THIS IS THE ANNUAL REPORT 2019.....

TRANSLATED VERSION

Sandnes Sparebank

Content

The year 2019

2019 has been a very good year for Sandnes Sparebank. I am both proud and humble with respect to the Bank's progress. Most of all, I am proud that the Bank has been able to welcome many new customers, that the customers are increasingly satisfied with the Bank, and the Bank's employees, which is really demonstrating that the Bank is to be reckoned with.

As we are now (March 2020) in the middle of something that may become the most challenging time for many, many decades due to the Corona virus outbreak, it is difficult to imagine what 2020 will look like at year-end. We are happy with the fact that Sandnes Sparebank is a solid bank that is providing assurance for both retail and corporate customers.

With an improvement of earnings after tax of NOK 33 million during the past year, we may, this year as last year, rightly claim the best result in the Bank's history. The Bank has made progress on virtually all measurement parameters and is showing profitable growth, a stable cost level, lower losses, more satisfied customers, and better reputation and brand awareness. We are finding that we are an attractive place to work, the commitment of our own employee is tops, and we are able to hire the right people with the right skills when we need to. This is positioning us well for the future, and our objective is continued growth and development in the years ahead.

We are committed to take our social responsibility seriously, and during 2019 we distributed gifts to generally beneficial purposes amounting to NOK 16 million. Some gift examples: a practice doll for trauma treatment to Helse Stavanger, ergometer bikes and other health promoting equipment to several living and activity centers in the region, support to several sports clubs and associations with emphasis on children and youth, and a big gift to Sandnes Arena in order to contribute to making the area at Melsheia more attractive for more people.

The cooperative alliance with and the ownership of Eika, is providing us with a number of advantages that we would not like to be without. We get access to good products, we get important economies of scale within e.g. joint purchases and technology development – and not least; a good dividend payout last year.

We work hard and purposefully every day to improve our customers experiences, regardless of whether our customers meet us digitally or in conversations. We are committed to be relevant, close and quick. In the second quarter of 2020 we will disburse customer dividend for the third year in a row.

Trine Karin Stangeland
Managing Director

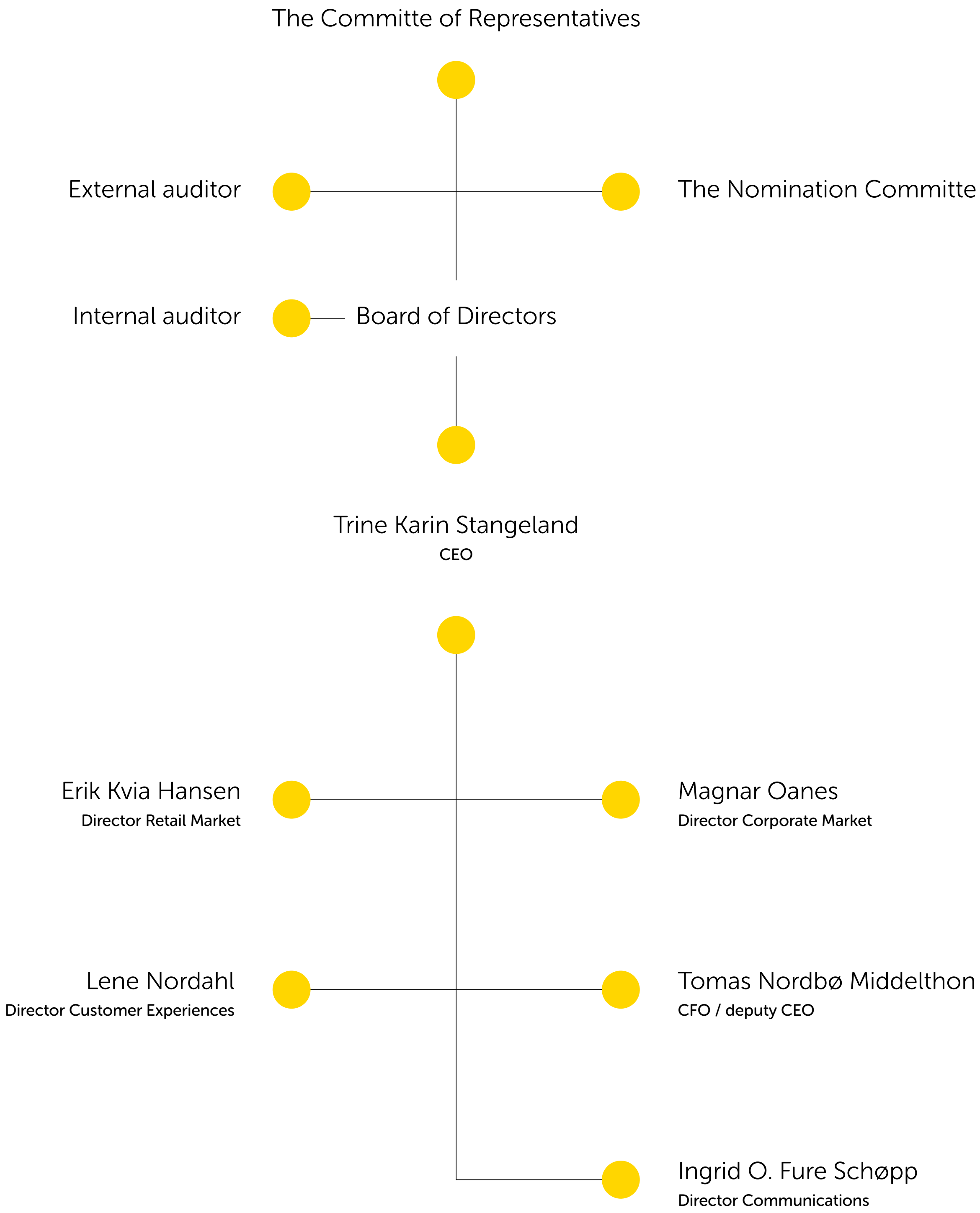
KEY FIGURES

Key figures as of 31.12.2019

Group			Parent Bank	
The year 2019	**The year 2018**	**Profit summary** (NOK '000)	**The year 2019**	**The year 2018**
475 841	461 980	Net interest income	412 844	388 574
140 559	122 550	Other operating income	136 486	120 180
269 496	261 137	Other operating cost	240 903	232 112
13 471	23 729	Net loss/writedowns	14 360	24 264
333 433	**299 664**	**Operating profit before taxes**	**294 067**	**252 378**
56 361	55 284	Tax cost	47 391	44 595
277 072	**244 380**	**Operating profit after taxes**	**246 676**	**207 783**
-13 799	14 555	Other income and cost (after taxes)	-13 554	14 841
263 272	**258 935**	**Total profits**	**233 121**	**222 624**
263 112	258 601	Majority share of profits		
160	334	Minority share of profits		
31.12.2019	**31.12.2018**	**Balance sheet excerpts** (NOK millions)	**31.12.2019**	**31.12.2018**
28 158	27 209	Total assets	20 693	20 170
27 684	26 655	Average total assets	20 431	20 040
22 878	22 214	Loans to customers	14 981	14 799
11 833	11 252	Deposits from customers	11 835	11 253
3 858	3 661	Notes and bonds	3 062	3 116
113	150	Financial derivatives	64	85
3 019	2 961	Equity capital	2 796	2 767
31.12.2019	**31.12.2018**	**Key figures**	**31.12.2019**	**31.12.2018**
		Performance past 12 months		
3.5 %	4.3 %	- Asset management	2.6 %	1.3 %
2.5 %	2.7 %	- Lending	0.6 %	-1.1 %
5.2 %	3.6 %	- Deposits	5.2 %	3.6 %
51.7 %	50.7 %	Deposit to loan ratio	79.0 %	76.0 %
209.0 %	171.0 %	Liquidity indicator (LCR)	212.0 %	184.0 %
		Profitability		
1.72 %	1.73 %	Net interest income in % of avg. total assets	2.02 %	1.94 %
43.7 %	44.7 %	Cost to income ratio	43.9 %	45.6 %
1.0 %	1.0 %	Total cost in % of avg. total assets	1.2 %	1.2 %
11.5 %	10.8 %	Return on equity before taxes	11.0 %	9.7 %
9.6 %	8.8 %	Return on equity after taxes	9.2 %	8.0 %
9.4 %	8.7 %	Return on equity after taxes, incl. interest on hybrid capital	9.0 %	7.9 %
		Solvency		
19.4 %	18.6 %	Capital ratio	21.7 %	20.6 %
18.1 %	17.3 %	Tier-1 capital ratio	20.1 %	19.0 %
17.4 %	16.6 %	Core Tier-1 capital ratio	19.2 %	18.3 %
15 094	15 540	Risk-weighted capital	12 381	13 005
		Human Resources		
133	136	Number of full-time equivalents as of date of balance sheet	115	114
		Equity capital certificates		
67.0	55.0	Quoted price	67.0	55.0
65.4 %	65.3 %	Equity capital certificate return	65.4 %	65.3 %
7.9	6.9	Earnings per equity capital certificate	7.0	5.9
7.9	6.9	Diluted earnings per equity capital certificate	7.0	5.9
83.0	81.1	Book equity per equity capital certificate	76.6	75.6
0.81	0.68	Price/book equity (P/B)	0.87	0.73

ORGANIZATION AND MANAGEMENT

Organization and management



The board of directors


(1)


(2)


(3)


(4)


(5)


(6)


(7)


(8)

Harald Espedal (1)

Chairman

Mr. Espedal has a Bachelor of Economics degree from the Norwegian School of Economics and Business Administration and is a graduate of the top level audit course at the same institution. He is Chairman of the Board of Espedal & Co AS, an investment company. Previously, Mr. Espedal was Managing Director and Investment Director at SKAGEN, and has additional experience as Investment Director at Vesta, Investment Manager for European stocks at Skandia, Finance and Research Manager at Sparebank 1 SR-Bank, and as a Manager of Arthur Andersen, a consulting and audit company, in Stavanger. He has chaired the Board of Directors since 2015.

Mr. Espedal owns 886,861 equity capital certificates via his investment company, Espedal & Co AS. In addition, Mr. Espedal manages 605,000 equity capital certificates through the company Salt Value AS.

Frode Svaboe (2)

Deputy Chairman

Mr. Svaboe has a Bachelor of Commerce degree from the BI Norwegian School of Management, and is a graduate of the top level audit course at the Norwegian School of Economics and Business Administration. He is currently Partner/General Manager of SVAL Rådgivning AS. Mr. Svaboe has previous experience that includes positions as auditor with KPMG and as Partner/General Manager of KPMG SørVest. Director since 2010.

Mr. Svaboe owns 10,200 equity capital certificates through his investment company FS Invest AS.

Sven Chr Ulvatne (3)

Director

Mr. Ulvatne has an engineering degree from NTNU and is currently regional manager for Backe Prosjekt AS. Previously, Mr. Ulvatne was a Managing Director for companies such as Backe Entreprenør, Backe Bygg, NCC Construction, Sandnes Eiendom and AS Betong, in addition to leading positions with Block Watne and Aadnøy Entreprenør. He is a director of various companies, and is Chairman of the Board of his own investment company. Mr. Ulvatne also holds a number of elected offices in industry associations such as NHO, BNL, EBA and Standard Norge.

He owns 9,300 equity capital certificates via his investment company, Ulvatne AS.

Bjørg Tomlin (4)

Director

Ms. Tomlin has a Bachelor of Commerce degree from the Copenhagen Business School (CBS). She also has a Master of Telecommunications degree from the BI Norwegian School of Management. She is currently the Managing Director of Upheads AS, an IT company. Previously, she was Corporate Market Director at Altibox/Lyse. She also has 15 years of experience from various management positions at Telenor, of which 5 years as Regional Director South/West. Director since 2019.

Ms.Tomlin does not own any equity capital certificates.

Heidi Nag Flikka (5)

Director

Ms. Flikka is a graduate of the top level audit course at the Norwegian School of Economics and Business Administration, and is currently the CFO of Fjord Line. She has many years of previous experience as Managing Director of AF Offshore AeronMollier AS, CFO of AF Gruppen ASA, Energy division and as assistant regional bank manager at Sparebank1 SR-Bank for the Agder corporate market. She has also worked several years as an auditor. Director since 2016. Member of the Board of Directors since 2016.

Ms. Flikka owns 1,791 equity capital certificates.

Birte Norheim (6)

Director

Ms. Norheim has a Master of Finance degree from Queensland University of Technology (Australia) and is currently the CFO of OKEA ASA. Ms. Norheim also has experience as Managing Director of Njord Gas Infrastructure AS and as Vice President Finance of Sevan Marine ASA. Director since 2017.

Ms. Norheim owns 2,083 equity capital certificates.

Jan Inge Aarreberg (7)

Employee representative

Mr. Aarreberg has a Bachelor degree from the BI Norwegian School of Management and is working as an authorized financial advisor. Employed by the Bank since 2007.

Ms. Aarreberg owns 2,551 equity capital certificates.

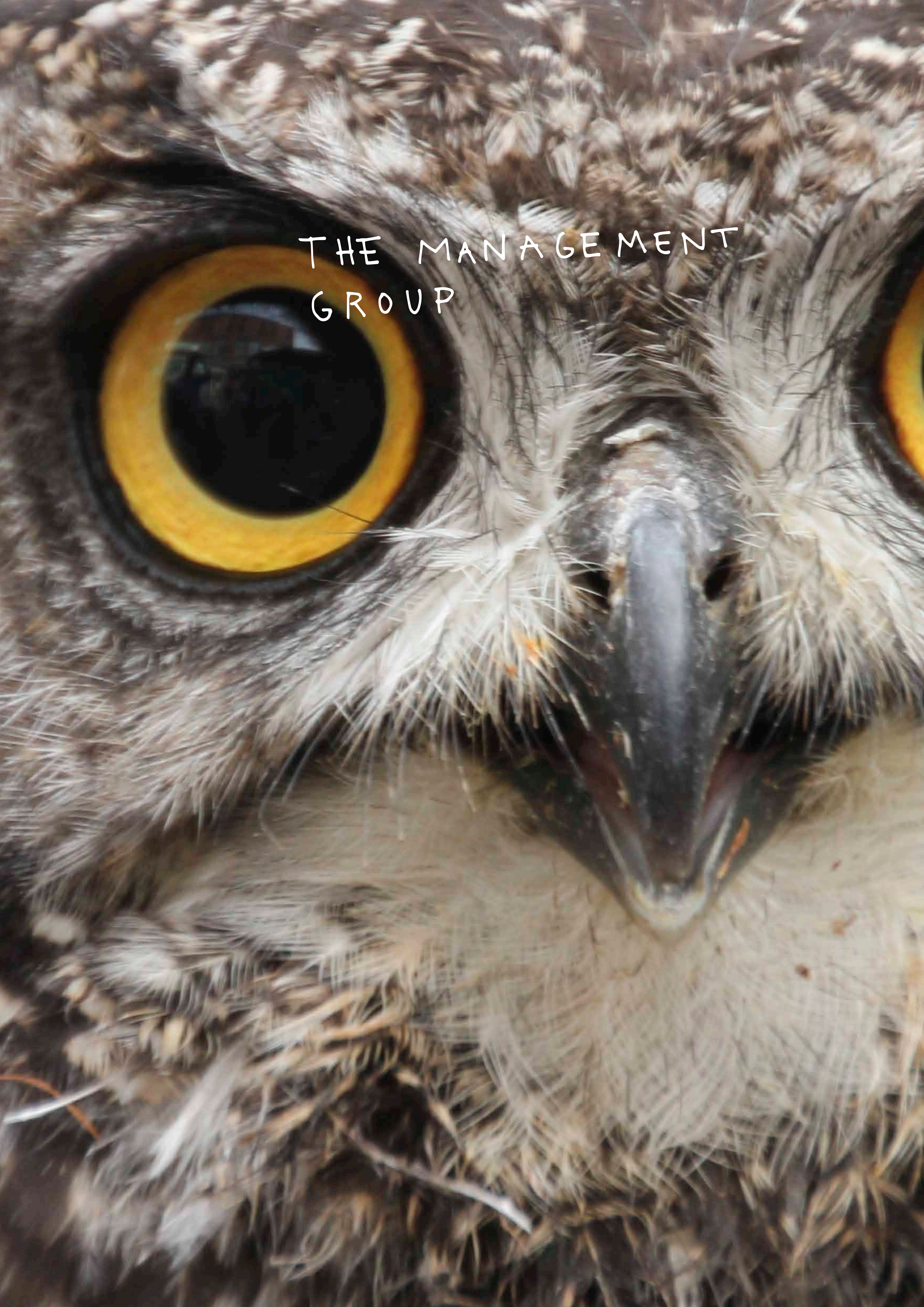
Solveig Vatne (8)

Employee representative

Trained in economics at the BI Norwegian School of Management and the Bank Academy. Employed by the bank since 1982 and working as a retail market advisor. She was previously employed by Hetland Sparebank, and has been a director since 2017.

Ms. Vatne owns 18,090 equity capital certificates.

THE MANAGEMENT GROUP



The Management Group


(1)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Trine Karin Stangeland (1)

CEO / Managing Director

Ms. Stangeland has a Bachelor of Economics and a Master degree in strategic management from the BI Norwegian School of Management. In addition to various management roles with the Lyse Group since 2005, she has several years of financial experience from industry. Ms. Stangeland has been employed by Sandnes Sparebank since March 2017

Ms. Stangeland owns 16,494 equity capital certificates.

Erik Kvia Hansen (2)

Director Retail Market

Mr. Kvia Hansen has a marketing education from the BI Norwegian School of Management. He has ten years of experience from the retail market department of Nordea Rogaland, inter alia as customer consultant, branch manager and retail market area manager, with primary focus on new sales. Has also seven years of experience as project manager in the marketing department of GE Money Bank, from CRM and product development. Mr. Kvia has been employed by Sandnes Sparebank since July 2017.

Mr. Kvia owns 2,041 equity capital certificates.

Tomas Nordbø Middelthon (3)

CFO / Deputy Managing Director

Mr. Middelthon has a Bachelor of Economics degree, is an authorized financial analyst, and has an MBA in finance from the Norwegian School of Economics and Business Administration. He joined Sandnes Sparebank after seven years at Skagenfondene, where he spent five years as portfolio manager and two years as risk manager. Prior to this, he was a senior financial services consultant with Statoil. He took up the position as Chief Financial Officer in April 2017. Mr. Middelthon is the deputy to the Managing Director.

Mr. Middelthon owns 22,991 equity capital certificates.

Ingrid O. Fure Schøpp (4)

Director Communications

Ms. Schøpp holds a Cand. Mag. degree from Hamar College of Education and the University of Stavanger. She has been employed by Sandnes Sparebank since 1987 and has previously worked as Marketing Manager and Information Manager. She is responsible for the Banks' overall marketing communication and branding. Ms. Schøpp is the press officer of the Bank.

Ms. Schøpp owns 7,834 equity capital certificates.

Magnar Oanes (5)

Director Corporate Market

Mr. Oanes has an economics and administration education from the College of Agder. Previous experience includes positions as CEO and CFO of Dalema Gruppen, CEO of WestControl AS, an electronics firm, and CFO of Technor ASA, an industrial and offshore company. In addition, Mr. Oanes has 10 years of banking experience from Kredittkassen in Stavanger and ABC Bank. He has been employed by Sandnes Sparebank since July 2013.

Mr. Oanes owns 14,415 equity capital certificates.

Lene Nordahl (6)

Director Customer Experiences

Ms. Nordahl has studied economics and information technology at the University of Stavanger. She has 11 years of experience from various roles at GE Money Bank and six years at Lyse Dialog AS, where she had the role as Strategic Customer Service Manager. Ms. Nordahl has been employed by Sandnes Sparebank since June 2017.

Ms. Nordahl owns 1,571 equity capital certificates.

Sustainability and social responsibility

The Bank's guidelines and principles for the practice of ethics and corporate citizenship are presented in their entirety on our website www.sandnes-sparebank/samfunnsansvar. In this annual report we are highlighting some of the key areas with a short description.

Sustainability and corporate citizenship are becoming increasingly important as business drivers. We are of the opinion that companies that have integrated sustainability in their business strategy, will perform better than their competitors in the long run. The core corporate responsibility of the financial industry is to create values and operate profitably, but not at the expense of the people around us, the environment and in breach of basic ethical principles.

As a bank, our role puts us in a position where we have the opportunity to influence other companies to conduct systematic improvement. We shall be a contributor and driver of value creation in society through the operation of responsible banking. In 2019, Sandnes Sparebank sharpened its focus on climate and the environment, and on how the need for realignment affects our business operations. We will have a further focus on sustainability also going forward.

Responsible business practice is ensured by integrating sustainability and social responsibility in our business processes. All bank employees get an annual update regarding the Bank's policy for corporate citizenship and sustainability. The purpose of the policy is to ensure that the Bank does not contribute to the violation of human and employee rights, corruption, serious environmental damage and other unethical acts, and that we contribute to a transition to a more sustainable society. Sustainability and social responsibility have been included in the Bank's key policies, such as its credit policy, investment policy as asset manager and in the risk evaluation processes.

In 2019, we signed the UN Principles for Responsible Banking (UNEP FI). This is a natural step for us, after having worked on ensuring sustainable and responsible business activities for several years. The Ethical Bank Guide, a collaborative effort between Fremtiden i våre hender (Future in our Hands – an environmental NGO) and the Norwegian Consumer Council, conducts annual mapping of how a number of select Norwegian banks fulfill social responsibility requirements. The results of the 2019 survey shows that Sandnes Sparebank achieved a score of 71%. This is an increase from 2018, and reflects our systematic work in this area over time.

In our work on the further development of the Bank's sustainability strategy, we have used the UN's sustainability goals and the reduction targets of the Paris Agreement as a useful compass for defining priorities with respect to where the Bank has influencing opportunities.

We recognize and express our full support of all the UN sustainability objectives, and have, in particular, tied targets and priorities to six select objectives, where we really are able to contribute positively and make a difference:

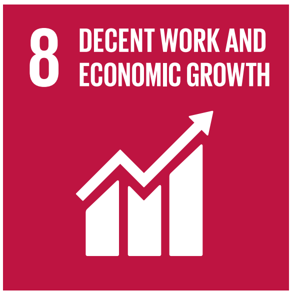
No. 4 Good education

We ensure good competencies for our employees and our customers.

We contribute to skill improvement in the local community on economics and sustainability, through seminars, presentations and efforts targeted at high schools.

No. 5 Gender equality

We have requirements for a diverse working life based on equal opportunities, both for our selves and for our customers and suppliers. We contribute to economic equality through consultation and knowledge transfers. We are working purposefully to reduce the capital gap between genders, and recognize the need for targeted equal opportunity measures, inter alia, by taking part in the 50/50 group of the Chamber of Commerce.



No. 8 Decent work and economic growth

We promote lasting, inclusive and sustainable economic growth, and decent working conditions through our business operations and by setting requirements for our customers and suppliers.

No. 11 Sustainable cities and local communities

We contribute to a sustainable local community through our role as a local savings bank, by virtue of the funds made available through the Sandnes Sparebank Gift Fund, in addition to cooperation and support of our customers with respect to green and sustainable realignment.

No. 13 Stop climate changes

We contribute to the objective of reducing greenhouse gas emissions through the development of green products, counseling and competency improvements related to climate risk.

No. 17 Collaboration to reach the goals

We seek active collaboration and competency improvement in order to achieve the biggest possible influence and movement towards goal achievement as soon as possible. We seek influence, inter alia, through UNEP Fi, the sustainability reference group of Finance Norway and through the Eika Alliance.

Stakeholder dialog

Sandnes Sparebank is concerned with openness and dialog with our stakeholders, in order to identify their input and take them into account in our business.

The Bank has several touch points with our stakeholders during a year. Below please find a summary of the Bank's dialog with stakeholders in 2019:

STAKEHOLDERS	POINTS OF CONTACT	KEY ISSUES	ACTION
Customers	• Counseling and dialog via all the Bank's contact interfaces (including personal attendance, telephone, e-mail, letter, social channels and text messages) • Regular customer surveys in the Retail and Corporate Market • Customer communication on the web and the mobile banking app, social channels, and the Bank's website • Customer events	• Advisory services • Service experience • Products and services • Prices and terms • Availability and response time	• Continuous improvement of the Bank's products and services • Continuous coaching and guidance of the Bank's employees • Evaluation and improvement of customer processes
Employees	• Annual employee survey • Semiannual employee performance reviews • Collaboration and environment committees • Regular meetings with the union • Management development, culture development • Brain storming in connection with the preparation of the sustainability strategy	• Ensure committed, competent and result oriented employees • Ensure a good working environment • Codetermination • Organizational development • Materiality analysis, priorities related to sustainable development	• Development goals for employees • Ensure a high presence ratio among employees • Monthly joint KPI reporting for all managers • Follow-up of action plan based on materiality analysis
Equity certificate owners **Investors**	• Capital market day • Stock exchange releases and quarterly reports • Meetings of the Board of Trustees • Continuous contact with the biggest owners and analysts	• Profits • Customer dividends • Ensure openness regarding financial statements and corporate gover-nance • Predictable dividends in the long term	• Update estimates, and inform the market of extraordinary events
Other Eika banks **The Eika Alliance**	• Physical meetings and web meetings • Sustainability project	• Joint activities, including compe-tency, system and product develop-ment • Sustainability policy	• Follow-up of recommended measures
Authorities	• Continuous dialog with the Financial Supervisory Authority, etc.	• Operations, security, privacy • AHV	• Measures ensuring compliance with laws and regulations
Special interest organizations **Society in general**	• Conversations with Future in our Hands about the Ethical Bank Guide • UNEP FI • Finance Norway, including its sustainability reference group • Hosting the Sandnes business community through cooperation with the Chamber of Commerce • Sandnes Sparebank Gift Fund	• Responsible investments, credit relationships to fund providers • Relevant subjects within sustainable finance • Local business community, equal opportunity, sustainability • Contribute to a sustainable community with committed and conscientious people who create joy and solidarity within education, training, sports and culture	• Answering the Ethical Bank Guide, review of guidelines, policy and requirements • Acceptance of the principles for responsible banking • Active participation in reference groups, further development of internal guidelines • Input to political hearings • Distribution of funds from the Bank's profits to sustainable and other purposes of public utility

Materiality assessment

In 2019, the Bank conducted an extensive internal assessment for the purpose of identifying the objectives and measures through which the Bank has the most influence with respect to sustainability and social responsibility. The analysis has been the basis for the further development of the Bank's sustainability strategy. Inputs from dialogs with several groups of external stakeholders, including Future in our Hands / Ethical Bank Guide, Finance Norway, UNEP FI and the Eika Alliance, have been taken into account in our materiality assessment. Based on analysis of stakeholders, we have identified the measures we wish to emphasize going forward, through which the Bank has opportunities make a positive impact. We will measure and follow up progress, and report status, goals and focus areas going forward.

SIGNIFICANCE WITH RESPECT TO THE ASSESSMENT AND DECISION MAKING OF OUR STAKEHOLDERS

- Contribute to sustainable realignment via distributions from the Gift Fund
- Energy consumption and own reduction goals regarding greenhouse gas emissions, waste, water and paper consumption

- Contribute to our customers' sustainable realignment through counseling and product development
- Ensure responsible lending and investing
- Combat economic crime
- Information security, privacy

- Balanced and open communication
- Responsible procurement
- Diversity and equal opportunities

- Competency development, including sustainability and climate risk in particular

Other subjects have been assessed and found to be less significant – and are not activities about which we report according to GRI. Subjects that remain in the matrix are considered the most material and will be reported according to GRI.

SIGNIFICANCE FOR CLIMATE RELATED/ENVIRONMENTAL AND ETHICAL/SOCIAL VALUE

Environmentally conscious bank

This is what we have achieved:

Sandnes Sparebank causes little pollution of the external environment. Yet, we are nevertheless concerned about sustainable and resource efficient operations. The implementation of climate accounting has been a useful effort in order to measure our emissions. This has also contributed to us becoming increasingly aware, and ensured that we focused throughout the year on identifying and actively implementing resource saving measures.
Some examples:

- **Environmentally friendly transport.** The Bank is a member of the HjemJobbHjem (HomeJobHome), a collective transport scheme, and a total of 48% of the Bank's employees is using the scheme.
- **Fewer flights.** We are using video conferences or Skype to the greatest extent possible.
- **Low energy consumption.** The Sandnes Sparebank head office is the first commercial building in Sandnes with status as a passive building.
- **Sustainable procurement.** Our suppliers must deliberately comply with human rights, employee rights and rules regarding working conditions, environmental protection and money laundering. The Bank's procurement policy describes our purchasing principles in more detail.
- **Reduced paper consumption.** We have removed the paper cups at our premises for use by the employees. Most customer agreements may now be signed digitally. Simpler for the customer – better for the environment!

This is what we continue to work on:

At Sandnes Sparebank we have set several reduction targets that we will work on also going forward. In 2020 we will take 5% fewer flights than in 2019, and use 10% less paper than in 2019. We focus on a sustainable cafeteria offering, and less food wastage. We will continue our work on ensuring compliance with our environmental requirements for our vendors. In order to avoid wastage and unnecessary consumption, we are striving for all our purchases being sustainable and of high quality.

Energy and climate accounting, total emissions by Sandnes Sparebank

Name	Unit	2019	2018
Scope 1 emissions	tCO_2e	0.2	0.3
Scope 2 emissions*	tCO_2e	20.1	28.1
Scope 3 emissions	tCO_2e	70.6	49.2
Total (S1+S2+S3)	**tCO_2e**	**90.9**	**77.6**
Total (ex. commuting)*	**tCO_2e**	**60.3**	**77.6**

* Commuting to work was not reported for 2018.
Excludes commuting for comparison between the years.

Key figures – Energy and climate indicators

Name	Unit	2019	2018
tCO_2e/ sales		0.1476*	0.13
tCO_2e/ man-labor years		0.7807*	0.68
$kgCO_2e$/ sqm		24.8*	21.2
kWh/ sqm		0.2	0.2
Turnover	NOK million	616.4	584.5
Man-labor years	Number	116.5	114

* Commuting to work was not reported for 2018, and constitutes 30.6 tCO_2e of S2 in 2019.

The customers

This is what we have achieved:

Far greater in terms of influence than our own climate footprint, is how the Bank may influence and motivate our customers to reduce their climate footprints. We undertake to contribute to green and sustainable realignment for our customers. We wish our customers will make good financial and sustainable choices every day.

Lending

We don't lend to just anybody! We have additional requirements for industries with higher risk related to environmental, corporate citizenship and corporate governance issues.

We take for granted that all our corporate customers, regardless of industry, observe Norwegian laws, respect human rights and actively disapprove of discrimination, harassment and money laundering. Our customers have to sign a customer statement to that effect.

Green loans that reward the environmentally conscious. Sandnes Sparebank wishes to reward customers who are being proactively greener and more environmentally friendly. Throughout the year, we have focused on product development to incentivize the sustainable choices of our customers. We are proud to be able to offer green loans to agricultural customers, for the purpose of financing realignment and sustainable investments. The Bank also offers Green Car Loans for the financing of environmentally friendly cars.

Investments

This is what we have achieved:

We don't invest in just anything!

Sustainable investment fund products

All products recommended by Sandnes Sparebank shall be in compliance with our requirements for corporate citizenship, sustainability, generally accepted business practice, ethics and openness. We offer management of investment fund products via Eika Kapitalforvaltning, the asset management arm of the Eika Group. We are working closely with them to ensure that the Bank does not contribute to the violation of human and employee rights, corruption, serious environmental damage and other unethical acts. We fully support their guidelines for sustainable investments.

The Bank's investment strategy

Our investment strategy provides clear guidelines for what we should own. We have more holdings in green and blue bonds, and the investment rate for this type of bond will increase going forward.

This is what we continue to work on:

We will continue to focus on product and competency development, in order to contribute to the best possible sustainable realignment for our customers. Thorough work is being conducted in order to identify how the Bank may have the biggest possible positive influence on, in particular, local climate and environment. Our ambition it so have more green lending products in our portfolio. We have established a framework for green bonds for the financing of energy efficient homes, and are in the process of developing a green home loan product.

Furthermore, during 2020, we will implement training and competency improvement for our advisors, so that they may be a good sparring partner for customers with respect to responsible lending and investing.

Climate and environment, and the necessary realignments facing our region, is a topic that occupies us. Climate changes are a risk to society, businesses and banks. In line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we are working on the mapping of climate risk and its consequences for our business. The Bank is primarily exposed to climate risk through our Corporate Market loan portfolio, which will affect our customers' debt servicing capacity and the value of their collateral.

Employees

This is what we have achieved:

We are seen, heard and consulted. There is no prejudice at Sandnes Sparebank – and that is how we like it!

Employee influence

Sandnes Sparebank appreciates unionized employees, and around 60% of the employees are members of the Finansforbundet union. Of the Board of Trustees – the Bank's highest governing body – a fourth of the members are employees. In addition, two of the Directors of the Bank are elected by the employees.

Gender and equal pay

As of 31.12.2019, Sandnes Sparebank employed 115 full-time employee equivalents. Female employees constitute 67% of the Bank's employees. We are of the opinion that this is not an optimal gender distribution, and are working on getting a more even gender distribution overall. The top management team of the Bank consists of 50% women, and we have a female managing director. Of middle managers, 47% are women. The Bank's Board of Directors consists of 50% women and 50% men.

Pay reflects market wages, education level and the individual employee's qualifications and responsibilities, to the greatest extent possible. Female managers in the Bank earn 98% relative to male managers. For other employees, this percentage is 79. This is in line with the rest of the financial industry, but is not a ratio that we are satisfied with, provided there is an equal basis of comparison. Our computation is adjusted for part-time percentage, however, differences in position level, seniority and other issues affect the ratio. The Bank is aware of the importance of equal pay, and is taking measures to ensure that it will be so. For example, equal pay is part of the overall picture in wage negotiations.

Zero tolerance for discrimination

Sandnes Sparebank cares about strict observance of the rights of its employees. Thus, we have zero tolerance for all forms of discrimination.

Employee satisfaction and health

Our annual employee survey shows that bank employees are very satisfied with working for Sandnes Sparebank and that the working environment is a good one.

Ethical guidelines for employees

Every year, all employees have to sign the Bank's ethical guidelines. These shall contribute to Sandnes Sparebank being characterized by a high degree of integrity and professionalism.

Sustainability and environment.

In 2019, we conducted extensive mapping of which priorities our employees desire the Bank to have, related to sustainability. This has been an important contribution to the further development of the Bank's sustainability strategy and materiality assessment. Through workshops, discussions and presentations, sustainability has become a more mature topic for all employees, and the Bank's strategy and objectives are integrated in all business areas and the culture of our organization.

This is what we continue to work on:

The Bank is focusing on how much further we can go in order to ensure diversity and equal pay. We have identified a need for further competency improvement regarding sustainability and climate risk, in order to enable us to provide good advice to our customers and make a positive contribution to the necessary realignment. This is what we will prioritize in 2020.

Community

This is what we have achieved:

Sandnes Sparebank is the super-local bank. Therefore, it has been natural for us to emphasize, in particular, local aspects in our sustainability strategy and work. Among other things, in Sandnes and Rogaland, we have found quite unique companies and organizations that will assist in the realignment to an ever more sustainable local community.

Gift Fund

An important part of our corporate responsibility is to return some of the Bank's profits to worthy causes. Ever since Sandnes Sparebank was founded in 1875, the further development of the local community has been a key to the Bank's daily activities. Every year, the Bank distributes several million kroner, for the benefit of projects small and large. In 2019, the purpose of several of the grants were to contribute to the combat of climate and environmental challenges.

Cooperation

We acknowledge that in order to achieve the UN sustainability objectives and contribute locally to moving quickly enough in the right direction, there is need for cooperation, competency sharing and good teamwork in the realignment. Throughout the year, we have participated actively in the sustainability reference group of the financial industry, and initiated local dialog with relevant partners, in order to promote focus on and making an impact on sustainable development. We are also, not least, benefitting greatly from being part of the Eika Alliance, and we are cooperating well on joint activities and development also with respect to sustainability and social responsibility.

This is what we continue to work on:

In order to ensure an even sharper focus on a sustainable local community, we will annually earmark funds for green purposes, whereby we want to have special focus on objectives that contribute to the UN sustainable objective number 13: Stop the climate changes.

We will continue our work to ensure cooperation with relevant players for the purpose of achieving the greatest and fastest possible influence on climate, environment and community.

Economic crime, privacy and IT security

Economic crime constitutes a serious social problem, and it is part of the Bank's social responsibility to contribute to protect the integrity and stability of the financial system, and to contribute to the maintaintenance of a local business community that complies with the law. Sandnes Sparebank is working actively to suppress economic crime such as money laundering, terror financing, tax avoidance and corruption. Sandnes Sparebank has good competence in this area, and is using lots of resources to reduce the risk of the Bank being used by criminals for money laundering and/or terror financing, etc.

Our main tasks are to implement risk assessments of the Bank's business, through customer control and ongoing follow-up of customer relationships, investigation of suspicious transactions and customers, and the reporting of suspicious transactions to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). We shall know our customers well, since such knowledge makes it simpler to carry out risk based measures, and to uncover and prevent economic crime. Thus, Sandnes Sparebank is using lots of resources to gather information and documentation about our customers. In 2019, Sandnes Sparebank initiated extensive efforts against money laundering and terror financing, in which the Bank collected new identity documents and reclassified big parts of the customer portfolio. This work will continue in 2020.

Tax Sandnes Sparebank will never facilitate or give companies advice about tax avoidance. Neither will we invest in companies, or provide credit to customers, that organize their activities in so-called tax heavens.

Corruption Sandnes Sparebank has a zero tolerance policy regarding corruption. This applies both internally, and with respect to our customers, suppliers, companies we invest in and our fund providers.

Privacy

Sandnes Sparebank processes a number of personal data, and as a bank, we have a great responsibility to our customers and employees to process and protect data properly. Privacy protection has always been high on the agenda of Sandnes Sparebank, and this work has been further escalated and systematized after introduction of the EU General Data Protection Regulation (GDPR) and a new personal data act in June 2018.

This is what we have achieved:

For several years, Sandnes Sparebank has worked on incorporating the new privacy regulations. We have established a separate privacy delegate whose main task is to be a point of contact for customers, employees, the Norwegian Data Protection Authority, and others that require access to or have questions regarding how personal data are being handled by the Bank. Procedures and processes have been prepared to ensure compliance with the data protection regulation, and all data processing agreements have been updated.

This is what we continue to work on:

Privacy protection shall be a natural part of the job at Sandnes Sparebank, and shall pervade good counseling practice. Good and transparent privacy protection builds trust, which is a precondition for enabling the Bank to reach its strategic objectives. In 2020, there will still be a sharp focus on competency improvement related to privacy protection among all Bank employees.

IT security

Sandnes Sparebank takes information security very seriously, and good security is a precondition for maintaining the trust bestowed on the Bank. It shall be safe to be a customer of Sandnes Sparebank, and people shall be able to use the mobile phone and internet banking services without having to worry that personal data and customer information will go astray.

This is what we have achieved:

Sandnes Sparebank has access to a great skillset through the Eika Group, which is using lots of resources on security solutions, monitoring and information. Various security tests have been conducted at Eika and its subcontractors, and also inside and outside testing under internal direction, without significant discrepancies being found.

This is what we continue to work on:

We will continue to implement regular testing and at the same time continue with training related to IT security.

Corporate governance

This chapter illustrates how Sandnes Sparebank is governed, and how activities are controlled. Good governance and management must ensure effective and efficient use of the Bank's resources and optimal creation of added value. The wealth created by Sandnes Sparebank shall benefit the Bank's owners, depositors, customers, employees and society as a whole. The Bank's corporate governance shall ensure prudent asset management and provide assurance with respect to attainment and realization of established objectives and strategies.

Statement of corporate governance and management

To the extent that it is relevant, the Board of Directors complies with the framework laid down by "Norwegian Recommendation for Good Corporate Governance" dated Wednesday, October 17, 2018 . In this chapter, the Board of Directors will, to the extent it is possible, provide a further account of the items comprising this recommendation. The "Norwegian Recommendation for Good Corporate Governance" is primarily directed at corporations. Sandnes Sparebank is organized as an equity capital certificate bank, and has to consider the requirements to which the Bank is subject pursuant to the legislation pertaining to savings banks.

The management of the Bank is the responsibility of the Board of Directors. The Board of Directors must ensure that the Bank is prudently organized, and is responsible for establishing control systems and ensuring that the business is operated in compliance with applicable Norwegian laws, regulations and the Bank's Articles of Association.

The Bank's ethical guidelines have been reviewed and approved by the Board of Directors. The guidelines have been communicated to the employees of the Bank and are available on the Bank's intranet. All new employees have to sign the Bank's ethical guidelines to attest that they have been reviewed, and their knowledge of these guidelines are measured in connection with the annual employee satisfaction survey.

Business

The Bank's Articles of Association state that the objective of the company is to promote savings by accepting deposits from an indeterminate circle of depositors. The assets which the Bank has at its disposal must be managed in a prudent manner and in accordance with the current laws and regulations pertaining to savings banks. The Bank may conduct all normal banking business and provide banking services in compliance with the provisions of the Norwegian Act on Savings Banks. The Bank is also licensed to provide investment services that are regulated by the Securities Trading Act. In addition, the Bank owns 60% of the shares in Aktiv Eiendomsmegling Jæren AS.

Through its Gift Fund, Sandnes Sparebank has the facility to allocate some of its profits to customer dividends and generally beneficial purposes. The Gift Fund is used to provide inspiration, and to promote growth and development. The award of gifts must be rooted in the Bank's vision and business concept, and be distributed in a way that supports reach and diversity.

The Board of Directors continuously reviews and updates the objectives and strategies of the Bank. The Board of Directors receives regular risk reports, operations reports and financial statements, in order to monitor to what extent the Bank is in compliance with applicable strategies and objective achievement.

Equity capital and dividends

The Bank's equity certificate capital is NOK 230,149,020, made up of 23,014,902 fully paid-up equity capital certificates, each with a face value of NOK 10. Of these, 38,630 equity capital certificates constitute a treasury stock that has been set aside for the employee savings scheme. External injection of equity capital takes place through the issuance of equity capital certificates or other equity instruments that satisfy statutory requirements.

One of the most important objectives of the Board of Directors is to safeguard the interests of the Bank, and thereby also the long-term interests of equity capital certificate holders, in any context and regard. By means of a continuous dialogue, the Bank will provide equity capital certificate holders with the opportunity to express their views on the Bank's activities and development. The Bank shall maintain an image that ensures credibility and predictability in the market. The Bank will seek long-term and competitive returns.

The Bank shall provide the market with relevant and complete information in order to ensure balanced and correct valuation of its equity capital certificates. This is ensured through compliance with the laws and regulations applying to listing on the Oslo Stock Exchange. For further details regarding equity capital certificates, please refer to the "Investor information" chapter.

In order to have a basis for assessing whether the Bank's equity capital fits its current objectives, strategy and risk exposure, the Board of Directors conducts a thorough review of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and receives an updated risk report each quarter. The Bank's ICAAP and capital plan are reviewed by the Financial Supervisory Authority of Norway, and in 2016 it provided feedback for a Pillar II requirement of 2.5%. Beyond this, the Ministry of Finance has decided to increase the counter cyclical capital buffer by 0.5%, to 2.5%, as of January 01, 2020. The Board of Directors of the Bank is satisfied with the capital situation. The Bank's Core Tier-1 capital ratio is 17.4% after provisions for dividends, compared to 16.6% at the start of the year. The Bank's objective for its Core Tier-1 capital ratio is at least 15.7% which is 0.7% above the regulatory requirement of 15.0%. During the first half of 2020, the bank will receive updated Pillar II requirements. The Directors will return with an updated target for the Tier-1 capital ratio during the year.

