per cent and total capital of 14.5 per cent, respectively. The capital requirements, including the Pillar 2 additional capital requirement of 2.0 per cent, are 13.0 per cent for common equity tier 1 capital, 14.5 per cent for total tier 1 capital and 16.5 per cent for total capital, respectively.

PARENT BANK		NOK million	GROUP	
31.12.2019	**31.12.2020**	**Minimum capital requirements**	**31.12.2020**	**31.12.2019**
4,50 %	4,50 %	Minimum Tier 1 capital requirements	4,50 %	4,50 %
2,50 %	2,50 %	Conservation buffer	2,50 %	2,50 %
3,00 %	3,00 %	Systemic risk buffer	3,00 %	3,00 %
2,50 %	1,00 %	Counter-cyclical buffer	1,00 %	2,50 %
2,00 %	2,00 %	Pilar 2 requirements	2,00 %	2,00 %
14,50 %	13,00 %	CET1 requirements, incl. Pilar 2	13,00 %	14,50 %
16,00 %	14,50 %	Tier 1 Capital requirements, incl. Pilar 2	14,50 %	16,00 %
18,00 %	16,50 %	Total capital requirements, incl. Pilar 2	16,50 %	18,00 %
8.802	8.401	CET1 requirements, incl. Pilar 2	10.137	10.503
9.712	9.370	Tier1 Capital requirements, incl. Pilar 2	11.307	11.589
10.926	10.662	Total capital requirements, incl. Pilar 2	12.867	13.038
938	2.245	Above CET1 requirements, incl. Pilar 2	2.067	853
1.403	2.351	Above Tier 1 Capital requirements, incl. Pilar 2	2.008	1.178
2.059	2.559	Above total capital requirements, incl. Pilar 2	1.998	1.648

PARENT BANK			GROUP	
31.12.2019 2)	31.12.2020	NOK million	31.12.2020 1)	31.12.2019 2)
11.535	**12.136**	**Total equity**	**13.752**	**13.081**
		Tier 1 capital		
-1.375	-1.075	Hybrid capital classified as equity	-1.111	-1.375
-245	-219	Share of profit not eligible as common equity tier 1 capital	-219	-245
-27	-41	Deductions for intagible assets	-48	-27
-44	-42	Deductions for additional value adjustements	-31	-27
		Proportion of common equity tier 1 capital from Brage Finans AS		
		Deductions for internal eliminations from Brage Finans AS		
-104	-113	Other deductions	-138	-51
9.740	**10.646**	**Total common equity tier 1 capital**	**12.204**	**11.356**
		Other tier 1 capital		
1.375	1.075	Hybrid capital	1.111	1.375
		Proportion of tier 1 capital Brage Finans AS		
11.115	**11.721**	**Total tier 1 capital**	**13.315**	**12.767**
		Additional capital supplementary to tier 1 capital		
1.971	1.600	Subordinated loan capital	1.649	1.971
		Proportion of net subordinated capital Brage Finans AS		
-101	-100	Deductrions from additional capital	-100	-101
1.870	**1.500**	**Total additional capital**	**1.549**	**1.919**
12.985	**13.221**	**Net subordinated capital**	**14.864**	**14.686**
		Calculation basis according to standard method		
25	25	Engagements with local and regional authorities	25	25
875	1.913	Engagements with institutions	513	425
2.725	3.824	Engagements with enterprises	5.164	2.800
5.188	4.787	Engagements with mass market	7.151	6.500
37.863	34.598	Engagements secured in property	51.991	52.088
1.150	1.025	Engagements which have fallen due	1.125	1.225
25	4.075	Engagements which are high risk	4.075	25
4.800	5.612	Engagements in covered bonds	1.338	1.338
4.175	4.813	Engagements in collective investment funds	1.750	2.300
613	563	Engagements, other	638	613
57.440	**61.233**	**Capital requirements for credit and counterparty risk**	**73.768**	**67.338**
13	**13**	**Capital requirements for position, currency and product risk**	**13**	**13**
3.238	**3.350**	**Capital requirements for operational risk**	**4.175**	**3.913**
13	**25**	**CVA addition**	**25**	**13**
60.702	**64.620**	**Risk-weighted balance (calculation basis)**	**77.980**	**71.275**
		Porportionate share of calculation basis Brage Finans AS		2.112
		Deductions for internal eliminations Brage Finans AS		-955
		Risk weighted balance after proportonate consolidation	77.980	72.432
16,0 %	16,5 %	Common equity tier 1 capital ratio. %	15,7 %	15,7 %
18,3 %	18,1 %	Tier 1 capital ratio. %	17,1 %	17,6 %
21,4 %	20,5 %	Total capital ratio. %	19,1 %	20,3 %
8,5 %	8,1 %	Leverage ratio	8,9 %	9,3 %

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

2) *Following a proposal from the board of directors, the Supervisory Board decided at its meeting of 26 March 2020 to pay a dividend NOK 0 to equity certificate holders for 2019. The original proposal was for a dividend payout of NOK 125 million. The decision had a positive impact on capital adequacy as at 31 December 2019. For the Group (parent bank), the CET1 capital ratio rose from 15.7 (16.0) per cent to 15.9 (16.3) per cent, the tier 1 capital ratio rose from 17.5 (18.3) per cent to 17.8 (18.5) per cent, the (total) capital ratio rose from 20.3 (21.4) per cent to 20.5 (21.6) per cent, while the leverage ratio rose from 9.3 (8.5) per cent to 9.4 (8.6) per cent.*

As at 31 December 2020, Sparebanken Sør had a leverage ratio of 8.9 per cent, which comfortably satisfies the minimum leverage ratio requirement of 5 per cent.

NOK million	31.12.2020	31.12.2019
Derivatives	2.245	1.408
Off balance sheet commitments	6.500	5.605
Other assets	140.543	128.528
Proportion Brage Finans AS		2.703
Eliminations Brage Finans AS		-474
Total Leverage Ratio exposure	**149.288**	**137.770**
Total tier 1 capital group Sparebanken Sør	**13.315**	**12.767**
Leverage Ratio group Sparebanken Sør	**8,92 %**	**9,27 %**

4.2. Phasing-in plan for new requirements for buffer capital

Pillar 1 requirement	01.07.2013	01.07.2014	01.07.2015	01.07.2016	31.12.2017	31.12.2018	31.12.2019	31.12.2020	31.12.2021	31.12.2022
Minimum Common equity Tier 1 capital requirement	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %	4,50 %
Capital conservation buffer	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %	2,50 %
Systemic risk buffer	2,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	3,00 %	4,50 %
Countercyclical buffer			1,00 %	1,50 %	2,00 %	2,00 %	2,50 %	1,00 %	1,00 %	1,00 %
Common equity Tier 1 capital requirement	**9,00 %**	**10,00 %**	**11,00 %**	**11,50 %**	**12,00 %**	**12,00 %**	**12,50 %**	**11,00 %**	**11,00 %**	**12,50 %**
Hybrid capital	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %	1,50 %
Equity Tier 1 cappital requirement	**10,50 %**	**11,50 %**	**12,50 %**	**13,00 %**	**13,50 %**	**13,50 %**	**14,00 %**	**12,50 %**	**12,50 %**	**14,00 %**
Subordinated loan	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %	2,00 %
Own funds requirement	**12,50 %**	**13,50 %**	**14,50 %**	**15,00 %**	**15,50 %**	**15,50 %**	**16,00 %**	**14,50 %**	**14,50 %**	**16,00 %**

From March 2020 the countercyclical buffer is 1.0 per cent. In December 2019, the Ministry of Finance decided that the systemic risk buffer should be raised from 3.0 per cent to 4.5 per cent from 31 December 2022 for banks that report in accordance with the standard method or the Foundation IRB method.

5. PILLAR 2: INTERNAL RISK AND CAPITAL ADEQUACY ASSESSMENT PROCESS

5.1. Process

The Board of Directors is responsible for the Bank's internal risk and capital adequacy assessment process (ICAAP). The Board of Directors is further responsible for assessing the Bank's risk tolerance, capital needs and capital planning. The Board of Directors also approves the choice of methods and results. The purpose of the ICAAP is to conduct a quantitative and qualitative assessment of the Group's risks in order to assess whether the Bank's capital adequacy and capital buffer are adequate in comparison with the Bank's risk profile.

The Board of Directors has integrated ICAAP into the Bank's strategic and business processes. This means that ICAAP represents an important decision-making basis in areas such as:

- The Strategy Document
- Annual forecasts and investment needs
- Risk assessments for the market and products
- Overarching risk and capital planning.

The Group's processes relating to capital adequacy assessment (ICAAP) are based on a quantification of risk and capital needs in the key risk areas.

Quantitative analyses of risk are supplemented with qualitative assessments.

Scenario analyses of expected economic developments and stress testing are key considerations in assessing the Group's long-term capital needs and capital buffer.

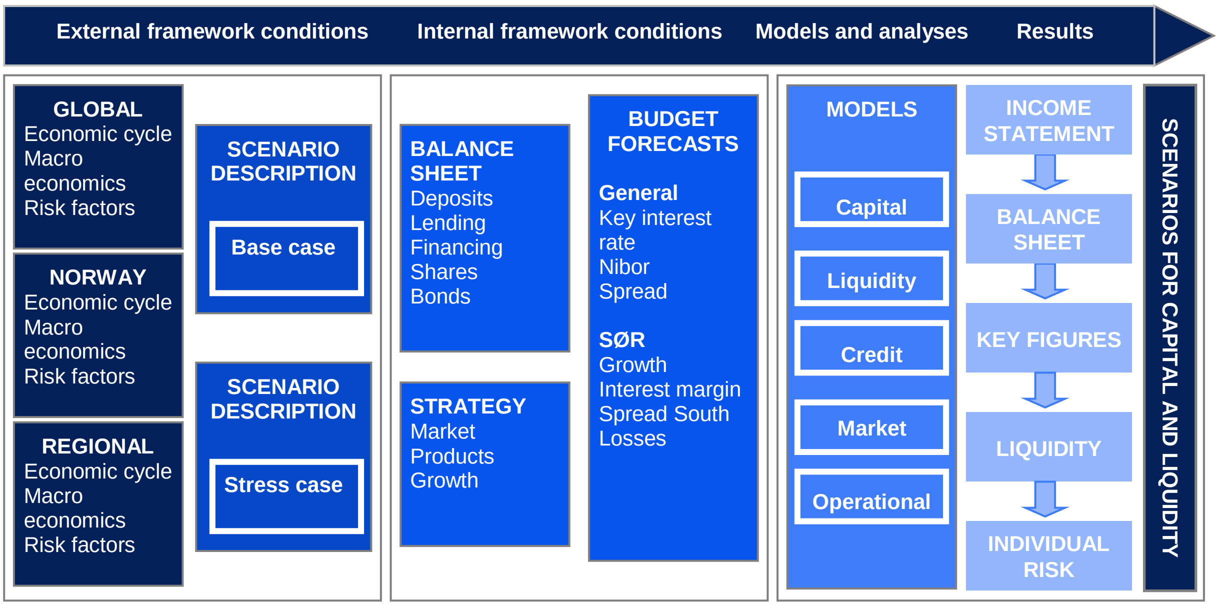


Figure: Model for scenario analyses and stress testing

Risk management and capital adequacy are essentially based on goals and ambitions set out in the Group's strategy plan and other policy documents.

Risks are identified and analysed, and capital needs are established for individual risks.

Potential future economic scenarios are outlined based on global, national and regional economic trends. Scenarios are prepared for expected developments (Base case) and a Stress case. The Stress case is intended to represent a serious economic downturn.

The scenarios estimate the effects on the income statement, balance sheet, capital, individual risks, liquidity and various key figures. The ICAAP must be forward-looking. The Bank has therefore based its scenario analyses on a four-year period, where the economic downturn bottoms out in year 3 of the Stress case. Sensitivity analyses and reverse stress testing are also performed.

Together with the scenario analyses and other assessments, analysis of individual risks will form the basis for the Group's desired capital and capital buffer.

Liquidity and funding risk will be an important part of the overall risk assessment. This is known as the ILAAP. Short- and long-tern liquidity requirements and the results of implemented stress tests are key factors in this context. Information about the size, composition and quality of the Bank's liquidity buffer be available, along with changes in quantitative measurement parameters such as the "Liquidity Coverage Ratio" (LCR).

The ICAAP/ILAAP is carried out once a year. In the event of material changes in external or internal framework conditions and assumptions, methods or other conditions that will affect capital adequacy, the ICAAP/ILAAP will be revised and updated.

5.2. Assessment of risk and capital needs

The table below shows the risks that are included in the Group's ICAAP and the methods that are used to calculate risk and capital.

Risk type	Risk classes	Calculation method
Credit risk	Pillar 1	Standard method
	Pillar 2 (Risk above standard)	Finanstilsynet's methodology/own assessments
	Concentration risk	Sector – Finanstilsynet's methodology/own assessments Large exposures – Finanstilsynet's methodology/own assessments
	High lending growth	Finanstilsynet's methodology/own assessments
Market risk	Pillar 1 (Shares, interest and currency)	Standard method
	Pillar 2 (Risk above standard)	Finanstilsynet's methodology/own assessments
Operational risk	Pillar 1 (External, personnel, procedures)	Basic method
	Pillar 2 (Risk above Basic)	Own assessments
Liquidity risk	Financing cost	Own assessments
Business risk	Unexpected reductions in income/costs	Own assessments
Strategic risk	Defective/erroneous initiatives	Own assessments
Ownership risk	Shareholdings in insurance companies	Finanstilsynet's methodology/own assessments
Other risk		

Table: Methods for calculating capital needs

Based on models and methods, as well as qualitative assessments such as those outlined above, capital needs are identified and calculated for the various risks included in ICAAP (Pillar 1 and Pillar 2 risks).

5.3. Capital goals

Results from the ICAAP provide guidance on risk appetite, capital needs and the risk strategies adopted by the Board. The ICAAP verifies that:

- The Group has sufficient capital to satisfy the authorities' requirements and internal performance goals for capital adequacy and capital buffers.
- The Group's capital adequacy at the bottom of a serious economic downturn is above the authorities' minimum requirements and internal performance goals, and there is a high degree of probability that measures can be taken to return the capital adequacy to the performance goal.
- The Group has sufficient capital and capital buffers to implement plans and strategic measures without endangering the financial solvency goal.

An important part of the Group's goal is that the common equity tier 1 capital ratio should be on a par with that of comparable banks. Sparebanken Sør is the only one of the large regional banks in Norway to use the standard method to calculate capital adequacy.

Finanstilsynet's Supervisory Review Evaluation Process (SREP) for Norwegian financial instituitons is split into five groups based on size, complexity and scope, as well as the degree of risk that the enterprise presents for the financial system. Sparebanken Sør is in Group 2, which encompasses large and medium-sized enterprises that mainly operate within Norway but with large national or regional market shares. Banks in Group 2 will be subject to a detailed SREP with written feedback every other year.

Finanstilsynet set the Pillar 2 requirement in 2018 at 2.0 per cent of the calculation basis. The Pillar 2 requirement must be satisfied at all times. The requirement is linked to an assessment of risk factors not covered by the Pillar 1 requirements and also includes a new method for calculating capital requirements for partly owned insurance companies.

Finanstilsynet would have assessed the Group's risk and capital requirements (SREP) in 2020, but as a result of the coronavirus pandemic Finanstilsynet did not make a new Pillar 2 determination in 2020. The Group has carried out ICAAP in 2020, and the Group's own calculations indicate that the Pillar 2 requirement should be markedly lower. The Bank is expected to be assigned a new Pillar 2 requirement in the second half of 2021.

Capital adequacy 2014–2020

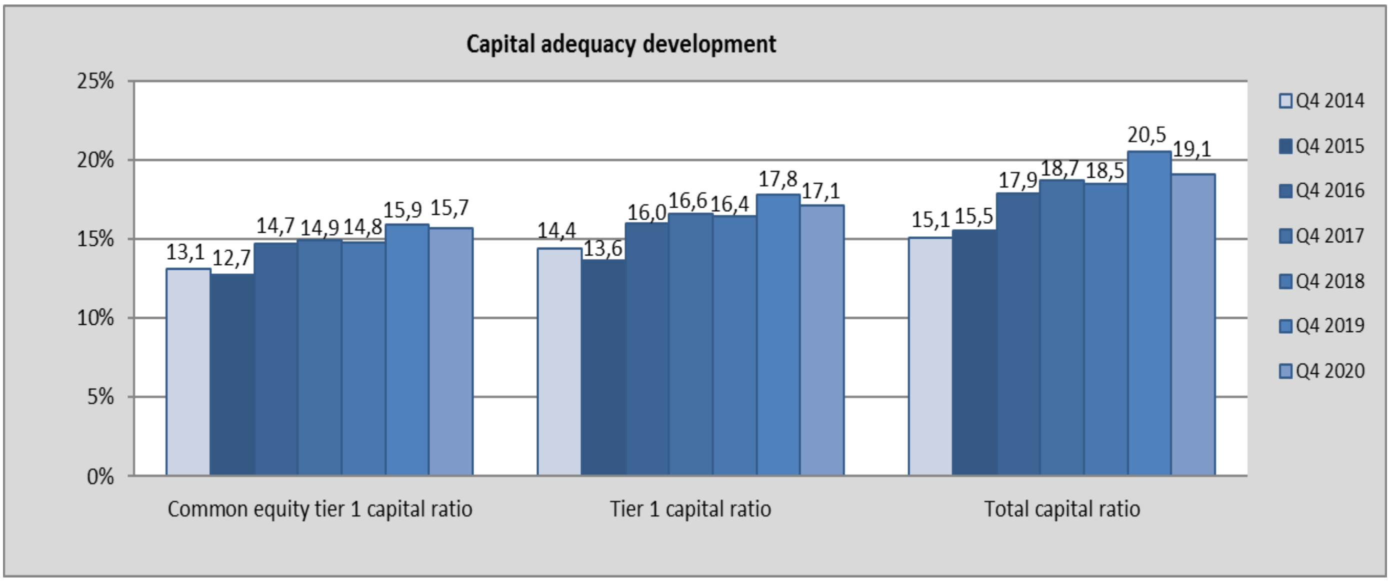


Figure: Fourth-quarter common equity tier 1 capital ratio, total tier 1 capital ratio and total capital ratio (own funds) 2014-2020. Authority requirements for the various types of capital adequacy were all satisfied by a comfortable margin. Includes the Bank's shareholding in Brage from Q4 2017.

The Group had a common equity tier 1 capital ratio of 15.7 per cent, total tier 1 capital ratio of 17.1 per cent and a total capital ratio of 19.1 per cent as at 31 December 2020. The Group has a common equity tier 1 capital requirement of 13.0 per cent, including a Pillar 2 additional capital requirement of 2.0 per cent.

The Group has stated that its goal is a common equity tier 1 capital ratio of 15.3 per cent. In December 2019, the Ministry of Finance decided that the systemic risk buffer should be raised by 1.5 per cent from 31 December 2022, and the Group will adapt to the requirement by this date and ensure necessary buffers above the minimum requirement.

6. RISK MANAGEMENT AND CAPITAL MANAGEMENT

6.1. Elements of risk management and capital management

6.1.1. Strategic plan

The purpose of risk management and capital management is to support the Bank's strategic goals and ambitions. The strategy plan lays out the Group's long-term goals for development, growth, financial solvency, profitability and risk profile.

Risk management and capital management must be a holistic process, firmly integrated with other processes in the Group.

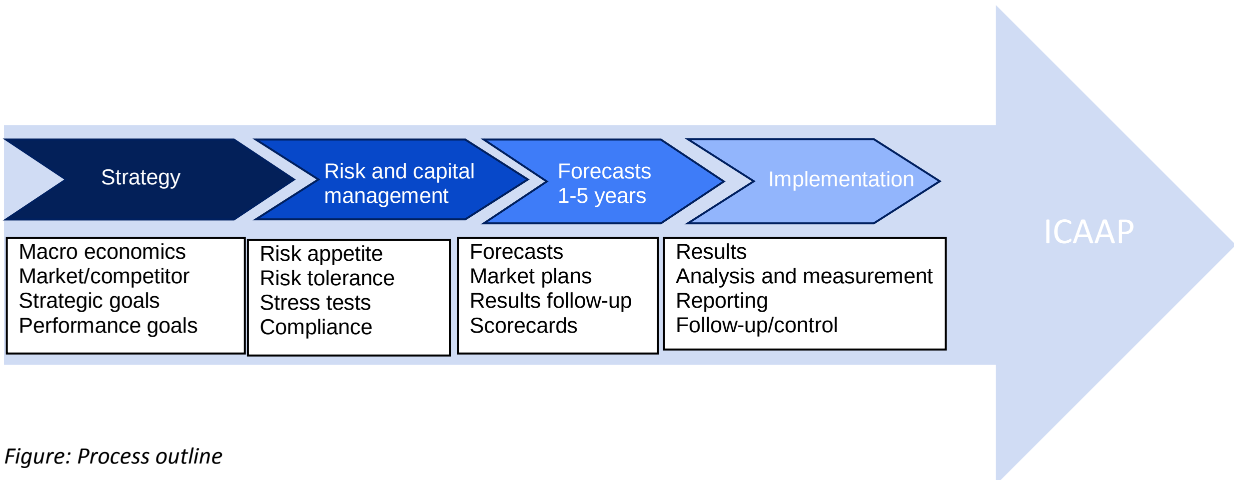


Figure: Process outline

6.1.2. Organisation

Organisational culture is an important element of risk management and capital management. The organisational culture influences employees' knowledge, attitude and ability to manage risk. An inadequate organisational culture cannot be compensated by other control and management measures.

Risk management at Sparebanken Sør is split into the following functions:

- An executive function with day-to-day responsibility for risk management (line and staff function)
- An independent monitoring function (Risk Management and Compliance)
- An independent certification function (Internal Audit)

There must be an allocation of functions and roles between the Bank's business areas and auditing authorities.

Sparebanken Sør has a policy that employees in the executive function are to manage and measure the risk the Bank is exposed to in daily operations and report this according to procedures that have been adopted.

There must not be an organisational relationship within the various risk areas between the employees who perform operational work and those responsible for monitoring and reporting performance goals.

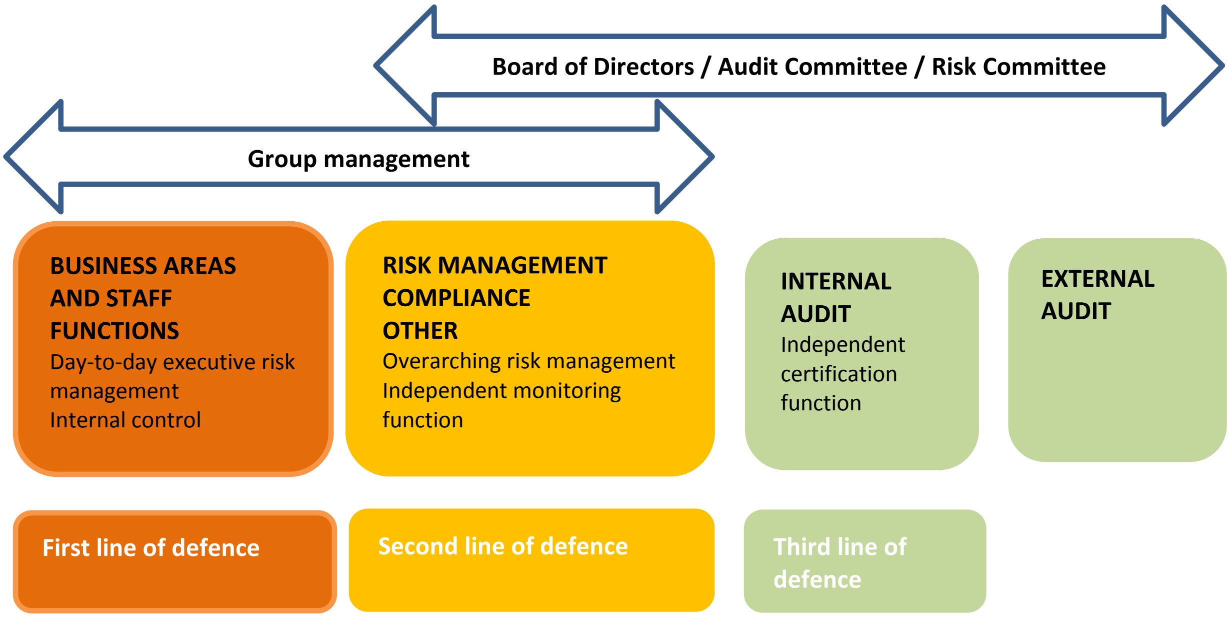


Figure: Management model for risk management and capital management

The management model is intended to ensure independence in decision-making, reporting, responsibilities and roles in day-to-day risk management.