The Bank's dividend policy is as follows:
The objective of Sandnes Sparebank is to manage its total resources in such a way as to provide equity certificate holders a good, stable and competitive return in the form of dividends and price appreciation. Annual profits will be allocated to equity certificate capital (equity capital certificate holders) and primary capital on a pro rata basis relative to their respective shares of the Bank's equity capital. Sandnes Sparebank intends that between 50% and 75% of the equity certificate capital's share of profits will be distributed as dividends, and correspondingly that between 50% and 75% of the primary capital's share of profits will be distributed as gifts customer dividends. Considerations will emphasize that the equity capital certificate holders' share of total equity (ownership ratio) ought to be kept stable. In the determination of total distribution level, factors to be considered include expected earnings performance, external framework conditions and the Group's estimated need for Tier-1 capital.

The Bank's Board of Trustees annually approves a separate authorization to the Board of Directors regarding procurement and repurchase of subordinated debt capital. This authorization is transferred by the Board of Directors to Management.

In addition, the Board of Directors has authorization from the Board of Trustees to increase the equity capital by up to 10% of the outstanding equity certificate capital. The Board of Trustees has given the Board of Directors authority to increase the Bank's registered equity certificate capital by up to NOK 230 million through one or several issues. This authorization is valid for 2 years, and is contingent on the approval by the Financial Supervisory Authority of Norway.

Equal treatment of equity capital certificate holders and transactions with related parties

Sandnes Sparebank has one equity capital certificate class. The holders of equity capital certificates are ensured equal treatment and the same terms and conditions for influence on the Bank. Sandnes Sparebank conducts quarterly earnings presentations, to which the Bank's equity capital certificate holders are invited.

The Bank's equity certificate ratio was 65.4% at the end of 2019, versus 65.3% in 2018. The Bank's 20 biggest owners represent 58.42% of the equity certificate capital.

The directive to the Board of Directors contains clear provisions regarding ethics and competence. The Bank's ethical guidelines cover both elected officers and employees, and provide guidance regarding entertaining, benefits/gifts and professional secrecy. All transactions with intimates take place according to the arm's length principle.

The directive to the Board of Directors includes provisions underscoring the Directors' obligation of due care with respect to ethical behavior, competence and integrity. A Director or the Managing Director must not take part in the deliberations or the resolution of issues that are of particular significance to the person concerned, or of any intimates, making it appear that the person in question has a prominent personal or financial special interest in the case.

For further information about transactions with intimates, please refer to note 44.

Freely negotiable

The Articles contain no form of limitations on marketability.

Board of Trustees

The Board of Trustees is the Bank's supreme authority, supervising the Board of Directors' management of the Bank. The Board of Trustees approves the Bank's Articles of Association, approves the financial statements and elects the Directors of the Bank, the Nomination Committee, and the external auditor.

The Board of Trustees also allocates the amount that, pursuant to §10-7 of the Norwegian Financial Institutions Act, may be used for generally beneficial purposes, in addition to resolving whether to raise subordinated loan capital.

Meetings of the Board of Trustees shall be convened by the Bank with at least 21 days' notice, cf. §8-3 of the Financial Institutions Act and §5-11 of the Norwegian Public Limited Companies Act. The Board of Trustees may not pass resolutions on any other matters than those specifically provided in the notice of the meeting.

The Board of Trustees consists of 40 Trustees and 11 Deputy Trustees with the following representation: Equity capital certificate owners: 15 Trustees and 4 Deputy Trustees. Sandnes Municipal Council: 5 Trustees and 2 Deputy Trustees Depositors: 10 Trustees and 3 Deputy Trustees; and employees: 10 Trustees and 3 Deputy Trustees.

The minutes from meetings of the Board of Trustees is published on www.sandnes-sparebank.no/investor-relations.

Nomination Committee

The Bank's Nomination Committee is established by the Articles of Association, as are the guidelines for its operation. The Board of Trustees elects the members of the Nomination Committee from among the Trustees. The Nomination Committee consists of four members, of which the equity capital certificate holders, depositors, publicly elected representatives and employees are represented by one member each. One personal deputy is elected from each group. The members are elected for periods of two years at a time.

The Nomination Committee shall prepare the election of the Chairman and Deputy Chairman of the Board of Trustees, Chairman and Deputy Chairman of the Board of Directors, the other Directors and Deputy Directors, with the exception of the employee representatives, as well as the Head, other members and deputy members of the Nomination Committee. For the Director and Deputy Director to be elected by the employees, a separate election committee has been appointed and charged with the responsibility of electing the employee representatives for the Board of Directors and Board of Trustees.

The Nomination Committee also prepares the election of Trustees and Deputy Trustees representing the equity capital certificate holders and depositors. In its deliberations, the Nomination Committee shall ensure that the Board of Trustees, the Audit Committee, the Nomination Committee and the Board of Directors have the necessary competencies , and that both genders are adequately represented.

Board of Directors, composition and autonomy

The Board of Directors is elected by the Board of Trustees and normally consists of 8 Directors, of which two are Directors elected by the employees. The Managing Director is not a member of the Board of Directors. The Bank's Board of Directors is considered to fulfill the requirements to autonomy, and represents broad diversity of backgrounds and competencies. Financial legislation pertaining to savings banks provides a framework for the right of representation of various interest groups. Sandnes Sparebank endeavors to achieve the greatest possible autonomy between owners, Board of Directors and management.

All Directors are elected for two-year terms. Directors may be reelected. To ensure continuity, half the Directors are elected every second year. As of Tuesday, December 31, 2019, 4 of 8 regular Directors are women. Information about the Bank's Directors is presented in a separate chapter of the Annual Report.

Duties of the Board of Directors

The Board of Directors determines the Bank's objectives, strategies and plans. These are reviewed and revised at least annually, in accordance with a fixed meeting calendar.

The Board of Director is responsible for the appointment and dismissal of the head of internal audit, if applicable. The Board of Directors has also the sole responsibility for the employment and dismissal of the Managing Director. The Board of Directors also supervises the day-to-day management of the Bank.

The Board of Directors receives periodical reports on earnings performance, market developments, management, personnel and organizational developments, and the Bank's risk exposure.

The Bank's financial reporting is reviewed and approved by the Board of Directors.

Directors are defined as primary insiders and must comply with the Bank's regulations for acquisition of its equity capital certificates. The same applies to the purchase of shares in certain companies that are customers of the Bank.

The proceedings of the Board of Directors are regulated by a special directive to the Board of Directors. The Board of Directors undertakes an annual self-evaluation of its mode of operation, administrative procedures and meeting structure, and its prioritization of tasks. Normally, the Board of Directors holds 9 meetings a year.

The Board of Directors has established a separate Audit Committee to ensure that the Bank has a sound management that is well and properly organized, and has effective control systems. The Audit Committee consists of three Directors, of which at least one possesses relevant accounting or audit skills. The objective, tasks and functions of the Audit Committee has been determined pursuant to the law amendments brought about by the implementation of the EU audit directive and its recommendation.

Inter alia, the Audit Committee reviews the financial reporting of the Bank. In this context, Management presents material issues related to the Bank's quarterly financial statements, as well as issues that are subject to individual assessment. As part of its review, the Committee consults with the management, the Bank's Management and its external auditor.

Beyond monitoring the financial reporting process, the Audit Committee is also responsible for ensuring that the Group is subject to independent and effective internal and external auditing, and that the risk management systems are effective. At least once a year, the Committee will meet with the external and internal auditor separately without anyone from Management present.

Due to a new regulation regarding compensation in the financial sector, on December 15, 2010, the Bank established a separate Compensation Committee. The committee is responsible for preparing all issues regarding compensation plans to be decided by the Board of Directors. The Committee consists of 3 Directors.

Due to requirements in the §47.4 of the Capital Requirement Regulation, the Bank has, effective 2014, established a separate Risk Committee. The Risk Committee shall ensure that the control and management of the risks of Sandnes Sparebank is of a satisfactory high quality in order to achieve the Group's strategic objectives through proper management of the Group's assets. The Committee consists of 3 Directors. From Management, the Director of Risk Management has an obligation to appear, whereas the Managing Director and the Financial Director is entitled to appear. The Committee shall be convened at least once a year.

Risk management and internal audit

Risk management

Effective risk management is a prerequisite if the Bank is to reach its strategic objectives. Risk management is an integral part of the Management decision-making process. The Bank has established a separate risk management function that reports directly to the Managing Director. The Bank's risk exposure relative to the set framework and objectives, is reported monthly to the Board of Directors.

The Bank's risk management function also coordinates the continuous process whereby the Bank's solvency is assessed relative to its risk exposure. The Bank's risk exposure and capital requirements are reviewed on an annual basis. The review is considered by the Board of Directors and submitted to the Financial Supervisory Authority of Norway.

Accountability

Accountability is achieved through clear communication to the employees of the Bank's strategic measures and established goals. Operationally, this is achieved through clearly defined roles, responsibilities and expectations, where area managers are responsible for achieving the goals within their areas of responsibility. Risk factor developments are periodically reported to the Managing Director and the Board of Directors.

Compliance with laws, regulations and ethical standards

Sandnes Sparebank has prepared ethical guidelines. In addition, a separate reporting procedure has been established. Its purpose is to make it simpler for the employees of the Bank to raise ethical issues and undesirable incidents.

Internal guidelines have been developed for trading for own account and the treatment of inside information. These guidelines describe the laws and regulations that apply to all employees, temporary staff and elected officers. The ethical guidelines are clearly communicated within the organization and have also been published on the Bank's intranet.

A database of undesirable events has been established. This database is managed by the Manager of Risk Management.

The Bank has organized all compliance activity in a separate function under the Managing Director. The mission of this function is to check that both the Bank and the securities company are operating in compliance with present regulations.

Internal Audit

Sandnes Sparebank has established an internal audit function. Since 2019, the Bank has used KPMG as its internal auditor. The agreement covers the Parent Bank, subsidiaries subject to the internal audit regulation, as well as other significant subsidiaries.

The main purpose of internal audit is to evaluate whether internal controls work as intended. In addition, internal audit shall contribute to the improvement of the Bank's risk management and internal controls.

An annual internal audit plan is prepared on the basis of the internal audit function's risk evaluations and discussions with management, external auditors and the Audit Committee/ Board of Directors. The Board of Directors adopts the annual plan and budget for the internal audit function. Audit reports with proposed improvement measures are prepared for each internal audit project. These are presented to the responsible manager and Group Management. A report summary, including high priority recommendations, are presented to the Audit Committee. All reports are available to the Board of Directors and the Audit Committee through Admincontrol. The status of previous recommendations are followed up by internal audit, and is part of the regular reporting to the Audit Committee and the Board of Directors.

Internal audit does not perform financial audits.

Remuneration of Directors

The Directors receive an annual compensation that is determined by the Bank's Board of Trustees. The Directors may elect to receive up to 50% of the fixed Director's fee in the form of Bank equity capital certificates. The certificates are allocated quarterly on the basis of market price. No fees are paid in addition to this. Information about compensation and loans to Directors is provided in the notes to the annual financial statements.

Remuneration of senior management

Remuneration of the Managing Director is determined by the Board of Directors. The Managing Director, under the supervision of the Board of Directors, prepares guidelines for the remuneration of other senior employees of the Bank.

The Bank's bonus and compensation plan is in compliance with the requirements of the Regulation regarding compensation plans of finance institutions. No option plans or similar schemes have been established. The principles for remuneration of senior management, as well as information about actual compensation and loans to senior managers, are provided in the notes to the annual financial statements.

Information and communication

Sandnes Sparebank endeavors to provide identical, timely and relevant information to all stakeholders. Financial results are published through the Oslo Stock Exchange and presented quarterly to investors, analysts and the media. The information is also posted on the Bank's website. Regular presentations are given to international partners and lenders. All quarterly reports, press releases and presentations are published on the Bank's website on www.sandnes-sparebank.no/investor-relations.

Corporate takeovers

As a self-owning institution, Sandnes Sparebank cannot become the object of direct takeover, according to current legislation. In the case of acquisitions by the Bank, the best possible safeguard of the interests of all interested parties, including equal treatment of shareholders/owners, is prioritized. The Bank will endeavor to ensure that any takeovers will have the least possible negative impact on the Bank's daily operations.

External auditor

The duty of the external auditor is to evaluate whether the information provided by the annual report concerning the annual financial statements, the Bank's accounting principles, the management of risk, the assumption of continued operations as a going concern, and proposals for allocation of profit or cover of loss, comply with laws and regulations. The external auditor shall also evaluate whether the Bank's asset management is satisfactorily arranged and under adequate control. The Board of Trustees elects the external auditor.

The external auditor submits a report to the Board of Trustees on these matters.

Investor Information

The Equity Capital Certificate

Return and dividend policy

The objective of Sandnes Sparebank is to manage its total resources in such a way as to provide equity capital certificate holders a good, stable and competitive return in the form of dividends and price appreciation. Annual profits will be allocated to equity certificate capital (equity capital certificate holders) and primary capital on a pro rata basis relative to their respective shares of the Bank's equity capital. Sandnes Sparebank intends that between 50% and 75% of the equity certificate capital's share of profits will be distributed as dividends, and correspondingly that between 50% and 75% of the primary capital's share of profits will be distributed as gifts customer dividends. Considerations will emphasize that the equity capital certificate holders' share of total equity (ownership ratio) ought to be kept stable. In the determination of total distribution level, factors to be considered include expected earnings performance, external framework conditions and the Group's estimated need for Tier-1 capital.

Historical development of the equity certificate capital since the stock exchange listing in 1995

Year	Type of change	Subscription price	Number	Face value	Equity certificate capital (NOK '000)
1995	Primary capital issue (stock exchange listing)	110.00	1 300 000	100	130 000
1997	Rights issue (holders)	130.00	1 300 000	100	260 000
2001	Private placement (employees)	102.13	50 000	100	265 000
2001	Rights issue (holders)	110.00	1 250 000	100	390 000
2003	Rights issue (holders)	125.00	1 300 000	100	520 000
2007	Rights issue (holders)	166.00	1 500 000	100	670 000
2008	Dividend issue	115.00	405 811	100	710 581
2016	Change of nominal value		7 105 811	10	71 058
2016	Rights issue	22.00	15 909 091	10	230 149

2019 price performance of SADG

As of December 31, 2019, the SADG price was NOK 67.0 (last OSE price quote). The Board of Directors has proposed paying NOK 135.8 million in dividends for 2019, corresponding to NOK 5.9 per equity capital certificate. Compared to the quoted price at 31.12.2018, Sandnes Sparebank has provided a return of 31%, including dividends. This is a little stronger than the performance of the Oslo Stock Exchange Equity Capital Certificate Index (OSEEX), which had a positive performance of 24.6% during 2019.

SADG vs OSEEX

As of Tuesday, December 31, 2019, the 20 largest owners controlled 58.42% of the equity certificate capital. This is an increase of 56.2% since Monday, December 31, 2018. At the end of 2019, there were 2,609 equity certificate holders in total.

The 20 largest holders of equity capital certificates as of 31.12.2019

		Number	Share of %
1.	Sparebank 1 SR-Bank C/O SR-Investering	3 485 009	15.14
2.	Merrill Lynch	2 100 533	9.13
3.	AS Clipper	1 088 738	4.73
4.	VPF EIKA Egenkapital C/O Eika Kapitalforvaltning	970 701	4.22
5.	Espedal & Co AS	886 861	3.85
6.	Holmen Spesialfond	850 000	3.69
7.	Wenaasgruppen AS	650 000	2.82
8.	Salt Value AS	605 000	2.63
9.	Skagenkaien Investering AS	500 000	2.17
10.	Bergen Kommunale Pensjonkasse	400 000	1.74
11.	Nordhaug Invest AS	274 957	1.19
12.	Meteva AS	261 881	1.14
13.	Kristian Falnes AS	260 000	1.13
14.	Hausta Investor AS	200 000	0.87
14.	Innovemus AS V/Oskar Bakkevig	185 000	0.80
16.	Barque AS	159 651	0.69
17.	Tirna Holding AS	156 255	0.68
18.	Velde Holding AS	154 353	0.67
19.	Verdipapirfondet Nordea Avkastning	129 119	0.56
20.	Inge Steenslands Stiftelse	127 304	0.55
=	20 largest owners	13 445 362	58.42
+	Other owners	9 569 540	41.58
=	Total equity capital certificates	23 014 902	100.00

Dividend and equity capital certificate percentage

It was resolved to pay dividends of NOK 5.9 per equity capital certificate for 2019, and a corresponding payment to primary capital. The dividend corresponds to 75% of annual earnings. In 2020, the Bank will pay customer dividends on the basis of the 2019 annual earnings. The purpose of customer dividends is to return some of the Bank's profits to its customers. In 2019, NOK 53 million was paid out as customer dividends. As a consequence of increased earnings in 2019, customer dividends will also increase. The Board of Directors recommends customer dividends for 2019 of NOK 61 million. Customer dividends also contribute to keeping the equity capital certificate capital ratio stable. The equity capital certificate capital ratio was 65.4% at the end of 2019, up from 65.3% at the end of 2018.

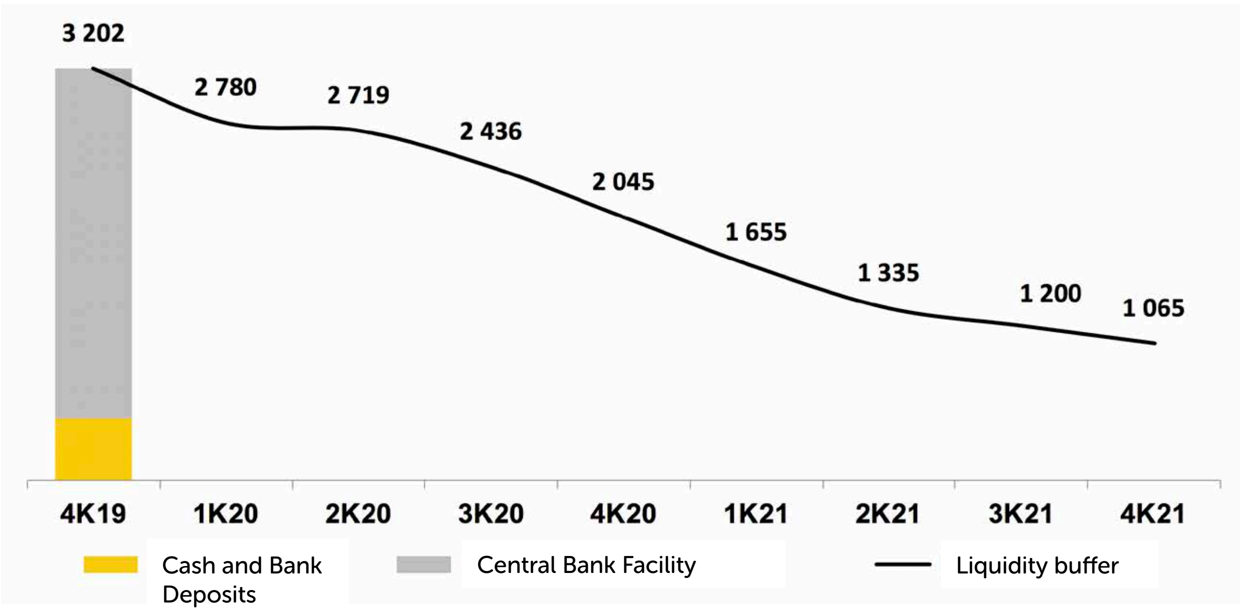
Liquidity

The Bank's liquidity situation is good. The Bank will have an acceptable need for refinancing in 2020. The establishment of SSB Boligkreditt AS has enabled the Sandnes Sparebank Group to issue covered bonds (OMF) and thus reduce the Group's liquidity risk. Covered bonds issued by SSB Boligkreditt AS carry a AAA rating from Scope Ratings. AAA is Scope' best rating.

Net lending by SSB Boligkreditt constitutes a volume of NOK 7.9 billion, which is an increase of NOK 0.5 billion during the past 12 months. As of 31.12.2019, SSB Boligkreditt AS had covered bonds in issue worth NOK 7.4 billion, net. The Bank is deemed to be well diversified with respect to both funding sources and maturities. At the end of the year, the Bank had a liquidity portfolio (excluding cash) of NOK 4.1 (3.8) billion. One of the Bank's objectives is to keep liquidity risk at a low level.

In the Bank's liquidity strategy, the Board of Directors has determined a framework for the Bank always having holdings of strategic liquidity making operations under normal operating conditions possible for at least 15 months without injection of liquidity. The available liquidity as of December 31, 2019 ensures operation for 24 months without supply of liquidity.

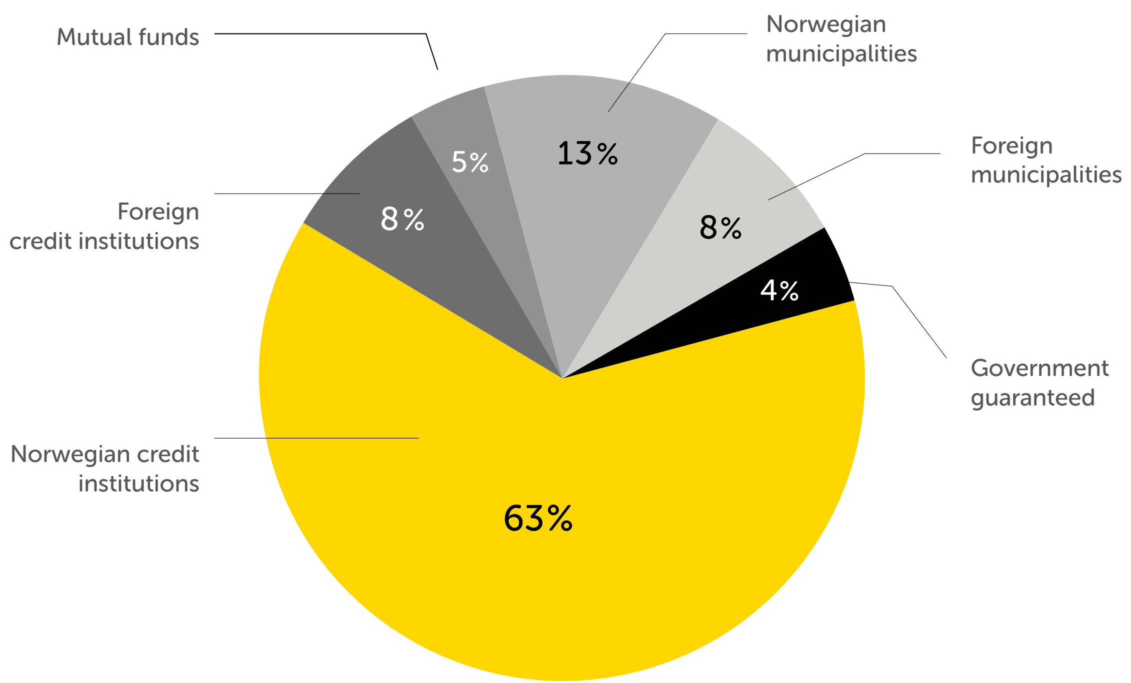
Refinancing requirements



The bond portfolio

The Bank values its entire bond portfolio at fair value through the income statement. The portfolio is used for investment of excess liquidity.

Composition of the liquidity portfolio



Market information

The Bank desires to pursue an open information policy aimed at providing holders of equity capital certificates and the securities market simultaneous, correct and relevant information about the Bank's financial performance. The Bank prepares quarterly reports.

All press releases and stock exchange announcements are available on the Bank's website at www.sandnes-sparebank.no/investor-relations.

Alternatively, information regarding capital ratios is available on the website of the Oslo Stock Exchange, www.ose.no. The ticker code for the Sandnes Sparebank equity capital certificate on the Oslo Stock Exchange is SADG.

The bank organizes earnings presentations in Oslo after the publication of the quarterly financial reports.

Financial calendar 2020

Q1 Report 2020	13 May
Semi-annual report 2019	13 August
Q3 Report 2020	5 November

BOARD OF DIRECTORS' REPORT

Directors' report 2019

Nature of the business

Sandnes Sparebank is an independent savings bank and a member of the EIKA Alliance, with its head office in the city center of the municipality of Sandnes. The Bank offers a broad range of banking and investment products to retail and corporate customers. The Group is also involved in real estate brokerage through its subsidiary, Aktiv Eiendoms-megling Jæren AS.

The Group consists of the Parent Bank and the SSB Bolig-kreditt AS subsidiary. In addition, the Group owns 60% of Aktiv Eiendomsmegling Jæren AS. The accounts of the abovementioned companies are fully consolidated in the Group financial statements of Sandnes Sparebank.

The Board of Directors considers the Bank's capital adequacy and liquidity levels to be satisfactory. We confirm that the conditions for considering the Company a going concern are present, in accordance with §3-3a of the Norwegian Accounting Act, and the financial statements have been prepared on this basis. Sandnes Sparebank prepares both its Group financial statements and Parent Bank financial statements in compliance with the International Financial Reporting Standards (IFRS), as approved by the EU. The applicable accounting principles are described in Note 2 to the annual financial statements.

Markedsforhold

Local conditions – Rogaland

Most local economic indicators in Rogaland have been in a stable positive trend since 2016. There has been steady growth in both investments, production and employment. The positive trend continued through 2019, but develop-ments have been somewhat subdued towards the end of the year. At the end of the year, the economy experienced a high degree of capacity utilization. The oil service industry has strengthened its competitiveness with lower costs and increased level of digitalization, and at the same time several companies have intensified their focus on diversification.

High skill, quality and technological levels, together with the weak Norwegian krone, means that export oriented industry in the region is competitive.

NAV reported stable low unemployment in the region at the end of 2019. The registered unemployment in Rogaland has declined steadily during several years, and was 2.2% at the end of the year.

Home prices in the region have remained stable for several years, measured in nominal NOK. Corrected for inflation, home prices have been falling since 2014. Seen in isolation, home prices fell in the region by 2.8% in 2019. New construction activity has increased in the region in recent years, especially in the apartment building category. The supply side increase has been greater than demand, resulting in a negative price pressure on housing.

The central bank, Norges Bank, increased the policy rate three times during 2019, from 0.75% to 1.5%. The interest rate increases have been well communicated, and generally the Bank's customers have adapted to a higher interest rate level. Local home prices are at a moderate level, and relative to a good labor market, the interest service ability has been good.

Commercial property had a stable development during 2019. There is still imbalances between supply and demand, particularly for office space. At the end of the year, Sandnes had a stable and low vacancy level of 3.9%, whereas the Stavanger city center has experience increased vacancy levels up to approximately 10%, due to several completed new buildings. At Forus, which has a high density of oil related activities, there has been a stable vacancy level of approximately 10%. Rents have remained stable during 2019, but vary some from area to area.

Please also refer to other paragraphs regarding events after the date of the balance sheet.

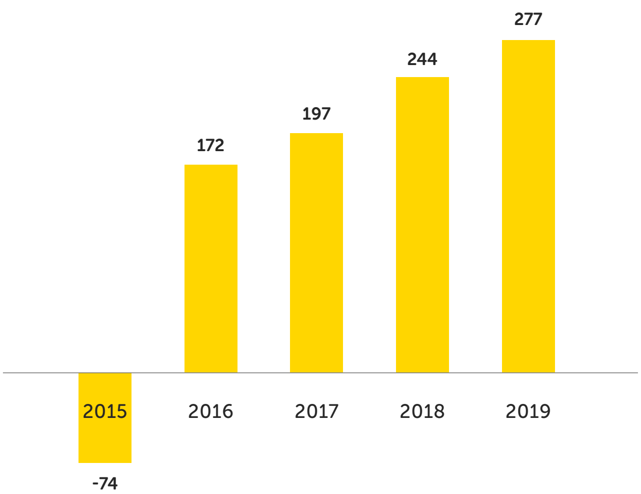
Earnings performance

Numbers in brackets are for the corresponding period in 2018. Unless otherwise noted, descriptions apply to the Group.

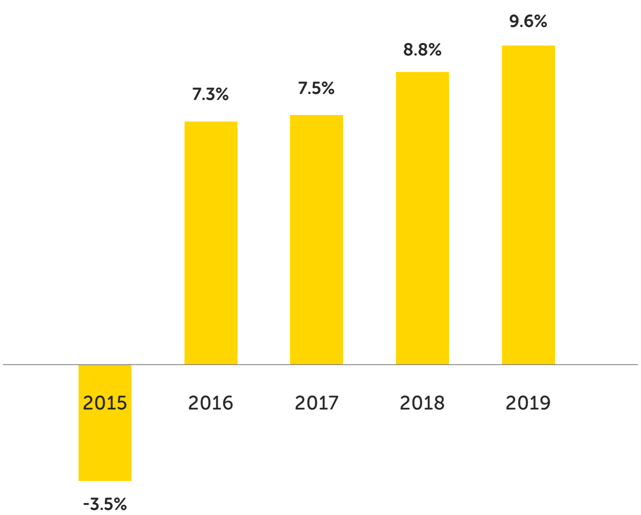
For the year, profits after taxes were NOK 277.1 million, compared to NOK 244.4 million in 2018. The increase may primarily be explained by a higher net interest income and other operating income, as well as lower writedowns and loan losses.

ANNUAL DEVELOPMENT IN PROFIT AFTER TAX AND RETURN ON EQUITY

PROFIT AFTER TAXES, LAST 5 YEARS



RETURN ON EQUITY AFTER TAXES, LAST 5 YEARS



Pre-tax profits for 2019 were NOK 333.4 million. This is an increase of NOK 33.8 million compared to 2018. Total profits were NOK 263.2 million, compared to NOK 258.9 million in 2018.

For the year, return on equity after taxes was 9.6%, compared to 8.8% for 2018. In 2019, return on equity after taxes, including interest on hybrid capital, was 9.4%, compared to 8.7% in 2018.

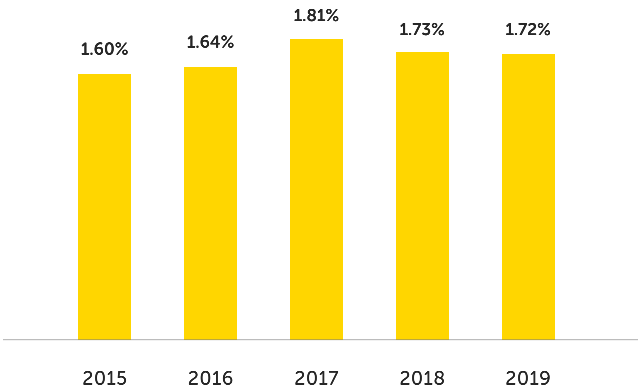
Net interest income

The Group's net interest income was NOK 475.8 (462.0) million for 2019. The interest margin was 1.72% in 2019, compared to 1.73% in 2018.

For the year as a whole, the Bank's interest margin was almost identical with that of the prior year. The Bank experienced a significant drop in interest margin during the first half of the year. The drop in the interest margin was primarily due to a higher Nibor in 2019 than during the corresponding period in 2018, which resulted in higher funding costs for the Bank. Together with strong competition in the local bank market, this resulted in pressure on the interest margin.

After the rate increases by Norges Bank during 2019, the Bank has adjusted lending and deposit rates to the customers. In combination with a flatter Nibor trend, the Bank strengthened its interest margin during the second half of 2019. Increased lending volume during the period also had a positive impact on net interest income. The Bank is well satisfied with the positive development of the interest margin during the second half of 2019.

NET INTEREST INCOME IN % OF AVERAGE TOTAL ASSETS, LAST 5 YEARS



Other operating income

Total other operating income amounted to NOK 140.6 million for 2019. This is an increase of NOK 18.0 million compared to 2018.

Net commission income amounted to NOK 48.6 million, which is NOK 0.7 million less than in 2018. There has been an increase in commission income on the sale of insurance services and saving products. Counter forces were lower net fee income and guarantee provisions.

The net return on financial investments was NOK 14.4 million for 2019. The return is primarily due to positive performance by the share portfolio. For 2018, the return was NOK 14.1 million – including an extraordinary share gain of NOK 18.3 related to the VIPPS AS merger.

During 2019, the Bank repurchased and redeemed existing bond debt in connection with major refinancing events and extension of the maturity profile of the Bank's bond debt. The repurchases were made at a premium of NOK 6.0 million, which resulted in a negative impact of equal size on the net return on financial investments.

In 2019, dividends amounted to NOK 46.1 million, compared to NOK 30.3 million in 2018. The main reason for the uptick is increased dividends from Eika Gruppen AS of NOK 42.5 million, compared to NOK 29.1 million in 2018.

Other operating income was NOK 2.6 million higher compared to 2018. Among other things, the increase was due to higher income from estate agency services in the Aktiv Eiendomsmegling Jæren AS subsidiary.

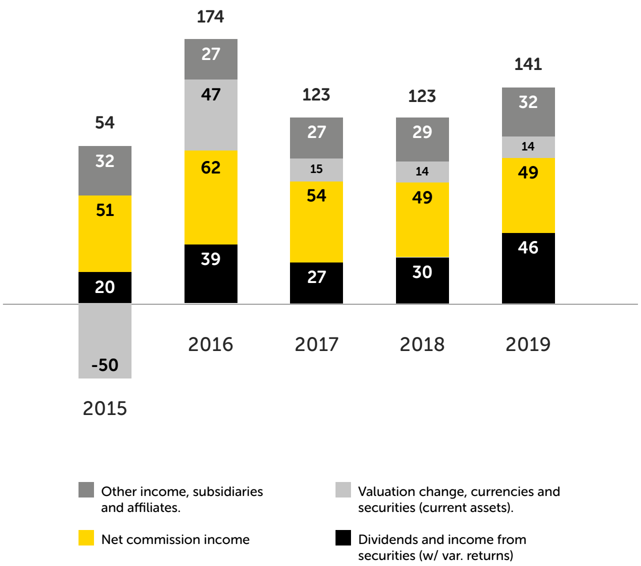
Other operating income must be expected to fluctuate from quarter to quarter due to seasonal and market volatility.

Operating cost

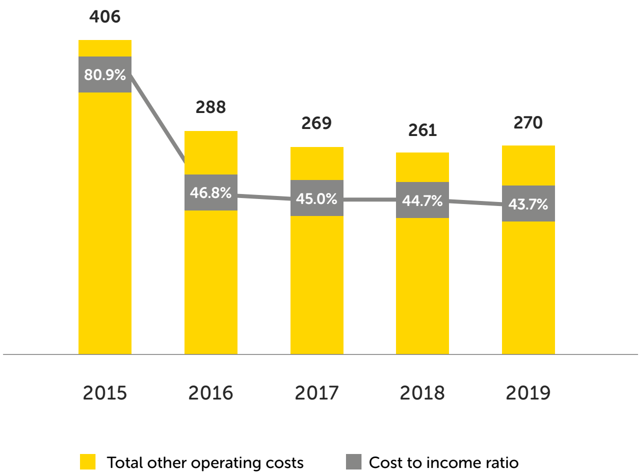
Group operating cost was NOK 269.5 million in 2019. This is an increase of NOK 8.4 million compared to 2018. This is primarily due to higher payroll cost following an ordinary wage settlement, costs related to winding up the Bank's advisor office in Oslo, and increased payroll cost at Aktiv Eiendomsmegling Jæren. In addition, the Bank is experiencing increased costs related to digitalization and the Bank's anti-money laundering efforts. The transition to IFRS 16 has resulted in the Bank's rental costs now being presented as depreciation and interest cost rather than as other operating cost as previously.

For the Group, the 2019 cost to income ratio was 43.7%. This is a decline from the 44.7% for 2018. The total cost to total asset ratio was 1.0% in both 2019 and 2018.

OTHER INCOME, LAST 5 YEARS



OTHER OPERATING INCOME, LAST 5 YEARS



Losses and non-performing loans

Losses and writedowns of loans and guarantees of NOK 13.5 (23.7) million were recognized during 2019. The reason for the decline is mainly due to general improvement of the market conditions, lower risk and fewer defaults in the Bank's loan portfolio. Significant efforts have been made in recent years to reduce the scope of non-performing problem loans, to improve the quality of the loan portfolio.

As of the end of 2019, total provisions for losses on loans and guarantees were NOK 146.9 (242.5) million, of which NOK 34.1 (41.5) million were related to the Retail Market, and NOK 112.8 (201.0) million were related to the Corporate Market.

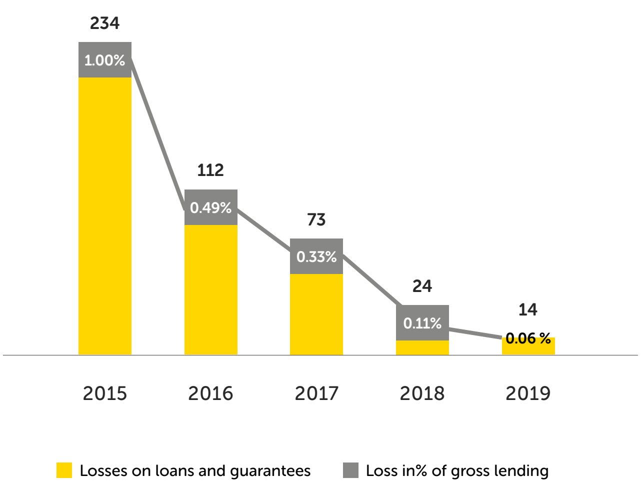
Step 3 writedowns (individual writedowns) of loans and guarantees were at NOK 80.3 million at the end of 2019, a decline of NOK 76.4 million during the past 12 months.

Step 1 and 2 writedowns (statistical writedowns) amounted to NOK 66.6 million at the end of 2019, representing a decline of NOK 19.1 million during the past 12 months.

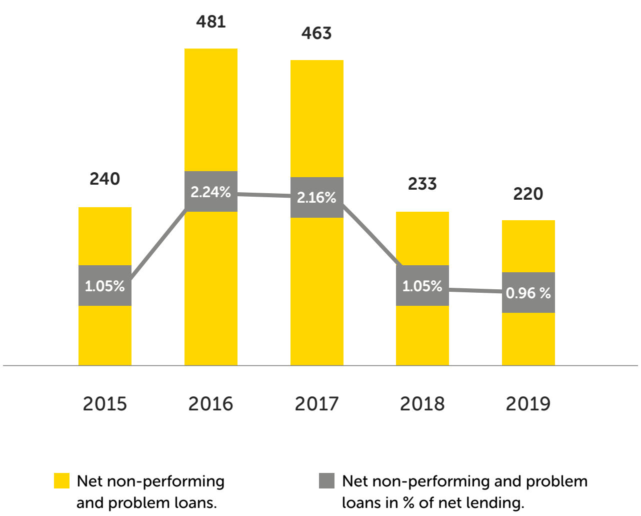
As of 31.12.2019, net non-performing and problem loans subject to individual writedowns were NOK 220.1 (233.4) million. This corresponds to 0.96% (1.05%) of the Group's net lending volume. Of the net non-performing and problem loans, NOK 107.4 (73.5) million are related to the Retail Market and NOK 112.7 (159.9) million are related to the Corporate Market.

Gross non-performing loans over 90 days amounted to NOK 143.6 million as of 31.12.2019, compared to NOK 151.4 million as of 31.12.2018.

LOSSES ON LOANS AND GUARANTEES, LAST 5 YEARS



NET NON-PERFORMING AND PROBLEM LOANS, LAST 5 YEARS



Balance sheet developments

Group total assets were NOK 28.2 (27.2) billion at the end of 2019. This represents an increase of 3.5% compared to the end of 2018, and may be primarily explained by lending growth.

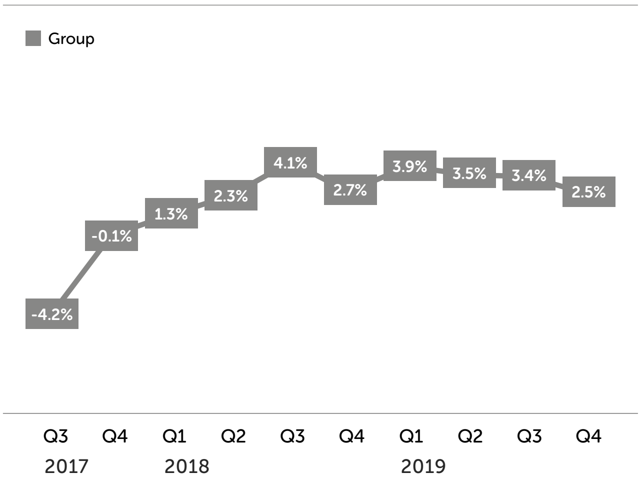
At the end of 2019, gross lending to customers amounted to NOK 23.0 (22.4) billion. During the past 12 months, gross Group lending has grown by 2.5%. Retail Market lending grew by 6.0% and loans to the Corporate Market grew by -4.5%. The Bank increased its market shares in the Retail Market segment in both 2018 and 2019. With respect to the corporate market, several measures have been taken, pursuant to the agreed strategy, to improve the portfolio quality. There is healthy and profitable growth in the small and medium corporate segment at the same time as the share of major and risky loans has been reduced. There has also been a deliberate push for diversification into various sectors, inter alia higher exposure to agriculture. In 2019, a number of loans previously carried with a loss, have been terminated or declared.

The Bank is experiencing a positive customer satisfaction trend in both segments, which is an important contributor to the Bank's lending and profitability growth in recent years.

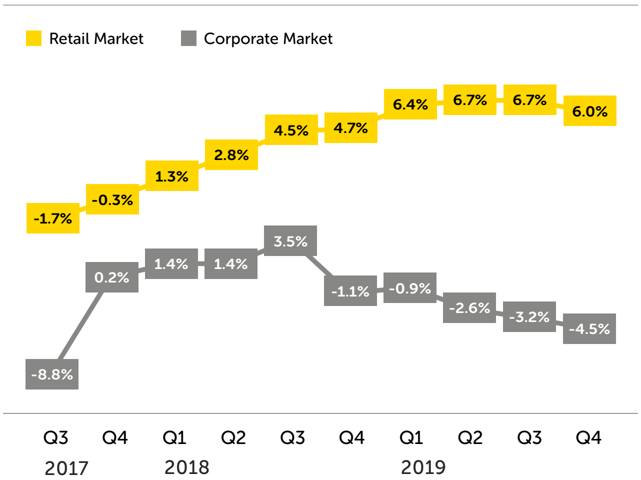
At the end of 2019, the Retail Market share of total lending was 70% (68%).

At the end of 2019, deposits amounted to NOK 11.8 (11.3) billion. During the past 12 months, deposits from customers have increased by 5.2%. Retail Market deposits declined by 2.9% and Corporate Market deposit increased by 4.3%. At the end of 2019, the Group deposit to loan ratio was 51.7% (50.7%).

GROSS GROUP LENDING GROWTH (12 MO)



GROSS SEGMENT LENDING GROWTH (12 MO)



Solvency

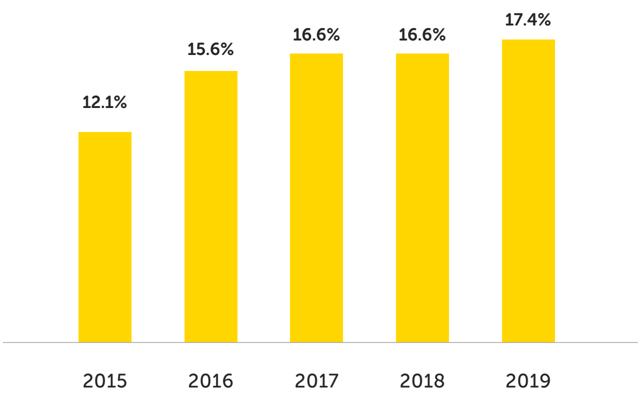
At the end of the year, the Group capital ratios were above the regulatory capital requirements and the internal objective for Core Tier-1 capital. The counter cyclical capital buffer was changed from 2.0% to 2.5% at 31.12.2019. As of 31.12.2019, the Bank's regulatory minimum Core Tier-1 capital ratio requirement is 15.0%. The Bank expects updated Pilar-2 requirements during the first half of 2020.