The Board has overall responsibility for the Bank's total risk management and shall ensure that the Bank has appropriate systems in place for risk management and internal control. The Board establishes risk strategies, the risk profile and risk tolerance, and the risk profile is operationalised through the framework for risk management, including the setting of authorities.

The Board of Directors also determines the strategy and guidelines for the level, composition and allocation of equity, and approves the process to ensure the Bank has adequate equity at all times (ICAAP).

The Board has established a Risk Committee as a subcommittee of the Board whose mandate is to help ensure that the Group's risk and capital management activities support the Group's strategic development and goal achievement. The Risk Committee will monitor the aggregate risk and assess whether the Group's management and control systems are appropriate for the risk level and the scope of the business.

The Board has also established a separate Audit Committee as a subcommittee of the Board whose mandate is to perform more in-depth assessments of agreed focus areas, including strengthening work on financial reporting and internal control.

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

Risk Management reports directly to the CEO. Risk management covers the entire Group and does not perform activities which the control function is intended to monitor. The division will identify, measure and assess the Bank's total risk. The Risk Management division is responsible for regularly reporting to Group management, Risk Committee and the Board on the Bank's total risk exposure.

An independent Compliance function has been established that reports directly to the CEO. The main responsibility of the Compliance function is to prevent, control and report any non-compliances with laws, regulations, directives and policy documents. The function of Compliance is to ensure that the Bank performs its tasks in accordance with the authorities' requirements and various standards. Prevailing regulatory requirements must be satisfied at all times.

The Bank has an Internal Audit function staffed by its own employees. Internal Audit is a monitoring function independent of general administration that performs risk assessments, controls and investigations of the Bank's internal control and governance processes to assess whether the internal control systems are satisfactory and ensure that the portfolio and reporting systems function as intended.

6.1.3. Risk management

The purpose of risk management is to support Sparebanken Sør's strategic goals. Frameworks have been established for risk appetite, risk frameworks and risk tolerance for individual types of risk. Systems have been established for measuring, reporting, managing and controlling risk. Both the aggregate risk level and the various risk categories must be closely monitored to ensure that the Group is performing in accordance with the adopted risk profile and strategies.

Risk management is also intended to ensure that risk exposure is known at all times, and to help Sparebanken Sør achieve its strategic goals for financial stability and profitability. The Group's risk exposure must be adapted to capital, growth ambitions, competence and market opportunities, as well as the authorities' requirements and guidelines.

Key elements in the Group's risk management:

- Define and quantify the Group's risk
- Establish framework and guidelines for the Group's risk acceptance
- Determine risk strategies, risk appetite with appropriate risk goals and risk tolerance
- Maintain and develop a sound risk culture with a good balance between business goals and risk
- Have the best possible allocation of the Group's capital on the basis of strategic objectives and profitability
- Have risk strategies with appropriate performance goals
- Have good systems and procedures for identifying, measuring and analysing risk
- Have good systems and procedures for managing, monitoring, reporting and controlling risk

Risk culture is a critical factor for achieving the desired level for the Bank's risk management. The Bank's risk management is based on uniting sound practice with sound theory, and the Bank will have a culture for assessing and dealing with risk in all situations. The Bank will develop and maintain a sound risk culture through communication, information and training about the Bank's strategy, activities and desired risk profile.

Compliance with adopted ethical guidelines plays an important role in helping the Group achieve its long-term goals.

The Bank's risk management and internal control will contribute to the Bank's risk being managed in a way that supports the Bank's objectives and contributes to ensuring the Bank's long-term creation of value. The overarching guidelines for the Bank's risk management and frameworks for exposure to risk are assessed and determined annually by the Board in connection with maintaining the Bank's internal strategy and policy documents.

The risk management shall ensure:

- A risk profile that is on a par with comparable banks, but is also adapted to the Bank's risk capacity and risk appetite
- Risk-taking that is based on profitability and returns
- A risk profile that ensures that no individual risk threatens Sparebanken Sør's independence
- That all the authorities' requirements are satisfied
- A risk profile that does not harm the Group's good name and reputation

Risk is concretised through qualitative and quantitative risk frameworks for risk and capital.

The structure of the various policy documents is shown below:

Figure: Structure of policy documents

The policy documents include risk strategies, as well as goals/frameworks and risk tolerance for various risk categories.

To ensure that the various policy documents are aligned with the Group's objectives, the policy documents must be regularly revised and maintained, and an audit is normally conducted within a period of 12 months as instructed by a relevant body.

6.1.4. Capital management

Sparebanken Sør must be well capitalised – so that we have a sound basis for development and growth in economic upturns and are robust enough to weather economic downturns.

The capital management shall ensure:

- Regulatory requirements for capital are satisfied
- Market opportunities and ambitions are met
- Adequate operational buffers
- Rating objectives are met
- Requirements from the Norwegian and international financial markets are met
- Competitive return is realised

Sparebanken Sør aims to be solidly capitalised at all times. The Bank's common equity tier 1 capital ratio must satisfy the authorities' minimum requirements and be on a par with comparable banks.

6.1.5. Risk identification

Risk identification must be a forward-looking process integrated into the Bank's strategy work and business and financial management processes. The process covers all material risks in the Group. In addition to ongoing follow-up during the year, a thorough analysis of the various risk categories is performed at least once a year.

6.1.6. Risk analysis

An analysis is performed of the nature and drivers of identified risks. The risks must be quantified with regard to probability, consequence and expected losses. The risk analysis must ensure that a qualified and structured assessment of the need for control measures or measures to reduce risk is performed. Ongoing control measures are performed, documented and reported.

6.1.7. Scenario analyses and stress tests

The Group performs scenario analyses (expected economic development) and stress tests (economic development in a serious economic downturn) for liquidity, capital and individual risks. The scenario analyses are based on the Group's strategic goals and long-term forecasts. Stress tests are important in that they enable us to understand how the various risks and portfolios are affected by changes in macroeconomic assumptions and changes in internal assumptions, including how negative events can affect the Group's earnings, balance sheet structure, capital adequacy and liquidity buffer.

6.1.8. Reporting

Frameworks for risk and capital management are established in various policy documents and are followed up through fixed reporting. This ensures ongoing follow-up of performance goals, individual risks and the Group's aggregate risk.

Type of report	Revision frequency	Group management	Risk Committee	Board of Directors
ICAAP / ILAAP	Annual	X	X	X
Risk report	Quarter	X	X	X
Stress test Liquidity Risk	Quarter	X	X	X
Pillar 3	Annual	X	X	X
Sustainability report	Annual	X	X (Audit Committee)	X
Annual reports Operational Risk, Internal Control and IT Risk	Annual	X	X	X
Quarterly and annual report Money Laundering	Quarter / Annual	X	X	X
Quarterly and annual report Compliance	Quarter / Annual	X	X	X
Validation reports models	Annual	X	X	
Recovery Plan	Annual	X	X	X
Non-conformance report Lending Regulation	Quarter	X	X	X

Table: Reporting

6.1.9. Recovery Plan

The purpose of the Recovery Plan is to ensure that Sparebanken Sør can recover from an extremely serious financial crisis without extraordinary help from the authorities. The plan must be an integral part of the Group's framework for risk management and capital management, and it will enter into force in the event of breaches of pre-defined indicators. The plan therefore encompasses identification of relevant indicators to ensure sufficiently early intervention and effective measures to be able to restore the Bank's financial position following a major financial crisis.

If following a serious crisis, it is not possible to effect a recovery based on the Bank's Recovery Plan, the authorities' Crisis Response Plan will be implemented. See Chapter 2.1.1.

Crisis management of an enterprise must be deemed to be in the public's interest when it is appropriate and necessary to ensure continuation of critical functions and avoid unnecessary negative impacts on the finance system, in particular by avoiding knock-on effects.

Based on the potential negative effects putting Sparebanken Sør into public administration could have for the economy and the financial system, Finanstilsynet believes that such a course of action would not be a credible crisis management strategy. This is primarily due to the Bank's importance for regional businesses and possible consequences resolution of the Bank would have for financial stability.

The Recovery Plan is an integral part of Sparebanken Sør's system for management and control, and indicator levels are adapted to the Bank's framework conditions for risk appetite. Calibration of key indicator values is based on factors including assessments and conclusions from the Bank's ICAAP. Reporting on selected indicators is part of standard risk reporting.

If the Bank triggers the threshold values for the defined emergency response indicators, the Emergency Response Team is convened. The Emergency Response Team consists of the Group management. The Emergency Response Team will obtain an overview of the situation and assess the reasons for the indicator breaches. If the nature of an indicator breach means that no special measures are considered necessary, the Emergency Response Team will be stood down. If the indicator breach makes it necessary to implement measures from the Recovery Plan, the Emergency Response Team will assess which measures are to be implemented. Several of the measures must be ratified by the Board. Once the relevant recovery measures have been implemented and deemed to be effective, the Emergency Response Team may decide that the Recovery Plan is to be discontinued and that the organisation is to be returned to a normal situation.

The Bank has prepared three different types of stress scenarios where capital and/or liquidity situation are threatened, and where the Recovery Plan is implemented:

- a gradual scenario with a combined general-market and bank-specific crisis to test the Bank's robustness,
- a sudden general-market liquidity stress scenario to test the Bank's ability to react, and
- a sudden bank-specific scenario with major lending losses to test the Bank's ability to react.

The scenarios have been prepared to illuminate potential serious crises, but in reality the Recovery Plan, including emergency response measures, is a toolbox that can also be used for less serious incidents.

The Bank will annually validate/revise the plan and implement emergency response drills to test how the Recovery Plan can be applied in a genuine crisis situation. The Recovery Plan will also be reviewed and updated in the event of significant changes in strategic or operational conditions at the Bank.

6.2. Credit risk

6.2.1. Definition

Credit risk is the risk that a counterparty does not meet its obligation under an agreement and that the value of the underlying collateral is not sufficient to cover the Bank's claim if the collateral must be sold. Credit risk affects all receivables from counterparties/customers. These are mainly loans and overdraft facilities, but also liabilities for issued guarantees, securities and counterparty risk relating to derivatives and foreign exchange contracts.

Concentration risk is credit risk in the form of a risk of loss arising from highly concentrated exposure to an individual counterparty or related groups of counterparties (major commitments) or counterparties with operations in the same sector (industry concentration) or geographic area (geographic concentration)

6.2.2. Risk assessment

Credit risk represents the largest area of risk for Sparebanken Sør. The Bank currently has a well-diversified portfolio in terms of geography, customer segment and sector.

Capital adequacy for credit risk is calculated using the standard method. The Bank has also assessed whether there are any other aspects of the Bank's credit risk that indicate that capital ought to be set aside for risks that cannot be covered by the standard method.

6.2.3. Management and control

The Board has overarching responsibility for the Bank's granting of credit and establishes the Bank's credit strategy and credit policy frameworks.

In addition to being the largest bank in Agder, the Bank is also represented in Vestfold, Telemark and Rogaland. The Bank also operates in a national market segment, through retail customers who have moved away from the Bank's core area, and organisations that form part of KNIF (Kristen-Norges Innkjøpsfellesskap) and their employees.

The figure below shows the principles for management and control of credit risk.

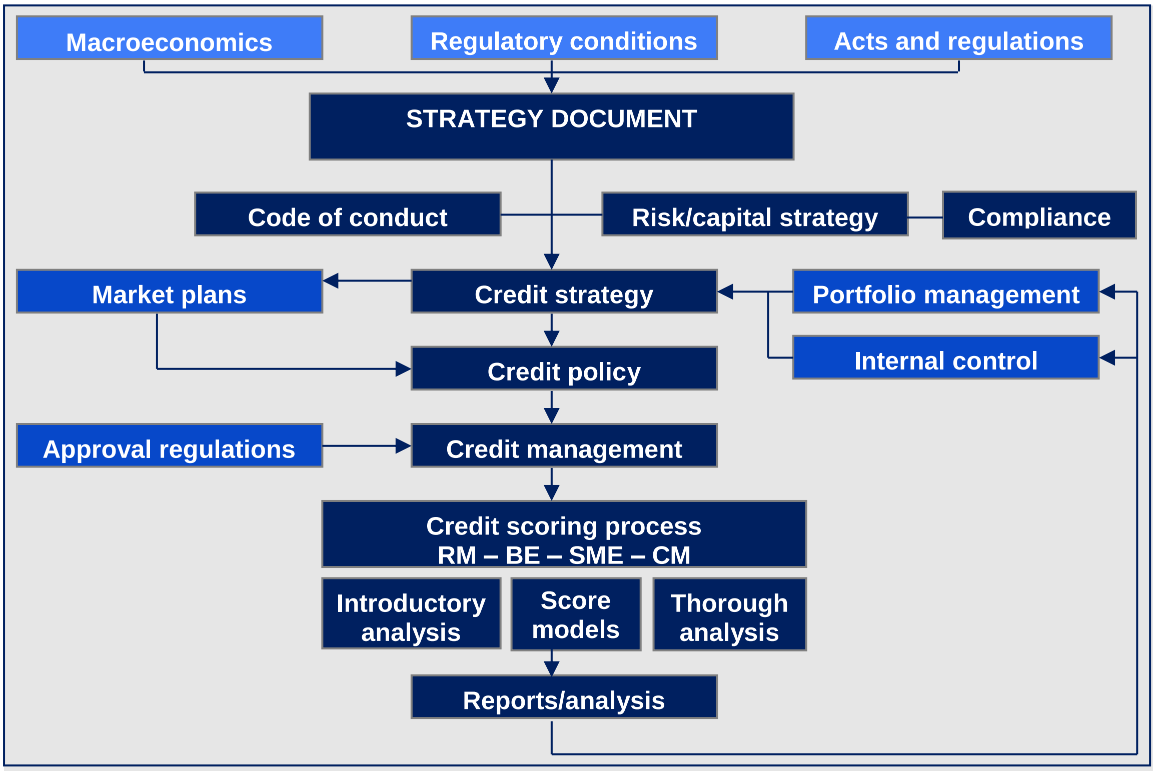


Figure: Management model, Credit risk

Credit risk is managed through the Group's credit strategy, credit policy, operational credit guidelines, credit processes and authority mandates. These establish guidelines for the Bank's lending activities.

Sparebanken Sør has developed and applies models for risk classification for credit processes and portfolio management in the retail and corporate markets.

Credit strategy

The credit strategy encompasses overarching issues relating to the Bank's credit portfolio and granting of credit and comprises general outlines and a series of credit strategy and quantitative frameworks.

These essentially consist of objectives and guidelines, while the quantitative frameworks can establish both restrictions and goals for risk tolerance and risk appetite.

Credit policy

The credit policy establishes policy rules for individual commitments and more detailed criteria for the granting of credit, as well as principles for operationalising the credit strategy.

Approval regulations

The approval regulations and authorisation mandates describe criteria and authorities for granting and monitoring credit. These authorities are differentiated by competence, risk class and security category, as well as the needs for the individual position.

Credit management procedures

The credit strategy and credit policy as well as operational credit guidelines regulate various matters relating to the granting and monitoring of credit and dealing with non-performing exposures.

Credit scoring process

The Bank uses decision-support systems as part of its credit scoring process. There is one process flow for retail customers and three process flows for corporate customers depending on the size and type of the customer. There is also a process flow for renewing commitments for corporate customers.

The main features of the credit scoring process are outlined below.

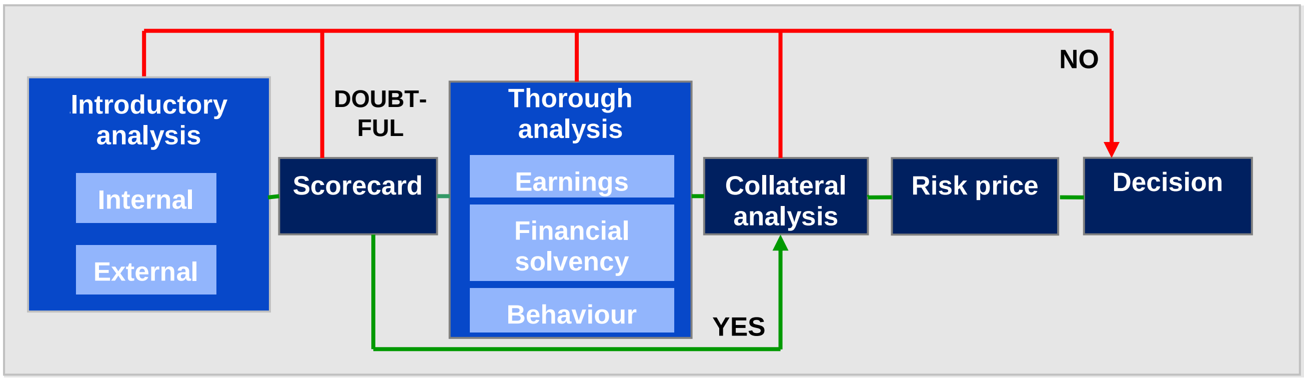


Figure: Credit scoring process

The introductory analysis is based on internal and external assessments and policy controls and is intended to identify whether the application complies with the Bank's strategy and policy, or whether there are risk aspects that indicate that the application should be rejected even at this early stage.

Based on the results of scoring and introductory analysis, requirements are established to determine which credit processes and risk assessments should be performed and which authorities should be applied for the granting and monitoring of commitments in the retail and corporate markets. Depending on the result of the introductory analysis and scoring, doubtful applications (yellow items) are subject to one or more thorough analyses of earnings, financial solvency and/or behaviour.

Security coverage calculations are based on expected realisable values.

The results of introductory analyses, scorecards, thorough analyses and the security policy, as well as any deviations from the risk price, indicate who has authority to approve the case.

Internal control

Procedures have been established for annual risk identification, risk analysis, control plans and follow-up for the various processes in the credit area. Semi-annual management confirmations of assessments of changes in risk are also obtained, and managers in all business areas must update the risk picture and internal control on an ongoing basis.

Commitment follow-up

All customers in a high-risk class are follow-up each quarter in respect of measures and loss provisions. The Bank's largest exposures are regularly presented to the Board.

Non-performing exposures in the retail customer and sole proprietor segments are assigned to an external debt collection agency for recovery.

Non-performing exposures in the corporate market are subject to separate follow-up procedures, including the involvement of the Bank's central credit department.

Reports/analyses

Periodic reports and analyses for the credit area are prepared to ensure that the Bank is acting in accordance with the goals set out in the policy documents.

6.2.4. Framework

Risk classification system

The risk classification system is used in the credit scoring processes and to calculate risk, tied-up capital and profitability at the product, customer and portfolio level.

The risk classification system is made up of the following components:

Probability of default	**Models for calculating the probability of default**
Security classes	**Models for calculating security classes**
Exposure	**Models for calculating exposure**
Loss ratio	**Models for calculating loss given default**
Expected loss	**Models for calculating expected loss in the next 12 months**
Risk group	**Models for allocation into risk groups**
Risk price	**Models for calculating risk-adjusted price**

Figure: Risk classification system

Probability of default

Scorecards are used to calculate the probability of default. Scorecards assign customers to 11 risk classes from A–K, where A–D are low risk, E–G are medium risk, H–J are high risk and category K is default. The Group has an application and behaviour scorecard for the retail market and the corporate market.

Risk class	Lower limit for default, %	Upper limit for default, %
A	0.00	0.10
B	0.10	0.25
C	0.25	0.50
D	0.50	0.75
E	0.75	1.25
F	1.25	2.00
G	2.00	3.00
H	3.00	5.00
I	5.00	8.00
J	8.00	99.99
K	100	

Table: Risk classes

Risk classes Retail market

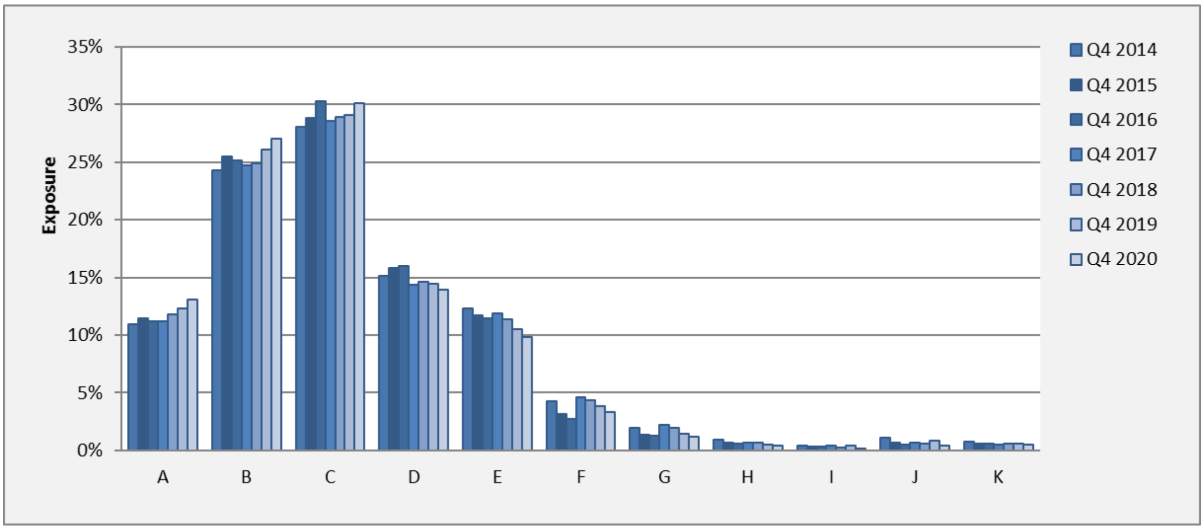


Figure: Risk classes Retail market

The figure shows the retail market portfolio by probability of default category. For the fourth quarter of 2020, customers with low risk (A – D) accounted for approximately 84 per cent. Customers with medium risk (E–G) accounted for approximately 14 per cent, while customers with high risk (H – J) including category K, which is default, accounted for 1.5 per cent.

Risk classes Corporate market

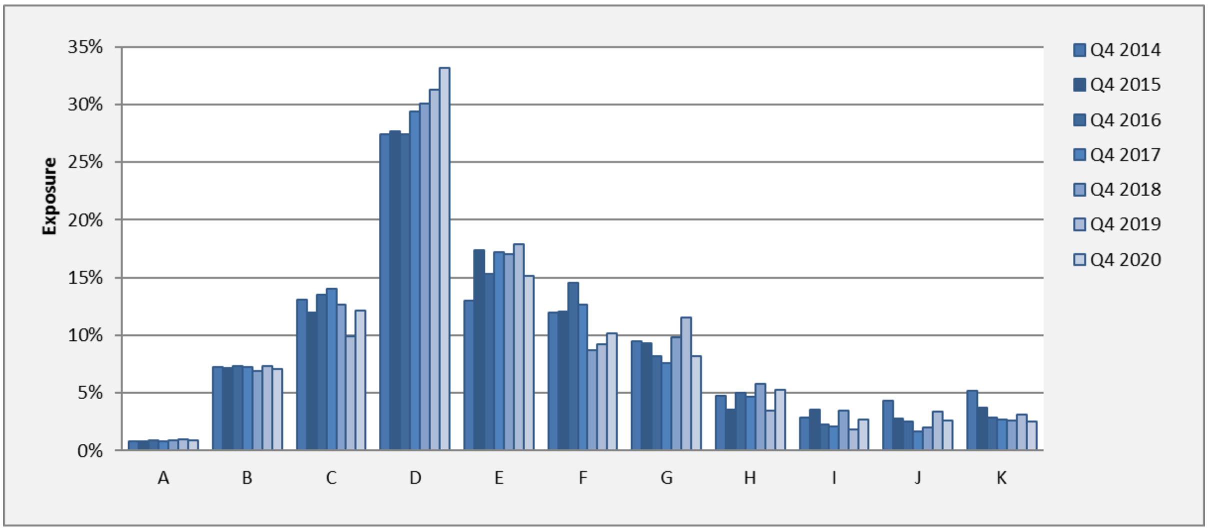


Figure: Risk classes Corporate market

The figure shows the Corporate market portfolio by probability of default category. For the fourth quarter of 2020, customers with low risk (A – D) accounted for approximately 53 per cent. Customers with medium risk (E–G) accounted for approximately 34 per cent, while customers with high risk (H – J) including category K, which is default, accounted for approximately 13 per cent.