Effective 31.12.2019 a capital weighing discount has been introduced for small and medium sized companies, and the definition of mass market loans has been changed. This effectively reduces the calculation base, entailing that the Bank's Tier-1 capital is increased by 0.6%.

As of 31.12.2019 the Group has a Core Tier-1 ratio of 17.4%, up from 16.6% as of 31.12.2018. The increase in Core Tier-1 capital is primarily due to the introduction of the SMB discount, down-weighing of loans in the Bank's mass market portfolio due to reliefs in the definition of mass market, as well as retained earnings in 2019.

As of 31.12.2019, the unweighted Core Tier-1 ratio ("Leverage ratio") of the Group was 9.25%, compared to 9.4% as of 31.12.2018.

CORE TIER-1 CAPITAL RATIO, LAST 5 YEARS

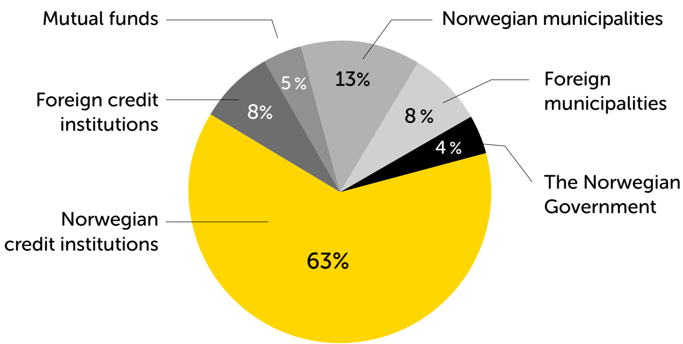


Liquidity and funding

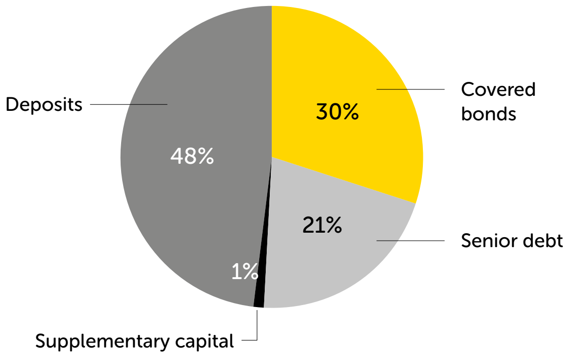
The Bank's liquidity situation is considered satisfactory. At the end of the year, the Bank had a liquidity portfolio (excluding cash) of NOK 3.8 (3.7) billion. One of the Bank's objectives is to keep liquidity risk at a low level.

Net lending by SSB Boligkreditt constitutes a volume of NOK 7.9 billion, which is an increase of NOK 0.5 billion during the past 12 months. As of 31.12.2019, SSB Boligkreditt AS had covered bonds in issue worth NOK 7.4 billion, net. The Bank is deemed to be well diversified with respect to both funding sources and maturities.

THE LIQUIDITY PORTFOLIO



FUNDING SOURCES



Subsidiaries

For 2019, the total profits of the Bank's subsidiaries – prior to intergroup offsets – were NOK 32.1 (39.5) million after taxes.

SSB Boligkreditt AS was established as a part of the Group's long-term funding strategy and the main objective of this mortgage company is to issue covered bonds in the market. For 2019, company profits after taxes were NOK 31.7 (38.7) million.

Aktiv Eiendomsmegling Jæren AS offer real estate brokerage services to both retail and corporate customers. For 2019, company profits after taxes were NOK 0.4 (0.8) million.

Risk management

Financial activity requires management of risk. Good risk management is of strategic importance for the Group's value creation. The combination of risk management and internal compliance contributes to efficient operations, satisfactory handling of significant risk, as well as assurance of high quality internal and external reporting. In addition, high quality risk management and internal compliance ensure that the Group is operating in compliance with relevant laws, regulations and internal guidelines for its operations. The Group's core values and ethical framework are also part of the internal guidelines.

It is an objective of Sandnes Sparebank to maintain a low to moderate risk profile, and to have risk management of high quality. The desired risk profile is based on the Bank's internal capital adequacy and return objectives. Day-to-day risk management will reduce the probability of individual events occurring that may inflict significant financial damage on the Bank.

A key part of the Bank's risk management is the Group's own assessment of its capital requirement, ICAAP – Internal Capital Adequacy Assessment Process. In this process we assess the risk to which the Bank is exposed relative to the appurtenant assessment of management and control. On the basis of this assessment, we calculate the amount of capital required to cover these risks. The assessments are summarized at least on an annual basis in a report submitted to the Financial Supervisory Authority of Norway. In order to ensure that the Bank's ICAAP is of satisfactory quality, the Bank's internal audit function performs an annual review of the process. This report is also submitted to the Financial Supervisory Authority of Norway.

Credit risk

The Group has a moderate credit risk profile. The credit risk for current ordinary loans is mainly in the low and medium risk categories (please refer to Note 8). For loans with indications of potential loss, individual writedowns have been made on the basis of concrete evaluations.

As was the case in 2018, there has been a significant reduction of the Bank's credit risk throughout 2019. The lending volume to customers increased during 2019 due to an increase in the Retail Market that more than offset reduced lending volumes in the Corporate Market. For each krone lent, the expected credit loss has gone down in both RM and CM.

It is our assessment that the loan portfolio of corporate customers carries a moderate risk profile, and the quality of the portfolio is considered satisfactory. Over half of the exposure to Corporate Market customers satisfies the Group's internal requirement for classification as low risk. The quality of the retail loan portfolio is considered to be good. 89% of the retail loan portfolio satisfies the Group's internal requirement for classification as low risk.

Liquidity risk

At the end of 2019, the Bank's liquidity strategy was discussed by the Board of Directors. The liquidity strategy reflects a continuation of the Bank's conservative approach to liquidity risk. Management of liquidity risk shall reflect the Group's moderate risk profile.

SSB Boligkreditt has been an important instrument for maintaining the Group's risk profile. SSB Boligkreditt has taken over well collateralized home mortgages from the Bank and issued covered bonds to finance them, which has provided the Group with better diversification on the funding side, at more advantageous terms. The bonds issued by SSB Boligkreditt has a triple A credit rating from Scope.

At the end of 2019, loans worth NOK 7.9 billion had been transferred from the Bank to SSB Boligkreditt. SSB Boligkreditt has issued covered bonds with a nominal value NOK 7.4 billion. In addition, bonds with a face value of NOK 7.0 billion have been issued by Sandnes Sparebank.

The Group's deposit to loan ratio was stable during 2019, and was just over the 50% target at the end of the year. In our opinion, the liquidity risk is acceptable. This is because the composition of the Bank's deposits is more stable, and thus does not entail large daily fluctuations of the Bank's liquidity.

The Group carries a low short-term liquidity risk.

Market risk

The Bank has no trading portfolio of equity instruments, currencies, bonds or notes.

The Bank's holdings of bonds and notes are part of the Bank's liquid assets. The Group requires a credit rating, and an additional main principle is that the securities must qualify for access to borrowing from the Norwegian Central Bank. In the financial statements, liquid assets are valued at fair value, and are thus exposed to market risk. The credit risk for these assets is quantified as risk of default.

Beyond this, the Group's market risk consists of foreign currency risk and interest rate risk. Trading in foreign currencies and interest rates takes place within the agreed frameworks and authorizations. Foreign currency risk is mainly related to interest accruing on customers' currency loans, currency derivatives and our cash balance. The Bank has guidelines for hedging of foreign currency risk. The foreign currency risk is considered to be moderate to low.

Interest rate risk is related to the holdings of fixed income securities, as well as loans and deposits with fixed interest rates. The Board of Directors has set a limit of NOK 21 million for total interest rate risk on and off the Group balance sheet. This is measured by the effect on earnings of a 2% parallel shift in the interest rate. The estimated earnings effect of a positive interest rate shift of 2% was NOK 5.8 million, whereas the estimated earnings effect of a negative interest rate shift of 2%, was NOK -5.8 million. Thus, interest risk is considered to be low. In total, the Group's exposure to market risk is considered to be moderate.

Operational risk

Operational risks comprise all the potential sources of loss related to the Bank's ongoing operations. Failure of procedures, computer systems, mistakes made by subcontractors, and breach of trust on the part of employees and customers are examples of such risk. The Bank emphasizes the importance of purposeful initiatives to prevent and reduce operational risks. Good internal control is an important aid in reducing operational risks, with respect to prevention, disclosure and follow-up. Risk evaluations are made in all business areas. The major risks, together with action plans for reducing these to acceptable levels, are reported to the Managing Director. The Managing Director, in consultation with the Bank's top management, assesses the Bank's strategic risk. The major risks and the appurtenant measures to minimize risk are presented to the Board of Directors. The Bank's internal auditor performs an audit and independently confirms whether the Bank's internal audit activities satisfy the requirements set by the Internal Audit Regulation.

In addition, the Bank has a notification and follow-up system for undesirable events. This system is used by employees to report events that have occurred. Their immediate supervisor, the compliance manager and the risk management manager receive the reports and may propose and/or follow up any suggested measures to reduce the chance of the event reoccurring. This enables the Bank to analyze operational events and then initiate changes to internal processes to reduce the likelihood of recurrence.

Organization, employees and environment

In 2019, the Group's average number of full time equivalent employees was 133. At the end of the year, the Group had 133 full-time employee equivalents, decline of 2.5 equivalents from 2018. Aktiv Eiendom had 18.3 full-time equivalents at the end of the year. In isolation, the Bank had 115 full-time employee equivalents at the end of the year.

One of the Bank's strategic focus areas is to develop competent, committed and performance oriented employees. In order to reach these objectives, the Bank has facilitated the development of a performance oriented culture that makes the most out of available resources. One effective way to build a good performance oriented culture has been to clarify what is expected of each unit in order to achieve our objectives, to follow this up by making visible and sharing results, and by appreciating and call attention to cases of good performance.

The EIKA Alliance has provided the Bank with a basis for following technological developments and enabled us to offer up-to-date solutions to our customers. Overall, the Board of Directors is of the opinion that the EIKA Alliance provides the Bank with a business and technological basis for building the bank of the future in Sandnes.

The average age of bank employees is 43 years. Female employees constitute 68% of the Bank's employees. The Bank's management team consists of three men and three women, and of the eight Directors, four are women.

It is a fundamental principle of the Bank's personnel policy that women and men shall have the same opportunities for qualifying for all kinds of work, and that their career opportunities shall be the same. Furthermore, everybody shall have equal opportunities regardless of ethnicity, national origin, skin color, language, religion, faith or functional ability. Working environment surveys at the Bank show that the employees are well satisfied with their work place, and of the opinion that the working environment is good. Pay reflects market wages and the individual employee's qualifications and responsibilities, to the greatest extent possible.

The Bank's retail market customer advisors are authorized in accordance with the authorization schemes for financial advisors (AFR), casualty insurance and credit.

For both the retail market and the corporate market, Sandnes Sparebank has a highly competent corps of advisors that both ensures good customer experiences and quality in the customer processes.

The company does not pollute the external environment. No serious incidents or accidents took place or were reported during the year.

Average absence due to illness was 3.1% in 2019. Since 2012, the Bank has been an IA (inclusive work environment agreement) company in order to ensure good procedures for the follow-up of people on sick leave and a good working environment at the Bank.

The Bank's equity capital certificate (SADG)

As of 31.12.2019, the SADG price was NOK 67.00, compared to NOK 55.00 as of 31.12.2018.

At the end of the year, the registry showed 2,609 owners of the Bank's equity certificates. At this point in time, the 20 biggest owners controlled 58.42% of the equity certificate capital. The total number of equity capital certificates as of 31.12.2019 was 23,014,902, of which 38,630 constituted a treasury holding.

A summary of the 20 biggest holders of equity capital certificates is available under Investor Information in the Annual Report.

The Bank's dividend policy is as follows;
«It is an objective of Sandnes Sparebank to manage its total resources in order to ensure a good, stable and competitive return in the form of dividends and price appreciation. Annual profits will be allocated to equity certificate capital (equity capital certificate holders) and primary capital on a pro rata basis relative to their respective shares of the Bank's equity capital. Sandnes Sparebank intends that between 50% and 75% of the equity certificate capital's share of profits will be distributed as dividends, and correspondingly that between 50% and 75% of the primary capital's share of profits will be distributed as gifts customer dividends. Considerations will emphasize that the equity capital certificate holders' share of total equity (ownership ratio) ought to be kept stable. In the determination of total distribution level, factors to be considered include expected earnings performance, external framework conditions and the Group's estimated need for Tier-1 capital.»

Application of earnings for 2019

In line with the Bank's dividend policy, different factors are emphasized with respect to distribution of dividends. The decisive elements are solvency and strengthening the Tier-1 ratio. The Board of Directors is proposing to the Board of Trustees the payment of a dividend for 2019 of NOK 5.9 per equity capital certificate, corresponding to 75% of the Group's earnings per equity capital certificate. Of the NOK 71.0 million dividend allocated to the primary capital, the Board of Directors proposes an allocation to the Gift Fund of NOK 10.0 million, and NOK 61.0 million as customer dividend.

The Board of Directors proposes the following allocation:	Amount (in millions of NOK)
For allocation	246.7
To cash dividends on equity capital certificates	135.8
To equalization reserves	21.4
To the Savings Bank Fund	11.2
To the Gift Fund/customer dividend	71.0
To hybrid capital holders	5.3
To reserves for unrealized gains	2.0
Total proposed allocation	246.7

The profits have been allocated on the equity capital and the saving Bank's Fund relative to their share of equity, in order to provide equity capital certificate holders with 65.7% of the allocated profits. Due to the allocations, the equity ratio is reduced from 65.7% to 65.4%.

Events after the balance sheet date

The Corona outbreak and financial uncertainty in the Norwegian and international economy

In March 2020, the spread of the Corona virus resulted in considerable uncertainty in the Norwegian and international economy. There are great swings in the financial and currency markets, and the oil price has fallen significantly, but local companies in Rogaland will also be affected by events. Precautionary and readiness measures have been implemented to maintain banking operations, and the Bank is already in dialog with exposed customers. The uncertainty on the financial markets is having a negative effect on the Bank's investments, but the negative financial impact is limited due to relatively low market risk. The liquidity situation and the solvency of the Bank are good, and the Bank is well equipped for the demanding period facing us.

Repurchase of equity capital certificates
On February 14, 2020, the Bank repurchased a total of 2,080,000 equity capital certificates at a price of NOK 75.00 per certificate, for a total of NOK 156 million. After the transaction, the Bank owns a total of 2,098,629 equity capital certificates, corresponding to 9.12% of outstanding equity certificates. The repurchase is recognized as a reduction of paid-up equity capital and entails a reduction of Core Tier-1 capital of approximately 1%, and a reduction of the equity capital certificate ratio (equity ratio) from 65.4% as of 31.12.2019, to 63.1%.

Purchase of 49.5% of the shares of a local accounting agency
On February 04, 2020, Sandnes Sparebank entered an agreement whereby the Bank is purchasing 49.5% of Kjell Haver Regnskapsservice AS (KHRS) of Sandnes. The shares are being purchased from six partners who have been part of the company for years. The partners will also continue to own the remaining parts of the company, and be responsible for day-to-day operations. KHRS has had healthy and solid operations for many years, and has currently 34 employees. They are well known in the market for their high level of competence and good personal advice. Sandnes Sparebank and KHRS have customers in the same market area, and are able to offer complementary services to customers.

Otherwise, there have been no significant events after the date of the balance sheet that affects the financial statements as of 31.12.2019.

Prospects for 2020

Sandnes Sparebank has set tall objectives for customer satisfaction and positive customer experiences. The Bank's objective is to be the leader with respect to service and advice for people in general and local businesses. The Bank's vision is "best in class with respect to good and personal customer experiences". The strategic objectives of the Bank provides direction with respect to ensuring:

- Very satisfied customers and a splendid reputation
- Competent, committed and performance oriented employees
- Profitable growth
- Return on equity exceeding the peer average.

The macro economic conditions in the region have been improving in recent years, and have been characterized by a high level of activity. There is full employment in the region, but still some imbalances in the housing and commercial property markets. Events in March 2020, with spread of the Corona virus, have created uncertainty both nationally and internationally. It is uncertain how much events will affect the Bank's customers and the local business community. The Bank is well prepared both with respect to stable operations, competent employees and financial solvency. The Bank is prepared to support both retail and corporate customers in the time ahead.

The Bank is well capitalized. At the end of the year, the Bank had a Core Tier-1 capital ratio of 17.4%, after payment of the annual dividend. The counter-cyclical buffer was increased by 0.5% as of 12/31/2019, and thus the authorities' Tier-1 capital ratio requirement is 15.0%. During the first half of 2020, the bank will receive updated Pillar II requirements. In February 2020, the Bank repurchased 9.1% of its outstanding equity capital. The Bank had more capital than required, and the measure reduced the Core Tier-1 capital ratio to 16.4%. On 3/13/2020, the counter-cyclical buffer was reduced by 1.5% due to the spread of the Corona virus. Thus, the Bank's capital adequacy requirement has been changed to 13.5%, and the Bank's internal objective is for a minimum Core Tier-1 capital ratio of 14.2%. The Directors will return with an updated target for the Tier-1 capital ratio during the year.

However, the Directors want to stress that there is uncertainty related to all future estimates. The Bank is well prepared for 2020, in the form of good liquidity, good solvency and competencies.

18 March 2020 | The Board of Directors of Sandnes Sparebank

Harald Espedal Chairman of the Board	**Frode Svaboe** Deputy Chairman	**Heidi Nag Flikka** Director	**Bjørg Tomlin** Director

Sven Chr Ulvatne Director	**Birte Norheim** Director	**Solveig Vatne** Employee representative	**Jan Inge Aarreberg** Employee representative	**Trine Karin Stangeland** CEO


ANNUAL ACCOUNTS

Income statement

Group The year 2019	Group The year 2018	Beløp i tusen kr	Noter	Parent Bank The year 2019	Parent Bank The year 2018
804 947	727 026	Interest income measured with the yield method	17	614 502	563 003
98 543	71 004	Interest income measured at fair value	17	87 653	65 728
427 649	336 050	Interest cost	17	289 310	240 157
475 841	**461 980**	**Net interest income**		**412 844**	**388 574**
58 660	57 359	Commission income	18	75 564	74 175
-10 105	-8 126	Commission cost	18	-10 105	-8 126
46 119	30 315	Dividends		46 620	31 920
14 428	14 121	Net realized gains/losses on financial instruments	19	20 780	21 065
31 457	28 881	Other operating income	20	3 627	1 147
140 559	**122 550**	**Total other operating income**		**136 486**	**120 180**
148 688	134 382	Payroll cost	21,22,23	128 163	115 702
98 869	114 100	Other operating cost	21	90 894	103 821
21 939	12 655	Depreciation/writedowns	21,31,32,33	21 846	12 589
269 496	**261 137**	**Total operating cost**		**240 903**	**232 112**
346 904	**323 393**	**Operating profit before writedowns taxes**		**308 427**	**276 642**
13 471	23 729	Writedowns and losses on loans and guarantees	11	14 360	24 264
333 433	**299 664**	**Operating profit before taxes**		**294 067**	**252 378**
56 361	55 284	Tax cost	24	47 391	44 595
277 072	**244 380**	**Operating profit after taxes**		**246 676**	**207 783**
		Statement of other income and cost			
		Items that will not be reclassified to the income statement			
-13 362	14 535	Valuation adjustment of shares recognized at fair value through other comprehensive income	34	-13 362	14 535
-582	26	Actuarial gains and losses, defined benefit pension	23	-582	26
-146	7	Taxes		-146	7
-13 799	14 555	Total		-13 799	14 555
		Items that later may be reclassified to the income statement			
		Valuation adjustment of loans recognized at fair value through other comprehensive income	34	245	286
		Total		245	286
-13 799	14 555	Other income and cost (after taxes)		-13 554	14 841
263 272	**258 935**	**Total profits**		**233 121**	**222 624**
263 112	258 601	Majority share of profits			
160	334	Minority share of profits			
7.9	6.9	Earnings per equity capital certificate	45	7.0	5.9
7.9	6.9	Diluted earnings per equity capital certificate		7.0	5.9

Balance sheet

Group 31.12.2019	Group 31.12.2018	NOK '000	Noter	Parent Bank 31.12.2019	Parent Bank 31.12.2018
4 261	10 318	Cash	25,26	4 261	10 318
570 160	645 955	Loans to and claims on credit institutions	11,25,26,27	569 318	544 636
21 897 252	21 439 328	Loans to customers at amortized cost	8-11,25,26	12 922 320	13 197 892
980 757	775 118	Loans to customers at fair value	8-11,25,26	2 058 769	1 601 203
3 857 560	3 660 633	Notes and bonds	25,26,28,35	3 062 166	3 116 404
295 432	203 148	Equities	25,26,30	295 432	203 148
112 759	150 356	Financial derivatives	15,25,26	63 682	85 082
		Ownership interests in subsidiaries	29	354 328	354 345
20 796	30 741	Intangible assets	31	16 243	26 188
8 111	8 708	Deferred tax benefit	24	8 017	8 349
5 937	6 057	Fixed assets	32	5 773	6 007
88 151		Right of use assets, lease agreements	33	88 151	
11 719	13 719	Other assets	29,42	940 906	751 034
46 946	9 864	Prepaid cost and accrued income	25,26	44 982	9 864
258 417	255 414	Financial instruments with valuation changes through comprehensive income	25,26,34	258 417	255 414
28 158 259	**27 209 358**	**Total assets**		**20 692 763**	**20 169 884**
43 672	50 197	Payable to credit institutions	25,26,35	286 440	24 836
11 832 829	11 252 168	Deposits from customers	25,26,36	11 834 530	11 252 906
12 692 071	12 317 863	Debt securities	25,26,37	5 243 585	5 544 024
111 181	147 945	Financial derivatives	15,25,26	89 377	117 901
36 296	33 993	Other liabilities	25,26,39	32 483	31 079
55 892	56 528	Taxes payable	24,25,26	46 783	45 784
379	782	Deferred taxes	24,25,26		
40 950	56 818	Accrued expenses and received, not accrued income	25,26	38 621	54 564
16 463	14 499	Provisions	11,23,38	16 351	14 342
107 903		Lease liabilities	33	107 903	
201 191	317 563	Subordinated loan capital	25,26,40	201 191	317 563
25 138 825	**24 248 357**	**Total liabilities**		**17 897 263**	**17 402 999**
230 149	230 149	Equity capital certificate capital	41,45,46	230 149	230 149
-386	-187	Own equity capital certificates		-386	-187
987 313	987 313	Share premium	41	987 313	987 313
410 451	389 294	Equalization reserves	41	410 451	389 294
831 278	820 224	The Savings Bank's Fund	41	831 278	820 224
90 156	88 159	Gift Fund/customer dividend	41	90 156	88 159
12 470	23 829	Net unrealized gains reserve	41	12 470	23 829
100 000	100 000	Hybrid capital	40,41	100 000	100 000
354 596	318 640	Other equity	41	134 070	128 105
3 408	3 581	Non-controlling ownership interests			
3 019 434	**2 961 001**	**Total equity**		**2 795 500**	**2 766 885**
28 158 259	**27 209 358**	**Total liabilities and shareholders' equity**		**20 692 763**	**20 169 884**

18 March 2020 | The Board of Directors of Sandnes Sparebank

Harald Espedal Chairman of the Board	**Frode Svaboe** Deputy Chairman	**Heidi Nag Flikka** Director	**Bjørg Tomlin** Director	**Sven Chr Ulvatne** Director	**Birte Norheim** Director	**Solveig Vatne** Employee representative	**Jan Inge Aarreberg** Employee representative	**Trine Karin Stangeland** CEO

Changes in equity capital

Group

Group	Equity certificate capital	Treasury of own equity capital certificates	Share premium	Equaliza-tion reserve	The Savings Bank's Fund	Gift Fund/ customer dividend	Net unrealized gains reserve	Hybrid capital	Other equity	Total	Non-con-trolling ownership interests	Total equity capital
Equity capital as of 01.01.2018 (revised)	230 149	-358	987 313	372 735	811 510	64 592	10 636	-	226 384	2 702 962	4 317	2 707 277
Dividends paid									-64 342	-64 342	-1 070	-65 412
Gifts and customer dividends paid						-39 409				-39 409		-39 409
Actuarial gains and losses, defined benefit pensions (after taxes)				13	7					20		20
Net unrealized gains reserve							-1 342			-1 342		-1 342
Valuation adjustment of shares recognized at fair value through comprehensive income							14 535			14 535		14 535
Change, own equity capital certificates		171							667	838		838
Issue of new hybrid capital								100 000		100 000		100 000
Unpaid interest/cost on hybrid capital									-1 226	-1 226		-1 226
Annual profits allocated to equity capital reserves				16 546	8 707					25 253		25 253
Annual profits allocated/used for dividends									119 677	119 677		119 677
Annual profits allocated/used for gift fund/customer dividends						62 976				62 976		62 976
Annual profits allocated to hybrid capital holders									1 218	1 218		1 218
Annual profit rest of group									36 263	36 263	334	36 597
Equity capital as of 31.12.2018	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	318 640	2 957 421	3 581	2 961 001
Equity capital as of 01.01.2019	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	318 640	2 957 421	3 581	2 961 001
Transition effects of the transition to IFRS 16									-9 444	-9 444	0	-9 444
Equity capital as of 01.01.2019 (revised)	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	309 197	2 947 978	3 581	2 951 558
Dividends paid									-119 584	-119 584	-334	-119 918
Gifts and customer dividends paid						-68 960				-68 960		-68 960
Actuarial gains and losses, defined benefit pensions (after taxes)				-286	-151					-437		-437
Net unrealized gains reserve							2 007			2 007		2 007
Valuation adjustment of shares recognized at fair value through comprehensive income							-13 365		3	-13 362		-13 362
Change, own equity capital certificates		-199							-1 014	-1 213		-1 213
Unpaid interest/cost on hybrid capital									-5 306	-5 306		-5 306
Annual profits allocated to equity capital reserves				21 443	11 205					32 648		32 648
Annual profits allocated/used for dividends									135 788	135 788		135 788
Annual profits allocated/used for gift fund/customer dividends						70 957				70 957		70 957
Annual profits allocated to hybrid capital holders									5 276	5 276		5 276
Annual profit rest of group (unallocated)									30 235	30 235	160	30 396
Equity capital as of 31.12.2019	230 149	-386	987 313	410 451	831 278	90 156	12 470	100 000	354 596	3 016 027	3 408	3 019 434

Changes in equity capital

Parent Bank

	Equity certificate capital	Treasury of own equity capital certificates	Share premium	Equalization reserve	The Savings Bank's Fund	Gift Fund/ customer dividend	Net unrealized gains reserve	Hybrid capital	Other equity	Total equity
Equity capital as of 01.01.2018 (revised)	230 149	-358	987 313	372 735	811 510	64 592	10 636	-	71 827	2 548 402
Dividends paid									-64 342	-64 342
Gifts and customer dividends paid						-39 409				-39 409
Actuarial gains and losses, defined benefit pensions (after taxes)				13	7					20
Valuation adjustment of loans recognized at fair value through comprehensive income									286	286
Net unrealized gains reserve							-1 342			-1 342
Valuation adjustment of shares recognized at fair value through comprehensive income							14 535			14 535
Change, own equity capital certificates		171							667	838
Issue of new hybrid capital								100 000		100 000
Unpaid interest/cost on hybrid capital									-1 226	-1 226
Annual profits allocated to equity capital reserves				16 546	8 707					25 253
Annual profits allocated/used for dividends									119 677	119 677
Annual profits allocated/used for gift fund/customer dividends						62 976				62 976
Annual profits allocated to hybrid capital holders									1 218	1 218
Equity capital as of 31.12.2018	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	128 105	2 766 885

Equity capital as of 01.01.2019	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	128 105	2 766 885
Transition effects of the transition to IFRS 16									-9 444	-9 444
Equity capital as of 01.01.2019 (revised)	230 149	-187	987 313	389 294	820 224	88 159	23 829	100 000	118 662	2 757 442
Dividends paid									-119 584	-119 584
Gifts and customer dividends paid						-68 960				-68 960
Actuarial gains and losses, defined benefit pensions (after taxes)				-286	-151					-437
Valuation adjustment of loans recognized at fair value through comprehensive income									245	245
Net unrealized gains reserve							2 007			2 007
Valuation adjustment of shares recognized at fair value through comprehensive income							-13 365		3	-13 362
Change, own equity capital certificates		-199							-1 014	-1 213
Unpaid interest/cost on hybrid capital									-5 306	-5 306
Annual profits allocated to equity capital reserves				21 443	11 205					32 648
Annual profits allocated/used for dividends									135 788	135 788
Annual profits allocated/used for gift fund/customer dividends						70 957				70 957
Annual profits allocated to hybrid capital holders									5 276	5 276
Equity capital as of 31.12.2019	230 149	-386	987 313	410 451	831 278	90 156	12 470	100 000	134 070	2 795 500

Please also refer to Note 41, 45 and 46 regarding equity capital and equity capital certificates.

Cash flow statement

Group The year 2019	Group The year 2018	Beløp i tusen kr	Parent Bank The year 2019	Parent Bank The year 2018
		Cash flow from operations		
850 840	796 097	Payment of interest, commissions and fees from customers	679 179	637 152
-140 217	-104 838	Payment of interest to customers	-140 217	-104 838
11 869	24 780	Net payment in/out in connection with trading of financial assets	3 913	24 780
46 119	30 315	Receipt of dividends	46 620	31 920
70 407	48 229	Interest payments received on securities	59 533	42 925
-239 853	-226 083	Operational payables	-239 784	-225 927
-56 848	-37 627	Taxes	-46 060	-21 835
-68 960	-39 410	Gifts and customer dividends paid from profits	-68 960	-39 410
473 358	**491 463**	**Net cash flow from operations**	**294 224**	**344 768**
		Cash flow from investment activities		
-1 061	-1 195	Purchase/sale of fixed assets	-1 061	-1 195
-120 641	-36 042	Purchase/sale of long-term investments in equities and other assets	-120 641	-36 072
-215 355	-335 001	Net payment in/out in connection with trading of interest-bearing securities	42 352	-25 699
-337 057	**-372 238**	**Net cash flow from investment activities**	**-79 350**	**-62 966**
		Cash flow from financing activities		
-944 937	-752 492	Net payments in/out on installment loans, lines of credit	-397 348	-207 743
583 257	391 210	Net payments received from deposits	583 257	391 210
253 102	13 457	Net deposits/loans from credit institutions	261 605	-30 288
3 480 000	4 200 000	Placement of note and bond debt	1 080 000	2 300 000
-3 043 755	-3 590 098	Repayment of notes and bond debt	-1 316 787	-2 445 883
	300 000	Placement of subordinated loan capital and subordinated bonds		300 000
-115 500	-410 067	Repayment of subordinated loan capital and subordinated bonds	-115 500	-410 067
-119 918	-64 342	Distribution of dividends	-119 584	-64 342
-14 184		Lease payments on lease liabilities recognized through the balance sheet	-14 184	
-296 216	-196 048	Net interest payments made on funding activities	-157 708	-104 168
-218 152	**-108 380**	**Net cash flow from funding activities**	**-196 249**	**-271 280**
-81 851	10 845	Net cash flow for the period	18 625	10 521
656 273	645 429	Cash and cash equivalents at the beginning of the period	554 954	544 433
574 422	656 273	Cash and cash equivalents at the end of the period	573 579	554 954

NOTES

Content

1 GENERAL INFORMATION

Sandnes Sparebank is an equity capital certificate bank listed on the Oslo Stock Exchange. The Bank is headquartered in the municipality of Sandnes, and its office address is Rådhusgata 3, 4306 Sandnes.

The 2019 Group and Parent Bank Financial Statements were approved by the Board of Directors on Wednesday, March 18, 2020 and by the Board of Trustees on Wednesday, March 31, 2020.

2 ACCOUNTING PRINCIPLES

CONTENTS

1 Basis for preparation of financial statements

The Group financial statements for Sandnes Sparebank have been prepared in accordance with International Financial Reporting Standards (IFRS), as approved by the EU. The same applies to the financial statements of the Parent Bank. The financial statements are based on IFRS standards and interpretations that are mandatory for annual financial statements presented as of 31.12.2019. Requirements for additional information in current banking laws and regulations have also been met.

The measurement basis for the financial statements is historical cost, with the exception of financial derivatives and the financial assets and liabilities that are reported at fair value with changes in value through the income statement.

For the group financial statements, the principles mentioned here have been consistently applied for all reporting periods. The same applies to the parent company, with clarifications as stated for the relevant items. The financial statements are presented in Norwegian Kroner (NOK), and all figures are shown in whole thousands, unless otherwise specifically indicated. The Group balance sheet presentation is primarily based on an assessment of the liquidity of the balance sheet items.

2 New standards and interpretations employed as of the 2019 financial year

Implementation IFRS 16 – Lease agreements

IFRS 16, Lease agreements, was implemented on January 01, 2019 and replaces IAS 17, Lease agreements. The standard sets principles for recognition, measurement, presentation and information about lease agreements. IFRS 16 removes the distinction between operational and financial lease agreements in IAS 17, and introduces a common accounting model for lease agreements. Lease agreements with lease periods of over 12 months and with a total value in excess of USD 5,000 shall be recognized through the balance sheet of the lessee with a lease liability and associated user right at the time of the agreement becoming effective. The lease obligation is measure as the present value of future lease payments during the agreement period, discounted down by the implicit rent of the lease agreement, or the lessee's marginal borrowing rate. Options in the lease agreement shall be taken into account in the calculation of the present value of the obligation, if it is probable that they will be utilized. Lease payments are divided on the liability and interest cost of the obligation.

The Bank has elected to apply the modified retrospective method, which entails that comparative figures are not recomputed, and that the transition effect is charged against the starting balance for retained earnings in the year of implementation. For leases recorded as agreements with losses pursuant to IAS 37, the associated provisions for losses is recognized against the value of the user right at the time of transition.

Transition effects for the Bank due to the implementation of IFRS 16;

Group		Impact on balance sheet	Parent Bank	
IAS 17 31.12.2018	IFRS 16 01.01.2019		IAS 17 31.12.2018	IFRS 16 01.01.2019
-	86 205	Right of use assets	-	86 205
-	109 534	Lease obligation	-	109 534
	-13 885	Provisions for losses on rental agreements*	-	-13 885
-	-9 444	Retained earnings	-	-9 444

* For leases recorded as agreements with losses pursuant to IAS 37, the associated provisions for losses is recognized against the value of the user right at the time of transition.

3 Consolidation

The consolidated financial statements comprise the Parent Bank, Sandnes Sparebank, and the subsidiaries listed in Note 29. Subsidiaries are consolidated from the date the Bank assumed control and are excluded from the date the Bank cedes control. Control is present when the investor has power over the investment, has exposure to or is entitled to variable returns and has the ability to use this power to direct those activities of the investment that to a significant degree impacts returns. Potential voting rights, options, convertible debt instruments and other issues are part of the assessment.

The accounting principles are being consistently applied for incorporation of ownership interests and the reporting is based on the same accounting periods as the Parent Bank.

Intra-group transactions and balances between the consolidated companies are eliminated. Unrealized losses are eliminated unless the loss is caused by impairment.

Subsidiaries

Subsidiaries are defined as companies in which Sandnes Sparebank has direct or indirect control, ownership interests or other relationships. Normally Sandnes Sparebank is assumed to have control when its ownership interests in another company is greater than 50%.

For acquisitions and transfers, the following applies:

The acquisition method is used in case of acquisition of control of a company. All identifiable acquired assets and liabilities are included at fair value. For every acquisition, non-controlling ownership interests will be valued either at fair value, or as a proportionate share of the acquired company's identifiable assets. Transaction costs are recognized as expenses.

If control is achieved through gradual acquisition, any difference between the fair value at the time of acquisition and the book value of the part of the company already recognized, will be recognized through the income statement.

Any conditional part of the acquisition price will be valued at fair value at the time of acquisition.

Basically, goodwill is measured as the difference between the total purchase price and the value of non-controlling ownership interests, and the net fair value of acquired identifiable assets and liabilities. The difference is recognized through the income statement if it is negative.

4 Presentation currency

The presentation currency is Norwegian Kroner (NOK), which is also the functional currency for all Group companies. Transactions in foreign currencies are converted to the functional currency according to the exchange rates on the day of the transaction. Foreign exchange losses and gains arising from such transactions and on the conversion of cash items in foreign currency as of 12/31 are recognized through the income statement.

5 Accrual of income

Interest income and interest costs are recognized in the income statement using the yield method. The yield method calculates the amortized cost of loans and deposits and distributes earned interest or interest expense over the expected term to maturity. The yield is determined by discounting contractual cash flows within the anticipated term to maturity. The method entails current income accrual of nominal interest with the addition of amortization of up-front fees. If a loan has been written down due to value impairment (part of step 3), interest income is recognized as yield, based on the expected written down cash flows. Fees associated with fixed income instruments are part of the yield calculation and is correspondingly recognized in the income statement.

Commission income and costs are generally accrued as and when a service is rendered and classified as "Commission income" and "Commission cost", respectively.

The Group has the following income flows covered by IFRS 15 – Income from customer contracts:

- Payment service fees - Charged to the customer's account at the end of each month when accrued, and recognized as income during the same period.
- Annual fee (debit card) – Annual advance payment. Charged to the customer's account during the month when a new period (year) starts. Recognized as income in the same way.
- Commission on the sale of insurance, saving, investment funds and credit cards – Accrued, recognized as income and settled monthly.
- Brokerage fee – Accrued and recognized as income upon settlement.
- Fees earned via third parties (interbank, VISA, etc.) – Accrued, recognized as income and settled monthly.
- Other fees – charged to the customer's account on an ongoing basis and on the date accrued. Recognized as income on an ongoing basis.
- Other services – recognized as income in line with execution.

The Bank has only limited income containing significant elements of separate delivery obligations, meaning that the timing of recognition of income and measurement of compensation of the transactions, have not been changed as a consequence of the introduction of IFRS 15.

Rent income related to real estate concerns primarily sublet income that is invoiced and recognized as income on a current basis in accordance with the sublet agreement in line with IAS 17.

Dividends on shares and equity capital certificates are recognized as income at the time when they are adopted by the annual general meeting.

6 Balance sheet recognition of assets and liabilities

The Group recognizes assets at the time when the Group achieves real control of the rights to the assets. Similarly, liabilities are recognized when the Group assumes real liabilities. Assets are derecognized at the time when real risk regarding the assets is transferred and the control over the rights to the assets lapses or expires.

In other respects, please refer to the description of recognition and measurement under item 7, Financial Instruments.

7 Financial instruments

Classification of financial instruments

Classification of financial instruments is based on the purpose of their acquisition and the characteristics of the instrument.

Financial assets are classified as:

- Financial instruments valued at amortized cost (AC)
- Financial instruments valued at fair value with valuation changes through ordinary profit or loss (FVTPL)
- Financial instruments valued at fair value with valuation changes through other comprehensive income (FVOCI)

Financial liabilities are classified as:

- Financial liabilities at fair value with change in value through the income statement
- Other financial liabilities measured at amortized cost

The definition of a financial instrument is determined by IAS 32, whereas the classification and measurement of financial instruments are determined in IFRS 9. In the determination of the measurement category, IFRS 9 differentiates between ordinary debt instruments and equity instruments, including derivatives. Ordinary debt instruments are defined as fixed income instruments on which the yield is dependent on the time value of money, credit risk and other relevant risks for ordinary debt instruments.

Derivatives of and investments in equity instruments

Equity instruments are in the fair value through profit and loss category (FVTPL). With respect to equity instruments that are not derivatives and which are not held for trading purposes, there is opportunity to elect to recognized these at fair value through other comprehensive income (FVOCI).

All derivatives used by the Group are measured at fair value with valuation changes through the income statement, but derivatives designated as hedging instruments shall be recognized in line with the principles for hedge accounting.

Financial assets that are debt instruments

For ordinary debt instruments, the measurement category is determined by the purpose of the investment. Debt instruments that are part of a portfolio created for the purpose of receiving contractual cash flows in the form of interest and installments, shall be measured at amortized cost.

Debt instruments that are part of a portfolio created for the purpose of both receiving cash flows and making sales, shall be measured at fair value through other comprehensive income (FVOCI), with interest income, effects of currency exchange rate conversions and writedowns presented via the income statement.

Instruments that at the outset should be measured at amortized cost or at fair value with valuation changes through other comprehensive income (FVOCI), may be designated to be measured at fair value with valuation changes in value through the income statement if this will eliminate or significantly reduce an accounting mismatch (Fair Value Option/FVO).

Fixed income instruments of the other business models, shall be measured at fair value through profit and loss.

Financial liabilities

For financial liabilities that has been decided recognized at fair value through ordinary profit and loss, changes in value due to the company's own credit risk shall be recognized through comprehensive income (OCI), unless the recognition through comprehensive income (OCI) creates or reinforces an accounting mismatch. The scope of liabilities recognized at fair value is of limited scope, and the impact on the Group is therefore considered insignificant.

Hedge accounting

The Group applies hedge accounting for fair value hedging of some fixed rate funding (bonds, subordinated loans and hybrid capital bonds). Derivatives related to this funding are earmarked for hedging purposes. In connection with the transition to IFRS 9, new rules for hedge accounting were introduced, including the removal of the required hedging efficiency of 80-125% and replacing it with more qualitative requirements. It is also possible to delay the implementation of the hedge accounting rules pursuant to IFRS 9. The Bank has elected to continue to use the hedge accounting rules in accordance with IAS 39.

Measurement

Initial recognition

At initial recognition, all financial instruments are measured at fair value on the trading day. Transaction costs that are directly attributable to the establishment of the asset/liability are included in the cost price of all financial instruments that are not classified at fair value with changes in value through ordinary profit and loss.

Subsequent measurement

Measurement at fair value

For all financial instruments traded on an active market, the quoted price obtained either from a stock exchange, broker or a pricing agency, is applied. Financial instruments not traded on an active market are valued with various valuation techniques, and some are valued by professional agencies. All changes in fair value are recognized directly in the income statement unless the asset is classified as financial instruments at fair value with valuation changes through comprehensive income (FVOCI).

The Bank has set the fair value of floating rate loans to correspond to the nominal value, adjusted for the associated expected credit loss on the loan (ECL). The reason is that such loans are repriced almost continuously, and that any deviation from the nominal value in an arm's length transaction between informed and willing parties is considered insignificant.

Measurement at amortized cost

Financial instruments not measured at fair value are valued at amortized cost and income/cost is estimated using the yield method. The yield is determined by discounting contractual cash flows within the anticipated term to maturity. Amortized cost is the present value of the cash flows discounted by the yield.

Hedge accounting

The hedge effect is valued and documented both at initial classification and at each closing of the accounts. In case of fair value hedging, the hedging instrument is recognized at fair value and the value of the hedging object is adjusted for the change in valuation associated with the hedged risk. Changes in these values from the starting balance are recognized in the income statement. This method ensures that the presentation in the financial statements of these instruments complies with the Group's policies for managing interest rates and actual economic developments. If the hedge is terminated, or if sufficient hedging efficiency cannot be verified, the change in value of the hedging object is amortized over its remaining maturity.