Loss ratio

Based on the loan-to-value, a loss ratio (LGD – Loss Given Default) is calculated for the exposure in the event of default.

Exposure at default

The Conversion Factor (CF) defines how great a percentage of the unused credit framework is expected to be utilised in the event of default. EAD – Exposure At Default – is calculated as the higher of the balance or total commitments.

Expected loss

The expected loss for the next 12 months is calculated as follows:
Probability of default (PD) × Exposure (EAD) × Loss ratio (LGD).

Risk-adjusted capital

The Bank reports the capital needs for capital adequacy using the standard method. With respect to i.a. risk pricing, tied -up capital is calculated at product and customer level as risk-adjusted capital.

Validation

Each year the Group performs a qualitative and quantitative validation of the scoring models. The models are calibrated using a “Through-The-Cycle” (TTC) approach.

6.2.5. Exposure amount by type of exposure

The Bank’s overall exposure amount comprises:

NOK million	31.12.2020	31.12.2019	Change	Per cent
Total gross loans	112.007	106.704	5.303	5,0 %
Total unused credits	13.868	13.195	673	5,1 %
Guarantees	1.331	1.380	-49	-3,6 %
TOTAL EXPOSURE	**127.206**	**121.279**	**5.927**	**4,9 %**

6.2.6. Gross loans by geographic area

NOK million	31.12.2020		31.12.2019	
Agder	74.976	66,9 %	73.574	69,0 %
Vestfold and Telemark	13.761	12,3 %	12.452	11,7 %
Oslo	9.499	8,5 %	8.924	8,4 %
Viken	3.782	3,4 %	3.986	3,7 %
Rogaland	2.421	2,2 %	2.802	2,6 %
Others	7.421	6,6 %	4.745	4,4 %
Accrued interests	147	0,1 %	222	0,2 %
TOTAL GROSS LOANS	**112.007**	**100,0 %**	**106.704**	**100,0 %**

The Bank’s main market area is Agder, Rogaland, Vestfold and Telemark. The Bank also has a national market segment, comprising organisations that form part of KNIF (Kristen-Norges Innkjøpsfellesskap). This market area also includes some retail customers associated with the market area but who now live outside the Bank’s core geographic area.

6.2.7. Total exposure amount by sector

NOK million	31.12.2020	31.12.2019
Retail customers	81.024	77.229
Public administration	929	905
Primary industry	1.433	1.379
Manufacturing industry	1.585	1.550
Real estate development	5.443	6.773
Building and construction industry	2.553	2.257
Property management	21.020	18.612
Transport	747	864
Retail trade	2.480	1.804
Hotel and restaurants	483	334
Housing cooperatives	1.325	1.255
Financial/commercial services	1.386	2.342
Social services	6.650	5.752
Accrued interest	147	222
TOTAL EXPOSURE	**127.206**	**121.279**

The total exposure in the corporate market accounted for around 36 per cent of the Bank's total portfolio as at 31 December 2020.

6.2.8. Losses on loans, guarantees and undrawn credit facilities

Provisions for losses and the loss expense for the period are calculated in accordance with the new accounting standard IFRS 9, based on expected credit losses (ECL) using a 3-stage model described in the notes to the financial statements.

Loss expenses during the period

NOK million	31.12.2020	31.12.2019
Period's change inn write-downs stage 1	61	-5
+ Period's change inn write-downs stage 2	23	33
+ Period's change inn write-downs stage 3	-2	-89
+ Period's confirmed loss	8	41
+ Recognised as interest income	4	18
- Period's recoveries relating to previous losses	12	13
+ Change in write-downs on guarantees	-1	-1
= Loss expenses during the period	**83**	**-17**

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

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 01.01.2019	**45**	**94**	**335**	**473**
Tranfers				
Transferred to stage 1	47	-17	-30	0
Transferred to stage 2	-4	51	-47	0
Transferred to stage 3	-1	-2	3	0
Losses on new loans	20	39	37	96
Losses on derecognised loans *	-16	-24	-67	-107
Losses on older loans and other changes	-53	-13	0	-66
Provisions for loan losses as at 31.12.2019	**39**	**126**	**231**	**397**
Provisions for loan losses	32	111	228	370
Provisions for guarantees and undrawn credits	8	15	4	27
Total provision for losses as at 31.12.2019	**39**	**126**	**231**	**397**

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

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

Impairments by sector, industry and stage

GROUP

NOK million	Loss allowances as at 31.12.2020	Stage 3	Stage 2	Stage 1
Retail customers	53	29	13	11
Public administration	0	0	0	0
Primary industry	5	3	1	1
Manufacturing industry	15	4	8	3
Real estate development	95	52	26	17
Building and construction industry	23	12	7	3
Property management	212	89	73	49
Transport	2	1	0	1
Retail trade	26	13	8	4
Hotel and restaurants	5	2	2	1
Housing cooperatives	4	0	2	2
Financial/commercial services	17	12	3	2
Social services	13	2	4	7
Total impairment losses on loans, guarantees and undrawn credit	**468**	**218**	**149**	**101**
Impairment losses on lending	429	213	129	87
Impairment losses on unused credits and guarantees	39	5	21	13
Total impairment losses	**468**	**218**	**149**	**101**

NOK million	Loss allowances as at 31.12.2019	Stage 3	Stage 2	Stage 1
Retail customers	59	35	19	5
Public administration	0	0	0	0
Primary industry	3	1	1	1
Manufacturing industry	9	4	2	4
Real estate development	94	66	20	8
Building and construction industry	17	13	3	1
Property management	142	58	68	15
Transport	25	24	0	0
Retail trade	22	18	3	1
Hotel and restaurants	1	0	1	0
Housing cooperatives	2	0	1	0
Financial/commercial services	16	8	6	2
Social services	7	3	2	2
Total impairment losses on loans, guarantees and undrawn credit	**397**	**231**	**126**	**39**
Impairment losses on lending	370	228	111	32
Impairment losses on unused credits and guarantees	27	4	15	8
Total impairment losses	**397**	**231**	**126**	**39**

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

Expected average annual net loss

As at 31 December 2020, impairment losses totalling NOK 468 million were recognised for losses on loans, guarantees and unused credit facilities (NOK 397 million as at 31 December 2019). These are related to various risk classes.

6.2.9. Non-performing exposures

Retail customers and corporate customers are scored each month and assigned to 11 classes (A–K) based on their probability of default. Category K comprises non-performing loans.

The Pillar 3 document is as at 31 December 2020 and is based on the following definition of default. With effect from the turn of the year 2020/21, a new definition of default will apply.

The Group deems a financial asset to be in default if a minimum of one of the following criteria is met:

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

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

Non-performing exposures

NOK million	31.12.2020	31.12.2019
Gross non-performing loans > 90 days	323	286
Other non-performing loans	687	787
Total non-performing loans (stage 3)	**1.009**	**1.073**
Impairment losses in stage 3	218	231
Net non-performing loans	**791**	**842**
Provisioning non-performing loans	21,6 %	21,5 %
Gross non-performing loans > 90 days as % of gross loans	**0,29 %**	**0,27 %**

Gross non-performing loans by sector and industry

NOK million	31.12.2020	31.12.2019
Retail customers	241	249
Corporate customers	769	824
Total defaulted commitments	**1.009**	**1.073**
Public administration	0	0
Primary industry	8	16
Manufacturing industry	15	19
Real estate development	309	424
Building and construction industry	32	25
Property management	316	223
Transport	3	48
Retail trade	42	43
Hotel and restaurants	6	1
Housing cooperatives	0	0
Financial/commercial services	35	16
Social services	3	8
Total corporate customers	**769**	**824**

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

Forbearance

Commitments provided with forbearance, may be performing or initially non-performing. The commitments are listed as forbearance in the data warehouse. Factors causing forbearance will be changes in repayments, e.g. instalments postponements and refinancing as result of payment issues. When a commitment is listed forbearance, a transfer to stage 2 will automatically take place if it is initially in stage 1, cf. the 3 stage model in IFRS 9. If the commitment is in stage 3 initially, no transfers will take place. If a commitment is listed forbearance and later on regarded as performing, there is a quarantine before transferring back to stage 1.

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

NOK million	**31.12.2020**	**31.12.2019**
Stage 2	229	339
Stage 3	50	55
Total exposure with forbearance measures	**279**	**394**

6.2.10. Use of collateral

The following main types of collateral are used to establish the weighting of exposures for calculating capital requirements:

- Mortgages on property (homes, holiday homes)
- Bank deposits

Collateral is essentially valued based on the expected realisation value at the realisation date. The valuation principles are described in detail in the Bank's Credit Document. Mortgages on property in the retail market are valued on establishment and updated at least once a year.

The following additional types of guarantees are used to calculate the capital requirement.

- Guarantees from the government, county authorities and municipalities

The state of Norway has a AAA rating. Municipalities and county authorities cannot declare bankruptcy, see the Norwegian Local Government Act. In light of this, guarantees from these bodies are deemed sufficient to cover the nominal value.

Total exposure amount by category

NOK million	**31.12.2020**	**Secured in residential property**	**Secured in commercial property**
Engagements with governments and central banks			
Engagements with local and regional authorities			
Engagements with institutions			
Engagements with enterprises		9	114
Engagements with mass market		5.454	3.507
Engagements secured in property		86.636	31.679
Engagements which have fallen due		671	745
Engagements in covered bonds			
Engagements in collective investment funds			
Engagements other		47	13
Total exposure		**92.817**	**36.058**

Procedures and guidelines for offsetting on- or off-balance-sheet commitments

Sparebanken Sør does not offset on- or off-balance-sheet commitments when calculating capital requirements for credit risk.

Procedures and guidelines for valuation of collateral

The Bank's Credit Document contains templates and estimated values for valuing relevant types of collateral. Calculations are essentially based on sales value, estimates from Eiendomsverdi, book value or other relevant indicators of sales value. The value of the collateral is then reduced by a standard factor that varies with the type of collateral. This reduced value is then the realisation value.

6.3. Counterparty risk

6.3.1. Definition

Counterparty risk is the risk that the Bank's business partners/suppliers in the financial field are unable to fulfil their contractual obligations towards the Bank.

6.3.2. Risk assessment

The counterparty risk is considered low.

Counterparty risk is reduced by diversifying among different providers of financial services, as well as implementing risk-reducing measures such as contractually exchanging collateral between the parties, immediate counterparty clearing and reporting to central reporting authorities.

Capital adequacy for counterparty risk is calculated using the standard method. The Bank has also assessed whether there are other aspects of the Bank's market risk that indicate capital ought to be set aside for risks that cannot be covered using the standard method.

6.3.3. Management and control of counterparty risk

The Board has determined that counterparty risk is to be low. The Bank's business partners in the financial area must have a rating classification of at least investment grade, as well as a good reputation among borrowers and investors. It is essential when choosing business partners that they are willing and able to assist the Bank in financing the Bank's operations, including access to a large investor base, which ensures the Bank of adequate access to financing at competitive prices. The Bank's business partners must also be able to offer professional products and services in other financial services that the Bank seeks.

The Bank's requirement for low counterparty risk means that risk-reducing measures must be established. In order to manage the counterparty risk from financial institutions, frameworks have been established per counterparty for various products. The frameworks are intended to ensure the Bank's diversification objective. Frameworks for counterparty risk will cover exposures that arise with respect to liquidity investments, derivative positions, interest-bearing security portfolio and REPO transactions.

The Bank enters into derivative contracts to hedge the risk that arises in the Bank's ordinary operations in connection with funding at fixed interest rates and in a currency other than NOK, as well as loans to customers at fixed interest rates, in foreign currency and in derivatives trading with customers.

The Bank complies with the regulations for derivatives trading under EMIR (European Market Infrastructure Regulation) concerning settlement, certifications, documentation and reporting to the authorities.

Transactions in financial instruments with the Bank's counterparties shall be regulated by a satisfactory legal agreement. The agreement terms shall include collateral requirements with exchange of collateral and shall have the objective of reducing the exposure to a financial counterparty. The terms for short-term lending to a financial counterparty in exchange for collateral (repurchase transactions) shall normally be governed by a standard contract (Global Master Repurchase Agreement). Derivative transactions with financial counterparties shall be governed by standardised agreements (ISDA Master with Credit Support Annex) or equivalent agreements.

An agreement on clearing through a Clearing House approved by the authorities is also a risk-reducing measure that was implemented in 2019. Settlement risk is reduced through daily calculations of the margin each party should pledge for outstanding trades. CSA settlement will apply to all derivatives transactions that are not covered by clearing. Under CSA settlement, the value of derivatives is reconciled with the derivative counterparty, and settlement of collateral takes place. This enables the Bank to maintain low counterparty risk.

6.4. Market risk

6.4.1. Definition

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

Market risk is divided into interest rate risk, credit spread risk, exchange rate risk and share price risk.

6.4.2. Risk assessment

The market risk is considered low. At the end of the year, the levels of market risk were within the requirements adopted by the Board.

Sparebanken Sør’s market risk exposure is particularly affected by the scope of the Bank’s calculated credit spread risk in the liquidity portfolio. There will also be temporary effects on results relating to the valuation of hedge transactions for the Group’s foreign financing.

Capital adequacy for market risk is calculated using the standard method. The Bank has also assessed whether there are other aspects of the Bank’s market risk that indicate capital ought to be set aside for risks that cannot be covered using the standard method.

See Chapter 6.4.4.-6.4.7. for further assessment of interest rate risk, credit spread risk, exchange rate risk and share price risk, respectively.

6.4.3. Management and control

Market risk is managed through guidelines contained in board-adopted guidelines, authorities and procedures. The setting of frameworks for the performance goals will limit the risk and ensure that the Bank at all times meets the Board's requirement for a prudent risk profile.

The purpose of managing market risk is to ensure that the Group at all times has a known risk exposure and that this remains within an established risk tolerance level. The Board sets annual risk tolerance levels for loss potential for interest rate risk, credit spread risk, exchange rate risk and share price risk, respectively, as well as aggregate loss potential for market risk.

The bank has prepared a Method Document for Market Risk which contains assumptions and model options for measuring exposure to interest rate risk, credit spread risk, exchange rate risk and share price risk. The models are based on Finanstilsynet's modules for market risk.

Market risk is monitored continuously and reported quarterly to Group management, the Risk Committee and the Board in accordance with Board-adopted guidelines.

6.4.4. Interest rate risk

Interest rate risk is defined as the risk of financial losses arising from changes in interest rates if the fixed-interest period for the Bank’s liabilities and receivables do not coincide.

Interest rate risk arising in the Group's ordinary operations in the form of fixed rate customer loans, interest rate derivatives with customers, fixed rate investments and funding at fixed rates of interest and in foreign currencies is hedged on an ongoing basis. The Bank's interest rate risk exposure is measured by taking into account unhedged balance sheet and derivative positions.

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

Interest rate risk is assessed on the basis of a stress test scenario in which the entire interest rate curve has a parallel shift of 2 percentage points, as well as an assessment of how 6 stress test scenarios with various distortions in the interest rate curve affect the Bank's position. The scenario with the greatest loss potential is taken as a basis for measuring interest rate risk. The interest rate framework also includes interest rate risk in foreign currency.

At the end of 2020, Sparebanken Sør's interest rate risk was NOK 33 million when measured with the EV (market value) method.

6.4.5. Credit spread risk

Credit spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general market change in credit margins. A general increase in credit margins would lead to a reduction in the value of a portfolio of interest-bearing securities. Changes in the credit margin are a consequence of changes in investors' requirement for a risk premium.

Credit spread risk is related to the Group's securities portfolio. Finanstilsynet's stress test model for credit spread risk is used to calculate loss potential. The loss potential is calculated for various risk classes based on rating, with a set change in spread. The loss potential for the various risk classes takes into account the Bank's actual positions measured at market value and remaining maturity. Total loss potential constitutes the Group's credit spread risk. Holdings of government securities in the OECD and other counterparties with a capital weight of 0, as well as holdings in the subsidiary's OMF, are excluded from the calculation basis.

The Bank's credit spread risk is also managed indirectly via limits for maximum investments in different sectors.

At the end of 2020, Sparebanken Sør's credit spread risk was NOK 193 million.

6.4.6. Exchange rate risk

Exchange rate risk consists of the risk of loss when the exchange rate changes. All financial instruments and other positions with exchange rate risk shall be included in the assessment.

Exchange rate risk at Sparebanken Sør arises as a result of financing and investment activity, international payment transactions and/or customer transactions. Foreign exchange exposure is hedged on an ongoing basis using different instruments including currency futures and swaps.

The exposure is measured as the size of the potential losses in a stress scenario where the exchange rates change by 25 per cent. The calculation is based on the Group's net foreign currency position.

At the end of 2020, Sparebanken Sør's exchange rate risk was NOK 400,000.

6.4.7. Share price risk

At the end of the year, the Group's investments in shares totalled NOK 1,301 million, of which NOK 6.5 million relates to the trading portfolio.

The Group has share investments classified at fair value and the equity method (associated companies).

The table below shows the largest investments and their classification.

Classification NOK million	Company	31.12.2020	31.12.2019
Associated companies	Frende Holding AS	608	483
Associated companies	Brage Finans AS	407	374
Associated companies	Balder Betaling AS	112	103
Fair value	Norne Securities AS	6	6
Associated companies	Others	8	8
Fair value	Others	101	119
Total strategic investments		**1.241**	**1.093**
Fair value	Others	59	65
Total shares		**1.301**	**1.158**

Further details related to shares appear in the Group's annual report.

Share price risk consists of market risk associated with positions in equity instruments, including investments in hedge funds, Private Equity funds, Venture Capital funds and Seed funds. Shares in subsidiaries and/or strategic shareholdings in the financial sector are not included.

Exposure is measured as the size of the potential losses in a stress scenario, where the market value of the shares falls by 45 per cent. The calculation must be based on market rates, to the extent that these are available for the instrument.

At the end of 2020, Sparebanken Sør's share price risk was NOK 27 million.

6.5. Operational risk

6.5.1. Definition

Operational risk is defined as the risk of losses due to inadequate or defective internal processes, procedures or systems, human error or external events. The definition covers legal risk, but not strategic risk and reputation risk, which must be evaluated separately.

6.5.2. Risk assessment

Capital adequacy for operational risk is calculated using the basic method. The Bank has also assessed whether there are other aspects of the Bank's operational risk that indicate that capital ought to be set aside for risks not covered by Pillar 1.

The Bank's operational risk is considered low.

6.5.3. Management and control

Operational risk is managed through the Group's framework for operational risk, procedures and authorities. The performance goals for operational risk are established each year by the Board.

Management and control of risk can be split into three levels:

- Operational management and control
- Overarching risk management and control
- Internal audit control

Line management has operational responsibility for management and control of operational risk. Risk management puts systems in place and is responsible for tasks relating to overarching management and reporting of operational risk. Internal Audit give their assessments of the Group's management and control within operational risk to the Board.

Undesired incidents that arise in the Group are registered in an incident database. Registered incidents are followed up on an ongoing basis and needs for measures to prevent recurrences are assessed. It is important that as many incidents as possible are registered when they first arise, as they provide valuable information for risk assessments.

Performance goals, status, development and registered incidents in operational risk are included in the quarterly risk report to the Board.

6.5.4. Money laundering and the financing of terrorism

Sparebanken Sør's work against financial crime is embedded in the acts and regulations applicable at any time. The Bank has an extensive framework of policy documents, policies and guidelines intended to ensure compliance with legal requirements and thereby contribute to preventing financial crimes such as money laundering, fraud and financing of terrorism. On the basis of an annual risk analysis and a risk-based approach, measures have been implemented for ongoing development and strengthening of the work, including revision of the Bank's money laundering procedure. The Bank's "Anti-Corruption and Bribery Policy" provides guidance for the Bank's attitude towards and work on corruption, influence peddling, bribes and use of facilitation payments.

The Bank has been active in national networks in combating financial crime, and in its experience there is a low threshold for sharing experience and expertise among all the banks. Many checks of suspicious transactions are made during the year. The transactions that require it are reported to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). The activities in the Bank's work to combat financial crime is described in more detail in the sustainability report published on the Bank's website.

6.6. Liquidity risk

6.6.1. Definition

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

6.6.2. Risk assessment

The liquidity risk is considered moderate to low. At the end of the year, the levels of liquidity risk were within the limits adopted by the Board.

Liquidity risk is related to two main elements:

- Risk of refinancing outstanding debt
- Price risk is: the risk of not achieving competitive terms for the Bank's funding

Deposits from customers are the Bank's most stable source of funding. The Board of Directors emphasises that the ratio between deposits from customers and lending must be tailored to the Group's overall funding situation. The Group's deposit-to-loan ratio was 54 per cent at year end.

In addition, Sparebanken Sør Boligkreditt AS is an important funding instrument, ensuring access to long-term funding through the issuance of covered bonds. To be able to issue covered bonds, mortgages equivalent to 66 per cent of all loans to the retail market were transferred from the parent bank to the mortgage company in 2020.

The Bank attaches importance to diversifying market funding. EMTN (European Medium Term Note) programmes have been established for both the Bank and mortgage company that facilitate market funding from sources outside the Norwegian bond market. At the end of 2020, the Bank had issued senior debt to foreign investors corresponding to EUR 300 million. Similarly, Sparebanken Sør Boligkreditt had issued covered bonds with a value of EUR 2.5 billion.

At the end of 2020, the liquidity indicator for long-term funding (NSFR) was 115 per cent.

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

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

NOK million	**31.12.2020**
Liquidity buffer, weighted value	22.242
Total net cash outflows, weighted value	12.871
Liquidity coverage ratio (%)	173

In addition to LCR, the Bank analyses liquidity risk using stress tests. According to the analyses, the Group would be able to survive for more than 12 months in a stress alternative, where new market funding is assumed to be unavailable and the regulatory liquidity reserves can be used.

6.6.3. Management and control

Sparebanken Sør's liquidity risk must comply with the authorities' and board-imposed requirements. The Board sets an overarching framework for risk appetite. The Board has determined that the Sparebanken Sør Group is to have a moderate to low liquidity risk. The Board has set risk tolerance levels (RTL) for various performance goals. The risk tolerance limit indicates the Board's maximum or minimum framework for risk appetite. In addition, the Board has set risk goals, to indicate a long-term objective or desired trend.

The liquidity risk shall be on par with comparable banks, but it shall be reconciled with the Bank's risk profile when viewed overall and Board-adopted requirements for capital adequacy. The risk profile shall be adapted to the current market situation and the prospects for the future. Management and control of the liquidity risk shall be attended to in such a way that the Bank is able to withstand a long period of stress.

Measurement of liquidity risk is based on Finanstilsynet's module for liquidity risk.

Liquidity risk is managed through the Group's liquidity strategy, and general guidelines and procedures. Key operational management parameters include requirements for the deposit-to-loan ratio, long-term funding indicator (NSFR), stress indicator for liquidity disposals within 30 days (LCR), as well as guidelines for the ability to survive in situations where there is no access to market funding. Liquidity risk is also managed by ensuring that funding from the capital market is distributed across various maturities, funding sources, markets and instruments.

Rolling liquidity forecasts and rolling analyses of funding needs are prepared to satisfy requirements set by the authorities and the Board.

In addition, stress tests are utilised to measure how long the Bank will survive (liquidity coverage > 0) by only utilising established liquidity buffers before it is unable to meet its obligations. The calculation ignores market-based refinancing. The stress test shows the utilisation of the liquidity buffers for four scenarios (Base Case scenario, Systemic Crisis scenario, Firm-Specific scenario and Combination of Firm-Specific scenario and Systemic Crisis scenario). The stress scenarios include various assumptions regarding declines in deposits and possibilities for refinancing. The stress tests are carried out in line with the Group's Method Document for Liquidity Stress Test.

Emergency response plans have been established to incorporate guidelines for implementation of measures in the event of non-conformances with board-adopted risk tolerance levels, for evaluation of a liquidity crisis, which also describe relevant measures and responsibilities.