Writedown of financial assets

Pursuant to IFRS 9, provisions for losses shall be recognized on the basis of expected credit losses (ECL). The general model for the write-down of financial assets comprises only financial assets recognized at amortized cost or fair value through comprehensive income. In addition, loan grants and financial guarantee contracts that are not recognized at fair value through profit and loss, and receivables on lease agreements, are included.

The measurement of provisions for expected losses in the general model, depends on whether the credit risk has increased significantly since it was first recognized in the balance sheet the first time. The credit deterioration is measured by the development of the probability of default (PD).

At the first balance sheet recognition and when the credit risk has not increased significantly since the first balance sheet recognition, expected losses over 12 months are recognized. The expected loss for 12 months, is the loss that is expected to occur over the life of the instrument, but that may be linked to default events occurring during the first 12 months. If credit risk has increased significantly after the first recognition, the provision shall correspond to the expected loss over the whole lifespan.

The Bank groups its loans, in line with IFRS 9, in three steps;

STEP 1

This is the starting point for all financial assets comprised by the general loss model. All assets that do not have significantly higher credit risk than at the first balance sheet recognition, are assigned a calculated cost of loss equal to expected losses over 12 months.

STEP 2

Step 2 in the loss model consists of assets that have experienced a significant increase in credit risk since the first balance sheet recognition, but which have not incurred credit losses as of the date of the balance sheet. For these assets, the calculated provision is equal to the expected loss over their lifespans. This group includes accounts with significant degrees of credit deterioration, but which belong to customers for which there is no objective loss event. With respect to delimitation against step 1, the Bank defines significant degree of credit deterioration by considering whether the calculated probability of default (PD) for a loan has increased significantly, or whether the customer has been granted easier payment terms.

STEP 3

Step 3 consists of assets that have experienced a significant increase in credit risk since establishment, and where there is an objective loss event as of the date of the balance sheet. For these assets, the Bank makes individual provisions for losses. At each balance sheet date an assessment is made whether there is objective evidence of any impairment of the value of an individually assessed loan. The impairment must be the result of one or more events occurring after the first-time recognition in the balance sheet (a loss event) and it must also be possible to measure the result of the loss event (or events) reliably. Examples of such events are material financial problems for the debtor, payment default or other breach of contract. If there is objective proof of the occurrence of impairment of value, the amount of the loss is calculated. In the case of loans carried at amortized cost, the loss is calculated as the difference between the value recognized in the balance sheet and the present value of estimated future cash flows discounted by the loan's original yield. The changes during the period in the valuation of loans are recognized under "Writedowns and losses on loans and guarantees".

Please refer to Note 8 for a more detailed description of the loss model.

Non-performing / problem loans

Total loans from a customer are considered in default and are included in the Bank's statement of non-performing loans when overdue installments or interest payments have not been paid within 90 days of the due date, or when lines of credit have been overdrawn for 90 days or more. Loans and other commitments that are not in default, but where the customer's economic situation makes it probable that the Bank will suffer a loss, are classified as problem loans.

Problem loans consist of the total loans in default over 3 months, and other problem commitments (non-default loans and guarantees with writedown).

Declared loss

Losses are considered realized when a voluntary arrangement, insolvency or bankruptcy is confirmed, when attachment proceedings have failed, by an enforceable judgment, or otherwise if the Group waives all or part of the loan, or if the Group considers the loan to be a loss for the Group. The Bank derecognises the loan from the balance sheet when its loss is ascertained. Declared losses that are covered by previously made provisions, are recorded against the provisions. Declared losses not covered by provisions, as well as over or under coverage relative to previously made provisions, are recorded in the income statement.

Writedowns of shares in subsidiaries

At the parent company level, shares in subsidiaries are valued at acquisition cost with a deduction for writedowns in accordance with IAS 36. The need for writedowns is assessed on an annual basis in the same way as for other long-term assets.

Takeover of assets

Assets taken over in connection with follow-up of loans in default and written-down loans, are valued at fair value at the time of takeover. In the balance sheet, takeover assets are classified according to their character. Subsequent valuation and classification of effects on earnings is according to the principles for the relevant balance sheet item.

More details about some types of financial instruments

Loans and receivables

Loans and receivables are financial assets without market quotations. Floating rate loans are valued at amortized cost or at yield to maturity. Fixed rate loans are recognized at fair value with changes in value through the ordinary income statement, as the Bank is using Fair Value Option (FVO) for these loans. For these loans, the change in fair value is reported in the income statement under the item "change in valuation of financial instruments". The interest rate risk in fixed rate loans is controlled with interest rate swaps that are recognized at fair value. It is the Group's opinion that valuing fixed rate loans at fair value provides more relevant information about values in the balance sheet. Interest from interest rate swap agreements are recognized through the income statement in the item "Interest income measured at fair value".

In the financial statements for the Parent Bank, loans that the Parent Bank may transfer to SSB Boligkreditt AS, are classified at fair valuation changes through comprehensive income (FVOCI), as the business model indicates that the Parent Bank has the intention of collect contractual cash flows, but may also sell/transfer the loans to SSB Boligkreditt AS. In the Group financial statements, the loans are recognized at amortized cost, as the Group does not intend to sell the loans.

Shares, notes and bonds

Shares and units are valued at fair value with changes in value over profit and loss (FVTPL), except the Bank's investment in EIKA Gruppen AS, which is classified as financial instruments with valuation changes through comprehensive income (FVOCI) as this investment is considered strategic for the Bank.

The Bank's liquidity portfolio of notes and bonds is valued at fair value with valuation changes through ordinary profit and loss (FVTPL) according to the business model governing the management of the liquidity portfolio, pursuant to IFRS 9. The business model provides a required rate of return for the liquidity portfolio, and purchases and sales are made for the purpose of maximizing profits. The Bank also holds a "hold until maturity" bond portfolio valued at amortized cost, as the Bank intends to hold these fixed income securities until maturity. This portfolio is kept separate from the Bank's other liquidity portfolio.

Financial derivatives

Derivatives are valued at fair value with valuation changes through ordinary profit and loss (FVTPL). Fair value is valued on the basis of quoted market prices in an active market, including recent market transactions and various valuation techniques. Derivatives are recognized as assets if the fair value is positive and as liabilities if the fair value is negative (recognition of gross value in the balance sheet).

Funding and other financial liabilities

Fixed rate deposits from customers are valued at fair value with valuation changes through ordinary profit and loss.

Issued securities debt is measured at amortized cost or as financial liabilities that it has been decided to recognize at fair value (using hedge accounting) with changes in value through the income statement.

Issued subordinated loans have priority after other liabilities, and are recognized and measured the same way as other securities debt.

Other financial liabilities are measured at amortized cost where differences between the received amount less transaction costs and redemption value are distributed over the term of the loan using the yield method.

Day 1 gains

IFRS does not allow immediate recognition as income from "day 1 gains". Such gains are calculated for each individual transaction and generally amortized over the term of the transaction unless other observable market data or similar, clearly support a different profile of accrual.

Recognition and derecognition of financial assets and liabilities

Financial assets and liabilities are recognized on the day of transaction, meaning the time when the bank becomes party to the contractual terms and conditions for the instruments.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets have expired, or when the right to the cash flows from the assets are transferred in such a way that the risk and return related to the ownership for all intents and purposes have been transferred.

With respect to financial liabilities, these are derecognized when the contractual terms and conditions are met, have expired or are cancelled.

Repurchased issued securities debt

Any premium or discount on the repurchase of own bonds is recognized through the income statement and recorded under interest cost. Any purchase premium in case of repurchase of debt before it matures, is considered to be a price loss/gain and is presented and recognized in the income statement in the item "valuation changes of financial instruments". Interest from other financial liabilities is reported as "interest cost" in income statement.

Modified assets and liabilities

If the terms and conditions of an existing financial asset or liability is modified or otherwise changed, the instrument will be treated as a new financial asset or liability if the renegotiated terms and conditions are significantly changed from the old terms and conditions. If the requirements for significant change are satisfied, the old asset and liability is derecognized and the new asset or liability is recognized.

If the modified instrument is not considered to be significantly changed from the original instrument, for accounting purposes the instrument is considered to be a continuation of the existing instrument. In such cases the new cash flows are discounted with the instrument's original effective rate of interest, and any difference to the existing amount recorded in the balance sheet will be recognized through the ordinary income statement.

8 Intangible assets

Goodwill

Basically, goodwill is measured as the difference between the total purchase price and the value of non-controlling ownership interests, and the net fair value of acquired identifiable assets and liabilities. Goodwill arising from acquisition of subsidiaries is recognized as intangible assets. Individual goodwill items and intangible assets in the Group's balance sheet are allocated to profit centers on the basis of which activities benefit from the acquired asset. Choice of profit center is made on the basis of whether it is possible to identify and exclude cash flows related to the activities. Goodwill is tested annually for writedown and recognized at cost price reduced by accumulated amortization. Valuation is based on historical results, approved budgets and management forecasts. The required rate of return is based on an assessment of the market's required rate of return for the type of activities that are comprised by the evaluation entity, and thus reflects the risk of the business.

Software and development of IT systems

Costs directly associated with major investments in software, which are expected to bring significant financial benefits over time, are recognized as intangible assets. Cost of purchased licenses is capitalized and straight-line depreciated over their useful economic life, normally 3-5 years. Software maintenance costs are accrued as costs as and when they occur.

At each balance sheet date, all intangible assets are assessed for indications of impairment. If there are indications of impairment, an analysis is made to assess whether the book value of the intangible assets may be fully recovered. The recoverable amount is the net sales price or the utility value, whichever is higher. The utility value is calculated by discounting expected future cash flows to present value by applying a discount rate after tax that reflects the market pricing of the time value of money and the risk related to the specific asset. In the case of assets that generally do not generate independent cash flows, the recoverable amount is determined for the cash-flow generating entity to which the asset belongs. If the recoverable amount is lower than book value, the value is written down to the recoverable amount.

9 Fixed assets

Tangible fixed assets comprise buildings and operating equipment. Buildings and operating equipment are recognized at original cost less accumulated depreciation and writedowns. The cost price includes all directly attributable costs related to the purchase of the asset. Straight line depreciation is used to allocate the cost price less any residual value over the estimated economic life of the asset. Buildings, plant and equipment being depreciated, are subject to a depreciation test in accordance with IAS 36 when the circumstances so indicate.

10 Lease agreements

The introduction of the new IFRS 16 standard means that there shall no longer be a differentiation between operational leasing and financial leasing, where agreements entered transfers the right to use a specific asset from the lessor to the lessee for a specific period. For the lessor, the rules from IAS 17 are mainly being continued.

In order to determine whether an agreement contains a lease agreement, it has been considered whether the agreement transfers the right to control the use of an identified asset. For the Group, the standard has been of importance for leases for office premises, which entails that rent cost is no longer recognized as an operating cost, but as depreciation of a user right asset and interest cost on the associated lease liability in the income statement. The IT agreements of the Bank is not considered to be comprised by IFRS 16, since they are based on the purchase of capacity that is not physically separate, and thus not identifiable. For leases recorded as agreements with losses pursuant to IAS 37, the associated provisions for losses is recognized against the value of the user right at the time of transition. Lease agreements with a low value and lease agreements with a lease period of 12 months or less, will not be recognized through the balance sheet. The lease agreements subject to these exceptions are recognized on a current basis as other operating cost.

The lease period is calculated on the basis of the duration of the agreement, with the addition of any option periods, if it reasonably certain that they will be exercised. The calculation of the present value of lease liabilities, includes elements of the lease agreements, such as fixed rent adjusted for index adjustments. Any options in the lease agreement and/or expenses related to buyout clauses before final agreement expiration are included in the lease liability if it is probable that the option or clause will be utilized. Common expenses and other variable lease payments, etc. will not be recognized as part of the lease liability for the lease agreements and are recognized as operating cost.

The discount rate for lease agreements is determined by applying the interest rate a tenant in a similar economic environment would have to pay for loan financing, for a corresponding period and with similar collateral, the funds needed for an asset of corresponding value to the usage right asset. The rate reflects both the risk-free rate of interest, credit risk and lease specific mark-ups, including collateral/pledging of the lease agreement. The rate will be adjusted to the actual duration of the lease agreement, type of asset, etc.

The Bank has recognizes its lease liabilities at the present value of the remaining rent payments, discounted with the marginal lending rate at the time of first time application, and recognized associated user rights as an amount reflecting the value of the assets, as if the standard applied from the time when the agreement was entered.

In the balance sheet, user rights are presented as "User rights, lease agreements", whereas lease liabilities are presented as "Lease liabilities", also in the balance sheet.

User rights being depreciated, are subject to a depreciation test in accordance with IAS 36 when the circumstances so indicate.

11 Pensions

The companies in the Group have different pension plans. The pension plans are mainly financed by contributions to insurance companies.

Define contribution plan

The Group has a defined contribution plan for the employees of the company, as well as an operational pension plan with defined benefits for a former managing director. A defined contribution plan is a pension plan where the Group pays regular contributions to a legal entity that invests these assets on behalf of the members of the plan. The contributions are recognized as payroll costs when due.

Defined benefit plan

Defined benefit plans define the pension benefits an employee will receive upon retirement. Normally, pension benefits depend on one or more factors such as age, years of service in the company and wage level. The liability recognized in the balance sheet with respect to defined benefit plans is the present value of the defined benefits at the date of the balance sheet minus the fair value of the pension assets. The pension liability is calculated annually by an independent actuary using a straight-line accruals method. The discount rate is a calculated market rate on covered bonds (OMF). Other parameters, such as wage adjustments, inflation and pension increases, are determined on the basis of anticipated long-term developments of the parameters. Changes in the pension plan's benefits are accrued as cost or capitalized in the income statement on a current basis.

Deviations from estimates are recognized through comprehensive income (FVOCI) during the period they accrue and form part of total earnings.

The net pension cost for the period is included in wages and social benefits, and consists of pension accruals during the period, the interest cost con the calculated pension liability, and accrued employers' social security contributions. Pension costs are based on assumptions set at the start of the period.

AFP early retirement pension by collective agreement

The old AFP scheme was decided wound up in February of 2010. As a replacement for the old early retirement scheme, a new early retirement scheme has been established that provides a lifelong additional benefit to the ordinary pension. The new early retirement scheme is a defined benefit pension scheme for multiple companies, which is financed by premiums determined as a percentage of wages. For the time being there is no reliable measurement and allocation of the scheme's liabilities and assets. For accounting purposes, the scheme is treated as a defined contribution pension scheme, for which premium payments are recognized currently and no provisions are made in the financial statements.

12 Other liabilities

Provisions for liabilities are made when the Group has a commitment based on a previous event and it is likely that the commitment will be settled financially and the liability can be reliably estimated.

13 Income tax

Annual tax cost is comprised of taxes payable and changes in deferred taxes on temporary differences. Payable tax is the tax calculated on the year's taxable profits. Deferred tax is recognized according to the debt method in accordance with IAS 12. Liabilities or assets are calculated on deferred tax on temporary differences, which is the difference between the book value and the taxable value of assets and liabilities. However, no liability or asset is calculated for deferred tax on goodwill that does not generate tax deductions, or on the initial recognition items that neither influence accounting nor taxable profits. An asset is estimated in the event of deferred tax on tax-related losses carried forward. Deferred tax benefits are recognized in the balance sheet if it is likely that they may be applied against future taxable earnings. When calculating deferred taxes, the same tax rates and rules are used as those applying on the date of the balance sheet, or which most likely will be introduced.

As of 01.01.2019, the tax rate on ordinary income in Norway was changed from 23% to 22%. The tax rate remain unchanged in 2020. An exception is made for financial companies, which continue at the 2016 level.

According to IAS 12, asset tax cannot be considered a tax, and is recognized as operating cost.

Tax treatment of equity transactions

If the source of the distribution is previous profits (retained earnings), the tax consequences of the distribution are presented as tax cost in the income statement when the distribution was decided. This applies, inter alia, for payment of customer dividends and payment of interest on subordinated bonds.

14 Dividend and earnings per equity capital certificate

Dividend on equity certificates is recognized as equity during the period until the date it is approved by the Bank's Board of Trustees.

Earnings per equity certificate are calculated by dividing the profit/loss allocated to holders of equity certificates by the weighted average number of outstanding certificates.

15 Equity capital

The equity certificate holders' share of equity consists of the equity certificate capital, the share premium and equalization reserves. The equalization reserves consist of accumulated retained earnings and may be used for future cash or stock dividends.

The nominal value of treasury equity capital certificates is reported as a reduction of the equity certificate capital. Purchase price in excess of nominal value is recognized as other equity. Gains or losses on transactions in treasury equity capital certificates are recognized directly against other equity.

Other equity comprises the Savings Bank Fund, the Gift Fund/customer dividends, Reserves for unrealized gains, other equity and minority interests. Other equity includes provisions for dividends.

Annual profits are attributed to holders of equity certificates and primary capital on a pro rata basis relative to their respective shares of the Bank's equity capital.

Issued subordinated bonds are interest carrying bonds, but the Bank is not obliged to pay interest in a period where no dividend is paid, and neither is the investor entitled to later claim unpaid interest, i.e. interest is not accumulated. Subordinated bonds do not satisfy the definition of a financial liability according to IAS 32, and are therefore classified as equity/hybrid capital in the Bank's balance sheet. The subordinated bonds are perpetual and the Bank has a unilateral right to not pay interest to investors under certain conditions. Thus, interest is not presented as an interest cost in the income statement, but as a reduction of retained earnings.

16 Cash flow analysis

The cash flow analysis is prepared according to the direct method and the statement shows cash flows grouped according to sources and application areas. Liquid assets comprise cash and receivables from Norges Bank, as well as loans to and receivables from credit institutions.

17 Segmentinformasjon

Segment reporting is based on internal management reporting. The income statements and balance sheets of the segments are a result of a composition of internal departmental financial reporting, pursuant to the Group's management model. Please refer to Note 5 regarding assumptions and allocation principles.

18 Adopted standards and interpretations with effective dates in the future

Only interpretations and standards that are considered relevant for the Group have been included.

Changes in benchmark interest rate and any impact on the accounts
The Company's hedging arrangements are based on NIBOR as the benchmark rate. There are ongoing initiatives to reform the benchmark rates, including NIBOR. Norske Finansielle Referanser AS, a company, will continue NIBOR, provided it receives NIBOR quotes from the panel banks. Sandnes Sparebank considers it likely that NIBOR will be maintained throughout the remaining lifespan of the Bank's existing hedging arrangements. Furthermore, the Bank is of the opinion that a transition to an alternative benchmark rate would not have a significant impact on the hedging efficiency of the Bank's existing hedging arrangements.

A working group has been established, that has analyzed alternative benchmark rates in Norway. For the time being, no conclusions have been reached with respect to which benchmark rate will be used in the longer term, or when a transition will take place. Sandnes Sparebank will consider the further handling of any transition to new benchmark rates when it has been finally clarified which benchmark rates will be introduced in Norway.

Annual improvement projects
In connection with its annual improvement projects, IASB has made some minor changes in several standards. The changes have been evaluated to not have any material significance for the Group.

3 CRITICAL ESTIMATES AND ASSESSMENTS REGARDING THE USE OF ACCOUNTING PRINCIPLES

Critical estimates

The preparation of financial statements in compliance with generally accepted accounting principles in some cases requires the management to make assumptions and to rely on estimates and discretionary assessments. Estimates and discretionary assessments are evaluated on a current basis, and are based on historical experiences and assumptions about future events that appear probable on the date of the balance sheet. There is uncertainty associated with the assumptions and expectations that have been used in estimates and discretionary assessments. Actual results may deviate from the estimates and the assumptions.

Writedowns of loans and guarantees

In the case of individually assessed loans and for groups of loans that have been identified as doubtful, a calculation is made to determine a value for the loan or group of loans. The calculation assumes the use of numbers that are based on judgment, and these affect the quality of the calculated value. Write-down assessments are performed each quarter.

Step 3 writedowns (individual writedowns)
If there is objective proof of impairment of the value of a loan valued at amortized cost, the loss is calculated as the difference between the balance sheet value and the present value of estimated future cash flows, discounted by the original yield of the loan. The estimate of future cash flows is made on the basis of experience and discretionary assessment of probable outcomes for, inter alia, market developments and concrete issues pertaining to each loan, including empirical data regarding the debtor's ability to handle a pressured financial situation. In the valuation of writedowns of loans, there is uncertainty related to the identification to be written down, estimate of timing and amount of future cash flows, as well as the valuation of collateral.

Step 1 & 2 writedowns (statistical writedowns)
Loans that are not subject to individual writedowns are part of the calculation of statistical writedowns (IFRS 9 writedowns) of loans and guarantees. Writedown is calculated on the basis of the development of the customers' risk classification (as described in Note 8) and loss experience for the respective customer groups (PD and LGD). Beyond this, cyclical and market developments (macro conditions) that have yet to impact the above-mentioned risk classification, are considered in the evaluation of the need for writedowns for customer groups in aggregate.

The statistical model for the computation of Expected credit losses (ECL) on loans, is built on several critical assumptions, including probability of default, loss in case of default, expected lifespan of the loans and macro developments. Due to significant estimate uncertainty, the presentation of sensitivity analyses are requirement for a given change in the different parameters. This is shown in Note 11.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market, are valued with the use of different valuation techniques. The Group seeks to base these valuations to the greatest extent possible on the market conditions prevailing on the date of the balance sheet. If there are no empirical market data, assumptions are made regarding how the market will price the instrument, e.g. based on the pricing of similar instruments. Valuations require extensive use of discretion, inter alia in the assessment of credit risk, liquidity risk and volatility. A change in one or more of these factors may affect the set value of the instrument.

The fair value of financial instruments is presented in Note 26.

Fixed rate loans:
According to IFRS, the valuation shall be based on an assessment of what an external investor would have assumed for an investment in a similar loan. There is no well-functioning market for the purchase and sale of fixed rate loans between market participants. The value of fixed rate loans is estimated by discounting the cash flows by a risk-adjusted discount rate that is supposed to take into account the preferences of market participants. The discount rate is calculated on the basis of an observable swap rate with a margin requirement added.

The observable market interest rates on similar loans are taken into account in the estimate of the margin requirement. The margin requirement of market participants is not directly observable, and has to be estimated on the basis of the difference between the observable market rates and the swap rate over a certain period. As the margin requirement is not directly observable, there is uncertainty associated with the calculation of the fair value for fixed rate loans.

Use of accounting principles

Customer dividends

Each year, it is the responsibility of the Bank's Board of Trustees to consider whether and how much should be distributed as customer dividends. A resolution was passed by the meeting of the Bank's Board of Trustees on March 28, 2019, and in May 2019, and the Bank paid NOK 53 million in customer dividends to the Bank's loan and deposit customers.

The customers will receive an amount based on the Bank's annual profits and the size of the customer's deposits and loans with the Bank.

- Dividends are given to private individuals and companies.
- The customer may receive customer dividends based on a maximum NOK 2 million in loans from the Bank.
- Co-debtors (people with joint loans) may receive customer dividends for up to NOK 4 million.
- The customer may receive customer dividends based on a maximum NOK 2 million in deposits in the Bank.
- Customer dividends apply from the first krone up to NOK 2 million.
- The vesting of customer dividends is based on daily balances.

The Ministry of Finance has granted permission to use the primary capital for customer dividends. The distribution of customer dividends is regulated by §10-17, fourth subsection of the Financial Institutions Act, which classifies customer dividends as a profit allocation. For accounting purposes, the Bank has used this classification and has thus treated the payment as an equity transaction. The payment of customer dividends provides a tax deduction of NOK 13 million for the 2019 fiscal year. The tax deduction is recognized in the income statement as a reduction of the 2019 tax cost. Please note that there is some uncertainty related to the distribution of the tax deduction from the customer dividends between different owner classes.

4 ACQUISITION, SALE, LIQUIDATION AND ESTABLISHMENT OF COMPANIES

There are no material changes to the Group structure as of December 31, 2019. For events after the date of the balance sheet, please refer to Note 43.

5 SEGMENTS

The Group has three segments, Retail Market (RM), Corporate Market (CM) and Real Estate Agency. RM and CM are the banking businesses related to the two main customer groups. They also include general investment advice to the Bank's customers.

The Estate Agency segment is real estate brokerage business. This segment consists of the Aktiv Eiendomsmegling Jæren AS subsidiary.

The accounting principles applied in the preparation of the segment information are the same as the principles described in Note 2, Accounting principles. The Group does not distribute tax or non-recurring gains or losses on the segments. The Group recognizes inter-company transactions according to the arm's length principle. Funding cost is allocated according to capital requirements of RM and CM, respectively. Net commission income is distributed according to sales volume, and common expenses according to a cost distribution formula.

The Group has activities in Norway only, and all income is earned in Norway.

Group 31.12.2019

Segment reporting	RM	GM	Property	Other	Total
Net external interest income	231 019	244 681			475 699
Net internal interest income				141	141
Net interest income	231 019	244 681		141	475 841
Net commission income	27 524	24 872		-3 842	48 555
Income from securities	-6 280	467		66 361	60 548
Other operating income			27 830	3 627	31 457
Total other operating income	21 244	25 339	27 830	66 146	140 560
Payroll cost	73 327	45 585	20 485	9 290	148 688
Other operating cost	64 127	24 818	6 896	3 029	98 869
Depreciation/writedowns	15 071	6 365	76	428	21 939
Profit before loan losses	99 739	193 252	373	53 541	346 904
Writedowns and losses on loans and guarantees	-3 651	17 122			13 471
Segment profits before taxes	**103 390**	**176 130**	**373**	**53 541**	**333 433**
Net lending to customers	15 944 178	6 933 830			22 878 009
Other assets			17 056	5 263 195	5 280 251
Total assets	**15 944 178**	**6 933 830**	**17 056**	**5 263 195**	**28 158 259**
Deposits from customers	6 111 284	5 164 027		557 519	11 832 829
Other liabilities			6 099	13 299 896	13 305 995
Total liabilities	**6 111 284**	**5 164 027**	**6 099**	**13 857 415**	**25 138 825**

Group 31.12.2018

Segment reporting	RM	GM	Property	Other	Total
Net external interest income	237 045	224 866			461 911
Net internal interest income				69	69
Net interest income	237 045	224 866		69	461 980
Net commission income	26 614	25 005		-2 387	49 233
Income from securities	-6 368			50 804	44 436
Other operating income			27 734	1 147	28 881
Total other operating income	20 246	25 005	27 734	49 565	122 550
Payroll cost	66 301	38 828	18 639	10 614	134 382
Other operating cost	74 269	29 395	7 978	2 459	114 100
Depreciation/writedowns	8 969	3 617	67	3	12 655
Profit before loan losses	107 753	178 032	1 050	36 559	323 393
Writedowns and losses on loans and guarantees	-7 601	31 330			23 729
Segment profits before taxes	**115 353**	**146 702**	**1 050**	**36 559**	**299 664**
Net lending to customers	15 035 422	7 179 023			22 214 445
Other assets			16 664	4 978 248	4 994 913
Total assets	**15 035 422**	**7 179 023**	**16 664**	**4 978 249**	**27 209 358**
Deposits from customers	5 937 933	4 949 117		365 118	11 252 168
Other liabilities			5 274	12 990 916	12 996 189
Total liabilities	**5 937 933**	**4 949 117**	**5 274**	**13 356 033**	**24 248 357**

Parent Bank 31.12.2019

Segment reporting	RM	GM	Other	Total
Net interest income	168 164	244 681		412 845
Net commission income	44 428	24 872	-3 842	65 459
Income from securities	89	467	66 845	67 400
Other operating income			3 627	3 627
Total other operating income	44 517	25 339	66 630	136 486
Payroll cost	73 287	45 585	9 290	128 163
Other operating cost	63 047	24 818	3 029	90 894
Depreciation/writedowns	15 071	6 365	411	21 846
Profit before loan losses	61 275	193 252	53 900	308 428
Writedowns and losses on loans and guarantees	-2 762	17 122		14 360
Segment profits before taxes	**64 037**	**176 130**	**53 900**	**294 067**
Net lending to customers	8 047 258	6 933 830		14 981 089
Other assets	76 993	33 050	5 601 632	5 711 675
Total assets	**8 124 251**	**6 966 880**	**5 601 632**	**20 692 763**
Deposits from customers	6 111 284	5 165 734	557 512	11 834 530
Other liabilities			6 062 733	6 062 733
Total liabilities	**6 111 284**	**5 165 734**	**6 620 245**	**17 897 263**

Parent Bank 31.12.2018

Segment reporting	RM	GM	Other	Total
Net interest income	163 708	224 866		388 574
Net commission income	43 430	25 005	-2 387	66 048
Income from securities	576		52 409	52 985
Other operating income			1 147	1 147
Total other operating income	44 005	25 005	51 170	120 180
Payroll cost	66 261	38 828	10 614	115 702
Other operating cost	71 967	29 395	2 459	103 821
Depreciation/writedowns	8 969	3 617	3	12 589
Profit before loan losses	60 516	178 032	38 094	276 642
Writedowns and losses on loans and guarantees	-7 065	31 330		24 264
Segment profits before taxes	**67 582**	**146 702**	**38 094**	**252 378**
Net lending to customers	7 620 073	7 179 023		14 799 095
Other assets	28 380	12 163	5 330 245	5 370 788
Total assets	**7 648 453**	**7 191 186**	**5 330 245**	**20 169 883**
Deposits from customers	5 937 933	4 949 855	365 118	11 252 906
Other liabilities			6 150 092	6 150 092
Total liabilities	**5 937 933**	**4 949 855**	**6 515 210**	**17 402 999**

6 BALANCE SHEET MANAGEMENT AND CAPITAL ADEQUACY

The Bank assumes achievement of the capital requirements pursuant to CRD IV with the addition of internal buffers. The counter cyclical capital buffer was changed from 2.0% to 2.5% at 31.12.2019. Thus, the Bank's regulatory minimum requirement increased from 14.5% to 15% as of 31.12.2019. This means that the Bank's objective is a core Tier-1 capital ratio of 15.7 %. The Bank expects updated Pilar-2 requirements during the first half of 2020. A the same time, the bank will have a Tier-1 capital ratio of 17.0 % and a capital ratio of 19.0 %. In addition to these requirements, the bank must comply with internal capital buffers.

The adopted capitalization policy shall contribute to the Group having equity capital of a sufficient size to enable effective use of equity relative to the scope and risk profile of the business. The Bank will have sufficient equity to enable it to achieve competitive returns on equity, as well as be granted competitive terms and conditions in the various credit markets. Access to liquidity shall be the dominant consideration with respect to the goal of achieving competitive returns on equity. The equity capital shall also ensure that the Group will have sufficient capital buffers to withstand periods with losses.

The Group manages its assets with an eye to fluctuations in financial conditions. This entails that the Bank conducts monthly balance sheet management meetings to review the capital situation. At the meetings, recent volume metrics and estimates are reviewed relative to developments with respect to the calculation base and the Bank's performance relative to its capital objectives. Also, status is reviewed with respect to the measures adopted and any requirements for further measures.

As of 31.12.2019, the Group's total assets equal NOK 28.2 billion. This is an increase of NOK 1.0 billion compared to 31.12.2018, corresponding to an increase of 3.5 %, primarily due to lending growth.

Risk weighted capital is measured using the standard method for credit risk. Risk weightings are allocated to assets according to the capital regulation.

Effective 31.12.2019 a capital weighing discount has been introduced for small and medium sized companies, and the definition of mass market loans has been changed. This effectively reduces the calculation base, entailing that the Bank's Tier-1 capital ratio is increased by approximately 0.6%.

As of 31.12.2019 the Group has a Core Tier-1 ratio of 17.4%, up from 16.6% as of 31.12.2018. The increase in Core Tier-1 capital is primarily due to the introduction of the SMB discount, down-weighing of loans in the Bank's mass market portfolio due to reliefs in the definition of mass market, as well as retained earnings in 2019.

The unweighted leverage ratio amounted to 9.25 % at the end of the year, vs. 9.4 at the same time last year. The reason for the decline is primarily the growth of total assets. However, the unweighted leverage ratio is significantly higher than the government minimum requirement of 5%.

Group			Parent Bank	
31.12.2019	31.12.2018		31.12.2019	31.12.2018
		SUBORDINATED CAPITAL		
230 149	230 149	Equity capital certificate capital	230 149	230 149
-386	-187	Treasury holding of equity capital certificates	-386	-187
831 278	820 224	The Savings Bank's Fund	831 278	820 224
1 661 649	1 638 161	Other equity	1 437 715	1 444 046
135 788	119 677	Allocated dividend	135 788	119 677
60 957	52 976	Provisions for customer dividends	60 957	52 976
2 919 434	2 861 001	Equity capital (excluding hybrid capital)	2 695 500	2 666 885
-63 695	-59 097	Deduction for ownership of insignificant assets in the financial sector	-85 568	-77 941
-5 510	-5 159	Deduction prudent valuation	-5 724	-5 353
-135 788	-119 677	Deduction for amount allocated to dividends	-135 788	-119 677
-60 957	-52 976	Deduction for provisions for customer dividends	-60 957	-52 976
-28 907	-39 449	Deduction for goodwill and other intangible assets	-24 260	-34 536
2 624 578	2 584 641	Total core Tier-1 capital	2 383 203	2 376 400
100 000	100 000	Investment grade bond and hybrid capital	100 000	100 000
2 724 578	2 684 641	Total Tier-1 capital	2 483 203	2 476 400
200 000	200 000	Subordinated loan capital (ex. accrued interest)	200 000	200 000
-224	-301	Deduction for ownership of insignificant assets in the financial sector	-302	-396
2 924 353	2 884 341	Subordinated capital	2 682 901	2 676 004

Group 31.12.2019	Group 31.12.2018		Parent Bank 31.12.2019	Parent Bank 31.12.2018
		RISK-WEIGHTED CAPITAL		
		Market risk – standard method		
13 915 675	14 378 485	Credit risk – standard method	11 356 753	11 947 596
1 123 764	1 116 635	Operational risk	1 009 322	1 042 845
54 115	44 824	CVA surcharge	15 271	14 169
15 093 553	15 539 944	Calculation base	12 381 347	13 004 609
19,4	**18,6**	**Capital ratio**	**21,7**	**20,6**
18,1	**17,3**	**Tier-1 capital ratio**	**20,1**	**19,0**
17,4	**16,6**	**Core Tier-1 capital ratio**	**19,2**	**18,3**
		BUFFER REQUIREMENTS		
377 339	388 499	Preservation buffer (2.50%)	309 534	325 115
377 339	310 799	Counter-cyclical buffer (2.50% / 2.00%)	309 534	260 092
452 807	466 198	System risk buffer (3.00%)	371 440	390 138
1 207 484	1 165 496	Total buffers for core Tier-1 capital	990 508	975 346
679 210	699 297	Minimum core Tier-1 capital requirement (4.50%)	557 161	585 207
737 883	**719 848**	**Available core Tier-1 capital beyond minimum requirement and buffer requirements**	**835 534**	**815 847**
		SPECIFICATION OF CALCULATION BASE		
		Standard method		
-	-	Market risk	-	-
102 447	133 182	Local and regional authorities	102 447	133 182
88 814	123 908	Institutions	258 640	231 232
1 381 959	2 278 044	Companies	1 378 376	2 292 848
1 287 059	387 816	Mass market	1 209 099	304 510
10 128 683	10 228 909	Loans secured by real estate	7 225 884	7 477 622
193 725	338 260	Overdue loans	193 725	338 260
279 830	271 396	Covered bonds	204 511	217 732
57 995	36 272	Fund units	57 995	36 272
254 291	300 584	Equity positions	587 170	636 066
140 871	280 114	Others	138 906	279 871
13 915 675	14 378 485	Credit risk	11 356 753	11 947 596
1 123 764	1 116 635	Operational risk	1 009 322	1 042 845
54 115	44 824	CVA surcharge	15 271	14 169
15 093 553	**15 539 944**	**Total calculation base**	**12 381 347**	**13 004 609**

Reporting of capital for owner company in cooperating group as of 31.12.2019:

Companies that take part in a cooperating group, shall carry out proportionate consolidation of ownership shares in financial enterprises that is conducting the business comprised by the cooperation, cf. §17-13 (2) of the Financial Institutions Act and supplementary provisions in §16 (3) and §32 (4) of the CRR/CRD regulation. For ownership shares under 10 percent, this obligation became effective from January 01, 2018.

Sandnes Sparebank takes part in a cooperating group with the EIKA Gruppen AS, of which the Bank owns 8.5% of the shares as of 31.12.2019. Consequently, the share of the EIKA Group is consolidated in capital ratio, ref. the below calculation.

Cooperating group with Vipps AS / EIKA VBB AS: Previously, the Bank was a shareholder in BankID Norge AS and BankAxept AS, which have now been merged with Vipps AS, and the bank therefore received compensatory shares in Vipps AS. These shares are now owned through EIKA VBB AS. The Ministry of Finance has granted dispensation from the requirement of pro rata consolidation for participants in the cooperating group with ownership interests of less than 10 percent. However, the dispensation is granted on the condition that the financial companies deduct the whole book value of the investment from the Core Tier-1 capital. The Bank owns less than 10 percent of Vipps AS, and its book value has been deducted from the core Tier-1 capital, meaning that the Bank does not effect a pro rata consolidation of its ownership share in this financial company.

The impact of the consolidated share on the Group capital ratio as of 31.12.2019, is as follows;

	Core Tier-1 capital ratio	Tier-1 capital	Subordinated capital
Capital, Group	**2 624 578**	**2 724 578**	**2 924 353**
Proportionate share of capital from Eika Gruppen	86 548	95 082	105 749
Reversal of deduction	31 711	31 711	31 935
Internal eliminations (-)	-55 818	-55 818	-55 818
Deduction for non-transferrable capital (-)			
Group capital after consolidation of share of Eika Gruppen	**2 687 018**	**2 795 552**	**3 006 219**
Calculation base, Group	**15 093 553**		
Proportionate share of net calculation base in Eika Group	487 551		
Elimination of internal claims and capital (-)	-226 706		
Net calculation base after consolidation of share of Eika Gruppen	**15 354 399**		

	Core Tier-1 capital ratio	Tier-1 capital	Subordinated capital
Capital ratio for owner company after consolidation of share of Eika Gruppen	**17.5 %**	**18.2 %**	**19.6 %**

7 RISK MANAGEMENT

The business model of the Group requires that we have to identify, assess, measure, aggregate and manage the risks to which we are exposed on an overall level. Risk management includes capital planning and the management of reputation risk.

I order for the Group to reach the goals set in its strategic plan, deliberate risk has to be taken, but only where we want to, know about it, and where the excess returns are sufficient. The following principles apply to our risk management:

- Risk is taken within the framework of a defined risk appetite
- Every risk taken must be approved within our risk management framework
- Compensation for risk must be sufficient over time, and shall be monitored and managed on an ongoing basis

Organization and authorization structure

Board of Directors

The Board of Directors decides the Group's risk profile. In addition, the Board of Directors also determines the overall framework and authorizations within the different risk areas. The Group's risk management guidelines, as well as all significant aspects of the risk management models and decision processes are the responsibility of the Board of Directors.

Risk Committee

The purpose of the Risk Committee, which is a Board Committee, is to ensure that risk management and control are of a satisfactory high quality. This means, inter alia, that the Risk Committee will follow up the Group's implementation of its risk strategy, provide advice to the Board of Directors regarding current risk strategy and risk tolerance, and provide preparatory work for risk issues for consideration by the Board of Directors.

Managing Director, Head of Risk Management, and the management team

The Managing Director has the daily responsibility for risk management, the operative responsibility for which has been delegated to the Head of Risk Management. The Head of Risk Management reports independently to the Managing Director and the Board of Directors, and is responsible, across departments, for the Group's management of all credit, market, liquidity and operational risk, in addition to method development and process improvements for risk measurement. The Head of Risk Management is also responsible for risk monitoring, analysis and reporting.

The Head of Risk Management is responsible for the development of the Group's strategy for overall risk management, and the strategies for credit risk and policy, financial risk, liquidity risk and operational risk. The Head of Risk Management works closely with the Bank's Compliance Manager regarding our compliance guidelines, including the internal audit plan. The Head of Risk Management is also part of the Bank's credit committee (CC) and special loan team (spec. loan), which reviews the biggest loan applications and major commitments that have, or are judged to be liable to, payment problems/default.

With respect to daily risk management, individual managers within the Group must ensure that they are knowledgeable with respect to significant risks within their own area of responsibility, enabling it to be managed in a financially and administratively prudent manner. The Bank's Managing Director has issued further guidelines for the implementation of general credit policies and credit strategies. Each business segment manages its own credit processes according to specified guidelines.

All business segments in the Group undertake an annual risk review, which comprises:

- Comments on their own internal control work
- Risk assessments
- Assessment of their own compliance with external and internal regulations
- Planned improvement initiatives

Reporting takes place at departmental level, and forms the basis for collective reports for each business segment and support areas that are included in the Managing Director's reporting to the Board of Directors.

Audit

Both external and internal audit are important elements of risk management. Independent and effective auditing contributes to appropriate internal control and the reliability of financial reporting.

The Bank's internal auditor is KPMG, whereas Deloitte is the external auditor. Internal audit receives its instructions from the Board of Directors, which also approves the internal auditor's annual plans.

Risk Management and capital planning

A key part of the Bank's risk management is the Group's internal assessment of its total capital requirement (ICAAP – Internal Capital Adequacy Assessment Process). In this process we assess the all the essential risks to which the Bank is exposed relative to the appurtenant assessment of internal capital requirements related to the different risks.

In connection with ICAAP, the Board of Directors reviews the Group's major risk areas and internal control. The aim of the review is to document the quality of the work within the major risk areas. The review should ensure identification of changes in the risk picture, enabling initiation of necessary improvement measures.

A separate readiness plan was prepared in 2019 in accordance with the specification of the Financial Supervisory Authority. A somewhat shorter version of this specification was previously a part of the ICAAP document. The readiness plan is anchored with the management team and measures it proposes shall fit the expectations regarding the various future scenarios discussed in the ICAAP report.

Risk categories

The main risk categories for the Sandnes Sparebank Group are:

Credit risk

Credit risk arises from all transactions where there exists actual, agreed and possible claims on counterparties, borrowers, issuers or other debtors. Primarily, we manage credit risk through credit risk and policy. There is also some credit risk / counterparty risk in our financing and investment activities, and this is managed through the finance strategy.

Please refer to Note 8-11 for an evaluation of credit risk.

Market risk

Market risk is the possibility of unfavorable market developments for our trading or investment positions. Market risk may arise from changes in interest rate levels, credit spreads and currency exchange rates.

Please refer to Note 12-15 for an evaluation of market risk.

Liquidity and settlement risk

Liquidity risk is loss due to the Bank being unable to fulfill all its payment obligations when due, or only able to do so at extra cost. Our objective for liquidity risk is to ensure that the Group is able to fulfill its payment obligations and to manage liquidity and financing risk according to our risk appetite, as rendered concrete by the framework in the liquidity strategy document.

Please refer to Note 16 for an evaluation of liquidity risk.

Settlement risk is the risk of existing, contingent and possible future positive exposures not being fulfilled by the Bank's counterparties.

Operational risk

Operational risk means the risk of loss due to erroneous or insufficient internal processes, human error, system defects or loss due to external events outside the Bank's control, including legal risk.

There is operational risk related to the Bank's IT systems, which to a great extent are run by external service providers according to written agreements. SDC and Eika are the Bank's main providers of technology services.

Good management and control of the IT systems, both in the Bank and at our service providers, are of material significance in order to ensure precise, complete and reliable financial reporting. The Bank has established an overall control model and internal audit activities related to the IT systems. Key systems are standardized, and there have been few actual operational malfunctions related to the IT systems.