Liquidity risk is managed on an ongoing basis and followed up through quarterly reports to the Board, the Risk Committee and Group management.

6.7. Business risk

6.7.1. Definition

Business risk is the risk of unexpected fluctuations in revenues and expenses in the next year's operations as a result of changes in external factors such as cyclical fluctuations, the competitive situation, customer behaviour, unsatisfactory business performance and regulations issued by public authorities, i.e., factors other than credit risk, market risk and operational risk.

Reputation risk, which is the risk of loss of earnings or access to capital due to lack of credibility or reputation in the market, is included as part of business risk.

6.7.2. Risk assessment

The Bank's business risk is considered low.

The Group has good control of the effect of proposed regulatory changes in areas such as capital adequacy and liquidity requirements. The competitive situation is closely monitored, and adaptations are continually made. The Bank has little control of the effects of economic cycles, other than through stress tests to quantify possible effects of various scenarios.

6.7.3. Management and control

The Group's results, balance sheet and key figures are monitored through monthly reporting to Group management and the Board.

Predicting reputation risk and establishing effective procedures and solutions to reduce its scope and consequences, can be challenging. This is primarily achieved through pre-defined communication strategies if individual incidents arise, as well as the clarity, credibility and compliance of the information issued by the Bank. Long-established high standards of ethical and business conduct also help to create security for customers, partners and the market.

6.8. Strategic risk

6.8.1. Definition

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

6.8.2. Risk assessment

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

No performance goals have been adopted for strategic risk.

6.8.3. Management and control

Strategic risk is managed through Board and Group management processes for implementing and monitoring the Bank's strategy.

6.9. Ownership risk

6.9.1. Definition

Ownership risk is defined as the risk of the Group being adversely affected by shareholdings in subsidiaries and associates and/or having to contribute new equity to these companies.

6.9.2. Risk assessment

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

6.9.3. Management and control

No performance goals have been adopted for ownership risk.

Management and the boards of subsidiaries are attended to according to the provisions of the Norwegian Public Limited Liability Companies Act. Several of the companies employ managers and/or employees from the Group on their boards of directors or in other positions.

Any loans to subsidiaries are included under credit risk and concentration risk.

A list of subsidiaries is presented in Chapter 3.1.1.

6.10. Compliance risk

6.10.1. Definition

Compliance risk is the risk of incurring legal or regulatory sanctions, financial losses or impaired reputation as a result of non-compliance with laws, regulations or policy documents.

6.10.2. Risk assessment

The Board has set a goal of ensuring that Sparebanken Sør has low compliance risk. This requires effective management and control of compliance risk and minimal compliance violations.

The scope of Norwegian legislation, including through international regulations implemented under Norwegian law, is significantly expanding. A common feature of many of the changes is that compliance requires considerable input from the organisation in the form of investments in new system solutions and development of new processes in the Group. Enterprises that do not comply with the law also face an increased risk of economic sanctions.

Sparebanken Sør is undergoing a period of rapid change. New products, new systems, system changes and new and departing employees: Such changes have an inherent risk of weaker compliance. New digital solutions also entail risk, and the consequence of errors in digital solutions is often greater than from individual human errors.

The compliance culture in operational activities is deemed to be good, but ensuring timely, continuous implementation and compliance with an increasing scope of Norwegian and international regulations is an ever-greater challenge.

6.10.3. Management and control

The Compliance function covers the entire Group including Sparebanken Sør Markets and Sparebanken Sør Investeringsrådgivning. The Group must have effective management, monitoring and control of compliance risk to ensure that no incidents cause significant harm to the Group's reputation or financial position.

The basic rule is that the Bank and the subsidiaries must at all times comply with prevailing legislation and policy documents. This will be achieved through:

- Clearly communicated and understood core values and ethical standards.
- Identification of risk of inadequate compliance must be an integral element of every process at the Group.

- The Board, trustees and all employees of the Group must perform their duties in accordance with authority requirements and guidelines set by the Group, which is consistent with accepted norms and generally accepted financial and administrative practice.
- An established process for noticing, communicating and implementing changes in statutes and regulations.
- An established process for monitoring and controlling compliance with the law and policy documents.

The Group's Compliance function is independent of the Group's various operational business environments and the other control functions. The Compliance function shall identify, monitor, report, advise and provide information to management of the Group's various business areas and subsidiaries to prevent non-conformances with compliance risk. Significant non-conformances with legal requirements must be reported and measures implemented to limit risk.

Line management and staff departments are responsible for implementation, compliance, follow-up and checking laws, regulations, industry standards and internal guidelines within their own business areas.

The compliance function present the assessment of compliance in a quarterly Compliance Report that is reviewed by Group management, the Risk Committee and the Board. The Compliance function summarises its assessments in a separate annual report that is presented to the boards of the various companies in the Group. The Compliance function has an opportunity to report directly to the CEO and the Board as needed.

7. ESG RISK

7.1. Definition

ESG risk (Environmental, Social & Governance) encompasses risk related to climate and the natural environment, social conditions and corporate governance.

The EU has prepared a classification system through a regulation (Regulation (EU) 2020/852) that sets criteria for whether an economic activity can be defined as sustainable (the Taxonomy Regulation). The purpose is to establish a common framework for what are sustainable activities and to avoid "greenwashing". The Ministry of Finance has sent the regulation out for consultation.

The EU taxonomy is divided into 6 environmental objectives:

There are three steps that must be met to be classified as sustainable:

The EU taxonomy for the first two environmental objectives (climate change mitigation and climate change adaptation) will be implemented at the EU from 31 December 2021. The other environmental objectives will be implemented from 31 December 2022. It is anticipated that the same guidelines will also be implemented in Norway.

Climate risk is currently the most crucial risk.

Climate risk represents three types of risk:

- Transition risk: Risk during transition to zero-emissions society, which includes political and regulatory matters, technology, market and reputation.
- Physical risk: Acute risk owing to extreme weather that leads to hurricanes, flooding, etc. Chronic risk, which is long-term climate changes that affect temperature, sea level, etc.
- Liability risk: The Company may be held liable for damage caused because of climate changes and regulations that are not observed.

Climate risk is not a separate, isolated risk but is instead an important risk factor that affects other risk categories such as credit risk, market risk, etc. More information about this and climate risk in general appears in our climate report, Task Force on Climate-related Financial Disclosures (TCFD), which is available on the Bank's website.

7.2. Risk assessment

Climate and environmentally related challenges constitute a major risk to society and the Bank. The Bank's strategy, business models and financial development are affected by climate and environmentally related risks and opportunities. Climate and environmental risks have to do with how the Bank's business operations are affected by climate and the environment, but also how the Bank's business operations affect climate and the natural environment.

To this point most of the focus has been on climate, but in the future focus on challenges related to the natural environment, including the use of the natural environment, biodiversity and environmental contamination, will increase. This will be reinforced through a "Nature Agreement" that is coming in 2021, similar to the climate's "Paris Agreement". Climate and the natural environment are strongly integrated in each other, and the natural environment will have its natural place in the work on ESG in the future.

In short, the climate challenges have to do with which measures we must take with respect to both direct internal greenhouse gas emissions and indirect greenhouse gas emissions from our business areas, in order to reduce the greenhouse gas emissions to a level that means the Paris Agreement's goal of a temperature increase of 1.5 degrees, at most 2.0 degrees, can be met.

For the Bank, we consider the conversion risk to be the greatest, as we in Norway, at least in the short term, are less exposed to physical risk due to serious climate changes.

The relationship between climate risk and the most significant risk categories is shown below.

Risk type	Transition risk	Impact risk		Physical risk	Impact risk	
		Short term (0–10 years) now–2030	Long term (10–30 years) 2030–2050		Short term (0–10 years) now–2030*	Long term (10–30 years) 2030–2050
Credit risk	Regulations and changes in customer behaviour related to climate change can trigger impaired servicing capacity (PD) and reduced pledged security (LGD) from customers and can lead to increased losses (EL).	Moderate	High	Increased losses (EL) on customers, industries and sectors that are exposed to reduced values on pledged security and assets due to climate change.	Low	Moderate
Market risk	Transition risks such as regulations, technology, products and customer behaviour can generate “stranded assets” and repricing of securities and other assets.	Moderate	High	Climate disasters can lead to rapid repricing, changes in volatility and loss of values on assets and asset items.	Low	Moderate
Operational risk	Negative effects of regulatory changes on internal processes and suppliers can lead to increased losses.	Low	Moderate	Damage from extreme weather to property, infrastructure and input factors and harm to people can result in increased losses.	Very low	Low
Liquidity risk	Lack of restructuring and a low proportion of sustainable activities affect rating, access to and price of financing. A rapid repricing of securities can reduce the value of the bank’s liquidity buffer.	Low	Moderate	Impaired servicing capacity and costs for the prevention and repair of climate-related events can affect customers’ deposits.	Very low	Low
Business risk	Reduced income due to lack of restructuring to a low-emission society. High costs due to lack of digitalisation and technology development. Increased volatility in results due to rapid changes in regulations and customer behaviour.	Low	Moderate	Physical damage to property and data and harm to people due to serious climate events can lead to increased costs and reduced income.	Very low	Low
Strategic risk	Lack of restructuring and adaptation to low-emission societies will affect profitability and the bank’s standing.	Moderate	Moderate	Risk of loss of assets exposed to serious climate events.	Very low	Low

Sparebanken Sør's approach to ESG and climate risk is twofold:

- Direct effect from the Bank's own activities.
- Indirect effect from the Bank's business areas.

7.3. Management and control

The Board has the overarching responsibility for ESG, including the climate. ESG and the climate are included in the Bank's strategy plan as one of the prioritised areas. The Board considers various policy documents, reports and action plans related to ESG and climate-related risks and opportunities. The Board also considers major credit cases where ESG and the climate are integrated in the credit processes. The Board determines overarching objectives and risk frameworks for climate-related risks and opportunities in the Bank's framework for risk management.

Measurement indicators and performance goals for risk tolerance for ESG and climate risk will be developed on an ongoing basis. In particular, the Bank will focus on integrating climate-related measurement indicators for risk and opportunities from the EU taxonomy and from the UNEP Principles for Responsible Banking when these are present.

ESG risk from own activities

Greenhouse gas emissions from internal activities at the Bank are low, but goals have also been set here for reduction of greenhouse gas emissions. The Bank has a goal of reducing greenhouse gas emissions by 55 per cent by 2030 and being climate-neutral in 2050 in line with the Paris Agreement. The Bank monitors climate and the natural environment through an environmental management system and is certified as an Eco-Lighthouse under the Head Office model and the new criteria for the financial sector. The Bank keeps an annual climate account.

ESG and climate risk from our own activities are considered low.

More details on the Bank's climate account appear on the Bank's website.

ESG risk from the business areas

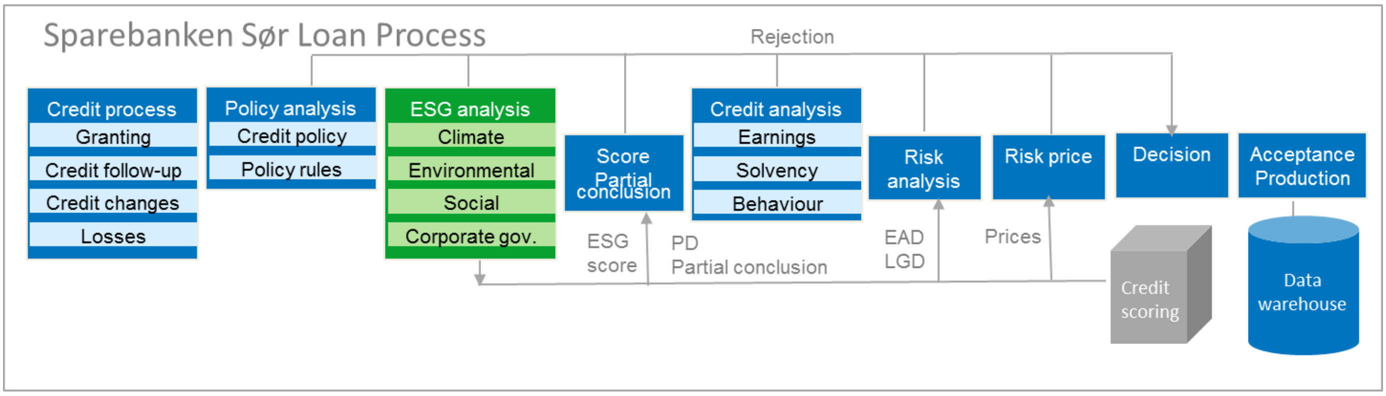
We consider ESG and climate risks to be greatest in the following business areas:

- Lending: Risk for increased default (PD), reduced collateral value (LGD) and increased losses (EL). Higher capital requirements for "non-sustainable activities and products".
- Investments: Repricing of assets and "stranded assets".
- Financing: Access to and price of financing owing to lack of "sustainable activities".
- Increased competition, reduced revenues and high costs related to converting to a low-emissions society through climate-friendly technology, products and changes in consumption patterns.