One important element related to operational risk is the follow-up of undesirable events. The Bank has established tools for the reporting, classification and follow-up of undesirable events. This enables adjustment of internal processes in order to reduce the probability of reoccurrence.

Other risks

Other risks include strategic risk, owner risk and environmental risk.

Strategic risk is the risk of loss due to earnings being lower than expected, but this not being compensated by lower cost. Strategic risk may arise from changes in the competitive picture, regulatory changes or ineffectual positioning relative to the macro economic environment influencing our operations. Strategic risk may also arise if we are unable to deliver according to strategic objectives and/or unable to efficiently take measures to adjust returns as lower than planned. Owner risk is the risk that arises due to being an owner of a company, e.g. through operation or the risk of having to provide fresh capital.

Environmental risk mainly means macroeconomic risks, such as unemployment and bankruptcy rate developments.

8 CREDIT RISK

Credit risk primarily arises in the Bank's loan portfolio, but there is also such risk in the Group's holdings of bonds, notes and financial derivatives. Credit risk is the Group's major risk, and consists mainly of net lending to customers, cash and claims on central banks, as well as financial instruments. Credit risk on loans, guarantees and credit facilities are most important on the basis of the volume and the general risk level. This risk is therefore described in detail below. Other exposure involves limited credit risk.

Group			Parent Bank	
31.12.2019	31.12.2018		31.12.2019	31.12.2018
4 261	10 318	Cash and deposits with central banks	4 261	10 318
570 160	645 955	Loans to and claims on credit institutions	569 318	544 636
21 897 252	21 439 328	Loans to customers at amortized cost	12 922 320	13 197 892
980 757	775 118	Loans to customers at fair value	2 058 769	1 601 203
3 857 560	3 660 633	Notes and bonds	3 062 166	3 116 404
112 759	150 356	Financial derivatives	63 682	85 082
11 719	13 719	Other assets	940 906	751 034
46 946	9 864	Prepaid cost and accrued income	44 982	9 864
27 481 416	**26 705 291**	**Total credit risk exposure in balance sheet items**	**19 666 403**	**19 316 434**
512 689	607 527	Guarantee liabilities	512 689	607 526
2 708 848	2 631 246	Unused credit facilities and loan grants	1 669 774	1 674 229
30 702 953	**29 944 064**	**Total credit exposure**	**21 848 866**	**21 598 189**

Measurement of the credit risk of the loan portfolio

Loan

The Group is using score card models both from the Eikagruppen and its own proprietary models for customers in the Retail Market (RM) and the Corporate Market (CM). The models are validated (back tested) annually for their explanatory power, and adjusted when necessary. The score card models are used to calculate the customer's probability of default (PD) over the next 12 months.

Both RM and CM customers are scored monthly in different credit models. The behavioral model for RM customers and self-employed persons, assign customers points between 0 and 690 on the basis of different variables. The customers are classified in one of 11 classes (A-K) based on their points. A credit score of between 483 and 560 results in the lowest risk class, J, and an associated 12 month expected PD of 20%. The best customers achieve a score of between 685 and 690, resulting in risk class A and an associated PD of 0.05%.

Class K consists of loans in default and loans with individual writedowns, and these have a PD of 100%.

A generic model is used for new RM customers and new self-employed persons.

For corporate customers for which we have publicly available financial statements, we use a score card model with 12 variables, resulting in 0-100 points per customer. The best customers get between 91 and 100 points, resulting in risk class B and an associated PD of 0.175%. Customers achieving less than 52 points are assigned to risk class J and a PD of 20%. Class K consists of loans in default and loans with individual writedowns, and these have a PD of 100%. The Bank does not have any loans to governments, or customers with government guaranteed debt, and is therefore not using risk class A in this CM score card model.

For newly established companies without submitted financial statements, or customers who have not submitted financial statements, we are using a separate CM model with three variables focusing on reminders, overdraft facilities as well as assessments by debt-collection agencies.

intervals for the different risk classes of RM

Score (rounded)	Risk class	PD
685-690	A	0.050 %
660-684	B	0.175 %
640-659	C	0.375 %
630-639	D	0.625 %
615-629	E	1.000 %
600-614	F	1.625 %
585-599	G	2.500 %
570-584	H	4.000 %
560-569	I	6.500 %
483-560	J	20.000 %

intervals for the different CM risk classes

Risk class	Lower	Upper	PD
B	91	100	0.175 %
C	85	90	0.375 %
D	79	84	0.625 %
E	74	78	1.00 %
F	69	73	1.625 %
G	64	68	2.50 %
H	58	63	4.00 %
I	52	57	6.50 %
J	0	51	20.00 %

In order to reduce credit risk, surety such as physical collateral, guarantees or cash deposits are used. As a principal rule, physical collateral may, inter alia, be buildings, houses or inventories. In the assessment of the value of collateral, CM assumes an expected realization value, which entails the use of difference reduction factors for various types of surety. CM collateral is mainly real estate and fixed assets. For fixed assets, the standard reduction factor is 80% and for commercial real estate it is 20%.

RM collateral is principally residential property and in this case the market value is used with quarterly assessment of updated market values from Eiendomsverdi.

Collateral is classified into six groups, which form the basis for extent of loss in case of default. Divisions are as follows:

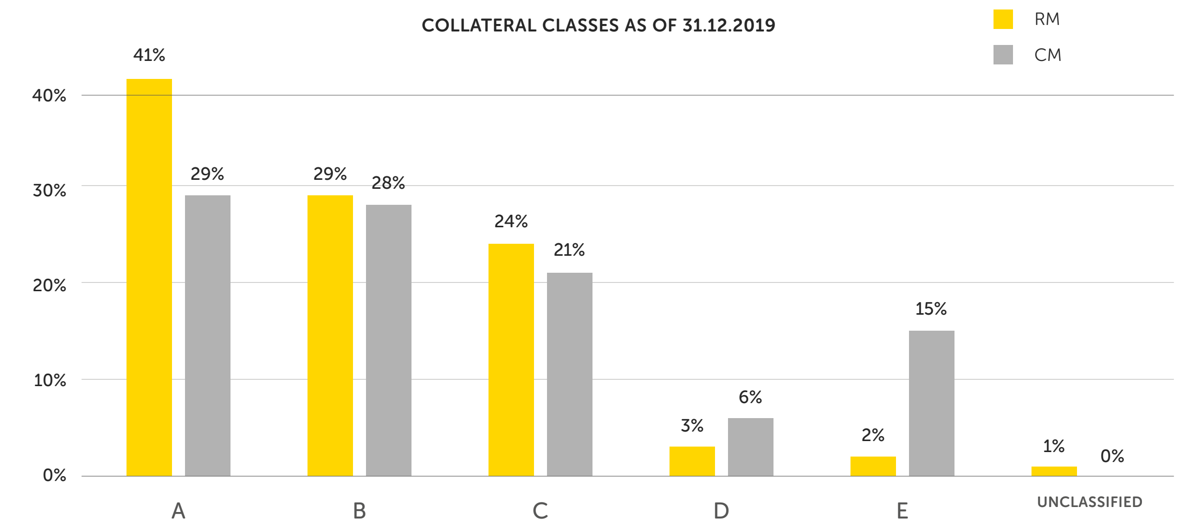
RM

LTV	Collateral class
Under 60 %	A
60–75 %	B
75–100 %	C
100–125 %	D
Over 125 %	E
Unsecured	Unclassified

CM

Collateral coverage	Collateral class
>120 %	A
120–100 %	B
100–70 %	C
70–50 %	D
50-0 %	E
Unclassified	Unclassified

The distribution of the RM and CM portfolio (gross loans) on the different collateral classes based on market value as of 31.12.2019, is as follows.



The expected loss for each loan is calculated on the basis of the default probability and degree of loss in case of default. Three risk groups are defined for not written down loans/loans in default on the basis of expected loss. The table is the same for RM and CM.

Risk category	Expected losses lower limit	Expected losses upper limit
Low	0.00 %	0.25 %
Medium	0.25 %	1.00 %
High	1.00 %	100.00 %

Part of the maintenance of the models is an annual validation. Validation of the PD models is done by evaluating how well the model predicts default versus observed defaults during the period. With respect to LGD, the LGD rates are evaluated against the different collateral classes, as well as overall against empirical data. This work also provides indications of possible adjustments that ought to be made in the further development of the models.

Risk classification is important for the level of monitoring of the customer, and is also included as a criterion in credit assessment and credit decisions. Additional to risk classification are discretionary issues like management, market, loan history, profitability, etc. Beyond the use of scoring models, the Group has guidelines for the composition of the various portfolios.

Details of the ECL model

The risk classification is also the basis for the calculation of losses in step 1 and 2 pursuant to IFRS 9. In step 1, the expected loss over 12 months is calculated. In case of a material increase of credit risk, the loan shall be put in step 2, and the expected loss for the entire term of the loan is calculated. Significant increase in credit risk is defined as the occurrence of one of two events:

1) **Either that** the original PD 12m at loan establishment is adjusted for future prospects < 1% and concurrently that PD 12m has increase by at least 0.5% since first time registration, and concurrently that PD life for the residual maturity has become twice as high as the original PD life for the residual maturity

2) **Or that** the original PD 12m adjusted for future prospects is greater than or equal to 1% and concurrently that either PD 12m has increased by at least 2% since loan establishment or that PD life for the residual maturity of the loan has become twice as high as at loan establishment.

In addition, an account is defined in step 2 if it is marked with forbearance or has been in default for more than 30 days. Step 3 equals the individual writedowns that are evaluated subjectively in each case.

In order to find expected losses over the maturity of the loan in Step 2, it is assumed that customers' risk class shifts follow a so-called Markov process. In this case, the Bank applies a migration matrix based on historical risk category shifts to describe future risk category shifts. The expected changes in risk class one year into the future are a result of historical changes and expected changes, e.g. 5 years into the future being the same as five one-year changes in a row. This way, the probability of default may be computed for a an arbitrary number of years into the future. The PD lifecycle matrix sets the probability for a given risk category a given number of years into the future.

When the probability of default is 5% or less, the expected maturity is used. The expected maturity is calculated on the basis of empirical data as an average per product type for both retail and corporate loans. When the probability of default is over 5%, the full maturity is used.

In order for loans to migrate positively (recovery), reduced credit risk has to be measured over time. For migration between step 1 and 2, as calculated in the model, a 6 month quarantine is applied. This entails that if a variable leading to a loan moving from step 1 to step 2 (higher latent risk) should no longer apply, e.g. that the customer has been giving forbearance marking, the loan is not moved back to step 1 until 6 months after the removal of the forbearance marking. Subjective evaluations without quarantine time apply to migration out of step 3 and back to 2 or 1. However, such positive migration is rare.

The model used by Sandnes Sparebank to estimate expected losses, as operationalized a low risk exception that loans considered to have low credit risk at the time of reporting, may be assumed not to be subject to a significant increase in credit risk under certain conditions. It is considered practical to use the exception for some loans in order to avoid that loans with low risk of probable default, migrate to step 2.

The Bank is using a low risk exception for migration from step 1 to step 2, by requiring that all loans that had a 12 month PD < 1%, adjusted for macro expectations at initial registration, have to achieve a 12 month PD at the date of the financial statements of at least 0.5% in order to be classified on step 2. A portion of the Bank's loan portfolio fulfill the conditions for low risk exception, but it is the Bank's impression that the use of this exception does not have any significant outcome for the distribution of loans between steps, or for total provisions for losses.

Sandnes Sparebank then adjusts provisions for losses with the expected development of different macro variable that are considered to affect expected losses. The starting point for the macro-economic scenarios come from Eika, but Sandnes Sparebank approves, and may change, them to adapt them to its exposure and market view. The future outlook is derived from a macro model that considers three scenarios – the base case, an outcome based on positive expectations, as well as an outcome based on negative expectations, for macro-economic developments for one to three years into the future. The base case, and the negative scenario, is based on the Financial Supervisory Authority's values for the basic scenario and the stress test in the Risk Outlook publication dated June 2019. The positive scenario is based on an estimate by the Chief Economist of Eika Gruppen. Variables such as unemployment, oil price, household debt and bank lending rates are part of the model. The variables are distributed on counties for the retail market and on industries for the corporate market. As of 31.12.2019, the weighing of the scenarios is 2/3 for the base expectation, 1/6 for the positive scenario and 1/6 for the negative scenario.

As of 31.12.2019, the Bank has the following expectations regarding the development of the macro variables:

	2020	2021	2022	2023
NORMAL GROWTH AND DEVELOPMENT				
Unemployment rate (level)	3.8 %	3.8 %	3.9 %	3.9 %
Household debt (change)	5.0 %	5.0 %	5.0 %	5.0 %
Average bank loan rate (level)	4.1 %	4.0 %	4.2 %	4.6 %
Oil price (USD per barrel)	65	63	62	61
THE DOWNSIDE SCENARIO				
Unemployment rate (level)	5.1 %	6.2 %	6.3 %	6.0 %
Household debt (change)	0.0 %	0.0 %	0.0 %	5.0 %
Average bank loan rate (level)	7.2 %	5.5 %	4.7 %	4.1 %
Oil price (USD per barrel)	30	30	30	30
THE HIGH GROWTH SCENARIO				
Unemployment rate (level)	3.3 %	3.1 %	2.9 %	2.7 %
Household debt (change)	7.0 %	7.0 %	7.0 %	5.0 %
Average bank loan rate (level)	4.3 %	4.2 %	4.4 %	4.8 %
Oil price (USD per barrel)	80	80	80	80

The 'Normal growth and development" scenario is based on the normal scenario of the Financial Supervisory Authority. A scenario where the economic growth is checked without the need for major measures in the form of tightening (interest rate increases, tight financial policy) in order to brake economic growth, or in the form of stimulus (interest rate cuts, accommodating financial policy). Not completely like the scenario of the financial Supervisory Authority, but in the same ballpark.

The downside scenario is based on the stress test of the Financial Supervisory Authority. A typical international slump, with significant drops in both export volumes for traditional industries, and for the oil industry, is assumed to make the financial markets uncertain with respect to the credit rating of the Norwegian public. This is how the downside scenario is depicted, with a long-term drop in the oil price to USD 30 per barrel (as in the June report from the Financial Supervisory Authority). Equally important is a halving of oil investments in the same year as the oil price drops. The interest rates offered to most people, increase in slumps, because the increased credit premiums more than compensate for any interest rate cuts by Norges Bank, the Norwegian central bank.

The high growth scenario is formed as a situation where many of the parameter values characteristic of a slump, get the corresponding positive signs. Good growth in export volumes, and an oil price of USD 80 throughout the estimate period, are included. The scenario is a classic Norwegian boom, where good times for our export industries, is the basis for a broadly based Norwegian recovery.

Exposure (EAD)

The EAD for agreements at step 1 consist of outstanding receivables or liabilities adjusted for cash flows during the next 12 months and for agreements in step 2, the discounted cash flows for the expected life of the agreement. For guarantees, EAD is equal to the outstanding liability at the date of reporting, multiplied with a conversion factor of 1 or 0.5 depending on the type of guarantee. Unused credit facilities have an EAD equal to the outstanding unused credit at time of reporting.

Total loans to corporate customers by risk groups

31.12.2019

	Loans to customers		Guarantees		Unused limit		Total loans and advances		Share	
Risk classes	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group
Low	4 528 062	4 528 062	311 892	311 892	709 308	709 308	5 549 263	5 549 263	67.5 %	67.5 %
Medium	1 268 523	1 268 523	97 815	97 815	150 786	150 786	1 517 124	1 517 124	18.5 %	18.5 %
High	923 339	923 339	72 292	72 292	50 987	50 987	1 046 617	1 046 617	12.7 %	12.7 %
Non-perf/ writedowns	74 467	74 467	28 014	28 014	2 189	2 189	104 670	104 670	1.3 %	1.3 %
Total	**6 794 390**	**6 794 390**	**510 013**	**510 013**	**913 271**	**913 271**	**8 217 674**	**8 217 674**	**100.0 %**	**100.0 %**

31.12.2018

	Loans to customers		Guarantees		Unused limit		Total loans and advances		Share	
Risk classes	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group
Low	4 565 324	4 574 130	357 649	357 649	519 589	519 589	5 442 562	5 451 368	64.3 %	64.4 %
Medium	1 798 538	1 802 898	200 805	200 806	250 058	234 006	2 249 401	2 237 709	26.6 %	26.4 %
High	557 914	557 914	29 259	29 259	37 389	37 389	624 561	624 561	7.4 %	7.4 %
Non-perf/ writedowns	130 998	130 998	16 334	16 334	4 582	4 582	151 914	151 914	1.8 %	1.8 %
Total	**7 052 775**	**7 065 940**	**604 046**	**604 047**	**811 618**	**795 566**	**8 468 439**	**8 465 553**	**100.0 %**	**100.0 %**

Total loans to retail customers by risk groups

31.12.2019

	Loans to customers		Guarantees		Unused limit		Total loans and advances		Share	
Risk classes	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group
Low	6 570 926	14 198 645	1 963	1 963	683 898	1 715 957	7 256 786	15 916 564	74.6 %	82.2 %
Medium	642 196	772 123	116	116	68 615	75 196	710 927	847 435	13.0 %	9.1 %
High	857 312	996 586	596	596	3 995	4 424	861 903	1 001 606	11.1 %	7.8 %
Non-perf/ writedowns	116 265	116 265	0	0	0	0	116 266	116 266	1.3 %	0.8 %
Total	**8 186 698**	**16 083 618**	**2 676**	**2 676**	**756 508**	**1 795 577**	**8 945 882**	**17 881 871**	**100.0 %**	**100.0 %**

31.12.2018

	Loans to customers		Guarantees		Unused limit		Total loans and advances		Share	
Risk classes	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group	Parent Bank	Group
Low	6 378 996	13 611 788	2 936	2 936	823 304	1 780 242	7 205 235	15 394 966	83.7 %	90.6 %
Medium	539 273	614 131	117	117	30 295	46 427	569 685	660 675	6.6 %	3.9 %
High	746 597	841 131	427	427	9 012	9 012	756 036	850 570	8.8 %	5.0 %
Non-perf/ writedowns	81 455	81 455	0	0	0	0	81 455	81 455	0.9 %	0.5 %
Total	**7 746 321**	**15 148 505**	**3 480**	**3 480**	**862 611**	**1 835 681**	**8 612 412**	**16 987 666**	**100.0 %**	**100.0 %**

The below table shows share of exposure (EAD) distributed on risk category and step

Group 31.12.2019

		Risk category			
Step	Low	Medium	High	Non-perf/loss	Total
1	76 %	6 %	4 %	0 %	85 %
2	6 %	4 %	4 %	0 %	14 %
3	0 %	0 %	0 %	1 %	1 %
SUM	**82 %**	**9 %**	**8 %**	**1 %**	**100 %**

Group 31.12.2018

		Risk category			
Step	Low	Medium	High	Non-perf/loss	Total
1	75 %	8 %	2 %	0 %	85 %
2	6 %	4 %	4 %	0 %	14 %
3	0 %	0 %	0 %	1 %	2 %
SUM	**81 %**	**11 %**	**6 %**	**2 %**	**100 %**

Parent Bank 31.12.2019

		Risk category			
Step	Low	Medium	High	Non-perf/loss	Total
1	68 %	8 %	5 %	0 %	81 %
2	6 %	5 %	6 %	0 %	17 %
3	0 %	0 %	0 %	2 %	2 %
SUM	**73 %**	**13 %**	**11 %**	**2 %**	**100 %**

Parent Bank 31.12.2018

		Risk category			
Step	Low	Medium	High	Non-perf/loss	Total
1	68 %	11 %	3 %	0 %	82 %
2	5 %	5 %	5 %	1 %	15 %
3	0 %	0 %	0 %	2 %	2 %
SUM	**73 %**	**17 %**	**8 %**	**3 %**	**100 %**

Concentration risk

Concentration risk arises when significant concentration of risk is due to exposure to debtors or securities with similar economic characteristics or which are involved in comparable activities, and where these similarities may result in simultaneous problems with fulfilling payment obligations, or values fluctuate in step so that many will experience problems due to the similarity.

In order to assess and manage concentration risk, the Group evaluates the degree of bias in its loan portfolio on the basis of the following conditions:

- Big individual customers
- Individual industries (industries with specific challenges or cyclical industries)
- Geographical areas
- Collateral with the same risk characteristics (e.g. dependent on property prices)
- Counterparties in interbank operations or trading with financial derivatives

With respect to the calculation of concentration risk for individual and industry risk, the Group employs the same method as the Financial Supervisory Authority of Norway.

The Bank has a not insignificant concentration of loans for financing of property investments. As of 31.12.2019, a total of 49.2% (47.9%) of the Bank's loans and advances to corporate customers is related to property operations. The Bank focuses on monitoring this concentration risk.

In addition, the Bank faces concentration risk in relation to big individual loans. The Bank defines major loans as those exceeding 10% of the Bank's subordinated capital. There is a great overlap between major loans and loans related to property investments.

Age distribution of overdue loans

The table shows overdue amounts on loans and overdrafts of credits distributed on the number of days overdue. The 1-30 days aging has not been adjusted for delays in payment management, and the size of overdue amounts may therefore vary according to the time of reporting.

31.12.2019

Group				Parent Bank		
RM	GM	Total	Age distribution of overdue loans	RM	GM	Total
299 851	174 914	474 765	1-30 days	255 121	174 914	430 035
70 476	8 571	79 047	31-60 days	45 609	8 571	54 180
27 448	143	27 591	61-90 days	23 412	143	23 555
70 823	72 789	143 611	Over 90 days	70 823	72 789	143 611
468 598	**256 417**	**725 014**	**Total**	**394 965**	**256 417**	**651 382**

31.12.2018

Group				Parent Bank		
RM	GM	Total	Age distribution of overdue loans	RM	GM	Total
302 743	77 584	380 326	1-30 days	244 507	77 584	322 091
61 672	64 590	126 262	31-60 days	61 379	64 590	125 969
13 088	17 318	30 406	61-90 days	13 088	17 318	30 406
59 494	91 876	151 370	Over 90 days	59 494	91 876	151 370
436 997	**251 368**	**688 365**	**Total**	**378 468**	**251 368**	**629 836**

As of 31.12.2019, the Bank has total loans of approximately NOK 15 million that were 90 days overdue, and for which provisions for losses had not been made due to good collateral cover. These loans have been individually valued at step 3.

Bonds and notes

In order to manage the credit risk associated with investments in bonds and notes, the Group has developed guidelines for the quality of implemented investments, in addition to requirements regarding industry composition and maturity structure. Investments in bonds and notes are primarily made as liquidity placements.

Derivatives

Derivatives are mainly used to manage the Group's interest and currency risk in the form of interest swap and currency swap agreements, where a future currency exchange rate or future interest rate is agreed on date for entering the derivative transactions, in order to ensure that the Bank does not carry risk of them fluctuating during the term of the derivative. The Group's counterparty exposure is measured as a combination of the market value of open contracts and the principal.

Monitoring of risk frameworks and risk mitigation measures

The Group has established exposure frameworks for different segments of the various portfolios. The utilization of these frameworks are reported monthly to the Board of Directors and Group Management. Individual loans are monitored by the different credit environments within the Group.

The Group also employs a number or risk mitigation measures, such as:

Safety
The Group's most important risk mitigation measure is the establishment of collateral for loans. It has clear guidelines both with respect to requirements for collateral coverage of loans and with respect to valuation of the collateral objects.

Exposure limits
The Group has established frameworks for the maximum exposure to industries, type of loan and major loans. In addition, it has established guidelines for maximum exposure within the different risk categories.

Counter party exposure agreements
There is a requirement that International Swap Dealer Association (ISDA) agreements with Credit Support Annex (CSA) agreements have to be established prior to entering derivative transactions.

9 ALLOCATION OF LOANS ON CUSTOMER GROUPS AND GEOGRAPHIC AREA

By customer group

Group	Loans		Guarantees		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Agriculture and forestry	506 285	381 291	905	691	58 510	56 459
Fishing and hunting	6 563	677			200	200
Building and construction	1 123 073	1 217 835	264 967	311 146	193 453	165 093
Manufacturing	206 319	180 904	43 787	42 943	31 755	32 293
Oil and energy	30 294	180 157	2 650	650	58 333	14 131
Distributive trade	224 619	226 358	64 990	83 287	54 921	64 441
Hotels and restaurants	60 914	68 478	12 874	11 065	3 720	24 654
Transport and storage	48 016	226 436	9 613	29 899	12 088	7 482
Public and private services	778 901	878 071	87 326	75 913	230 703	237 010
Property management	3 842 094	3 883 957	25 755	48 453	115 762	194 710
Other customer groups	88	208				
Retail customers	16 189 868	15 205 288	3 344	3 480	1 953 687	1 834 774
Total gross lending to customers	**23 017 035**	**22 449 659**	**516 211**	**607 526**	**2 713 133**	**2 631 246**
Write-downs	-139 026	-235 214	-3 522	-1 936	-4 285	-5 074
Total net lending to customers	**22 878 009**	**22 214 445**	**512 689**	**605 590**	**2 708 848**	**2 626 172**

By geography

Group	Loans		Guarantees		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Rogaland	18 605 479	18 054 290	401 258	476 377	2 353 398	2 159 228
Oslo/Akershus	3 098 905	3 152 334	80 425	101 830	275 869	371 479
Other counties	1 240 902	1 177 550	34 528	29 319	70 784	90 065
Abroad	71 749	65 485			13 082	10 474
Total gross lending to customers	**23 017 035**	**22 449 659**	**516 211**	**607 526**	**2 713 133**	**2 631 246**

By customer group

Parent Bank	Loans		Guarantees		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Agriculture and forestry	506 285	381 291	905	691	58 510	56 459
Fishing and hunting	6 563	677			200	200
Building and construction	1 123 073	1 217 835	264 967	311 146	193 453	165 093
Manufacturing	206 319	180 904	43 787	42 943	31 755	32 293
Oil and energy	30 294	180 157	2 650	650	58 333	14 131
Distributive trade	224 619	217 540	64 990	83 287	54 921	64 441
Hotels and restaurants	60 914	68 478	12 874	11 065	3 720	24 654
Transport and storage	48 016	226 436	9 613	29 899	12 088	7 482
Public and private services	778 901	878 071	87 326	75 913	230 703	237 010
Property management	3 842 094	3 883 957	25 755	48 453	115 762	194 710
Other customer groups	88	208				
Retail customers	8 288 638	7 793 932	3 344	3 480	914 505	877 756
Total gross lending to customers	**15 115 804**	**15 029 485**	**516 211**	**607 526**	**1 673 952**	**1 674 229**
Write-downs	-134 715	-230 390	-3 522	-1 936	-4 173	-4 917
Total net lending to customers	**14 981 089**	**14 799 096**	**512 689**	**605 590**	**1 669 778**	**1 669 312**

By geography

Parent Bank	Loans		Guarantees		Unused credit facilities	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Rogaland	11 605 745	11 427 733	401 258	476 377	1 423 173	1 301 634
Oslo/Akershus	2 550 943	2 635 840	80 425	101 830	200 216	300 454
Other counties	914 462	928 545	34 528	29 319	45 471	68 099
Abroad	44 655	37 367			5 092	4 042
Total gross lending to customers	**15 115 804**	**15 029 485**	**516 211**	**607 526**	**1 673 952**	**1 674 229**

Group		Guarantees	Parent Bank	
31.12.2019	31.12.2018		31.12.2019	31.12.2018
112 547	139 937	Payment guarantees	112 547	139 937
207 166	248 000	Contract guarantees	207 166	248 000
11 155	12 700	Tax deduction guarantees	11 155	12 700
12 500	13 113	Other guarantees	12 500	13 113
172 843	193 776	Unused guarantee limits	172 843	193 776
516 211	**607 526**	**Total guarantees**	**516 211**	**607 526**

10 WRITTEN-DOWN LOANS DISTRIBUTED ON CUSTOMER GROUPS

Writedowns by customer group

Group	Written down, gross loans		Step 3 writedowns		Net written down loans	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Agriculture and forestry	7 792	10 581	5 000	5 000	2 792	5 581
Fishing and hunting	19 895	472	4 900	450	14 995	22
Building and construction	31 060	34 892	13 900	15 900	17 160	18 992
Manufacturing	16 964	60 896	16 850	62 225	114	-1 329
Oil and energy	5 649		2 330		3 319	
Distributive trade	1 500				1 500	
Hotels and restaurants		539	126	626	-126	-87
Transport and storage	32 402	14 181	9 469	7 878	22 933	6 303
Public and private services	52 864	122 246	14 400	56 600	38 464	65 646
Retail customers	112 803	41 769	13 329	8 025	99 474	33 745
Total Step 3	280 930	285 576	80 305	156 704	200 625	128 872
Non-performing loans without step 3 writedowns	16 151	104 497			16 151	104 497
Total non-performing and written down loans	297 080	390 073	80 305	156 704	216 776	233 369
Gross non-performing and problem loans as a % of gross lending	1,29 %	1,74 %				

Parent Bank	Written down, gross loans		Step 3 writedowns		Net written down loans	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Agriculture and forestry	7 792	10 581	5 000	5 000	2 792	5 581
Building and construction	19 895	472	4 900	450	14 995	22
Manufacturing	31 060	34 892	13 900	15 900	17 160	18 992
Oil and energy	16 964	60 896	16 850	62 225	114	-1 329
Distributive trade	5 649		2 330		3 319	
Hotels and restaurants	1 500				1 500	
Transport and storage		539	126	626	-126	-87
Public and private services	32 402	14 181	9 469	7 878	22 933	6 303
Property management	52 864	122 246	14 400	56 600	38 464	65 646
Retail customers	112 803	41 769	13 329	8 025	99 474	33 745
Total Step 3	280 930	285 576	80 305	156 704	200 625	128 872
Non-performing loans without step 3 writedowns	16 151	104 497			16 151	104 497
Total non-performing and written down loans	297 080	390 073	80 305	156 704	216 776	233 369
Gross non-performing and problem loans as a % of gross lending	1,97 %	2,60 %				

11 LOSSES ON LOANS/GUARANTEES AND NON-PERFORMING/PROBLEM LOANS

Group 2019	Group 2018	Losses on loans and guarantees	Parent Bank 2019	Parent Bank 2018
208	-427	Changes in provisions for losses during the period, step 1	-538	-862
-19 331	-23 222	Changes in provisions for losses during the period, step 2	-17 698	-22 252
-76 399	-127 381	Changes in provisions for losses during the period, step 3	-76 399	-127 381
109 938	173 377	Confirmations of previous writedowns	109 938	173 377
2 477	3 758	Confirmations without previous writedowns	2 477	3 758
-3 422	-2 376	Recovery of realized losses in previous periods*	-3 421	-2 376
13 471	**23 729**	**Losses on loans and guarantees**	**14 360**	**24 264**

* As of 31.12.2019, the Group had total receivables of NOK 56 million that have been recognized / deducted from the balance sheet, and which have been forwarded to debt collection agencies. Any repayments from the debt collection agencies will be recognized as reduced cost of loss in the item "Recovery of realized losses in previous periods".

Group					Parent Bank			
Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs	Changes in provisions for losses, Group:	Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs
30 775	**54 977**	**156 704**	**242 457**	**Provisions for losses as of 01.01.2019**	**28 956**	**51 730**	**156 704**	**237 390**
				Transfers/movements:				
-2 673	14 809		12 136	Transfers from Step 1 to Step 2	-2 596	14 233		11 637
-296		8 667	8 371	Transfers from Step 1 to Step 3	-267		8 667	8 400
2 835	-9 440		-6 605	Transfers from Step 2 to Step 1	2 636	-7 603		-4 967
	-12 414	20 965	8 551	Transfers from Step 2 to Step 3		-12 414	20 965	8 551
	391	-370	20	Transfers from Step 3 to Step 2		391	-370	20
2 533	356		2 889	New loans and guarantees added during the period	2 269	314		2 583
-11 768	-12 174		-23 941	Disposals of loans and guarantees during the period	-11 292	-11 482		-22 773
9 576	-860	21 059	29 775	Changed provisions for losses during the period for loans and guarantees not migrated	8 712	-1 137	21 059	28 634
		-109 938	-109 938	Declared losses			-109 938	-109 938
		-16 780	-16 780	Reversal of previous writedowns			-16 780	-16 780
				Other adjustments	-245			-245
30 983	**35 646**	**80 305**	**146 934**	**Provisions for losses as of 31.12.2019**	**28 174**	**34 032**	**80 305**	**142 510**
			100	Recognized as a reduction of loans to / claims on credit institutions				99
			139 026	Recognized as a reduction of loans to customers				134 715
			7 808	Recognized as provisions for debit items (guarantees and unused lines of credit)				7 696
			146 934	**Provisions for losses as of 31.12.2019**				**142 510**

Distribution of provisions for losses on customers – per segment

Group (CM)					Parent Bank (CM)			
Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs	Changes in provisions for losses CM	Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs
21 550	**30 644**	**148 753**	**200 946**	**Provisions for losses CM as of 01.01.2019**	**21 550**	**30 644**	**148 753**	**200 946**
				Transfers/movements:				
-2 177	12 561		10 384	Transfers from Step 1 to Step 2	-2 177	12 561		10 384
-147		6 830	6 683	Transfers from Step 1 to Step 3	-147		6 830	6 683
929	-2 366		-1 437	Transfers from Step 2 to Step 1	929	-2 366		-1 437
	-10 543	16 059	5 516	Transfers from Step 2 to Step 3		-10 543	16 059	5 516
1 952	266		2 218	New loans and guarantees added during the period	1 952	266		2 218
-8 600	-6 035		-14 635	Disposals of loans and guarantees during the period	-8 600	-6 035		-14 635
4 596	1 312	19 108	25 016	Changed provisions for losses during the period for loans and guarantees not migrated	4 596	1 312	19 108	25 016
		-105 949	-105 949	Declared losses			-105 949	-105 949
		-15 951	-15 951	Reversal of previous writedowns			-15 951	-15 951
18 103	**25 839**	**68 849**	**112 791**	**Provisions for losses CM as of 31.12.2019**	**18 103**	**25 839**	**68 849**	**112 791**

Group (RM)					Parent Bank (RM)			
Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs	Changes in provisions for losses RM	Step 1 12-month loss	Step 2 Lifetime loss	Step 3 Lifetime loss	Total write-downs
9 226	**24 333**	**7 951**	**41 510**	**Provisions for losses RM as of 01.01.2019**	**7 406**	**21 086**	**7 951**	**36 443**
				Transfers/movements:				
-525	2 248		1 723	Transfers from Step 1 to Step 2	-419	1 672		1 253
-120		1 837	1 717	Transfers from Step 1 to Step 3	-120		1 837	1 717
1 874	-6 980		-5 105	Transfers from Step 2 to Step 1	1 676	-5 144		-3 468
	-1 870	4 905	3 035	Transfers from Step 2 to Step 3		-1 870	4 905	3 035
	391	-370	20	Transfers from Step 3 to Step 2		391	-370	20
574	89		664	New loans and guarantees added during the period	310	47		358
-3 140	-6 139		-9 280	Disposals of loans and guarantees during the period	-2 664	-5 447		-8 112
4 899	-2 265	1 951	4 585	Changed provisions for losses during the period for loans and guarantees not migrated	4 034	-2 542	1 951	3 443
		-3 989	-3 989	Declared losses			-3 989	-3 989
		-829	-829	Reversal of previous writedowns			-829	-829
				Other adjustments	-245			-245
12 788	**9 807**	**11 455**	**34 051**	**Provisions for losses RM as of 31.12.2019**	**9 979**	**8 193**	**11 455**	**29 627**

Group Step 1 12-month loss	Group Step 2 Lifetime loss	Group Step 3 Lifetime loss	Group Total write-downs	Changes in provisions for losses	Parent Bank Step 1 12-month loss	Parent Bank Step 2 Lifetime loss	Parent Bank Step 3 Lifetime loss	Parent Bank Total write-downs
			391 522	**Provisions for losses as of 31.12.2017 according to IAS 39**				**387 296**
			1 964	Impact of changes in provisions in connection with the transition to IFRS 9				958
31 202	**78 199**	**284 085**	**393 486**	**Provisions for losses as of 01.01.2018 (reworked)**	**30 188**	**73 981**	**284 085**	**388 254**
				Transfers/movements:				
-1 947	20 680		18 733	Transfers from Step 1 to Step 2	-1 878	19 462		17 584
-62		250	188	Transfers from Step 1 to Step 3	-62		250	188
2 235	-19 251		-17 016	Transfers from Step 2 to Step 1	2 100	-17 884		-15 784
	-2 111	10 950	8 839	Transfers from Step 2 to Step 3		-2 111	10 950	8 839
15 115	9 119		24 233	New loans and guarantees added during the period	14 756	8 835		23 591
-7 374	-25 454		-32 829	Disposals of loans and guarantees during the period	-7 201	-24 349		-31 550
-8 393	-6 205	39 954	25 356	Changed provisions for losses during the period for loans and guarantees not migrated	-8 578	-6 204	39 954	25 172
		-173 377	-173 377	Declared losses			-173 377	-173 377
		-5 159	-5 159	Reversal of previous writedowns			-5 159	-5 159
				Other adjustments	-370			-370
30 775	**54 977**	**156 704**	**242 457**	**Provisions for losses as of 31.12.2018**	**28 956**	**51 730**	**156 704**	**237 390**
21 550	*30 644*	*148 753*	*200 946*	*Of which provisions for losses CM*	*21 464*	*30 644*	*148 753*	*200 861*
9 226	*24 333*	*7 951*	*41 510*	*Of which provisions for losses RM*	*7 492*	*21 086*	*7 951*	*36 529*
			233	Recognized as a reduction of loans to / claims on credit institutions				147
			235 214	Recognized as a reduction of loans to customers				230 390
			7 010	Recognized as provisions for debit items (guarantees and unused lines of credit)				6 853
			242 457	**Provisions for losses as of 31.12.2018**				**237 390**

Changes in gross loans recognized in the balance sheet

Group Step 1	Group Step 2	Group Step 3	Group Total loans		Parent Bank Step 1	Parent Bank Step 2	Parent Bank Step 3	Parent Bank Total loans
19 426 365	**3 297 390**	**334 787**	**23 058 541**	**Gross loans and guarantees recognized in the balance sheet as of 01.01.2019**	**12 716 678**	**2 491 653**	**334 787**	**15 543 117**
				Transfers:				
-1 200 920	1 200 920			Transfers from Step 1 to Step 2	-927 710	927 710		
-48 159		48 159		Transfers from Step 1 to Step 3	-48 159		48 159	
907 612	-907 612			Transfers from Step 2 to Step 1	553 673	-553 673		
	-107 329	107 329		Transfers from Step 2 to Step 3		-107 329	107 329	
	5 677	-5 677		Transfers from Step 3 to Step 2		5 677	-5 677	
5 115 766	698 074		5 813 840	New loans and guarantees added during the period	3 913 228	625 960		4 539 189
-5 096 982	-964 235	-204 907	-6 266 123	Other changes during the period for loans and guarantees not migrated (incl. disposals)	-4 283 929	-889 007	-204 907	-5 377 842
19 103 681	**3 222 886**	**279 691**	**22 606 258**	**Gross loans and guarantees recognized in the balance sheet as of 31.12.2019***	**11 923 782**	**2 500 991**	**279 691**	**14 704 464**

* The above table is based on gross loans at the time of reporting, including loans to customers, and claims on credit institutions and the central bank. The table does not include guarantees/unused lines of credit. With respect to comparable figures for 2018, the gross book value of the Bank's fixed rate loans was included, and amounted to approximately 0.8 billion as of 31.12.2018.

Distribution of gross loans to customers recognized in the balance sheet, valued at amortized cost – per segment

Group (CM) Step 1	Group (CM) Step 2	Group (CM) Step 3	Group (CM) Total loans		Parent Bank (CM) Step 1	Parent Bank (CM) Step 2	Parent Bank (CM) Step 3	Parent Bank (CM) Total loans
6 161 731	**905 426**	**293 847**	**7 361 004**	**Gross loans and guarantees CM recognized in the balance sheet as of 01.01.2019**	6 161 731	**905 426**	**293 847**	**7 361 004**
				Transfers:				
-542 836	542 836			Transfers from Step 1 to Step 2	-542 836	542 836		
-22 268		22 268		Transfers from Step 1 to Step 3	-22 268		22 268	
147 197	-147 197			Transfers from Step 2 to Step 1	147 197	-147 197		
	-53 691	53 691		Transfers from Step 2 to Step 3		-53 691	53 691	
1 508 899	241 212		1 750 111	New loans and guarantees added during the period	1 508 899	241 212		1 750 111
-1 643 553	-238 333	-217 303	-2 099 189	Other changes during the period for loans and guarantees not migrated (incl. disposals)	-1 643 553	-238 333	-217 303	-2 099 189
5 609 170	**1 250 252**	**152 503**	**7 011 926**	**Gross loans and guarantees CM recognized in the balance sheet as of 31.12.2019****	**5 609 170**	**1 250 252**	**152 503**	**7 011 926**

** The above table is based on gross loans to CM customers at the time of the report. The table does not include guarantees/unused lines of credit. With respect to comparable figures for 2018, the gross book value of the Bank's fixed rate loans was included, and amounted to approximately 0.1 billion in CM as of 31.12.2018

Distribution of gross loans to customers recognized in the balance sheet, valued at amortized cost – per segment

Group (RM)					Parent Bank (RM)			
Step 1	Step 2	Step 3	Total loans		Step 1	Step 2	Step 3	Total loans
12 637 691	**2 372 639**	**40 939**	**15 051 269**	**Gross loans and guarantees RM recognized in the balance sheet as of 01.01.2019**	**6 029 055**	**1 566 902**	**40 939**	**7 636 897**
				Transfers:				
-658 084	658 084			Transfers from Step 1 to Step 2	-384 874	384 874		
-25 891		25 891		Transfers from Step 1 to Step 3	-25 891		25 891	
745 739	-745 739			Transfers from Step 2 to Step 1	391 801	-391 801		
	-53 638	53 638		Transfers from Step 2 to Step 3		-53 638	53 638	
	5 677	-5 677		Transfers from Step 3 to Step 2		5 677	-5 677	
3 686 927	456 862		4 143 789	New loans and guarantees added during the period	2 403 313	384 748		2 788 061
-3 425 964	-693 168	-15 687	-4 134 819	Other changes during the period for loans and guarantees not migrated (incl. disposals)	-2 632 885	-617 941	-15 687	-3 266 513
12 960 418	**2 000 716**	**99 104**	**15 060 239**	**Gross loans and guarantees RM recognized in the balance sheet as of 31.12.2019****	**5 780 519**	**1 278 822**	**99 104**	**7 158 445**

** Tabellen over tar utgangspunkt i brutto utlån til kunder PM på rapporteringstidspunkt.
Tabellen inkluderer ikke garantier/ubenyttede kredittrammer. (Når det gjelder sammenlignbare tall for 2018 så var brutto balanseført verdi av bankens fastrentelån inkludert, disse utgjorde ca 0,7 MRD i PM per 31.12.2018.)

Group					Parent Bank			
Step 1	Step 2	Step 3	Total loans		Step 1	Step 2	Step 3	Total loans
17 941 043	**3 993 322**	**544 325**	**22 478 690**	**Gross loans and guarantees recognized in the balance sheet as of 01.01.2018**	**12 291 828**	**2 999 842**	**544 325**	**15 835 995**
				Transfers:				
-1 187 060	1 128 168		-58 892	Transfers from Step 1 to Step 2	-925 172	822 605		-102 568
-2 956		2 801	-155	Transfers from Step 1 to Step 3	-2 956		2 801	-155
1 169 380	-1 211 706		-42 325	Transfers from Step 2 to Step 1	777 837	-888 477		-110 640
	-109 123	114 516	5 393	Transfers from Step 2 to Step 3		-109 123	114 516	5 393
5 702 291	701 583		6 403 875	New loans and guarantees added during the period	4 594 925	635 399		5 230 324
-4 196 334	-1 204 855	-326 855	-5 728 044	Other changes during the period for loans and guarantees not migrated (incl. disposals)	-4 019 784	-968 593	-326 855	-5 315 232
19 426 365	**3 297 390**	**334 787**	**23 058 541**	**Gross loans and guarantees recognized in the balance sheet as of 31.12.2018**	**12 716 678**	**2 491 653**	**334 787**	**15 543 117**
6 161 731	*905 426*	*293 847*	*7 361 004*	*of which gross loans and guarantees recognized in the balance sheet CM*	*6 161 731*	*905 426*	*293 847*	*7 361 004*
12 637 691	*2 372 639*	*40 939*	*15 051 269*	*of which gross loans and guarantees recognized in the balance sheet RM*	*6 029 055*	*1 566 902*	*40 939*	*7 636 897*
626 944	*19 325*		*646 269*	*of which gross loans and guarantees recognized in the balance sheet undistributed (credit institutions)*	*525 892*	*19 325*		*545 217*

Comments of step transitions

All loans start on step 1. Then there are five factors that may lead to moving loans from step 1 to step 2, including;

1) Over 30 days in default
2) With more than 2 arrears of at least 5 days' duration during the past 12 months
3) A significant increase in risk, i.e. that PD has increased since the initial PD for the loan (please refer to the definition in Note 8)
4) Forbearance marking (that the customer has been granted necessary easing of required repayments)
5) Lack of data for the customer

The below table shows a breakdown of the reasons for all step transitions from step 1 to step 2.

Reasons	Share (in isolation)	Share (total)
Due to arrears for 30 days	1 %	3 %
Due to arrears during the past 12 months	2 %	14 %
Due to significant PD increase	29 %	64 %
Due to forbearance	8 %	17 %
Lack of customer history	0 %	2 %
Combination of the above reasons	59 %	
Total	**100 %**	**100 %**

"Share in isolation" shows how many percent of the value of the loan has been moved from step 1 to step 2 due to the corresponding factor only, seen in isolation, whereas "Share total" shows how many percent of the migration that was due to the corresponding factor alone, or together with one or more of the other factors.

Correspondingly, the table shows a breakdown of the causes of the step transitions from step 2 to step 1 in 2019 (recovery during the period);

Reasons	Share (in isolation)	Share (total)
No 30 days in arrears last 6m longer	1 %	3 %
No >1 in arrears in last 12 months longer	3 %	12 %
Significant PD reduction	68 %	77 %
No forbearance marking any longer	8 %	8 %
History return for customer	1 %	1 %
Combination of several effects	20 %	
Total	**100 %**	**100 %**

"Share in isolation" shows how many percent of the value of the loan has been moved from step 2 to step 1 due to the corresponding factor only, seen in isolation, whereas "Share total" shows how many percent of the migration that was due to the corresponding factor alone, or together with one or more of the other factors.

In 2019, there were a total of 237 loans that migrated from step 2 to step 1, i.e. 1.7% of total lending.

Sensitivity analyses

The writedown model for the computation of Expected credit losses (ECL) on loans is built on several critical assumptions,

including probability of default, loss in case of default, expected lifespan of loans and macro developments.

Thus, the model and the loss estimates are vulnerable with respect to changes in the assumptions used. Consequently, the Bank has reproduced loss estimates

provided changes in key assumptions with the aim of illustrating how the loss estimates are affected by given scenarios.

Sensitivity analyses are made for the following factors:

- Probability of Default (PD) down 10%
- Probability of Default (PD) up 10%
- 30% decline in home prices (adjusted LGD)
- Expected lifespan equal to full maturity
- Future will remain as today (expectation unchanged)

In the first two scenarios, it is assumed that the probability of default for all customers except those in default, will increase or decrease, respectively, by 10%.

The home price scenario assumes a change of LGD for the Retail Market loans collaterized with homes, further that this will have extended effects for the Corporate Market with respect to PD for companies with exposure to the construction industry and real estate. Finally, third order effects are taken into account in the Retail Market in the form of a marked increase in PD for customers working in the construction industry and real estate, as well as a smaller PD increase for all other customers due to extended effects.

If customers are subject to falling credit quality, it will be more difficult for them to get loans refinanced and also less opportunity to pre-redeem or make extra payments. The expected lifespan equal to full maturity scenario assumes that all loans will run to final maturity and that all undrawn lines of credit will be fully utilized.

In the main scenario, future prospects are faintly positive (based on the same weighting of a positive, a negative and a main expectation). In the "future will remain as today" scenario, the expectation = 1, i.e. neither positive nor negative.

The result of the sensitivity analysis is as follows, divided on group, and the retail market (RM) and corporate market (CM);

	Changes in key assumptions				
Group 31.12.2019	Unchanged future outlook	Full maturity	PD - 10 %	PD + 10 %	Drop in home prices 30 %*
Percentage change in loss estimate CM	4.5 %	1.8 %	-7.9 %	8.8 %	96.6 %
Percentage change in loss estimate RM	2.3 %	3.3 %	-7.7 %	4.4 %	55.3 %
Percentage change in loss estimate Group	3.7 %	2.3 %	-7.8 %	7.3 %	85.0 %
Group 31.12.2018					
Percentage change in loss estimate CM	2.5 %	5.7 %	-6.8 %	4.3 %	0.0 %
Percentage change in loss estimate RM	1.4 %	10.1 %	-4.2 %	3.0 %	80.6 %
Percentage change in loss estimate Group	2.1 %	7.5 %	-5.8 %	3.8 %	32.7 %

The result of the sensitivity analysis is as follows, divided on Parent Bank, and the retail market (RM) and corporate market (CM) segments;

	Changes in key assumptions				
Parent Bank 31.12.2019	Unchanged future outlook	Full maturity	PD - 10 %	PD + 10 %	Drop in home prices 30 %*
Percentage change in loss estimate CM	4.5 %	1.8 %	-7.9 %	8.8 %	96.6 %
Percentage change in loss estimate RM	2.3 %	2.9 %	-8.0 %	4.2 %	55.1 %
Percentage change in loss estimate Parent Bank	3.8 %	2.1 %	-7.9 %	7.4 %	83.5 %
Parent Bank 31.12.2018					
Percentage change in loss estimate CM	2.5 %	5.7 %	-6.8 %	4.4 %	0.0 %
Percentage change in loss estimate RM	1.4 %	7.2 %	-3.8 %	2.9 %	79.9 %
Percentage change in loss estimate Parent Bank	2.1 %	6.2 %	-5.7 %	3.8 %	29.7 %

*The sensitivity analysis for home price drop is only illustrated for the retail market as of 31.12.2018.

Non-performing and problem loans

The total loans non-performing over 90 days and other performing loans with individual writedowns for losses

Group	31.12.19			31.12.18		
	RM	CM	Total	RM	CM	Total
Problem loans before individual writedowns for losses (gross):						
Engagement non-performing over 90 days	70 823	72 789	143 611	59 494	91 876	151 370
Performing problem loans	48 034	108 758	156 792	21 973	216 730	238 703
Total loans before individual writedowns for losses (gross)	**118 856**	**181 547**	**300 403**	**81 467**	**308 606**	**390 073**
Individual writedowns of losses on:						
Engagement non-performing over 90 days	4 892	20 900	25 792	2 801	17 128	19 929
Performing problem loans	6 563	47 949	54 512	5 150	131 625	136 775
Total individual writedowns for losses (step 3)	**11 455**	**68 849**	**80 305**	**7 951**	**148 753**	**156 704**
Problem loans after individual writedowns for losses (net):						
Engagement non-performing over 90 days	65 930	51 889	117 819	56 693	74 748	131 441
Performing problem loans	41 471	60 809	102 280	16 823	85 105	101 928
Total loans after individual writedowns for losses (net)	**107 401**	**112 698**	**220 099**	**73 516**	**159 853**	**233 369**
Percentage provision for loans non-performing over 90 days	7 %	29 %	18 %	5 %	19 %	13 %
Percentage provision for performing problem loans	14 %	44 %	35 %	23 %	61 %	57 %

Non-performing and doubtful loans and advances are valued according to law and regulations issued by the Financial Supervisory Authority of Norway. A loan is regarded as non-performing or in default when the customer has failed to pay an installment within 90 days of the due date, or when an overdraft of a credit of line has not been covered within 90 days after being overdrawn. Doubtful loans are written-down loans where the customer's financial situation indicates that loss will materialize at a later time, regardless of whether the loan is in default or not.

12 INTEREST RATE RISK

Interest rate risk Interest rate risk is the risk of loss arising due to changes in interest rate levels. The risk arises primarily from fixed-rate lending and fixed-rate funding. Yield curves usually shift in parallel up or down and the Group measures interest rate risk as the profit effect of a parallel shift of the yield curve. The risk of non-parallel shifts (twist, butterfly, etc.) is covered through limitations on maximum exposure.

The main principle of the Bank's interest rate risk management is to neutralize the interest rate risk by balancing the Bank's assets and liabilities. The Bank is conducting ongoing monitoring of the interest exposure for all intervals of 3 months from 0 to 15 years. The Bank's strategy is to not incur significant interest rate risk in its ordinary operations. The limit for Group interest rate risk is that maximum loss must not exceed NOK 21 million in case of a 2% parallel shift of the yield curves. The Group limit is split on NOK 15 million for the Parent Bank and NOK 6 million for SSB Boligkreditt. In other respects, the maximum interest rate exposure within each maturity interval shall not exceed NOK 3.75 million.

Please also refer to Note 15 regarding the Bank's use of derivatives for the hedging of its interest rate exposure.

Time to repricing date (gap) for assets and liabilities

Group 2019	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No interest exposure	31.12.2019
Cash	4 261						4 261
Loans to and claims on credit institutions	570 160						570 160
Loans to customers	5 072 946	16 860 872	91 171	630 403	222 616		22 878 009
Notes and bonds	456 820	2 935 634	265 353	199 753			3 857 560
Financial derivatives	5 458	23 835	1 073	67 590	14 803		112 759
Other assets						735 510	735 510
Total assets	**6 109 645**	**19 820 341**	**357 598**	**897 746**	**237 419**	**735 510**	**28 158 259**
Payable to credit institutions	43 672						43 672
Deposits from customers	6 198 644	5 568 720		65 464			11 832 829
Debt securities in issue	782 872	3 487 609	2 899 709	4 203 832	1 318 050		12 692 071
Financial derivatives	2 336	245	19 865	83 173	5 563		111 181
Other liabilities						257 881	257 881
Subordinated loans	100 595	100 595					201 191
Equity capital		100 000				2 919 434	3 019 434
Total liabilities and shareholders' equity	**7 128 119**	**9 257 169**	**2 919 574**	**4 352 469**	**1 323 612**	**3 177 315**	**28 158 259**
Net liquidity exposure, balance sheet items	-1 018 474	10 563 172	-2 561 976	-3 454 723	-1 086 193	-2 441 806	
Net total all items	**-1 018 474**	**10 563 172**	**-2 561 976**	**-3 454 723**	**-1 086 193**	**-2 441 806**	

Group 2018	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No interest exposure	31.12.2018
Cash and deposits with central banks	454 707						454 707
Loans to credit institutions	201 566						201 566
Loans to customers	6 052 631	15 376 202	135 827	510 445	139 341		22 214 445
Notes and bonds	735 827	2 427 783	231 588	265 436			3 660 633
Financial derivatives	1 488	74 187	4 888	61 020	8 774		150 356
Other assets						527 651	527 651
Total assets	**7 446 219**	**17 878 171**	**372 302**	**836 900**	**148 115**	**527 651**	**27 209 358**
Payable to credit institutions	50 197						50 197
Deposits from customers	5 479 726	5 430 365	317 744	24 332			11 252 168
Debt securities in issue	1 413 773	4 953 773	1 183 773	3 167 773	1 598 773		12 317 863
Financial derivatives	2 566	46 736	8 286	85 094	5 263		147 945
Other liabilities						162 620	162 620
Subordinated loans	217 563	100 000					317 563
Equity capital		100 000				2 861 001	2 961 001
Total liabilities and shareholders' equity	**7 163 826**	**10 630 874**	**1 509 803**	**3 277 198**	**1 604 035**	**3 023 621**	**27 209 358**
Net liquidity exposure, balance sheet items	282 393	7 247 297	-1 137 501	-2 440 299	-1 455 920	-2 495 971	
Net total all items	**282 393**	**7 247 297**	**-1 137 501**	**-2 440 299**	**-1 455 920**	**-2 495 971**	

Parent Bank 2019	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No interest exposure	31.12.2019
Cash	4 261						4 261
Loans to and claims on credit institutions	569 318						569 318
Loans to customers	5 058 005	8 978 893	91 171	630 403	222 616		14 981 089
Notes and bonds	350 425	2 246 634	265 353	199 753			3 062 166
Financial derivatives	3 551	15 508	698	35 612	8 311		63 682
Other assets						2 012 249	2 012 249
Total assets	**5 985 560**	**11 241 036**	**357 223**	**865 769**	**230 928**	**2 012 249**	**20 692 763**
Payable to credit institutions	286 440						286 440
Deposits from customers	6 200 352	5 568 714		65 464			11 834 530
Debt securities in issue	734 942	1 082 336	387 549	3 038 758			5 243 585
Financial derivatives	2 114	221	17 978	66 771	2 292		89 377
Other liabilities						242 141	242 141
Subordinated loans	100 595	100 595					201 191
Equity capital		100 000				2 695 500	2 795 500
Total liabilities and shareholders' equity	**7 324 444**	**6 851 866**	**405 527**	**3 170 993**	**2 292**	**2 937 641**	**20 692 763**
Net liquidity exposure, balance sheet items	-1 338 885	4 389 170	-48 304	-2 305 225	228 636	-925 392	
Net total all items	**-1 338 885**	**4 389 170**	**-48 304**	**-2 305 225**	**228 636**	**-925 392**	

Parent Bank 2018	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No interest exposure	31.12.2018
Cash and deposits with central banks	454 707						454 707
Loans to credit institutions	100 247						100 247
Loans to customers	6 040 575	7 972 908	135 827	510 445	139 341		14 799 096
Notes and bonds	605 599	2 013 783	231 588	265 436			3 116 404
Financial derivatives	1 488	39 430	4 888	38 166	1 110		85 082
Other assets						1 614 348	1 614 348
Total assets	**7 202 615**	**10 026 121**	**372 302**	**814 046**	**140 451**	**1 614 348**	**20 169 884**
Payable to credit institutions	24 836						24 836
Deposits from customers	5 480 464	5 430 365	317 744	24 332			11 252 906
Debt securities in issue	1 408 605	868 605	178 605	2 819 605	268 605		5 544 024
Financial derivatives	2 566	37 692	8 286	68 907	449		117 901
Other liabilities						145 769	145 769
Subordinated loans	217 563	100 000					317 563
Equity capital		100 000				2 666 885	2 766 885
Total liabilities and shareholders' equity	**7 134 035**	**6 536 662**	**504 636**	**2 912 844**	**269 053**	**2 812 654**	**20 169 884**
Net liquidity exposure, balance sheet items	68 580	3 489 458	-132 333	-2 098 798	-128 602	-1 198 306	
Net total all items	**68 580**	**3 489 458**	**-132 333**	**-2 098 798**	**-128 602**	**-1 198 306**	

Interest rate sensitivity

The Board of Directors has set a limit of NOK 21 million for total interest rate risk on and off the Group balance sheet. This is measured by the effect on earnings of a 2% parallel shift in the interest rate. At the end of the year, the estimated earnings effect of a positive interest rate shift of 2% was NOK 5.8 million, whereas the estimated earnings effect of a negative interest rate shift of 2%, was NOK -5.8 million. Thus, interest risk is considered to be low. In total, the Group's exposure to market risk is considered to be moderate.

13 FOREIGN CURRENCY RISK

Foreign currency risk is the risk of loss due to changes in currency exchange rates, resulting in falling net asset values measured in NOK. The Bank has established a framework that defines the risk tolerance relate to currency exposure. Maximal permitted currency exposure is NOK 2 million per currency and the maximum aggregate gross currency exposure is NOK 6 million. The framework only applies to customer related transactional services. The Bank has no framework for its own currency trading. Guidelines have also been prepared regarding the currencies to which the Bank may be exposed. Sensitivity analyses have not been prepared for currency risk related to changes in currency exchange rates, as its impact is small due to the Bank's low net currency exposure.

Most assets denominated in foreign currencies have a remaining period to maturity of 5 years, whereas liabilities denominated in foreign currencies mature in the 1-5 years interval. The time to the agreed repricing of assets and liabilities is mainly within 1-3 months. The group uses forward currency exchange contracts and swap agreements to hedge its foreign currency lending/funding. Since there is an increased credit risk following from currency exchange rate fluctuations for customers with loans denominated in foreign currencies, deposits in escrow accounts are used as additional collateral. If currency exchange rate developments entail that the customer's loan, measured in NOK, exceeds a predefined deviation from the principal, the customer is required to establish additional collateral. If additional collateral in the form of deposits is not established, the whole loan is converted to NOK when the agreed limit is reached.

Assets, liabilities and currency denominated in foreign currencies, and currency hedges are valued at the current price as of 12/31.

Group / Parent Bank 31.12.2019

Currency positions	Foreign currency	USD	EUR	JPY	CHF	GBP	SEK	DKK	CAD	Other
Cash and deposits with central banks	605		260			126	14	206		
Loans to credit institutions	32 016	5 854	10 743	12	193	3 834	9 879	62	331	1 109
Loans to customers	399 387	48 134	67 638	20 109	223 302		40 203			
Notes, bonds	464 271		285 109				111 474	67 688		
Other assets	6 490	3 185						3 305		
Total assets	**902 770**	**57 173**	**363 749**	**20 121**	**223 495**	**3 960**	**161 570**	**71 260**	**331**	**1 109**
Payable to credit institutions										
Deposits from customers	29 301	6 557	9 281		8	3 848	9 568	26		12
Debt established through the issue of securities										
Other liabilities										
Subordinated loans										
Equity capital										
Total liabilities and shareholders' equity	**29 301**	**6 557**	**9 281**		**8**	**3 848**	**9 568**	**26**		**12**
Net currency exposure, balance sheet items	873 468	50 616	354 468	20 121	223 487	112	152 002	71 234	331	1 097
Currency hedge	-857 539	-52 429	-347 006	-20 024	-222 843	635	-151 129	-65 051		308
Net currency exposure	**15 929**	**-1 813**	**7 462**	**98**	**644**	**747**	**873**	**6 183**	**331**	**1 405**

Group / Parent Bank 31.12.2018

Currency positions	Foreign currency	USD	EUR	JPY	CHF	GBP	SEK	DKK	CAD	Other
Cash and deposits with central banks	952					166		240		
Loans to credit institutions	24 942	6 792	7 717	23	481	5 517	1 015	1 044	228	2 125
Loans to customers	713 757	64 055	136 499	47 896	349 557		115 738			12
Notes, bonds	454 526		248 560				72 791	133 175		
Other assets	5 038	5 038								
Total assets	**1 199 215**	**75 885**	**393 323**	**47 919**	**350 038**	**5 683**	**189 544**	**134 459**	**228**	**2 136**
Payable to credit institutions										
Deposits from customers	49 886	7 900	10 615		8	5 895	25 175	18	17	258
Debt established through the issue of securities										
Other liabilities										
Subordinated loans										
Equity capital										
Total liabilities and shareholders' equity	**49 886**	**7 900**	**10 615**		**8**	**5 895**	**25 175**	**18**	**17**	**258**
Net currency exposure, balance sheet items	1 149 330	67 986	382 707	47 919	350 030	-212	164 369	134 442	211	1 879
Currency hedge	-1 136 002	-68 314	-375 221	-47 878	-349 396	741	-163 025	-132 909		
Net currency exposure	**13 327**	**-328**	**7 486**	**40**	**633**	**529**	**1 344**	**1 533**	**211**	**1 879**

14 PRICE RISK

Price risk on securities is the risk of loss arising from changes in the value of bonds, notes and equity related securities in which the Group has invested. The Bank has established limits for investments. The investment framework for securities beyond liquidity placements, remained unchanged during the last 12 months. Any change in the existing permitted exposure will be embedded in the Bank's finance strategy, which will then be reviewed and approved by the Bank's Board of Directors.

15 FINANCIAL DERIVATIVES AND HEDGE ACCOUNTING

The Group makes extensive use of derivatives to balance the Bank's currency, interest rate and equity risk. Currency and interest rate related instruments are used to minimize currency and interest rate risk on the Bank's loans to customers and funding from the capital markets.

The Group applies hedge accounting for fair value hedging of some fixed rate funding (notes, bonds, subordinated loans and hybrid capital bonds). Interest rate swaps are only used for interest rate hedging. All interest rate swaps are denominated in NOK, as the Group is not exposed to foreign currency debt. Each individual hedging is documented with reference to the Group's risk management strategy, a unique identification of the hedged object and the hedging instrument, a unique description of the hedged risk, a description of why the hedging is expected to be effective, and a description of when and how the Group will document that the hedge has been effective during the accounting period and is expected to be effective during the next accounting period. The Group has defined the hedged risk as changes in value related to the NIBOR component of the funding. The hedge effect is valued and documented both at initial classification and at each closing of the accounts. In case of fair value hedging, the hedging instrument is recognized at fair value, and the value of the hedging object is adjusted for the change in valuation associated with the hedged risk. Changes in these values from the starting balance are recognized in the income statement as hedging inefficiency. This method ensures that the presentation in the financial statements of these instruments complies with the Group's policies for managing interest rates and actual economic developments.

Any inefficiency in the Bank's hedging may arise due to actual valuation adjustments of the floating leg of the hedging instrument. See Note 19 for amounts recognized in the income statement. Please also see further information about the Bank's hedge accounting below.

The Board of Directors has adopted limits for the Bank's exposure vis-à-vis all counterparties in order to reduce the settlement risk related to the use of financial instruments. The Bank will use solid and established counterparties with a minimum rating of A from a recognized rating agency. CSA (Credit Support Annex) shall be established with all counterparties in order to ensure the lowest possible net exposure in case of the bankruptcy of a counterparty.

The set-off rights of the Parent Bank and the Group are in accordance with normal Norwegian law. Due to ISDA agreements entered between the Parent Bank and derivatives counterparties, set-off rights are acquired if the counterparty defaults on his obligations. This is not set off in the Bank's balance sheet, as they do not conform to the requirements of IAS 32.

SSB Boligkreditt is also employing ISDA agreements with counterparties in relation to financial derivatives. As is the case with the Parent Bank, the agreements ensure set-off rights if the counterparties default on their obligations, and CSA riders have been added to the ISDA agreements with the financial counterparties.

Group

	31.12.2019	Fair value as of 31.12.2019		31.12.2018	Fair value as of 31.12.2018	
	Contractual amount	Positive market value [1]	Negative market value [1]	Contractual amount	Positive market value [1]	Negative market value [1]
Interest rate agreements *	13 918 712	102 922	109 443	10 092 800	146 581	134 610
Currency exchange rate agreements	795 519	9 837	1 738	964 538	3 775	13 335
Equity related instruments						
Other commodity related instruments						
Total financial derivatives	**14 714 230**	**112 759**	**111 181**	**11 057 337**	**150 356**	**147 945**
* Of which used for hedging purposes	5 554 000	88 659	61 716	4 829 000	135 511	75 624

Parent Bank

	31.12.2019	Fair value as of 31.12.2019		31.12.2018	Fair value as of 31.12.2018	
	Contractual amount	Positive market value [1]	Negative market value [1]	Contractual amount	Positive market value [1]	Negative market value [1]
Interest rate agreements *	11 350 712	53 845	87 639	8 424 800	81 307	104 566
Currency exchange rate agreements	795 519	9 837	1 738	964 538	3 775	13 335
Equity related instruments						
Other commodity related instruments						
Total financial derivatives	**12 146 230**	**63 682**	**89 377**	**9 389 337**	**85 082**	**117 901**
* Of which used for hedging purposes	2 986 000	39 581	39 912	3 161 000	70 236	45 580

1 Market values of financial derivatives are presented inclusive of accrued (not capitalized) interest as of 12/31.

Further about the Bank's hedge accounting

The Bank is using fair value hedging, where the security issues are part of a hedging arrangement with individually adapted hedging derivatives. As of 31.12.2019, in all the Bank's hedging arrangements, the hedging object and the hedging instruments have the same principal and the same duration and coupon on the fixed leg (1:1 hedging). The fixed interest rate is swapped to a floating rate on a three month basis.

Group 31.12.2019

Information about hedging instruments

Type of hedging instrument	Nominal amount of hedging instrument	Amount of hedging instrument recognized through the balance sheet		Line item in the balance sheet	Changes in fair value used to calculate inefficiency
		Assets	Liabilities		
Interest rate agreements	5 554 000	88 659	61 716	Financial derivatives	-42 599
Total	**5 554 000**	**88 659**	**61 716**		**-42 599**

Information about hedging objects

Type of hedging object	Nominal amount of hedging object	Amount of hedging object recognized through the balance sheet*	Accumulated valuation changes of the hedging object due to fair value hedging	Line item in the balance sheet	Changes in fair value used to calculate inefficiency
Fair value hedging (interest rate risk)					
Securities debt in NOK	5 554 000	5 591 600	-25 902	Debt securities in issue	42 599
Total	**5 554 000**	**5 591 600**	**-25 902**		**42 599**

Information about hedging inefficiency

Inefficiency recognized through the income statement (gain/loss on financial instruments)	**0**

*Book value of hedging object includes accrued (non-capitalized) interest, but is not a part of the valuation changes of the hedging object..

Parent Bank 31.12.2019

Information about hedging instruments

Type of hedging instrument	Nominal amount of hedging instrument	Amount of hedging instrument recognized through the balance sheet		Line item in the balance sheet	Changes in fair value used to calculate inefficiency
		Assets	Liabilities		
Interest rate agreements	2 986 000	39 581	39 912	Financial derivatives	-29 487
Total	**2 986 000**	**39 581**	**39 912**		**-29 487**

Information about hedging objects

Type of hedging object	Nominal amount of hedging object	Amount of hedging object recognized through the balance sheet*	Accumulated valuation changes of the hedging object due to fair value hedging	Line item in the balance sheet	Changes in fair value used to calculate inefficiency
Fair value hedging (interest rate risk)					
Securities debt in NOK	2 986 000	2 991 186	-21 008	Debt securities in issue	29 487
Total	**2 986 000**	**2 991 186**	**-21 008**		**29 487**

Information about hedging inefficiency

Inefficiency recognized through the income statement (gain/loss on financial instruments)	**0**

*Book value of hedging object includes accrued (non-capitalized) interest, but is not a part of the valuation changes of the hedging object.

16 LIQUIDITY RISK

Liquidity risk is the risk of loss due to the Bank being unable to fulfill all its payment obligations when due, or only able to do so at extra cost.

The Bank measures and manages liquidity risk within frameworks determined by the Board of Directors. Frameworks have been established for the following areas:

- LCR
- NSFR (Net Stable Funding Ratio)
- Liquidity limits
- Stress test
- Debt financing (liquid holdings requirements measured relative to the maturities of debt financing)
- Concentration risk (concentration in the maturity of debt financing)
- Deposits (objective for deposit to loan ratio)

LCR (Liquidity Coverage Ratio)

LCR addresses the importance of having holdings of high quality liquid assets in order to survive liquidity outflow during a 30 day stress period. The LCR requirement is that LCR has to be at least 100% for all currencies in aggregate, i.e. that the Bank immediately shall have liquid assets at a minimum corresponding to the abovementioned stressed liquidity outflow. The Bank is significantly above the minimum requirement.

NSFR (Net Stable Funding Ratio)

NSFR addresses the importance of having stable long-term funding source over 1 year. The Bank has an objective of having an NSFR over 100% at all times.

Liquidity limits

The Bank has defined liquidity limits for minimum liquidity holdings when taking into account the maturity of debt financing and known in and outflows. At a minimum, liquid assets should cover maturing debt financing as well as known in and outflows within the next 9 months. At a minimum, strategic liquid assets should cover maturing debt financing as well as known in and outflows within the next 15 months.

Stress test

Stress tests are performed to show the Group's need for liquidity reserves, based on future scenarios related to slumps in business conditions. The Group has defined frameworks for how long the Bank may be operated without supply of capital in defined stress situations, with a defined minimum holding of liquid assets.

Liquidity is stressed on the basis of three types of crises, with different scenarios:

- Banking crisis (challenging' and very challenging scenario)
- Market crisis (challenging' and very challenging scenario)
- Combined crisis (extreme scenario)

Debt financing

Debt financing via various capital market funding instruments, is used as a supplement to deposit financing. The Bank's management objective is to maintain a balanced maturity structure in its funding portfolio on the capital markets. The maturities of funding are varied, and the Bank refinances its funding well before maturity in order to reduce the liquidity risk. Liquidity risk is also managed by dispersing the funding on different markets, funding sources, instruments and maturities.

Deposits

In order to be less dependent on debt financing, the objective of the Sandnes Sparebank Group is a deposit to loan ratio of at least 50%. In case of special treatment, a temporary deviation of up to 2 percentage points in the negative direction, may be acceptable.

In order to reduce the liquidity risk, the Group has set limits for the size of big deposits, i.e. deposits of more than NOK 50 million.

Other issues

Settlement risk, which, inter alia, arises in connection with payment services as a result of all transactions not taking place in real time and in connection with derivative transactions, also entails counterparty risk. Through International Swap Dealer Association (ISDA) agreements, Sandnes Sparebank has agreements with its major counterparties in derivative transactions. Agreements of this nature reduce the settlement risk in connection with derivative transactions.

A separate liquidity strategy has been prepared, which is reviewed by the Board of Directors at a minimum annually after updates proposed by the head of Risk Management and the head of Treasury. The liquidity strategy determines frameworks that consider future liquidity requirements. Compliance with the framework is monitored via risk reports to, inter alia, the Board of Directors, and status is reported quarterly to the Board of Directors and the Risk Committee.

The Bank has prepared a separate readiness plan according to the content requirements of the Financial Supervisory Authority, that shall ensure concrete actions in case of any liquidity crises. The readiness plan is approved by the Board of Directors at least once a year. A liquidity crisis means that the Bank ends up in a situation where there is no available liquidity to fulfill the Bank's current obligations or insufficient liquidity to execute payment transactions for its customers. The readiness plan is intended to ensure the flow of information to the Bank's management team and Board of Directors, and to set clear areas of responsibility for individual areas within the Bank. Flow of information and designation of responsibility will help the Bank to reach decisions and to try to replace lost cash flows on the basis of correct and sufficient information.

Liquidity management process

The responsibility for daily liquidity management is with the Treasury department. The department monitors the Group's cash flow on a daily basis in order to ensure that daily disbursements may be implemented. Such monitoring includes close dialogue with the Bank's credit departments, as well as daily contact with the funding market.

As part of liquidity management, the Treasury department also manages the Bank's strategic liquidity portfolio. This portfolio also includes liquid securities that may quickly be used as liquidity in case of unexpected impacts on the Bank's cash flow.

Remaining period to maturity, main items

Group 31.12.2019	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	2019
Payable to credit institutions	43 672						43 672
Deposits from customers	11 081 635	685 730		65 464			11 832 829
Debt securities in issue	52 000		362 000	10 508 000	1 725 000		12 647 000
Other liabilities						257 881	257 881
Subordinated loans				200 000			200 000
Hybrid capital as EQ				100 000			100 000
Financial derivatives, gross settlement	16 778	80 980	85 199	113 994	19 661		316 613
Contractual interest payments	6 022	61 808	120 295	398 134	135 930		722 189
Total disbursements	**11 200 107**	**828 518**	**567 495**	**11 385 592**	**1 880 591**	**257 881**	**26 120 184**

Group 31.12.2018	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	2018
Payable to credit institutions	50 197						50 197
Deposits from customers	10 629 278	280 813	317 744	24 332			11 252 168
Debt securities in issue	30 000		290 000	9 304 000	2 625 000		12 249 000
Other liabilities	162 620						162 620
Subordinated loans	115 500			200 000			315 500
Hybrid capital as EQ				100 000			100 000
Financial derivatives, gross settlement	2 566	46 736	8 286	85 094	5 263		147 945
Contractual interest payments	8 133	55 505	115 812	446 688	104 903		731 041
Total disbursements	**10 998 295**	**383 054**	**731 843**	**10 160 113**	**2 735 165**		**25 008 471**

Parent Bank 31.12.2019	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	2019
Payable to credit institutions	286 440						286 440
Deposits from customers	11 083 336	685 730		65 464			11 834 530
Debt securities in issue	52 000		15 000	4 765 000	400 000		5 232 000
Other liabilities						242 141	242 141
Subordinated loans				200 000			200 000
Hybrid capital as EQ				100 000			100 000
Financial derivatives, gross settlement	14 958	46 760	79 999	96 727	19 661		258 104
Contractual interest payments	6 022	13 102	77 290	175 791			272 205
Total disbursements	**11 442 756**	**745 591**	**172 289**	**5 402 982**	**419 661**	**242 141**	**18 425 420**

Parent Bank 31.12.2018	Up to 1 month	1-3 months	3 months – 1 year	1-5 years	More than 5 years	No residual maturity	2018
Payable to credit institutions	24 836						24 836
Deposits from customers	10 630 016	280 813	317 744	24 332			11 252 906
Debt securities in issue	30 000		210 000	4 961 000	300 000		5 501 000
Other liabilities	145 769						145 769
Subordinated loans	115 500			200 000			315 500
Hybrid capital as EQ				100 000			100 000
Financial derivatives, gross settlement	2 566	37 692	8 286	68 907	449		117 901
Contractual interest payments	8 133	12 596	93 732	289 162	13 748		417 370
Total disbursements	**10 956 820**	**331 101**	**629 763**	**5 643 401**	**314 196**		**17 875 281**

17 NET INTEREST INCOME

Group 2019	Group 2018	Net interest income	Parent Bank 2019	Parent Bank 2018
		INTEREST INCOME MEASURED WITH THE YIELD METHOD:		
11 499	10 043	Interest received on loans to credit institutions	32 489	21 793
794 899	716 512	Interest received on loans to customers	582 013	540 739
-1 451	471	Other interest income		471
804 946	**727 026**	**Total interest income measured with the yield method**	**614 502**	**563 003**
		INTEREST INCOME MEASURED AT FAIR VALUE:		
		Interest received on loans to credit institutions		
24 600	21 171	Interest received on loans to customers	24 608	21 171
63 905	45 640	Interest income from securities	54 483	40 363
10 038	4 194	Interest income from financial derivatives (ex. hedging instruments)	8 562	4 194
98 543	**71 004**	**Total interest income measured at fair value**	**87 653**	**65 728**
903 490	**798 030**	**Total interest income**	**702 155**	**628 731**
		INTEREST COST		
4 036	298	Interest cost on deposits from credit institutions, measured with the yield method	5 945	194
120 832	86 671	Interest cost on deposits from customers, measured with the yield method	121 045	86 829
7 434	9 272	Interest cost on deposits from customers, measured at fair value	7 434	9 272
7 251	17 253	Interest cost on subordinated loan capital, measured with the yield method	6 915	17 253
294 003	240 145	Interest cost on securities, measured with the yield method	145 077	132 046
(20 589)	(26 682)	Interest on financial derivatives as hedging instruments*	(10 789)	(14 506)
4 352		Interest cost on lease liabilities (IFRS 16)	4 352	
10 329	9 093	Other interest cost	9 332	9 070
427 649	**336 050**	**Total interest cost**	**289 310**	**240 157**
475 841	**461 980**	**Net interest income**	**412 844**	**388 574**

*Applies to interest on derivatives that are part of hedge accounting.

18 NET COMMISSION INCOME

Group 2019	Group 2018	Net commission income	Parent Bank 2019	Parent Bank 2018
7 597	9 297	Underwriting commission	7 597	9 297
3 890	4 084	Distribution and management of securities	3 890	4 084
17 503	17 721	Payment services	17 503	17 721
9 265	7 958	Insurance	9 265	7 958
	3	Income from financial investment products		3
20 404	18 296	Other fees	37 308	35 112
58 660	57 359	Commission income	75 564	74 175
-10 105	-8 126	Commission cost	-10 105	-8 126
48 555	**49 233**	**Net commission income**	**65 458**	**66 048**

19 NET REALIZED GAINS/LOSSES ON FINANCIAL INSTRUMENTS

Group 2019	Group 2018	Net realized gains/losses on financial instruments	Parent Bank 2019	Parent Bank 2018
		Net gains/losses on valuation of financial instruments at fair value		
20 765	11 248	Net gains/losses on currency and financial derivatives	20 765	11 248
-7 051	-7 078	Net change in valuation of loans	-7 051	-7 078
-3 421	-7 944	Net realized gains/losses on interest-bearing securities	-3 014	-6 855
10 111	22 580	Net realized gains/losses on equities	10 094	22 580
-13	1 170	Net change in valuation of financial liabilities	-13	1 170
20 390	**19 975**	**Net gains/losses on valuation of financial instruments at fair value**	**20 780**	**21 065**
		Net change in valuation of hedged items		
-42 599	-83 941	Net change in valuation of financial derivatives, hedging	-29 487	-48 114
42 599	83 941	Net change in valuation of hedged financial liabilities	29 487	48 114
		Net change in valuation of hedged items [1]		
		Net gains/losses on liabilities at amortized cost		
-5 962	-5 854	Net gains/losses on liabilities established through the issuance of securities at amortized cost [2]	-	-
-5 962	**-5 854**	**Net gains/losses on liabilities at amortized cost**		
14 428	**14 121**	**Net realized gains/losses on financial instruments**	**20 780**	**21 065**

1 The Bank uses hedge accounting for long funding. See Note 15.
2 Net gains/losses on liabilities measured at amortized cost applies to purchasing premiums paid in case of repurchase/refinancing of bond debt before final maturity.

20 OTHER OPERATING INCOME

Group 2019	Group 2018	Other operating income	Parent Bank 2019	Parent Bank 2018
20 649	20 699	Brokerage fees	-	-
2 367	-	Leasing of real estate	2 367	-
8 441	8 182	Other income	1 260	1 147
31 457	**28 881**	**Other operating income**	**3 627**	**1 147**

21 OTHER OPERATING COST

Group 2019	Group 2018	Operating cost	Parent Bank 2019	Parent Bank 2018
113 060	103 340	Wages	94 139	86 301
8 970	8 278	Pensions [1]	8 069	7 421
26 657	22 764	Social security cost	25 955	21 981
148 688	**134 382**	**Payroll cost**	**128 163**	**115 702**
4 018	5 349	Operating cost properties and premises	4 018	5 216
1 442	19 446	Rent [2]	-483	17 417
701	1 415	Other operational leases [2]	492	1 273
51 390	40 803	IT cost	51 100	40 465
10 279	9 494	Marketing and information	9 658	8 222
9 223	10 726	Other administrative costs	8 429	9 214
434	4 015	Consultancy fees	375	2 764
21 383	22 850	Other operating cost	17 305	19 251
98 869	**114 099**	**Total other operating costs**	**90 894**	**103 821**
21 939	12 655	Depreciation	21 846	12 589
21 939	**12 655**	**Total depreciation and writedowns**	**21 846**	**12 589**
269 496	**261 137**	**Total operating cost**	**240 903**	**232 112**

1 Please refer to the specification of pension cost below
2 In connection with the implementation of IFRS 16, the Bank now presents lease costs (rent/other lease agreements) primarily as interest cost and depreciation. Rents recognized as cost are related to short-term lease agreements and low-value lease agreements (which are exempt in IFRS 16). Please also refer to further information in Note 33.

In 2019, the fee to the external auditor amounted to NOK 950,000 (incl. VAT), whereas fees for other assistance from the external auditor totaled NOK 267,885 (incl. VAT).

Group 2019	Group 2018	Specification of pension cost	Parent Bank 2019	Parent Bank 2018
7 347	6 805	Costs of defined contribution pensions	6 445	5 947
189	181	Costs of defined benefit pensions according to Note 23	189	181
1 434	1 293	Cost of contractual pension (AFP)	1 434	1 293
8 970	**8 279**	**Total pension cost**	**8 069**	**7 421**

Group 2019	Group 2018	Number of employees / full-time equivalents	Parent Bank 2019	Parent Bank 2018
137	141	Number of employees as of 12/31	118	118
133	136	Number of full-time equivalents as of 12/31	115	114
136	139	Average number of employees	116	116
132	134	Average number of full-time employee equivalents	112	112

22 COMPENSATION

Requirements regarding remuneration are governed by chapter 15, §§15-1 to 15-6 of the Norwegian Financial Institutions Act

The provisions adopts the provisions of the EU capital requirements directive (CRD IV) regarding good remuneration arrangements, in order to reduce excessive risk taking and to promote healthy and effective risk management by financial institutions.

On this basis of this body of rules, the Bank established a compensation committee on December 15, 2010. The Committee consists of 4 Directors, of which 1 is an employee representative.

The provisions impose a direct responsibility on the Board of Directors for ensuring that:

- The Bank designs a compensation scheme for all employees of the Bank, which is suited to promote the objective of the regulation, and that the Bank's wage and bonus systems are practiced in compliance with this compensation scheme
- The compensation scheme is in accordance with the Bank's overall objectives, risk tolerance and long-term interests
- The compensation scheme contains special rules for officers, elected representatives and employees engaged in internal audit and risk management. The Board of Directors shall also ensure that the composition of fixed and variable wages for such employees are balanced and that at least half of any bonus payments are made in the form of equity capital certificates if the bonus exceeds 12.5% of basic pay. Equity capital certificates granted as bonus payment may not be disposed of freely by each individual. Disposals must be evenly distributed over a period of three years. The basis of variable compensation shall be a period of at least two years.
- The Bank has a compensation committee that is responsible for preparing all issues regarding the compensation plan to be decided by the Board of Directors

The Bank has prepared a compensation policy. No major changes were made to the Bank's compensation policy during 2019.

The purpose the compensation policy of Sandnes Sparebank is to attract employees with the competencies the Bank requires, to further develop and retain key skills, and to motivate long-term and continuous development in order to attain Sandnes Sparebank's business objectives.

The compensation may consist of the following elements:

- **Fixed basic pay.** The Bank aims to pay salaries at the market rate. On this basis, the basic salary is adjusted annually, based on attained results within individual managers' areas of work and responsibility. The Managing Director determines the change in basic salary with effect from 1 January each year for members of the Bank's management team. The compensation committee recommends the wage of the Managing Director, and must be adopted by the Board of Directors.

- **Benefits in kind,** such as telephone/mobile telephone, newspapers/trade magazines, home office and a company car scheme in exceptional cases. In addition, loans and banking services at special terms are provided under the same set of regulations as for other employees.

- **Bonuses.** Bank employees are part of the Bank's current bonus scheme. All full-time employees of the Parent Bank are comprised by the group bonus model. The calculation is based on actual return on equity. For the 2019 vesting year, the model resulted in a payment of 5.2% (excluding employer's social security contribution and finance tax) of the base salary of all employees. The Board of Directors may reduce the bonus if special considerations so indicate. Beyond this, advisors with direct sales responsibility have the opportunity to earn a bonus based on their own KPI's, with a ceiling of NOK 50,000 per employee annually. The Managing Director is part of the Bank's group bonus scheme, but does not receive any bonus beyond this.