Among these, lending and credit risk represent the greatest risk with respect to both ESG and climate risk.

The Bank has established policies and procedures for managing ESG risk from the various business areas. These are available on the Bank's website.

With respect to lending and credit risk, the Bank has incorporated a module for ESG analysis in credit processes for the corporate market, see the figure below.



The ESG module has a particular focus on climate but covers the relevant ESG areas:

- Exclusion criteria: Included in Policy analysis.
- Industry: Framework for managing industries and industry-specific assessments and requirements.
- Climate: Assessment of how physical risk and transition risk may affect the customer and the case's earnings capacity and collateral and result in increased probability of default (PD), reduced collateral values (LGD) and increased losses (EL).
- Natural environment: Assessment of how the customer affects the natural environment.
- Social conditions: Assessment of whether the customer and its business partners comply with requirements and international conventions for social conditions.
- Corporate governance: Assessment of how the customer and business partners comply with requirements and international conventions for corporate governance.

Based on the above-mentioned modules, the customer and case are scored. This creates a basis for managing process, authorities and price. Data from the ESG module will be utilised in connection with reporting on case, customer and portfolio.

ANNEX 1
Agreement terms for subordinated loan capital

Form for publication of key terms for capital instruments							
1	Issuer	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør
2	Unique identification code (e.g. CUSIP, ISIN or Bloomberg's identification code for private placements)	NO0010809460	NO0010825094	NO0010832157	NO0010837313	NO0010871247	NO0010887177
3	Applicable law	Norwegian	Norwegian	Norwegian	Norwegian	Norwegian	Norwegian
	Treament pursuant to the capital requirement regulations						
4	Rules applicable during the transition period	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
5	Rules applicable following the transition period	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital	Tier 2 capital
6	Included at company and consolidated level, company or consolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level
7	Instrument type (type should be specified for each jurisdiction)	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital
8	Amount included in subordinated capital (in NOK millions at the latest reporting date)	NOK 200m	NOK 250m	NOK 250m	NOK 100m	NOK 500m	NOK 350m
9	Nominal value of instrument	NOK 200m	NOK 250m	NOK 250m	NOK 100m	NOK 500m	NOK 350m
9a	Issue price	100 percent	100 percent	100 percent	100 percent	100 percent	100 percent
9b	Excercise price	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value
10	Classification of accounts	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost
11	Original date of issuance	02 November 2017	14 June 2018	14 September 2018	23 November 2018	12 December 2019	9 July 2020
12	Perpetual or time limited	Time limited	Time limited	Time limited	Time limited	Time limited	Time limited
13	Original date of maturity	02 November 2027	14 June 2028	14 September 2028	23 November 2028	12 December 2029	9 July 2030
14	Redemption right of issuer dependent upon approval by the FSA of Norway	Yes	Yes	Yes	Yes	Yes	Yes
15	Date of redemption right, any conditional redemption rights and redemption amount	2 November 2022 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest	14 June 2023 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest	14 September 2023 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest	23 November 2023 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest	12 December 2024 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest	9 July 2025 100 % of nominal value In addition a "regulatory redemption right" at 100 % of nominal value plus accrued interest
16	Dates of any subsequent redemption rights	Each consecutive interest payment date following 2 November 2022	Each consecutive interest payment date following 14 June 2023	Each consecutive interest payment date following 14 September 2023	Each consecutive interest payment date following 23 November 2023	Each consecutive interest payment date following 12 December 2024	Each consecutive interest payment date following 9 July 2025
	Interest / dividend						
17	Fixed or floating interest	Floating	Floating	Floating	Floating	Floating	Floating
18	Reference rate and margin	3 m NIBOR +1,40 percent	3 m NIBOR +1,45 percent	3 m NIBOR +1,45 percent	3 m NIBOR +1,65 percent	3 m NIBOR +1,33 percent	3 m NIBOR +1,37 percent
19	Requirement to halt share dividend payment due to deferred coupon payment ("dividend stopper")	No	No	No	No	No	No
20a	Full flexibility, partial flexibility or mandatory (with regards to date)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Full flexibility, partial flexibility or mandatory (with regards to amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Terms of interest rate increase, or other incentive to repayment	No	No	No	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, level(s) that trigger conversion	N/A	N/A	N/A	N/A	N/A	N/A
25	If convertible, full or partial	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion price	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or voluntary	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, list the instrument type of the converted assets	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, list the issuer of the converted assets	N/A	N/A	N/A	N/A	N/A	N/A
30	Terms of write-down	No	No	No	No	No	No
31	If write-down, level(s) that trigger write-down	NA	NA	NA	NA	NA	NA
32	If write-down, full or partial	NA	NA	NA	NA	NA	NA
33	If write-down, permanent or temporary	NA	NA	NA	NA	NA	NA
34	If temporary write-down, list the mechanism for write-up	NA	NA	NA	NA	NA	NA
35	Priority at liquidation (list the instrument type with the closest superior priority)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Terms which prohibit the assets being included after the transition period	No	No	No	No	No	No
37	If yes, specify which terms that do not fullfill new requirements	N/A	N/A	N/A	N/A	N/A	N/A

Agreement terms for subordinated bonds

	Form for publication of key terms for capital instruments						
1	Issuer	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør
2	Unique identification code (e.g. CUSIP, ISIN or Bloomberg's identification code for private placements)	NO0010768229	NO0010768237	NO0010793318	NO0010806649	NO0010867658	NO0010895121
3	Applicable law	Norwegian	Norwegian	Norwegian	Norwegian	Norwegian	Norwegian
	Treament in the capital requirement regulations						
4	Rules applicable during transition period	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital
5	Rules applicable following transition period	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital	Additional Tier 1 capital
6	Included at company and consolidated level, company or consolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level	Company and colsolidated level
7	Instrument type (type should be specified for each jurisdiction)	Subordinated bond	Subordinated bond	Subordinated bond	Subordinated bond	Subordinated bond	Subordinated bond
8	Amount included in subordinated capital (in NOK millions at the latest reporting date)	NOK 125m	NOK 190m	NOK 250m	NOK 200m	NOK 300m	NOK 10m
9	Nominal value of instrument	NOK 125m	NOK 190m	NOK 250m	NOK 200m	NOK 300m	NOK 10m
9a	Issue price	100 percent	100 percent	100 percent	100 percent	100 percent	100 percent
9b	Excercise price	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value	100 percent of nominal value
10	Classification of accounts	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost	Debt - amortized cost
11	Original date of issuance	29 June 2016	29 June 2016	23 May 2017	28 September 2017	07 November 2019	5 October 2020
12	Perpetual or time limited	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original date of maturity	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date	No maturity date
14	Redemption right of issuer dependent of approval by the FSA of Norway	Yes	Yes	Yes	Yes	Yes	Yes
15	Date of redemption right, any conditional redemption rights and redemption amount	29 June 2023 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest	29 June 2021 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest	23 May 2022 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest	28 September 2022 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest	7 November 2024 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest	7 April 2026 100 % of nominal value In addition an "regulatory redemption right" at 100 % of nominal value plus accrued interest
16	Dates of any subsequent redemption rights	Each consecutive interest payment date following 29 Juni 2023	Each consecutive interest payment date following 29 Juni 2021	Each consecutive interest payment date following 23 June 2022	Each consecutive interest payment date following 28 September 2022	Each consecutive interest payment date following 7 November 2024	Each consecutive interest payment date following 7 April 2026
	Interest / dividend						
17	Fixed or floating interest	Fixed	Floating	Floating	Floating	Floating	Floating
18	Reference rate and margin, or fixed rate	6,5 percent	3 m NIBOR +5,50 percent	3 m NIBOR +3,20 percent	3 m NIBOR +3,20 percent	3 m NIBOR +3,20 percent	3 m NIBOR +3,08 percent
19	Requirement to halt share dividend payment due to defered coupon payment ("dividend stopper")	Yes	Yes	Yes	Yes	Yes	Yes
20a	Full flexibility, partial flexibility or mandatory (with regards to date)	Full	Full	Full	Full	Full	Full
20b	Full flexibility, partial flexibility or mandatory (with regards to amount)	Full	Full	Full	Full	Full	Full
21	Terms of interest rate increase, or other incentive to repayment	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.	Could be converted into Common Equity Tier 1 Capital if instructed by the Norwegian FSA or by other relevant public athority, at a severe fall in solidity or if the regulators see it as neccessary to avoid liquidation.
24	If convertible, level(s) that trigger conversion	At a severe fall in solidity, or when necessary to avoid liquidation	At a severe fall in solidity, or when necessary to avoid liquidation	At a severe fall in solidity, or when necessary to avoid liquidation	At a severe fall in solidity, or when necessary to avoid liquidation	At a severe fall in solidity, or when necessary to avoid liquidation	At a severe fall in solidity, or when necessary to avoid liquidation
25	If convertible, full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
26	If convertible, conversion price	N/A	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or voluntary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
28	If convertible, list the instrument type of the converted assets	Common Equity Tier 1 Capital	Common Equity Tier 1 Capital	Common Equity Tier 1 Capital	Common Equity Tier 1 Capital	Common Equity Tier 1 Capital	Common Equity Tier 1 Capital
29	If convertible, list the issuer of the converted assets	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør	Sparebanken Sør
30	Terms of write-down	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, level(s) that trigger write-down	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level	Common Equity Tier 1 Capital below 5,125 percent on the issuer's company level or consolidated level
32	If write-down, full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial	Full or partial
33	If write-down, permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent or temporary	Permanent or temporary
34	If temporary write-down, list the mechanism for write-up	Write-ups possible by adding parts of accumulated profits	Write-ups possible by adding parts of accumulated profits	Write-ups possible by adding parts of accumulated profits	Write-ups possible by adding parts of accumulated profits	Write-ups possible by adding parts of accumulated profits	Write-ups possible by adding parts of accumulated profits
35	Priority at liquidation (list the instrument type with the closest superior priority)	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital	Subordinated loan capital
36	Terms which prohibit the assets being included after the transition period	No	No	No	No	No	No
37	If yes, specify which term that doesn't fullfill new requirements	N/A	N/A	N/A	N/A	N/A	N/A

ANNEX 2

Information on encumbered and unencumbered assets

		Carrying amount of encumbered assets			Fair value of encumbered assets		Carrying amount of unencumbered assets			Fair value of unencumbered assets	
			of which: issued by other entities of the group	of which: central bank's eligible		of which: central bank's eligible		of which: issued by other entities of the group	of which: central bank's eligible		of which: central bank's eligible
Item	Code	010	020	030	040	050	060	070	080	090	100
Assets of the reporting institution	010	46.408.720.112	-	566.382.517			95.741.583.420		20.642.081.105		
Loans on demand	020						3.613.502.831				
Equity instruments	030						1.149.469.024				
Debt securities	040	585.097.764		566.382.517			20.642.081.105		20.642.081.105	20.642.081.105	20.642.081.105
of which: covered bonds	050	325.907.532		314.847.891			12.709.161.274		12.235.926.724	12.709.161.274	12.235.926.724
of which: asset-backed securities	060										
of which: issued by general governments	070	259.190.232		251.534.626			7.395.624.180		6.997.598.824	7.395.624.180	6.997.598.824
of which: issued by financial corporations	080						537.295.651		430.485.508	537.295.651	430.485.508
of which: issued by non-financial corporations	090										
Loans and advances other than loans on demand	100	45.823.622.348		-			63.140.546.453		-		
of which: mortgage loans	110	45.823.622.348					56.792.284.310				
Other assets	120						7.195.984.006				