- Bank employees are given the opportunity to purchase equity capital certificates of Sandnes Sparebank at a discount once a year. The equity capital certificates are purchased at a discount of 33%, with savings amounts of up to 7.5% of basic pay per month or up to NOK 5,000 per month. Purchase involves one year for vesting and then a lock-in period of one year, for a total of two years.

- Pension scheme. Senior officers have defined contribution pension plans up to incomes of 12G, according to the schemes for the Bank's employees in force at any time. The retirement age for the Bank's employees is 70 years, with the opportunity of early retirement from 62 years, in accordance with the agreed terms applying to the finance sector at all times.

Total expenditure with respect to salaries, pensions and other compensation

Group management 2019		Wages	Of which wage comp.[3]	Of which bonus	Of which other benefits	Lending as of 31.12 [5]	Ownership of equity capital certificates as of 31.12
Managing Director	Trine Karin Stangeland	2 930		121	52	6 486	15 833
Chief Financial Officer (CFO)	Tomas Nordbø Middelthon	2 037		76	15		22 530
Director Retail Market	Erik Kvia Hansen	1 483		60	46	7 551	1 880
Director of Communications	Ingrid O. Fure Schøpp [3]	1 634	159	61	30	2 093	7 633
Director Corporate Market	Magnar Oanes [3]	2 214	152	92	191		14 214
Director of customer experiences	Lene Nordahl	1 321		49	44	6 334	1 370

Group management 2018		Wages	Of which wage comp.[3]	Of which bonus	Of which other benefits	Lending as of 31.12 [5]	Ownership of equity capital certificates as of 31.12
Managing Director	Trine Karin Stangeland	2 717		17	48	5 614	11 143
Chief Financial Officer (CFO)	Tomas Nordbø Middelthon	1 668		8	18		19 330
Director Retail Market	Erik Kvia Hansen	1 309		4	46	4 712	683
Director of Communications	Ingrid O. Fure Schøpp [3]	1 569	169	8	32	613	6 449
Director Corporate Market	Magnar Oanes [3]	2 170	154	25	195		12 525
Director of customer experiences	Lene Nordahl	1 110		4	38	4	342

The stated amounts are totals for the whole year, or from date of employment if the officer was hired during the year.

Board of Directors

		Fees		Lending as of 31.12		Owns number of equity capital certificates 31.12	
		2019	2018	2019	2018	2019	2018
Chairman of the Board	Harald Espedal	290	270			886 861	886 861
Deputy Chairman	Frode Svaboe [2]	263	265			10 200	5 700
Director	Marion Svihus [2/4]	42	185				
Director	Arne Norheim [4]	34	135				10 960
Director	Heidi Nag Flikka [2]	177	185			2 083	960
Director	Birte Norheim	145	135	4 680	10 750	2 083	960
Director	Sven Christian Ulvatne	111				9 300	
Director	Bjørg Tomlin	111					
Director	Solveig Vatne [1]	145	135	2 932	2 853	17 889	16 393
Director	Jan Inge Aarreberg [1]	145	135	1 642	1 721	2 350	2 706

Board of Trustees

		2019	2018
Chairman	Ørjan Gjerde	42	80
Member	Elin Synnøve Andersen	2	
Member	Jan Erik Anfinsen	2	2
Member	Svein Anfinsen	2	2
Member	Kenneth Austrått	2	
Member	Per Øyvind Berge	2	2
Member	Anders Bjørndal [1]	2	2
Member	Bjørn Bærheim	2	
Member	Bjørn Roald Eknes	2	
Member	Anne Lise Elle [1]	2	2
Member	Olav Kristian Falnes	2	2
Member	Thor Erik Gilje [1]	2	2
Member	Ann Kathrin Grødem [1]		2
Member	Joakim De Haas [1]	2	
Member	Dag Halvorsen	2	
Member	Terese Albuquerque Helleland [1]	2	2
Member	Ragnhild Hildonen	2	2
Member	Venke Houge [1]	2	2
Member	Gunn Jane Håland	2	2
Member	Kari Solheim Larsen	2	2
Member	Bente Løyning	2	2
Member	Wenche E. Meinich-Bache		2
Member	Geir Mikalsen	2	
Member	Mette Moen	2	2

		2019	2018
Member	Signe Nijkamp	2	2
Member	Ragnvald Nilsen	2	2
Member	Hanne Brit Nordbø	2	
Member	Lisbeth Nordhagen [1]	2	
Member	Eli Halvorsen Norheim	2	2
Member	Arne Oftedal	2	
Member	Egil Omland		2
Member	Tom Risa [1]	2	2
Member	Kjell Rommetvedt		2
Member	Mona Aadnøy Riska [1]	2	2
Member	Ingunn Ruud [1]		2
Member	Åge Skår	2	2
Member	Morten Hodne Steensland	2	2
Member	Bjørg Storhaug	2	
Member	Tine Svanes	2	2
Member	Aase Sveinsvoll	2	
Member	Katrine Sægrov	2	2
Member	Siv Merethe Tuftedal		2
Member	Kenneth Våge [1]		2
Member	Johan Wigerstrand	2	2
Member	Brynjulf Wik		2
Member	Trond Wikstøl	2	2
Member	Tove Wold	2	2
Member	Edvard Aarsland		2

1 Employee representative

2 Includes an annual fee of NOK 32,000 and NOK 48,000 for the Audit Committee (NOK 7,500 for Marion Svihus).

3 In 2012, the Bank changed its pension plan for leading employees. The Bank went from a pension plan for wages over 12 G to a direct wage compensation. The amounts in the wage compensation column consists of monthly payments for 2019.

4 Left the Board during 2019.

5 Subsidized interest rates on employee loans. The interest rate on loans to employees it the current norm rate minus 0.75%. Loans to directors and members of the Board of Trustees are granted at ordinary terms.

Also included in the holdings of owners listed above, are equity capital certificates held by a spouse, minor children, or company in which the person in question has a controlling interest as stated in Section 1-3, no. 2 of the Norwegian Companies Act.

23 PENSIONS

Sandnes Sparebank has a defined contribution plan that meets the requirements set by the Corporate Pension Act.

From 1/1/2007, Sandnes Sparebank has offered new employees a defined contribution pension plan. In connection with the reorganization, employees hired before 1/1/2007 also changed over from the defined benefit pension scheme to the defined contribution pension plan. The remaining employees were converted to a defined contribution plan at the end of 2013. Those affected will get a current compensation in the form of wages.

In addition, the Parent Bank has a general early retirement scheme (AFP). The old AFP scheme was decided wound up in February of 2010. As a replacement for the old early retirement scheme, a new early retirement scheme has been established that provides a lifelong additional benefit to the ordinary pension. The new early retirement scheme is a defined benefit pension scheme for multiple companies, which is financed by premiums determined as a percentage of wages. For the time being there is no reliable measurement and allocation of the scheme's liabilities and assets. For accounting purposes, the scheme is treated as a defined contribution pension scheme, for which premium payments are recognized currently and no provisions are made in the financial statements. No premiums were paid into the new scheme until 2011, and the premium is set at 1.4% of total disbursements between 1 G and 7.1 G to the company's employees.

The Parent Bank also has an operational pension for a former managing director, with payments starting at the age of 67. The calculation of the pension liability is done by an external actuary. The following financial and actuarial assumptions have been used:

Assumptions

	2019	2018
Discount rate	2,30 %	2,60 %
Expected annual wage increase	2,25 %	2,75 %
G adjustment	2,00 %	2,50 %
Adjustment of current pension	1,25 %	1,75 %
Mortality table	K2013BE	K2013BE
AFP withdrawals	0,00 %	0,00 %
Expected voluntary resignations before retirement age	0,00 %	0,00 %
Disability table	KU	KU

Group		Net pension costs, defined benefit plans	Parent Bank	
2019	2018		2019	2018
23	22	Present value of the pension accruals for the year	23	22
166	158	Interest cost of accrued pension liabilities	166	158
189	181	Net pension costs	189	181
0	0	Employer's social security contribution	0	0
189	**181**	**Total pension costs**	**189**	**181**

In 2019, costs related to defined contribution pension plans amounted to NOK 7.3 million and NOK 6.4 million for the Group and the Parent Bank, respectively. Corresponding amounts for 2018 were NOK 6.8 million and NOK 5.9 million for the Group and the Parent Bank, respectively.

The cost of the new AFP (early retirement) arrangement, which is treated as a defined contribution pension plan, is NOK 1.5 million for the Group and the Parent Bank for 2019, and NOK 1.3 million for 2018.

Net pension liability

Group	31.12.2019 Funded	Unfunded	Total	31.12.2018 Funded	Unfunded	Total
Accrued pension entitlements		7 810	7 810		7 489	7 489
Pension assets						
Estimated pension liability		7 810	7 810		7 489	7 489
Employer's social security contribution on net liability						
Net pension liability		**7 810**	**7 810**		**7 489**	**7 489**

Parent Bank	31.12.2019 Funded	Unfunded	Total	31.12.2018 Funded	Unfunded	Total
Accrued pension entitlements		7 810	7 810		7 489	7 489
Pension assets						
Estimated pension liability		7 810	7 810		7 489	7 489
Employer's social security contribution on net liability						
Net pension liability		**7 810**	**7 810**		**7 489**	**7 489**

The Group's insured schemes are underfunded. Net pension liabilities are recognized as long-term liabilities in the Balance Sheet.

Actuarial gains and losses are recorded against other income and cost (OCI) in the period in which they accrue. For 2019 this resulted in a recognition of total cost over and above other income and cost (OCI) of NOK 0.4 million after taxes for the Group and the Parent Bank. The corresponding numbers for 2018 were NOK 0.02 million recognized as income after taxes through the income statement for the Group and the Parent Bank.

Group 31.12.2019	Group 31.12.2018	Reconciliation of gross pension liabilities	Parent Bank 31.12.2019	Parent Bank 31.12.2018
7 489	7 736	Opening balance	7 489	7 736
23	22	Accruals of the year	23	22
166	158	Annual interest cost	166	158
-450	-401	Disbursals to retired employees	-450	-401
582	-26	Estimate divergences recognized in other income and cost	582	-26
7 810	**7 489**	**Closing balance**	**7 810**	**7 489**

Historical development

Group	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Gross pension liabilities	7 810	7 489	7 736	6 996	7 576
Net pension liabilities recognized in the balance sheet	**7 810**	**7 489**	**7 736**	**6 996**	**7 576**

Parent Bank					
Gross pension liabilities	7 810	7 489	7 736	6 996	7 576
Net pension liabilities recognized in the balance sheet	**7 810**	**7 489**	**7 736**	**6 996**	**7 576**

Remaining net pension liabilities as of 31.12.2019 are related to an operational pension from the age of 67 for a former managing director.

24 TAXES

Group 2019	Group 2018	TAX ON PROFITS	Parent Bank 2019	Parent Bank 2018
		Taxes payable		
55 525	58 221	Annual tax cost	46 820	47 910
93	-554	Correction of prior years' tax cost	93	
		Deferred taxes		
743	-2 386	Changes in temporary differences	477	-3 315
	4	Impact of changed taxation rules		
56 361	**55 284**	**Total tax on ordinary profit**	**47 391**	**44 595**

Group 2019	Group 2018	RECONCILIATION OF TAX COST AGAINST PROFIT BEFORE TAXES	Parent Bank 2019	Parent Bank 2018
333 433	299 664	Profit before taxes	294 067	252 378
82 239	74 305	25/22 % on pre-tax profit*	73 517	63 095
-25 972	-18 472	Permanent differences	-26 219	-18 499
93	-554	Adjustment of tax for previous years	93	
	4	Impact of changed taxation rules		
56 361	**55 284**	**Total tax on ordinary profit**	**47 391**	**44 595**
17 %	18 %	Effective tax rate	16 %	18 %

Group 31.12.2019	Group 31.12.2018	RECONCILIATION OF DEFERRED TAX BENEFIT/DEFERRED TAXES	Parent Bank 31.12.2019	Parent Bank 31.12.2018
-7 926	-4 702	Deferred tax benefit/deferred taxes as of 1 January	-8 349	-4 801
743	-2 386	Change recognized in the income statement	477	-3 315
-146	7	Tax on other income and cost	-146	7
	-491	The tax effect of the change in writedowns on the implementation of IFRS 9 (recognized through EQ)		-240
-405	-435	Other items		
	77	Insufficient provisions in previous years		
	4	Impact of changed taxation rules		
-7 733	**-7 926**	**Total deferred tax credits / deferred taxes**	**-8 017**	**-8 349**

*In the Group, the Parent Bank has a tax rate of 25% (financial enterprises), whereas the Bank's subsidiaries have a tax rate of 22%.

Deferred tax benefits and deferred tax in the balance sheet distributed on temporary differences

Group			Parent Bank	
31.12.2019	31.12.2018	DEFERRED TAX BENEFIT	31.12.2019	31.12.2018
-358	-93	Tangible fixed assets	-455	-214
-22 038		User rights, lease agreements	-22 038	
26 976		Lease liabilities	26 976	
-59	-74	Income statement	-46	-57
1 953	1 872	Pensions	1 953	1 872
99	4 616	Accounting provisions	99	4 616
1 553	1 917	Financial instruments	1 529	1 892
-14	-21	Current assets		
8 111	8 217	Total	8 017	8 109
	491	The tax effect of the change in writedowns on the implementation of IFRS 9 (recognized against EQ)		240
8 111	**8 708**	**Total deferred tax benefit**	**8 017**	**8 349**

31.12.2019	31.12.2018	DEFERRED TAXES	31.12.2019	31.12.2018
379	782	Financial instruments		
379	**782**	**Total deferred tax**		

Net deferred tax and deferred tax benefits are recognized on the company level.

25 CLASSIFICATION OF FINANCIAL INSTRUMENTS

According to IFRS 9, financial assets shall be classified as;

- Amortized cost
- Fair value with valuation changes through comprehensive income (FVOCI)
- Fair value with valuation changes through profit or loss (FVTPL)

Fixed rate loans included in FVTPL are recognized at fair value with valuation changes through ordinary profits, on the basis of the fair value option (FVO) in order to avoid an accounting mismatch.

In connection with the transition to IFRS 9, new rules for hedge accounting were introduced, including the removal of the required hedging efficiency of 80-125% and replacing it with more qualitative requirements. It is also possible to delay the implementation of the hedge accounting rules pursuant to IFRS 9. The Bank has elected to continue to use the hedge accounting rules in accordance with IAS 39. The rules for financial liabilities are essentially the same as in the current IAS 39.

For further description of the classification of financial instruments, please refer to Note 2.

Group 31.12.2019	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value with valuation changes through profit or loss (FVTPL)	Financial derivatives as hedging instruments	Financial instruments at fair value through comprehensive income (FVOCI)	Non-financial assets and liabilities	Total
ASSETS						
Cash	4 261					4 261
Loans to and claims on credit institutions [2]	570 160					570 160
Loans to customers	21 897 252	980 757				22 878 009
Notes and bonds	85 436	3 772 125				3 857 560
Equities		295 432				295 432
Financial derivatives		24 101	88 659			112 759
Accrued income					46 946	46 946
Financial instruments with valuation changes through comprehensive income				258 417		258 417
Other assets					134 715	134 715
Total assets	**22 557 109**	**5 072 414**	**88 659**	**258 417**	**181 661**	**28 158 259**
LIABILITIES						
Payable to credit institutions	43 672					43 672
Deposits from customers	11 080 886	751 943				11 832 829
Debt established through the issue of securities [1]	12 692 071					12 692 071
Financial derivatives		49 464	61 716			111 181
Accrued cost					40 950	40 950
Subordinated loan capital	201 191					201 191
Other liabilities					200 469	200 469
Provisions	7 808				8 655	16 463
Total liabilities	**24 025 626**	**789 997**	**73 127**		**250 074**	**25 138 825**

Group 31.12.2018

ASSETS						
Cash	10 318					10 318
Loans to and claims on credit institutions [2]	645 955					645 955
Loans to customers	21 439 328	775 118				22 214 445
Notes and bonds		3 660 633				3 660 633
Equities		203 148				203 148
Financial derivatives		14 845	135 511			150 356
Accrued income					9 864	9 864
Financial instruments with valuation changes through comprehensive income				255 414		255 414
Other assets					59 224	59 224
Total assets	**22 095 601**	**4 653 744**	**135 511**	**255 414**	**69 089**	**27 209 358**
LIABILITIES						
Payable to credit institutions	50 197					50 197
Deposits from customers	10 562 230	689 938				11 252 168
Debt established through the issue of securities	12 317 863					12 317 863
Financial derivatives		72 321	75 624			147 945
Accrued cost					56 818	56 818
Subordinated loan capital	317 563					317 563
Other liabilities					91 303	91 303
Provisions	7 010				7 489	14 499
Total liabilities	**23 254 864**	**762 259**	**75 624**		**155 611**	**24 248 357**

1 Securities debt is recognized at amortized cost. Hedge accounting is used for the Bank's fixed rate bonds. As of 31.12.2019, the book value of fixed rate bonds is MNOK 5.592 for the Group.

2 Loans to and claims on credit institutions include claims on the central bank.

Parent Bank 31.12.2019

	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value with valuation changes through profit or loss (FVTPL)	Financial derivatives as hedging instruments	Financial instruments at fair value through comprehensive income (FVOCI)	Non-financial assets and liabilities	Total
ASSETS						
Cash	4 261					4 261
Loans to and claims on credit institutions [2]	569 318					569 318
Loans to customers	12 922 320	980 757		1 078 012		14 981 089
Notes and bonds	85 436	2 976 730				3 062 166
Equities		295 432				295 432
Financial derivatives		24 101	39 581			63 682
Accrued income					44 982	44 982
Financial instruments with valuation changes through comprehensive income				258 417		258 417
Other assets	1 293 808				119 610	1 413 418
Total assets	**14 875 143**	**4 277 019**	**39 581**	**1 336 429**	**164 592**	**20 692 763**
LIABILITIES						
Payable to credit institutions	286 440					286 440
Deposits from customers	11 082 587	751 943				11 834 530
Debt established through the issue of securities [1]	5 243 585					5 243 585
Financial derivatives		49 464	39 912			89 377
Accrued cost					38 621	38 621
Subordinated loan capital	201 191					201 191
Other liabilities					187 169	187 169
Provisions	7 696				8 655	16 351
Total liabilities	**16 821 498**	**801 408**	**39 912**		**234 445**	**17 897 263**

Parent Bank 31.12.2018

	Financial assets and liabilities valued at amortized cost	Financial instruments at fair value with valuation changes through profit or loss (FVTPL)	Financial derivatives as hedging instruments	Financial instruments at fair value through comprehensive income (FVOCI)	Non-financial assets and liabilities	Total
ASSETS						
Cash	10 318					10 318
Loans to and claims on credit institutions [2]	544 636					544 636
Loans to customers	13 197 892	775 118		826 086		14 799 096
Notes and bonds		3 116 404				3 116 404
Equities		203 148				203 148
Financial derivatives		14 845	70 236			85 081
Accrued income					9 864	9 864
Financial instruments with valuation changes through comprehensive income				255 414		255 414
Other assets	1 102 662				43 260	1 145 923
Total assets	**14 855 509**	**4 109 515**	**70 236**	**1 081 500**	**53 125**	**20 169 884**
LIABILITIES						
Payable to credit institutions	24 836					24 836
Deposits from customers	10 562 968	689 938				11 252 906
Debt established through the issue of securities [1]	5 544 024					5 544 024
Financial derivatives		72 321	45 580			117 901
Accrued cost					54 564	54 564
Subordinated loan capital	317 563					317 563
Other liabilities					76 863	76 863
Provisions	6 853				7 489	14 342
Total liabilities	**16 456 244**	**762 259**	**45 580**		**138 916**	**17 402 999**

1 Securities debt is recognized at amortized cost. Hedge accounting is used for the Bank's fixed rate bonds. As of 31.12.2019, the book value of fixed rate bonds is MNOK 2.991 for the Parent Bank.

2 Loans to and claims on credit institutions include claims on the central bank.

26 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments valued at amortized cost

Group

	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
ASSETS				
Cash	4 261	4 261	10 318	10 318
Loans to and claims on credit institutions	570 160	570 160	645 955	645 955
Loans to customers	21 897 252	21 897 252	21 439 328	21 439 328
Notes and bonds	85 436	85 603		
Total assets	**22 557 109**	**22 557 276**	**22 095 601**	**22 095 601**
LIABILITIES				
Payable to credit institutions	43 672	43 672	50 197	50 197
Deposits from and payable to customers	11 080 886	11 080 886	10 562 230	10 562 230
Debt established through the issue of securities	12 692 071	12 720 186	12 317 863	12 324 771
Subordinated loan capital	201 191	203 183	317 563	314 025
Provisions	7 808	7 808	7 010	7 010
Total liabilities	**24 025 626**	**24 055 734**	**23 254 864**	**23 258 234**

Parent Bank

	31.12.2019		31.12.2018	
	Book value	Fair value	Book value	Fair value
ASSETS				
Cash and deposits with central banks	4 261	4 261	10 318	10 318
Loans to and claims on credit institutions	569 318	569 318	544 636	544 636
Loans to customers	12 922 320	12 922 320	13 197 892	13 197 892
Notes and bonds	85 436	85 603		
Other assets	1 293 808	1 293 808	1 102 662	1 102 662
Total assets	**14 875 143**	**14 875 310**	**14 855 509**	**14 855 509**
LIABILITIES				
Payable to credit institutions	286 440	286 440	24 836	24 836
Deposits from and payable to customers	11 082 587	11 082 587	10 562 968	10 562 968
Debt established through the issue of securities	5 243 585	5 271 029	5 544 024	5 554 108
Subordinated loan capital	201 191	203 183	317 563	314 025
Provisions	7 696	7 696	6 853	6 853
Total liabilities	**16 821 498**	**16 850 935**	**16 456 244**	**16 462 790**

With respect to financial instruments of short duration (less than three months), book value is assumed to represent fair value. This assumption is also applied to deposits and savings accounts without fixed maturity.

Loans to / deposits from customers valued at amortized cost, include floating rate loans. Loans and deposits with variable interest rates are adjusted for changes to the market interest rate and for changes in the credit risk. Consequently, the Group measures the fair value of such products as being approximately equal to the book value. Loans that do not satisfy this current repricing condition, are individually valued at fair value on the date of the balance sheet. Any excess or inferior values arising within any change of interest rate period are not considered to represent material for the Group.

Financial instruments valued at fair value

The Group uses the following valuation hierarchy in the calculation of the fair value of financial instruments:

Level 1 – Quoted prices in an active market for the relevant asset or liability

Level 2 – Quoted prices in an active market for similar assets or liabilities, or another valuation method where all significant input is based on empirical market data

Level 3 – Valuation techniques that are principally not based on empirical market data

Determination of fair value at the end of the period pursuant to the valuation hierarchy	Level 1	Level 2	Level 3	Group Total as of 31.12.2019
Financial instruments at fair value through the income statement				
Loans to customers			980 757	980 757
Notes and bonds		3 772 125		3 772 125
Equities	32 130	247 625	15 677	295 432
Financial derivatives		24 101		24 101
Financial derivatives, hedging instrument		88 659		88 659
Financial instruments at fair value through comprehensive income				
Equities			258 417	258 417
Total assets	**32 130**	**4 132 509**	**1 254 850**	**5 419 489**
Financial instruments at fair value through the income statement				
Deposits from customers		751 943		751 943
Financial derivatives		49 464		49 464
Financial derivatives, hedging instrument		61 716		61 716
Total liabilities		**863 124**		**863 124**

Amortized cost at the end of the period pursuant to the valuation hierarchy	Level 1	Level 2	Level 3	Group Total as of 31.12.2019
Financial assets valued at amortized cost				
Cash		4 261		4 261
Loans to and claims on credit institutions		570 160		570 160
Loans to customers		21 897 252		21 897 252
Notes and bonds		85 436		85 436
Total assets		**22 557 109**		**22 557 109**
Financial liabilities valued at amortized cost				
Payable to credit institutions		43 672		43 672
Deposits from customers		11 080 886		11 080 886
Debt securities in issue		12 692 071		12 692 071
Subordinated loan capital		201 191		201 191
Provisions		7 808		7 808
Total liabilities		**24 025 626**		**24 025 626**

Determination of fair value

at the end of the period pursuant to the valuation hierarchy

Group	Level 1	Level 2	Level 3	Total as of 31.12.2018
Financial instruments at fair value through the income statement				
Loans to customers			775 118	775 118
Notes and bonds		3 660 633		3 660 633
Equities	45 716	142 062	15 370	203 148
Financial derivatives		14 845		14 845
Financial derivatives, hedging instrument		135 511		135 511
Financial instruments at fair value through comprehensive income				
Equities			255 414	255 414
Total assets	**45 716**	**3 953 051**	**1 045 902**	**5 044 668**
Financial instruments at fair value through the income statement				
Deposits from customers		689 938		689 938
Financial derivatives		72 321		72 321
Financial derivatives, hedging instrument		75 624		75 624
Total liabilities		**837 883**		**837 883**

Amortized cost

at the end of the period pursuant to the valuation hierarchy

Group	Nivå 1	Nivå 2	Nivå 3	Total as of 31.12.2018
Financial assets valued at amortized cost				
Cash and deposits with central banks		10 318		10 318
Loans to and claims on credit institutions		645 955		645 955
Loans to customers		21 439 328		21 439 328
Total assets		**22 095 601**		**22 095 601**
Financial liabilities valued at amortized cost				
Payable to credit institutions		50 197		50 197
Deposits from customers		10 562 230		10 562 230
Debt securities in issue		12 317 863		12 317 863
Subordinated loan capital		317 563		317 563
Provisions		7 010		7 010
Total liabilities		**23 254 864**		**23 254 864**

Reconciliation of movements from Level 3

from 31.12.2018 to 31.12.2019

Group	Loans	Shares at fair value through comprehensive income (FVOCI)*	Shares at fair value through profit and loss (FVTPL)	Total
Balance as of 31.12.2018	775 118	255 414	15 370	1 045 902
Recognized profit/loss in the current income statement	-7 051		2 007	-5 045
Recognized gains/losses in other income / OCI		-13 362		-13 362
Purchase		23 820		23 820
Issued	376 574			376 574
Settlement	-163 884	-7 455	-1 699	-173 038
Balance as of 31.12.2019	**980 757**	**258 417**	**15 677**	**1 254 850**

* Under IFRS 9, shares and units are valued at fair value with changes in value over profit and loss (FVTPL), except the Bank's investment in EIKA Gruppen AS, which is classified as financial instruments with valuation changes through comprehensive income (FVOCI) as this investment is considered strategic for the Bank.

With respect to loans and shares (FVTPL), gains/losses recognized in this year's income statement are included in the changes in value of financial instruments at fair value.

Determination of fair value

at the end of the period pursuant to the valuation hierarchy

Parent Bank	Level 1	Level 2	Level 3	Total as of 31.12.2019
Financial instruments at fair value through the income statement				
Loans to customers		1 078 012	980 757	2 058 769
Notes and bonds		2 976 730		2 976 730
Equities	32 130	247 625	15 677	295 432
Financial derivatives		24 101		24 101
Financial derivatives, hedging instrument		39 581		39 581
Financial instruments at fair value through comprehensive income				
Equities			258 417	258 417
Total assets	**32 130**	**4 366 049**	**1 254 850**	**5 653 029**
Financial instruments at fair value through the income statement				
Deposits from customers		751 943		751 943
Financial derivatives		49 464		49 464
Financial derivatives, hedging instrument		39 912		39 912
Total liabilities		**841 320**		**841 320**

Amortized cost

at the end of the period pursuant to the valuation hierarchy

Parent Bank	Level 1	Level 2	Level 3	Total as of 31.12.2019
Financial assets valued at amortized cost				
Cash		4 261		4 261
Loans to and claims on credit institutions		569 318		569 318
Loans to customers		12 922 320		12 922 320
Notes and bonds		85 436		85 436
Other assets		1 293 808		1 293 808
Total assets		**14 875 143**		**14 875 143**
Financial liabilities valued at amortized cost				
Payable to credit institutions		286 440		286 440
Deposits from customers		11 082 587		11 082 587
Debt securities in issue		5 243 585		5 243 585
Subordinated loan capital		201 191		201 191
Provisions		7 696		7 696
Total liabilities		**16 821 498**		**16 821 498**

Determination of fair value

at the end of the period pursuant to the valuation hierarchy

Parent Bank

	Level 1	Level 2	Level 3	Total as of 31.12.2018
Financial instruments at fair value through the income statement				
Loans to customers		826 086	775 118	1 601 203
Notes and bonds		3 116 404		3 116 404
Equities	45 716	142 062	15 370	203 148
Financial derivatives		14 845		14 845
Financial derivatives, hedging instrument		70 236		70 236
Financial instruments available for sale				
Equities			255 414	255 414
Total assets	**45 716**	**4 169 633**	**1 045 902**	**5 261 251**
Financial instruments at fair value through the income statement				
Deposits from customers		689 938		689 938
Financial derivatives		72 321		72 321
Financial derivatives, hedging instrument		45 580		45 580
Total liabilities		**807 839**		**807 839**

Amortized cost

at the end of the period pursuant to the valuation hierarchy

Parent Bank

	Level 1	Level 2	Level 3	Total as of 31.12.2018
Financial assets valued at amortized cost				
Cash		10 318		10 318
Loans to and claims on credit institutions		544 636		544 636
Loans to customers		13 197 892		13 197 892
Other assets		1 102 662		1 102 662
Total assets		**14 855 509**		**14 855 509**
Financial liabilities valued at amortized cost				
Payable to credit institutions		24 836		24 836
Deposits from customers		10 562 968		10 562 968
Debt securities in issue		5 544 024		5 544 024
Subordinated loan capital		317 563		317 563
Provisions		6 853		6 853
Total liabilities		**16 456 244**		**16 456 244**

Parent Bank

Reconciliation of movements from Level 3

from 31.12.2018 to 31.12.2019

	Loans	Shares at fair value through comprehensive income (FVOCI)*	Shares at fair value through profit and loss (FVTPL)	Total
Balance as of 31.12.2018	775 118	255 414	15 370	1 045 902
Recognized profit/loss in the current income statement	-7 051		2 007	-5 045
Recognized gains/losses in other income / OCI		-13 362		-13 362
Purchase		23 820		23 820
Issued	376 574			376 574
Settlement	-163 884	-7 455	-1 699	-173 038
Balance as of 31.12.2019	**980 757**	**258 417**	**15 677**	**1 254 850**

* Under IFRS 9, shares and units are valued at fair value with changes in value over profit and loss (FVTPL), except the Bank's investment in EIKA Gruppen AS, which is classified as financial instruments with valuation changes through comprehensive income (FVOCI) as this investment is considered strategic for the Bank.

With respect to loans and shares (FVTPL), gains/losses recognized in this year's income statement are included in the changes in value of financial instruments at fair value.

Please see below for a description of how fair value is calculated for financial instruments on level 2 and 3, i.e. where a valuation technique has been applied.

Financial instruments classified on level 2

Notes and bonds

Notes and bonds that are part of the Bank's "liquidity portfolio", are valued at market value on the basis of information collected from bond brokers in the market. The valuation of bonds and notes is calculated on the basis of broker estimates of trading prices on the date of the balance sheet. Correspondingly, this also applies to the calculation of the fair value of the Bank's "hold until maturity" portfolio, which in the financial statements is recognized at amortized cost.

Loans at fair value with valuation changes through comprehensive income (FVOCI)

For the Parent Bank, loans that the Parent Bank may transfer to SSB Boligkreditt AS, are classified at fair valuation changes through compre-hensive income (FVOCI), as the business model indicates that the Parent Bank has the intention of collect contractual cash flows, but may also sell/transfer the loans to SSB Boligkreditt AS. In the Group financial statements, the loans are recognized at amortized cost, as the Group does not intend to sell the loans. The fair value of the loans are assumed to be approximately equal to the value of ordinary loans with floating rates of interest.

Financial investments

Financial investments are valued according to the EVCA Valuation Principles, which calls for valuation to be implemented at company level.

Financial derivatives

Financial derivatives are valued at market value on the basis of information collected about currency exchange rates and swap curves. The category includes interest rate swaps, currency swaps and forward contracts for which the observable market values are available via Reuters or Bloomberg.

Deposits from customers

Customer deposits with a fixed rate < 1 year are valued on the basis of the agreed cash flow of the deposit discounted by the yield. The yield is based on current market terms fixed rate deposits on the date of the balance sheet.

Financial instruments classified on level 3

Loans

Fixed rate loans to customers are valued on the basis of the agreed cash flow from the loans, discounted by the yield. The yield is based on the prevailing market terms for similar fixed rate loans. The value of the loan will be most sensitive to a change in the interest rate level and change in customer credit risk (corporate customers in particular). A 10 point change will affect the valuation of the portfolio with NOK 3.8 million.

Customer loans subject to writedowns are valued on the basis of probable cash flow from the loans, discounted by the yield, adjusted for market terms for similar not written-down loans.

Shares – FVOCI

Shares classified at fair value through comprehensive income (FVOCI) are valued on the basis of evaluations made on the basis of historical information and general market developments for the relevant industries. A change in market performance will influence the valuation of the equities.

Deposits from customers

Customer deposits with a fixed rate > 1 year are valued on the basis of the agreed cash flow of the deposit discounted by the yield. The yield is based on the current interest rate level in the market and the Group's general funding level. The value of the deposit is most sensitive to changes in interest rate level. Due to a small volume of relevant deposits, the change in value for the deposits is considered insignificant for the Group.

27 LOANS TO AND CLAIMS ON CREDIT INSTITUTIONS

Group 31.12.2019	Group 31.12.2018	Loans to and claims on credit institutions	Parent Bank 31.12.2019	Parent Bank 31.12.2018
570 160	645 955	Loans and claims without agreed maturity or call*	569 318	544 636
		Loans and claims with agreed maturity or call		
570 160	**645 955**	**Total loans to and claims on credit institutions**	**569 318**	**544 636**

* Includes claims on the Central Bank of NOK 469.9 million as of 31.12.2019, and NOK 444.4 million as of 31.12.2018.

28 NOTES AND BONDS

Group 31.12.2019	Group 31.12.2018	Notes and bonds	Parent Bank 31.12.2019	Parent Bank 31.12.2018
3 770 956	3 658 994	Notes and bonds at fair value	2 975 562	3 114 766
1 169	1 638	Subordinated loans at fair value	1 169	1 638
3 772 125	**3 660 633**	**Total notes and bonds at fair value**	**2 976 730**	**3 116 404**
446 490	239 521	*Of which government-guaranteed notes/bonds*	446 490	224 077
85 436		Notes and bonds at amortized cost	85 436	
85 436		**Total notes and bonds at amortized cost**	**85 436**	
3 857 560	**3 660 633**	**Total notes and bonds**	**3 062 166**	**3 116 404**
2.05 %	1.50 %	Average coupon interest on notes and bonds at fair value	2.00 %	1.50 %
1.87	2.01	Average remaining maturity of notes and bonds at fair value	1.88	1.85
2.32 %		Average coupon interest on notes and bonds at amortized cost	2.32 %	
5.29		Average remaining maturity of notes and bonds at amortized cost	5.29	

The Bank has two separate fixed income security portfolios;

1) The Bank's liquidity portfolio of notes and bonds is classified at fair value through profit and loss according to the business model governing the management of the liquidity portfolio, pursuant to IFRS 9. The business model provides a required rate of return for the liquidity portfolio, and purchases and sales are made for the purpose of maximizing profits.

2) The Bank's portfolio of securities held to maturity is classified at amortized cost, as the business model entails that the Bank will hold these securities until final maturity (long-term investments).

29 OWNERSHIP INTERESTS IN SUBSIDIARIES

Aksjer i datterselskap 31.12.2019

Shares in subsidiary	Organization number	Address	Location	Share capital	Share of owner-ship (%)	Number of shares	Face value	Book value	Cost price
Aktiv Eiendoms-megling Jæren AS	934 001 942	Jernbanegata 5	Bryne	608	60	36 465 472	0,01	4 185	4 185
SSB Boligkreditt AS	993 153 036	Rådhusgata 3	Sandnes	350 100	100	2 276 000	100	350 130	350 130
Leirfivel AS	920 538 606	Rådhusgata 3	Sandnes	30	100	30 000	1	13	30
Book value as of 31.12.2019								**354 328**	**354 345**

Group minority interests

In 2015, the Group purchased 100% of the shares in Aktiv Eiendoms-megling Jæren, and the company was merged with the Sandnes Eiendom subsidiary. After the merger, the Group sold 40% of the shares in the company to Jæren Sparebank. The company's mission is to run a real estate agency.

Dividend between group companies

A dividend of NOK 0.5 million was paid by the Aktiv Eiendomsmegling Jæren AS subsidiary to the Parent Bank in 2019. For 2018, the dividend paid was NOK 1.6 million.

Group			Parent Bank	
31.12.2019	31.12.2018	Specification of other assets of the Group	31.12.2019	31.12.2018
11 719	13 719	Other assets	1 425	2 717
		Outstanding accounts with SSB Boligkreditt	939 481	748 318
11 719	**13 719**	**Total other assets**	940 906	529 623

30 EQUITIES

Group			Parent Bank	
31.12.2019	31.12.2018	Equities and funds	31.12.2019	31.12.2018
9 047	9 047	Eiendomskreditt AS (org. no. 979391285)	9 047	9 047
32 130	29 190	Jæren Sparebank (org. no. 937895976)	32 130	29 190
	28 482	Vipps AS (org. no. 918713867)		28 482
31 985		EIKA VBB AS (org. no. 921859708)	31 985	
	16 526	Visa Inc		16 526
3 185	5 038	Saffron India Real Estate Fund I	3 185	5 038
12 372	10 335	VN Norge AS (org. no. 821083052)	12 372	10 335
	1 035	Boligeiendom Berlin AS (org. no. 991 301 798)		1 035
3 305	4 000	Skandinavisk Data Center A/S	3 305	4 000
89	89	Other unlisted	89	89
92 113	**103 742**	**Total equities at fair value through the income statement**	**92 113**	**103 743**
203 319	99 405	Units in bond funds	203 319	99 405
295 432	**203 148**	**Total equities and mutual funds at fair value through the income statement**	**295 432**	**203 148**

These financial assets are classified at fair value with change in value through profit or loss. See Note 19 for net change in value of the investments.

The total cost price of the shares is NOK 56.8 million. The cost price of the fixed income funds is NOK 198.7 million. Sandnes Sparebank does not have significant influence on the companies.

For Såkorn Invest, which is part of other unlisted companies, the uncalled committed capital is NOK 0.2 million.

In 2019, shares in VIPPS AS were transferred as contributions in kind to EIKA VBB AS. Thus, the Bank now owns the shares in VIPPS AS indirectly through EIKA VBB AS, which functions as a joint holding company for the EIKA banks. The shares are compensatory shares related to the merger between BankID Norge, BankAxept AS and Vipps AS in 2018. In 2019, there was furthermore a share issue of EIKA VBB AS in which the Bank subscribed to 885 new shares. The Bank now owns a total of 8,082 shares in EIKA VBB AS. The pricing of the shares reflects the value of the underlying shares in VIPPS AS, based on the pricing of the VIPPS merger in 2018.

The Bank's holding of shares in VISA Inc. was sold in December 2019. In addition, Boligeiendom Berlin AS was wound down in 2019.

31 INTANGIBLE ASSETS

Group: Goodwill	Group: IT systems	Group: Total intangible assets	Intangible assets	Parent Bank: Goodwill	Parent Bank: IT systems	Parent Bank: Total intangible assets
4 553	**36 187**	**40 740**	**Book value as of 31.12.2017**	**-**	**36 187**	**36 187**
-	748	748	Additions	-	748	748
-	-		Disposals	-	-	
-	-		Writedowns	-	-	
-	10 748	10 748	Depreciation	-	10 748	10 748
4 553	**26 188**	**30 741**	**Book value as of 31.12.2018**	**-**	**26 188**	**26 188**
4 553	186 984	191 537	Original acquisition cost	-	184 040	184 040
	160 796	160 796	Total depreciation and amortization	-	157 852	157 852
4 553	**26 188**	**30 741**	**Book value as of 31.12.2018**	**-**	**26 188**	**26 188**
17	187	204	Additions	-	187	187
-	-		Disposals	-	-	
17	-	17	Writedowns	-	-	
-	10 132	10 132	Depreciation	-	10 132	10 132
4 553	**16 243**	**20 796**	**Book value as of 31.12.2019**	**-**	**16 243**	**16 243**
4 570	187 171	191 741	Original acquisition cost	-	184 227	184 227
17	170 928	170 945	Total depreciation and amortization	-	167 984	167 984
4 553	**16 243**	**20 796**	**Book value as of 31.12.2019**	**-**	**16 243**	**16 243**
	3-5 år		Useful life		3-5 år	

Group: 31.12.2019	Group: 31.12.2018	Group: 31.12.2017	Book goodwill
4 553	4 553	4 553	Aktiv Eiendomsmegling Jæren
4 553	**4 553**	**4 553**	**Total goodwill**

Individual goodwill items and other intangible assets in the Group's balance sheet are allocated to profit centers on the basis of which activities benefit from the acquired asset. Choice of profit center is made on the basis of whether it is possible to identify and exclude cash flows related to the activities.

The goodwill item of the Group is in its entirety related to Aktiv Eiendomsmegling Jæren. The first part of this item accrued in 2005, when the Group increased its ownership interest in its Sandnes Eiendom subsidiary from 50% to 100%. In 2015, the Group purchased 100% of the shares in Aktiv Eiendomsmegling Jæren, and the remaining goodwill amount is from this purchase. Sandnes Eiendom and Aktiv Eiendomsmegling Jæren were subsequently merged, and the Group sold 40% of its shares in the company. Testing for writedown of assets recognized in the balance sheet is carried out each year by means of discounting anticipated future cash flow from the business. The cash flow estimates are based on approved budgets and management estimates. Both budgets and estimates are associated with a high degree of uncertainty. If the actual economic conditions deviate from the assumptions on which budgets and plans are based, the writedown tests may yield a different result. Furthermore, the writedown tests depend on the required rate of return applied. The required rate of return is discretionarily determined on the basis of available information on the date of the balance sheet. Writedown tests are performed annually, and do not provide a basis for writedowns for 2019. Goodwill related to Aktiv Eiendomsmegling Jæren is reported under the Real Estate Agency segment.

IT systems relate to the development and purchase of IT applications, including applications for data analysis and risk assessment. Implemented systems are depreciated in a straight line over 3-5 years. The writedown test is performed annually. No requirement for the writedown of intangible assets was identified in 2019.

32 FIXED ASSETS

Group				Parent Bank		
Machinery, fixtures and fittings, etc.	Land and real estate	Total fixed assets	Fixed assets	Machinery, fixtures and fittings, etc.	Land and real estate	Total fixed assets
5 803	**1 714**	**7 518**	**Book value as of 31.12.2017**	**5 686**	**1 714**	**7 400**
447	-	447	Additions	447	-	447
-		-	Disposals	-	-	-
-	-	-	Writedowns	-	-	-
1 856	51	1 907	Depreciation	1 789	51	1 840
4 394	**1 663**	**6 057**	**Book value as of 31.12.2018**	**4 343**	**1 664**	**6 007**
97 312	38 186	135 498	Original acquisition cost	92 590	2 900	95 490
92 918	36 523	129 441	Total depreciation and amortization	88 247	1 237	89 483
4 394	**1 663**	**6 057**	**Book value as of 31.12.2018**	**4 343**	**1 664**	**6 007**
1 063	-	1 063	Additions	874	-	874
-		-	Disposals	-	-	-
-	-	-	Writedowns	-	-	-
1 132	51	1 183	Depreciation	1 056	51	1 107
4 325	**1 612**	**5 937**	**Book value as of 31.12.2019**	**4 161**	**1 612**	**5 773**
98 374	38 186	136 561	Original acquisition cost	93 464	2 900	96 364
94 050	36 574	130 624	Total depreciation and amortization	89 303	1 288	90 590
4 325	**1 612**	**5 937**	**Book value as of 31.12.2019**	**4 161**	**1 612**	**5 773**
3-5 år	50 år		Useful life	3-5 år	50 år	

Capitalized investments related to leased premises are depreciated over the remaining lease period.

33 LEASE AGREEMENTS

The introduction of the new IFRS 16 Lease agreements from 01.01.2019, means that there shall no longer be a differentiation between operational leasing and financial leasing, where lease agreements entered transfer the right to use a specific asset from the lessor to the lessee for a specific period. In order to determine whether an agreement contains a lease agreement, it has been considered whether the agreement transfers the right to control the use of an identified asset. User rights under lease agreements covered by IFRS 16 are recognized in the balance sheet as "Right of use assets, lease agreements" with corresponding lease liabilities under "Lease liabilities".

For further descriptions of the implementation effects and the Bank's assessments related to lease agreements, please refer to Note 2.

The Group's leased assets include buildings/offices and other real estate, machinery/equipment and vehicles. The Group's user rights are categorized and presented in the table under:

Right of use assets, lease agreements

Group / Parent Bank

	Buildings	Machinery and equipment	Vehicles	Total
Acquisition cost 01.01.2019 (time of implementation	86 205	-		86 205
Access to usufruct assets	11 588	602	363	12 553
Disposals	-	-		-
Acquisition cost as of 31.12.2019	97 793	602	363	98 758
Accumulated depreciation and revaluations 01.01.2019				
Depreciation	10 493	113	-	10 606
Revaluations during the period	-	-		-
Accumulated depreciation and revaluations 31.12.2019	10 493	113	-	10 606
Value of right of use assets recognized in the balance sheet 31.12.2019	**87 300**	**489**	**363**	**88 151**
Lowest of remaining lease period or economic lifespan	1-10 years	3-5 years	3-5 years	
Period of depreciation	Straight line	Straight line	Straight line	

Lease liabilities

Group / Parent Bank

Undiscounted lease liabilities and payments due	Buildings	Machinery and equipment	Vehicles	Total
Less than 1 year	19 502	140	130	19 771
1-2 years	14 437	140	130	14 706
2-3 years	14 651	140	130	14 921
3-4 years	14 869	105	-	14 974
4-5 years	15 090	-	-	15 090
More than 5 years	46 209	-	-	46 209
Total undiscounted lease liabilities 31.12.2019	**124 757**	**525**	**389**	**125 670**

Changes in lease liabilities				
At first application 01.01.2019 (time of implementation)	109 534	-	-	109 534
New/changed lease liabilities recognized during the period	11 588	602	363	12 553
Payment of principal	-14 070	-114	-	-14 184
Payment of interest	-4 331	-21	-	-4 352
Interest cost related to lease liabilities	4 331	21	-	4 352
Total lease liabilities 31.12.2019	**107 052**	**488**	**363**	**107 903**

The average discount rate on rental agreements is approximately 3.1% The average discount rate on the lease of machinery and vehicles, is 3.5% For rental agreements, we use the lessee's marginal borrowing rate, whereas for machinery and vehicles, we have used the implicit interest of the lease agreement.

Index adjustments of rental costs are taken into account in the calculation of the liability, based on the content of the agreement. The lease agreements do not contain restrictions on the Group's dividend policy or funding opportunities. The Group does not have significant residual guarantees related to its lease agreements.

Group		Parent Bank
2019	Other lease costs included in income statement	2019
2 933	Variable lease payments (common expenses)	2 933
1 442	Operating cost in the period related to short-term lease agreements (including short-term lease agreements of low value)	-483
701	Operating cost in the period related to assets of low value (excluding short-term lease agreements of low value)	492
5 076	**Total lease cost included in other operating cost**	**2 943**

In addition to the above lease liabilities, the Group is committed to pay variable lease payments for some of its lease agreements. Common expenses, short-term lease agreements and low value agreements are recognized as cost in the applicable period.

Options to extend a lease agreement

The Group's lease agreements for buildings have lease periods of up to 10 years. Several of the agreements carry the right of extension, that may be exercised during the last period of the agreement. When entering an agreement, the Group will evaluate the reasonable certainty of whether the right to extend will be exercised. The Group's potential future lease payments not included in the lease liabilities related to extension options, was NOK 4 million as of December 31, 2019.

Purchase options

The Group is leasing machinery, equipment and vehicles on leases of between 3 and 5 years. None of these lease agreements include an option to purchase the assets at the end of the lease period.

Practical solutions applied

The Group is also leasing PCs, IT equipment and machinery at terms from 1 to 3 years. The Group has decided to not recognize lease agreements in which the underlying asset has a low value or is of short duration, up to 12 months. Thus, the Group does not recognized lease liabilities and user rights for some of these lease agreements. Instead, the lease payments are accrued as cost when they occur.

34 FINANCIAL INSTRUMENTS WITH VALUATION CHANGES THROUGH COMPREHENSIVE INCOME

Group		Financial instruments with valuation changes through comprehensive income	Parent Bank	
31.12.2019	31.12.2018		31.12.2019	31.12.2018
258 417	255 414	Eika Gruppen AS (org. no. 979 319 568)	258 417	255 414
258 417	**255 414**	**Total financial instruments with valuation changes through comprehensive income**	**258 417**	**255 414**

As a general rule, under IFRS 9, shares and units are valued at fair value with changes in value over profit and loss (FVTPL), except the Bank's investment in EIKA Gruppen AS, which is classified as financial instruments with valuation changes through comprehensive income (FVOCI) as this investment is considered strategic for the Bank. With respect to shares that are classified at fair value with valuation changes through ordinary profit and loss, please refer to Note 30.

As of 31.12.2019, the investment in Eika Gruppen AS was valued at fair value on the basis of a recent market transaction. A valuation change of NOK -13.4 million was recognized through comprehensive income (OCI) in 2019, compared to NOK 14.5 million for 2018.

During 2019, Sandnes Sparebank purchased a further 102,610 shares in the EIKA Gruppen AS, and consequently owns 2,067,333 shares in the company, representing 8.5% of the company's outstanding shares. The total cost price of the shares is NOK 250.5 million.

Dividends paid by the Eika Gruppen were NOK 42.5 million in 2019, compared to NOK 29.1 million in 2018.

35 DEBT TO CREDIT INSTITUTIONS

Group		Payable to credit institutions	Parent Bank	
31.12.2019	31.12.2018		31.12.2019	31.12.2018
43 672	50 197	Loans and deposits from credit institutions without agreed term	286 440	24 836
		Loans and deposits to credit institutions with agreed maturity		
43 672	**50 197**	**Total payable to credit institutions**	**286 440**	**24 836**

		Specified by currency		
43 378	50 197	NOK	286 147	24 836
294	-	Others	294	
43 672	**50 197**	**Total payable to credit institutions**	**286 440**	**24 836**

As of 31.12.2019, bonds and notes valued at NOK 2,020 million in the Parent Bank, have been pledged as collateral for a loan facility with Norges Bank for up to NOK 2,008 million. As of 31.12.2018, bonds and notes valued at NOK 1,845 million in the Parent Bank, had been pledged as collateral for a loan facility with Norges Bank for up to NOK 1,833 million.

36 DEPOSITS FROM CUSTOMERS

Group 31.12.2019	Group 31.12.2018	Deposits from customers	Parent Bank 31.12.2019	Parent Bank 31.12.2018
7 951 121	8 247 788	Deposits from customers, without fixed maturity	7 952 822	8 248 527
3 881 708	3 004 379	Deposits from customers, with fixed maturity	3 881 708	3 004 379
11 832 829	**11 252 168**	**Total deposits from customers**	**11 834 530**	**11 252 906**

31.12.2019	31.12.2018	Customer deposits by customer groups	31.12.2019	31.12.2018
151 517	132 489	Agriculture and forestry	151 517	132 489
15 966	26 259	Fishing and hunting	15 966	26 259
493 786	430 088	Building and construction	493 786	430 088
87 978	187 018	Manufacturing	87 978	187 018
27 386	108 553	Oil and energy	27 386	108 553
448 755	390 953	Distributive trade	448 755	390 953
230 928	71 602	Hotels and restaurants	230 928	71 602
213 571	202 082	Transport and storage	213 571	202 082
2 645 617	2 597 636	Public and private services	2 645 617	2 597 636
950 517	1 059 016	Property management	952 225	1 059 755
21 979	1 218	Other customer groups	21 979	1 218
6 544 829	6 045 253	Retail customers	6 544 822	6 045 253
11 832 829	**11 252 168**	**Total deposits from customers**	**11 834 530**	**11 252 906**

The average interest rate on deposits from customers, without fixed maturity, was 0.65 % in 2019 and 0.42 % in 2018. The average interest rate on deposits from customers, with fixed maturity, was 1.96% in 2019 and 1.71% in 2018. The average interest rate on deposits is calculated on the basis of the average balance throughout the year.

Deposits from customers with agreed term consists of fixed rate deposits, deposit accounts, BSU, escrow accounts for tax withholding and other accounts with withdrawal limitations.

37 SECURITIES DEBT

Group 31.12.2019	Group 31.12.2018	Debt securities in issue	Parent Bank 31.12.2019	Parent Bank 31.12.2018
14 462 071	14 686 863	Bond loan, adjusted for interest and premium/discount	7 013 585	7 913 024
-1 770 000	-2 369 000	Bond issues, own holdings	-1 770 000	-2 369 000
12 692 071	**12 317 863**	**Total debt securities in issue**	**5 243 585**	**5 544 024**
2.48 %	**2.13 %**	**Average interest rate on bond issues**	**2.68 %**	**2.45 %**

Change in securities debt

Group	Balance as of 31.12.2018	Issued	Matured/ redeemed	Other changes	Balance as of 31.12.2019
Bond debt, nominal value	12 249 000	3 480 000	3 082 000		12 647 000
Interest / value adjustments	68 863			-23 792	45 071
Total debt securities in issue	**12 317 863**				**12 692 071**

Group	Balance as of 31.12.2017	Issued	Matured/ redeemed	Other changes	Balance as of 31.12.2018
Bond debt, nominal value	11 620 000	4 200 000	3 571 000		12 249 000
Interest / value adjustments	82 343			-13 480	68 863
Total debt securities in issue	**11 702 343**				**12 317 863**

Parent Bank	Balance as of 31.12.2018	Issued	Matured/ redeemed	Other changes	Balance as of 31.12.2019
Bond debt, nominal value	5 501 000	1 080 000	1 349 000		5 232 000
Interest / value adjustments	43 024			-31 439	11 585
Total debt securities in issue	**5 544 024**				**5 243 585**

Parent Bank	Balance as of 31.12.2017	Issued	Matured/ redeemed	Other changes	Balance as of 31.12.2018
Bond debt, nominal value	5 625 000	2 300 000	2 424 000		5 501 000
Interest / value adjustments	58 365			-15 341	43 024
Total debt securities in issue	**5 683 365**				**5 544 024**

Bonds

Issued by Parent Bank	Face value	Final due date
NO0010649940	400 000	20/06/2022
NO0010724495	700 000	02/06/2020
NO0010729296	52 000	14/01/2020
NO0010730450	400 000	10/02/2021
NO0010745011	700 000	11/12/2020
NO0010746324	700 000	29/09/2022
NO0010778822	570 000	18/11/2021
NO0010812779	1 000 000	21/12/2023
NO0010814171	800 000	16/01/2023
NO0010823891	550 000	04/06/2021
NO0010831712	200 000	11/03/2024
NO0010831944	400 000	19/06/2024
NO0010845969	130 000	11/03/2024
NO0010872385	400 000	25/04/2025
Total nominal value of bonds issued by the Parent Bank	**7 002 000**	

Issued by credit institutions	Face value	Final due date
NO0010856271	300 000	05/06/2023
NO0010822398	600 000	08/05/2024
NO0010868706	300 000	20/05/2030
NO0010849847	300 000	19/06/2029
NO0010834070	300 000	10/10/2028
NO0010753320	425 000	18/03/2026
NO0010704232	343 000	25/02/2021
NO0010718331	347 000	03/09/2020
NO0010731938	2 000 000	15/06/2022
NO0010833254	2 000 000	27/09/2024
NO0010871452	500 000	16/05/2023
Total nominal value of bonds issued by the mortgage company	**7 415 000**	
Total nominal value of bonds in aggregate	**14 417 000**	

The bond issues are recognized at amortized cost.
Hedge accounting is used for the Bank's fixed rate bonds.

38 PROVISIONS FOR OTHER LIABILITIES

Group 31.12.2019	Group 31.12.2018	Provisions for other liabilities	Parent Bank 31.12.2019	Parent Bank 31.12.2018
7 810	7 489	Pension liabilities	7 810	7 489
7 808	7 010	Provisions for losses on guarantees/unused lines of credit	7 696	6 853
845		Other provisions	845	
16 463	**14 499**	**Total provisions for other liabilities**	**16 351**	**14 342**

Provisions for losses on guarantees/unused lines of credit consist of provisions for losses pursuant to IFRS 9, on ex balance sheet assets. For further details, please refer to Note 11.

In other respects, please refer to Note 23 for further details regarding pension liabilities.

39 OTHER LIABILITIES

Group 31.12.2019	Group 31.12.2018	Other liabilities	Parent Bank 31.12.2019	Parent Bank 31.12.2018
729	1 009	Banker's drafts	729	1 009
12 962	15 071	Interim accounts	12 962	15 071
22 604	17 913	Other liabilities	18 791	15 000
36 296	**33 993**	**Total other debt**	**32 483**	**31 079**

40 SUBORDINATED LOAN CAPITAL

Subordinated loan capital

Group / Parent Bank	31.12.2019	31.12.2018
Subordinated loan capital, nominal value	200 000	200 000
Hybrid capital bonds, nominal value		115 500
Valuation adjustments	1 191	2 063
Total subordinated loan capital	**201 191**	**317 563**

Change in subordinated loan capital

Group / Parent Bank	Balance as of 31.12.2018	Borrowing	Matured/ redeemed	Other changes	Balance as of 31.12.2019
Subordinated loan capital	200 000				200 000
Hybrid capital bond loan	115 500		115 500		
Interest / value adjustments	2 063			-872	1 191
Total subordinated loan capital	**317 563**				**201 191**

Group / Parent Bank	Balance as of 31.12.2017	Borrowing	Matured/ redeemed	Other changes	Balance as of 31.12.2018
Subordinated loan capital	300 000	200 000	300 000		200 000
Hybrid capital bond loan	225 400		109 900		115 500
Interest / value adjustments	-493			2 556	2 063
Total subordinated loan capital	**524 907**				**317 563**

Subordinated loan, time-limited

Year of issue	Terms and Conditions	Maturity	Call date	Nominal value
2018	3 mo NIBOR + 1.55%	16/02/2028	16/02/2023	100 000
2018	3 mo NIBOR + 1.90%	16/10/2028	16/10/2023	100 000
Total nominal value of subordinated loans				**200 000**

In addition, the Group has issued an investment grade bond with a nominal value of NOK 100 million (ISIN NO0010832553). For accounting purposes, this is recognized as hybrid capital and is part of the Group's equity capital. The interest rate for the loan is 3 mo. NIBOR + 3.7%. The loan's call date is 9/21/2023.

Interest paid on hybrid capital is transferred to equity (dividend/distribution), whereas the tax deduction is presented as part of tax cost. In 2019, NOK 5.3 million were paid in interest on hybrid capital (NOK 1.2 million in 2018).

41 SHAREHOLDERS' EQUITY

The equity certificate holders' share of equity consists of the equity certificate capital, the share premium and equalization reserves. The equalization reserves consist of accumulated retained earnings and may be used for future cash or stock dividends.

The equity capital for Sandnes Sparebank, as stipulated by the by-laws, is NOK 230,149,020, divided on 23,014,902 equity capital certificates, each with a face value of NOK 10.

Other equity comprises the Savings Bank Fund, the Gift Fund/customer dividends, Reserves for unrealized gains, other equity and minority interests. In addition, a new funding bond is treated for accounting purposes as hybrid capital and is included in the Group's equity capital (ref. Note 40).

The payment of a dividend for 2019 of NOK 5.9 per equity capital certificate has been proposed, corresponding to 75% of the Group's earnings per equity capital certificate. For 2018, the dividend paid per equity capital certificate was NOK 5.2.

On Thursday, March 28, 2019, The Board of Trustees authorized the Board of Directors of Sandnes Sparebank to purchase its own equity capital certificates for the treasury, of up to NOK 23.015 million, equivalent to 10% of the equity certificate capital. Each equity capital certificate may be purchased at prices between NOK 1 and 150. The authorization is valid up to and including the ordinary general meeting of the Trustees in 2020, but no longer than 18 months from the date of the authorization. As of 31.12.2019, Sandnes Sparebank is holding 38,630 equity capital certificates in its treasury, which have been purchased in connection with the incentive program for bank employees.

In January 2018, the Financial Supervisory Authority of Norway approved the amendment of the Articles of Incorporation that allows the Bank to pay a customer dividend. Customer dividends are part of the profit allocation, in addition to gifts for generally beneficial purposes. In 2019, provisions of NOK 61.0 have been made for customer dividends. For 2018, NOK 53.0 million was provided for customer dividends.

42 CONTINGENT LIABILITIES

Contingent liabilities

As of 31.12.2019, there are no significant contingent liabilities.

Operational leases

The implementation of IFRS 16 (from 01.01.2019) means that there is no longer any differentiation between operational and financial lease/leasing agreements. Lease agreements entered transfer the user rights to a specific asset from the lessor to the lessee for a specific period.

Please refer to Note 33 for further information regarding the Bank's lease agreements.

43 EVENTS AFTER THE DATE OF THE BALANCE SHEET

The Corona outbreak and financial uncertainty in the Norwegian and international economy

In March 2020, the spread of the Corona virus resulted in considerable uncertainty in the Norwegian and international economy. There are great swings in the financial and currency markets, and the oil price has fallen significantly, but local companies in Rogaland will also be affected by events. Precautionary and readiness measures have been implemented to maintain banking operations, and the Bank is already in dialog with exposed customers. The uncertainty on the financial markets is having a negative effect on the Bank's investments, but the negative financial impact is limited due to relatively low market risk. The liquidity situation and the solvency of the Bank are good, and the Bank is well equipped for the demanding period facing us.

Repurchase of equity capital certificates

On February 14, 2020, the Bank repurchased a total of 2,080,000 equity capital certificates at a price of NOK 75.00 per certificate, for a total of NOK 156 million. After the transaction, the Bank owns a total of 2,098,629 equity capital certificates, corresponding to 9.12% of outstanding equity certificates. The repurchase is recognized as a reduction of paid-up equity capital and entails a reduction of Core Tier-1 capital of approximately 1%, and a reduction of the equity capital certificate ratio (equity ratio) from 65.4% as of 31.12.2019, to 63.1%.

During the 1st quarter of 2020, the Bank has purchased parts of a local accounting and consulting agency

On February 04, 2020, Sandnes Sparebank entered an agreement whereby the Bank is purchasing 49.5% of Kjell Haver Regnskapsservice AS (KHRS) of Sandnes. The shares are being purchased from six partners who have been part of the company for years. The partners will also continue to own the remaining parts of the company, and be responsible for day-to-day operations. KHRS has had healthy and solid operations for many years, and has currently 34 employees. They are well known in the market for their high level of competence and good personal advice. Sandnes Sparebank and KHRS have customers in the same market area, and are able to offer complementary services to customers. The transaction will be recognized effective 1/1/2020, and the investment will be recognized as an investment in a related enterprise.

Otherwise, there have been no significant events after the date of the balance sheet that affects the financial statements as of 31.12.2019.

44 TRANSACTIONS WITH INTIMATES

Transactions between the Parent and subsidiaries

Transactions between the Parent Bank and subsidiaries relate to ordinary banking services only. The services are provided at arm's length terms and are eliminated in the consolidated accounts.

SSB Boligkreditt

In October 2008, the Storting (the Norwegian parliament) resolved to initiate a scheme whereby the government and banks exchange treasury notes for covered bonds, OMF. In order to utilize this scheme, in February 2009 SSB established its own mortgage company, SSB Boligkreditt. SSB Boligkreditt AS is a wholly owned subsidiary managing home mortgages that are financed by the issue of covered bonds. Sandnes Sparebank sells loans to the company, which in turn finances its operation through the issue of covered bonds. In addition, the subsidiary has deposit and liabilities to the Parent Company subject to interest payments according to the arm's length principle.

In the period up to 31.12.2019, loans worth NOK 7.9 billion have been transferred. The amount of collateral amounts to NOK 8.6 billion, of which NOK 7.4 billion have been financed through the issue of covered bonds, and NOK 1.2 billion financed through short-term credit and deposits from SSB.

SSB Boligkreditt pays a management fee for transferred loans, and pays for the purchase of administrative services from Sandnes Sparebank. Management fees for loans transferred to customers have been charged to SSB Boligkreditt in the amount of 17.0 million for 2019, the same as in 2018. In addition, interest/credit commissions have been charged in the amount of NOK 22.7 million, compared to NOK 12.8 million in 2018.

The relationship between the Parent Bank and SSB Boligkreditt

Assumption of home mortgages with repurchase

Sandnes Sparebank has an agreement to transfer loans with a high degree of collateral and mortgaged properties to SSB Boligkreditt AS. According to the management agreement made, the Bank will be responsible for managing the loans and maintaining contact with customers. The Bank receives compensation in the form of commissions for the obligations that come with the management of the loans. The Bank has considered the accounting implications and concluded that the essential risks and advantages of ownership related to the loans sold, have been transferred. This entails full exclusion from the Bank's balance sheet. There is no obligation to buy back loans, and in case of a crisis, SSB Boligkreditt and the body of collateral shall stand on their own, which is taken into account in the rating of the company's bonds, with respect to the over-mortgaging requirement of 5%, which is significantly higher than the 2% required by the authorities. The risk of transferred loans is transferred to SSB Boligkreditt, which on independent basis has all loans recognized in the calculation base that is part of the regulatory capital requirement calculation.

The compensation received for loans transferred to SSB Boligkreditt, corresponds to the book value and is considered to be in keeping with the fair value of the loans at the time of transfer. The Bank recognizes all rights and obligations created or maintained with the transfer as separate assets or liabilities.

Sandnes Sparebank is the main bank/settlement bank for SSB Boligkreditt, and all payments are made via SSB Boligkreditt's accounts with Sandnes Sparebank. When SSB Boligkreditt purchases home loans from Sandnes Sparebank, the purchases is settled against SSB BK's settlement account with Sandnes Sparebank. If SSB Boligkreditt does not have any cash, i.e. in those cases where SSB Boligkreditt purchases loans before it issues a new covered bond, the Bank will provide temporary financing of the purchased home loans with unsecured financing.

Pursuant to an agreement between the Parent Bank and SSB Boligkreditt, the Parent Bank is obliged to transfer collateral to SSB Boligkreditt corresponding to any demand for topping up of collateral (over-mortgaging) due to negative value performance of the debt ratio of the home loan portfolio.

Briefly, the agreement entails the following:

- Loans are valued prior to transfer.
- When a loan is transferred from the Bank to SSB Boligkreditt, a letter of notification is sent to the customer.
- Upon refinancing, loans are transferred back to the Bank for checking whether they qualify for transfer to SSB Boligkreditt.
- Non-performing loans are transferred back to the Bank. Prior to return transfer, valuation is performed on each individual loan.

Line of credit

SSB Boligkreditt has a liquidity facility with the Parent Bank to ensure timely payment of principal and interest related to issued covered bonds and the associated derivative agreements. The liquidity facility corresponds to SSB BK's payment obligations related to net issued covered bonds during the next 12 months. As mentioned above, the obligation includes principal and interest on the covered bond debt, as well as obligations related to derivative agreements used for hedging purposes. The size of the facility is adjusted by the company's own liquidity reserve (cash, bank deposits and liquid bonds), and the facility is only operative if the need for liquidity exceeds SSB BK's own liquidity reserve. As of 31.12.2019, the company had a liquidity reserve of over NOK 700 million. The value of the liquidity reserve exceeds the payment obligations 12 months into the future.

Group		Total loans and guarantees to employees and representatives	Parent Bank	
2019	2018		2019	2018
9 254	15 324	Total loans and guarantees to the Board of Directors and intimates	9 254	15 324
		Total loans and guarantees to Audit Committee and intimates		
60 959	98 481	Total loans and guarantees to the Board of Trustees	60 959	98 481
277 277	286 646	Total loans (included overdraft facilities) to employees	258 824	279 240
347 491	**400 451**	**Total loans and guarantees to employees and elected officials**	**329 038**	**393 045**

45 EARNINGS PER EQUITY CAPITAL CERTIFICATE AND CALCULATION OF THE EQUITY CAPITAL CERTIFICATE PERCENTAGE

Group 2019	Group 2018	Earnings per equity capital certificate	Parent Bank 2019	Parent Bank 2018
7.9	6.9	Earnings per equity capital certificate	7.0	5.9
7.9	6.9	Diluted earnings per equity capital certificate	7.0	5.9
		Calculation base		
277 072	244 380	Profit after taxes	246 676	207 783
65.4 %	65.3 %	Equity capital certificate percentage	65.4 %	65.3 %
181 246	159 471	Earnings allocated to holders of equity capital certificates	161 363	135 589
23 015	23 015	Average number of outstanding equity certificates	23 015	23 015

Calculation of the equity capital certificate percentage	2019	2018
Equity capital certificate capital	230 149	230 149
Own equity capital certificates	(386)	(187)
Share premium	987 313	987 313
Equalization reserves	410 451	389 294
A = Capital, equity capital certificate holders	1 627 526	1 606 569
The Savings Bank's Fund	831 278	820 224
Gift Fund (ex. provisions for customer dividends)	29 199	35 182
B = Primary capital	860 477	855 406
A / (A + B) = The equity capital certificate percentage	**65.4 %**	**65.3 %**

As of 31.12.2019, the number of outstanding equity capital certificates was 23,014,902. For 2019, the amount includes a treasury holding of 38,630 own equity capital certificates, whereas the corresponding number for 2018 was 18,684.

Profits were allocated according to the share of equity certificate capital. The same principle has been applied to the calculation of earnings per equity capital certificate.

46 EQUITY CERTIFICATE CAPITAL AND EQUITY CAPITAL CERTIFICATE HOLDERS

Equity capital certificate capital

	31.12.2019	31.12.2018
Equity capital certificate capital, book value	230 149	230 149
Own equity capital certificates	-386	-187
Number of equity capital certificates	23 015	23 015
Premium, book value	987 313	987 313
Equalization reserves	410 451	389 294

20 biggest holders of equity capital certificates as of 31.12.2019

	Number of equity capital certificates	% of total
Sparebank 1 SR-Bank C/O SR-Investering	3 485 009	15.14
Merrill Lynch	2 100 533	9.13
AS Clipper	1 088 738	4.73
VPF EIKA Egenkapital C/O Eika Kapitalforvaltning	970 701	4.22
Espedal & Co AS	886 861	3.85
Holmen Spesialfond	850 000	3.69
Wenaasgruppen AS	650 000	2.82
Salt Value AS	605 000	2.63
Skagenkaien Investering AS	500 000	2.17
Bergen Kommunale Pensjonkasse	400 000	1.74
Nordhaug Invest AS	274 957	1.19
Meteva AS	261 881	1.14
Kristian Falnes AS	260 000	1.13
Hausta Investor AS	200 000	0.87
Innovemus AS V/Oskar Bakkevig	185 000	0.80
Barque AS	159 651	0.69
Tirna Holding AS	156 255	0.68
Velde Holding AS	154 353	0.67
Verdipapirfondet Nordea Avkastning	129 119	0.56
Inge Steenslands Stiftelse	127 304	0.55
20 biggest owners	**13 445 362**	**58.42**
Other owners	9 569 540	41.58
Total equity capital certificates	**23 014 902**	**100.00**

The equity capital for Sandnes Sparebank, as stipulated by the by-laws, is NOK 230,149,020, divided on 23,014,902 equity capital certificates, each with a face value of NOK 10.

As of 31.12.2019, there were 2,609 equity capital certificate holders. At this point in time, the 20 biggest owners controlled 58.42 % of the equity certificate capital.

As of 31.12.2019, the total number of equity capital certificates of 23,014,902, includes a treasury holding of 38,630 equity capital certificates. These were purchased as part of an incentive program for bank employees.

ALTERNATIVE PERFORMANCE MEASUREMENTS

The alternative performance measurements (APM) of Sandnes Sparebank are key ratios intended to provide useful additional information to the financial statements. These key ratios are either adjusted key ratios or key ratios not defined in IFRS or other legislation, and are not necessarily directly comparable with the corresponding key ratios of other companies. The APM metrics are not substitutes for accounting data prepared according to IFRS, and should not be given any more emphasis than the accounting data. They are, however, included in the financial reporting of the Bank in order to provide a fuller description of the Bank's performance. The Bank is exclusively using key ratios that are in demand by investors and analysts.

The APM metrics of Sandnes Sparebank are used in the summary of main numbers, in the Report of the Board of Directors, in the presentation of the financial statements and in prospectuses. All APM metrics are shown with corresponding numbers for previous periods for comparison.

		Group		Parent Bank	
Definition	Calculations / basis (TNOK)	31.12.2019	31.12.2018	31.12.2019	31.12.2018
1 DEPOSIT TO LOAN RATIO					
CB deposits from customers **/** CB net lending to customers	CB deposits from customers	11 832 829	11 252 168	11 834 530	11 252 906
	CB net lending to customers	22 878 009	22 214 445	14 981 089	14 799 096
	Deposit to loan ratio	**51.7 %**	**50.7 %**	**79.0 %**	**76.0 %**
2 INTEREST MARGIN					
((Net interest income **/** days in period) **x** days in year) **/** average total assets	Net interest income	475 841	461 980	412 844	388 574
	Average total assets	27 683 809	26 654 544	20 431 324	20 040 375
	Interest margin	**1.72 %**	**1.73 %**	**2.02 %**	**1.94 %**
3 INTEREST MARGIN INCL. INTEREST ON HYBRID CAPITAL					
((Net interest income - interest cost on hybrid capital **/** days in period) **x** days in year) **/** average total assets	Net interest income	475 841	461 980	412 844	388 574
	Interest cost on hybrid capital	5 276	1 218	5 276	1 218
	Average total assets	27 683 809	26 654 544	20 431 324	20 040 375
	Interest margin incl. interest on hybrid capital	**1.70 %**	**1.73 %**	**1.99 %**	**1.93 %**
4 COST TO INCOME RATIO					
Total operating cost **/** (net interest income **+** total other operating income)	Total operating cost	269 496	261 137	240 903	232 112
	Net interest income	475 841	461 980	412 844	388 574
	Other operating income	140 559	122 550	136 486	120 180
	Cost to income ratio	**43.7 %**	**44.7 %**	**43.9 %**	**45.6 %**
5 TOTAL COST IN % OF AVG. TOTAL ASSETS					
((Total operating cost) **x** days in period) **x** days in year) **/** average total assets	Total operating cost	269 496	261 137	240 903	232 112
	Average total assets	27 683 809	26 654 544	20 431 324	20 040 375
	Total cost in % of avg. total assets	**1.0 %**	**1.0 %**	**1.2 %**	**1.2 %**

Definisjon	Beregninger / grunnlag (TNOK)	Group 31.12.2019	Group 31.12.2018	Parent Bank 31.12.2019	Parent Bank 31.12.2018
6 RETURN ON EQUITY BEFORE TAXES					
(Profits before taxes **/** days in period **x** days in year) **/** ((total equity CB **+** total equity OB) **/** 2, ex. hybrid capital	Profit before taxes	333 433	299 664	294 067	252 378
	Total shareholders' equity OB (ex. hybrid capital)	2 861 001	2 708 750	2 666 885	2 549 121
	Total shareholders' equity CB (ex. hybrid capital)	2 919 434	2 861 001	2 695 500	2 666 885
	Return on equity before taxes	**11.5 %**	**10.8 %**	**11.0 %**	**9.7 %**
7 RETURN ON EQUITY AFTER TAXES					
(Profits after taxes **/** days in period **x** days in year) **/** ((total equity CB **+** total equity OB) **/** 2, ex. hybrid capital	Profit after taxes	277 072	244 380	246 676	207 783
	Total shareholders' equity OB (ex. hybrid capital)	2 861 001	2 708 750	2 666 885	2 549 121
	Total shareholders' equity CB (ex. hybrid capital)	2 919 434	2 861 001	2 695 500	2 666 885
	Return on equity after taxes	**9.6 %**	**8.8 %**	**9.2 %**	**8.0 %**
8 RETURN ON EQUITY AFTER TAXES, INCL. INTEREST ON HYBRID CAPITAL					
(Profits after taxes - interest cost on hybrid capital **/** days in period **x** days in year) **/** ((total equity CB **+** total equity OB) **/** 2, ex. hybrid capital	Profit after taxes	277 072	244 380	246 676	207 783
	Interest cost on hybrid capital	5 276	1 218	5 276	1 218
	Total shareholders' equity OB (ex. hybrid capital)	2 861 001	2 708 750	2 666 885	2 549 121
	Total shareholders' equity CB (ex. hybrid capital)	2 919 434	2 861 001	2 695 500	2 666 885
	Return on equity after taxes, incl. interest on hybrid capital	**9.4 %**	**8.7 %**	**9.0 %**	**7.9 %**
9 EQUITY CAPITAL CERTIFICATE PERCENTAGE					
(Equity certificate capital **+** treasury equity capital certificates **+** premium **+** equalization reserves) **/** (equity certificate capital **+** treasury equity capital certificates **+** premium **+** equalization reserves **+** Savings Bank's Fund **+** Gift Fund (ex. customer dividends))	Equity capital certificate capital	230 149	230 149	230 149	230 149
	Own equity capital certificates	-386	-187	-386	-187
	Share premium	987 313	987 313	987 313	987 313
	Equalization reserves	410 451	389 294	410 451	389 294
	The Savings Bank's Fund	831 278	820 224	831 278	820 224
	Gift Fund (ex. provisions for customer dividends)	29 199	35 182	29 199	35 182
	Equity capital certificate percentage	**65.4 %**	**65.3 %**	**65.4 %**	**65.3 %**
10 EARNINGS PER EQUITY CAPITAL CERTIFICATE					
(Profits after taxes **x** equity capital certificate ratio) **/** number of equity capital certificates outstanding	Profit after taxes	277 072	244 380	246 676	207 783
	Equity capital certificate return	65.4 %	65.3 %	65.4 %	65.3 %
	Number of outstanding equity certificates	22 976 272	22 996 218	22 976 272	22 996 218
	Earnings per equity capital certificate	**7.9**	**6.9**	**7.0**	**5.9**

Definisjon	Beregninger / grunnlag (TNOK)	Group 31.12.2019	Group 31.12.2018	Parent Bank 31.12.2019	Parent Bank 31.12.2018
11 BOOK EQUITY PER EQUITY CAPITAL CERTIFICATE					
(CB total equity - hybrid capital) **x** equity capital certificate ratio **/** number of equity capital certificates outstanding	Total shareholders' equity CB (ex. hybrid capital)	2 919 434	2 861 001	2 695 500	2 666 885
	Equity capital certificate return	65.4 %	65.3 %	65.4 %	65.3 %
	Number of outstanding equity certificates	22 976 272	22 996 218	22 976 272	22 996 218
	Book equity per equity capital certificate	**83**	**81**	**77**	**76**
12 PRICE/BOOK EQUITY (P/B)					
Quoted price **/** book equity per equity capital certificate	Quoted price	67	55	67	55
	Book equity per equity capital certificate	83	81	77	76
	Price/book equity (P/B)	**0.81**	**0.68**	**0.87**	**0.73**
13 OPERATING EARNINGS BEFORE LOSSES AND TAXES					
Profits after taxes **+** tax cost **+** writedowns and losses on loans and guarantees	Profit after taxes	277 072	244 380	246 676	207 783
	Tax cost	56 361	55 284	47 391	44 595
	Writedowns and losses on loans and guarantees	13 471	23 729	14 360	24 264
	Operating earnings before losses and taxes	**346 904**	**323 393**	**308 427**	**276 642**
14 LIQUIDITY INDICATOR (LCR)					
Liquid assets **/** Net liquidity disposals within 30 days in a stress scenario	Liquid assets	3 124 912	2 614 630	3 056 578	2 481 297
	Net liquidity disposals within 30 days in a stress scenario	1 498 147	1 532 001	1 438 789	1 347 355
	LCR	**209 %**	**171 %**	**212 %**	**184 %**

Statement pursuant to § 5-5 of the Norwegian Securities Trading Act

Sandnes Sparebank

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Statement pursuant to§ 5-5 of the Norwegian Securities Trading Act

We confirm that the annual financial statements for the period from 1 January to 31 December 2019, to the best of our knowledge, have been prepared in accordance with IFRS, and that the information contained by the financial statements provides a true picture of the company's and the Group's assets, liabilities, financial position, and overall profits, and that the information in the Annual Report provides a true summary of developments, results and the position of the company and the Group, together with the key risk and uncertainty factors facing the companies.

Sandnes, 18 March 2020
The Board of Directors of Sandnes Sparebank

Harald Espedal Chairman of the Board	**Frode Svaboe** Deputy Chairman	**Heidi Nag Flikka** Director
Bjørg Tomlin Director	**Sven Chr Ulvatne** Director	**Birte Norheim** Director
Solveig Vatne Employee representative	**Jan Inge Aarreberg** Employee representative	**Trine Karin Stangeland** CEO

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To the Board of Trustees of Sandnes Sparebank

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sandnes Sparebank. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2019, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2019 and income statement, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements in the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Key audit matter	How the matter was addressed in the audit
IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING	
The IT systems within Sandnes Sparebank are key in the accounting and reporting of completed transactions, in obtaining the basis for key estimates and calculations, and in obtaining relevant information to be disclosed. The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers. Reference is made to note 7 in the financial statements, for a description of the management and operation IT systems in Sandnes Sparebank. Proper management and control of these IT systems both from Sandnes Sparebank and their service providers are of high importance in order to ensure precise, complete and reliable financial reporting, and this area is therefore considered to be a key audit matter.	Sandnes Sparebank has established a general governance model and internal controls on their IT systems. We have obtained an understanding of Sandnes Sparebanks IT governance model relevant for financial reporting. We assessed and tested the design of selected internal control activities relevant for financial reporting, including selected controls related to IT operations, change management and information security. For a sample of these controls, we tested their operating effectiveness in the reporting period. We also considered the third party attestation report (ISAE 3402 Report) on one of Sandnes Sparebanks service providers focusing on whether they had adequate internal controls on areas that are of importance for the financial reporting of Sandnes Sparebank. In addition, we considered a third party confirmation (Agreed-upon procedures) related to the service provider with regards to the design and implementation of selected automated control activities in the IT-systems, including among others the calculation of interests and fees as well as if system generated reports was adequately designed and implemented. We have engaged our internal IT experts in the work related to understanding the governance model on IT and in assessing and testing the internal control activities related to IT.
CORPORATE LOAN LOSS PROVISIONS	
Sandnes Sparebank have loans in the corporate segment, and reference is made to notes 8, 10 and 11 for disclosures on credit risk and loss provisions on loans and guarantees. The bank have implemented IFRS 9, and the models for calculation of loan losses is changed from objective evidence for losses to an expected loss model. Sandnes Sparebank have considered the need for loan loss provisions as per the implementation	Sandnes Sparebank has established internal control activities related to the calculation of loan loss provisions on corporate lending. We performed a reasonability check on the loan loss provisions and the changes in these provisions during the year, and collected and assessed Sandnes Sparebanks reasoning behind such changes. We assessed and tested the design of selected key controls concerning loans subject to

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date for IFRS 9 and as per 31.12.2019. There is a considerable amount of judgement involved in estimating the loan loss provisions within the corporate segment. The judgement is related to forward-looking assessments of probability of default and loss given default, in order to estimate the expected loss. Sandnes Sparebank utilizes models and information from a service provider in the calculation of expected loss. The assumptions and estimates used in these assessments are of critical importance for the size of these provisions, and corporate loan loss provisions are therefore a key audit matter in our audit.	impairment. The control activities we assessed and tested the design of were related to identification of loans subject to impairment and the assessment of the expected future cash flows on these loans. For a sample of these control activities, we tested if they were operating effectively during the period. On a sample of impaired loans, we tested if these were timely identified, and considered the expected future cash flows the bank had estimated on these loans. On remaining loan loss provisions calculated in models and information from the service provider, we assessed the third party confirmation with regards to: • Documentation of the models • Calculation of probability of default, loss given default and exposure at default, and • Validation of the models against historical losses We assessed a selection of applied forward-looking assumptions against external reports on forward-looking data from Norges Bank and Statistics Norway. We considered if the note disclosures on loan loss impairments within corporate lending is in line with requirements set forth in IFRS 7.

Other information

Management is responsible for the other information. The other information comprises the Annual Report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

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We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Stavanger, 18 March 2020
Deloitte AS

Bjarte M. Jonassen
State Authorised Public Accountant

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

APPENDIX TO 2019 ANNUAL FINANCIAL STATEMENTS

The Board of Directors of Sandnes Sparebank considered the 2019 annual financial statements on 18 March 2020. At this time, the Board of Directors proposed to the Board of Trustees the payment of a dividend for 2019 of NOK 5.9 per equity capital certificate, corresponding to 75% of the Group's earnings per equity capital certificate. Of the NOK 71.0 million dividend allocated to the primary capital, the Board of Directors proposed an allocation to the Gift Fund of NOK 10.0 million, and NOK 61.0 million to customer dividend.

Thus, the Board of Directors recommended the following allocation of 2019 earnings;

The Board of Directors proposed the following allocation:	Amount (NOK million)
For allocation	246.7
To cash dividends on equity capital certificates	135.8
To equalization reserves	21.4
To the Savings Bank Fund	11.2
To the Gift Fund/customer dividend	71.0
To hybrid capital holders	5.3
To reserves for unrealized gains	2.0
Total proposed allocation	**246.7**

The 2019 Annual Financial Statements were presented according to the abovementioned allocation.

Because of the ongoing crisis that has arisen in the Norwegian economy, on 30 March 2020, the Board of Directors of Sandnes Sparebank reconsidered the allocation of 2019 earnings. After an overall assessment, the Board of Directors has recommended the following to the Board of Trustees;

- Reduce the cash dividend from NOK 5.9 to NOK 5.0 per equity capital certificate.
- Allocate NOK 10 million to the Gift Fund as proposed earlier.
- Reduce customer dividends from NOK 61.0 million to NOK 50.1 million.

On the basis of the decision by the Board of Directors on 30 March 2020, the proposed new earnings allocation will be as follows;

The Board of Directors proposes the following allocation:	Amount (NOK million)
For allocation	246.7
To cash dividends on equity capital certificates	115.1
To equalization reserves	42.2
To the Savings Bank Fund	22.0
To the Gift Fund/customer dividend	60.1
To hybrid capital holders	5.3
To reserves for unrealized gains	2.0
Total proposed allocation	**246.7**

Due to higher retained earnings, Sandnes Sparebank will strengthen its capital adequacy with an increase in its Core Tier-1 capital ratio from 17.4%, which reflected the original allocation, to 17.6% after the adjustment of dividends as of 31.12.2019.

The proposed new earnings allocation will not have any consequences for the ownership ratio, which will remain 65.4% as of 31.12.2019.

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