

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 2017, 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 2017 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 2017, 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 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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.

Key audit matter	How the matter was addressed in the audit
<i>IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING</i>	
<p>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. Reference is made to note 7 for description of the IT systems in the bank.</p> <p>The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers.</p> <p>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.</p>	<p>Sandnes Sparebank has established internal controls on their IT systems. We have obtained an understanding of their IT environment relevant to financial reporting.</p> <p>We assessed and tested the design and implementation of the internal control activities related to the IT systems which are relevant for financial reporting, including selected controls related to operations, change management and information security. For a sample of these controls, we tested their operating effectiveness in the reporting period. In addition, we assessed and tested the design and implementation of selected automated controls related to among others the calculations, reconciliations and transaction settlements. For a sample of these controls, we have tested their operating effectiveness in the reporting period.</p> <p>We also considered the attestation reports from the independent auditors (ISAE 3402 Reports) of Sandnes Sparebank’s service providers focusing on whether they had adequate internal controls on areas that are of importance for the financial reporting of Sandnes Sparebank.</p> <p>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.</p>
<i>NOTE DISCLOSURES ON CAPITAL ADEQUACY</i>	
<p>Sandnes Sparebank is required to comply with the regulations on capital adequacy as set forth in the Financial Institutions Act (“Finansforetaksloven”) and related regulations.</p> <p>Regulations on financial statements for banks («Forskrift om årsregnskap for banker») requires disclosure of capital adequacy in the notes to the financial statements. In note 6, among others, information is provided with respect to the applied methods for calculating capital adequacy, total capital, total basis for calculation of minimum</p>	<p>Sandnes Sparebank has established internal control activities related to the calculations of total capital, minimum requirement for capital and actual capital coverage. We assessed and tested the design and implementation of the internal control activities we considered to be of highest relevance, including internal controls on risk weighted balance sheet items and off-balance sheet items, calculation of required capital for operational risk and calculation of risk adjusted basis for calculations.</p>

<p>requirement for capital and actual capital coverage.</p> <p>Sandnes Sparebank is required to comply with the minimum requirement for capital on an ongoing basis. Due to the importance of capital adequacy compliance this is a key audit matter.</p>	<p>We assessed Sandnes Sparebank’s interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice. Furthermore, we reviewed the accuracy of the calculated minimum requirement for capital on a sample of balance sheet items and off-balance sheet items. We also reviewed the accuracy of the calculation of selected items in total capital.</p>
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LOAN IMPAIRMENT – CORPORATE LOAN LOSS PROVISIONS

<p>As stated in note 5 to the financial statements the corporate loans in the balance sheet for both the parent company and the group as per December 31 2017 are 7.134 mNOK. The corresponding loan loss provisions are 257 mNOK in specified loan loss provisions as stated in note 10 and 68 mNOK in unspecified loan loss provisions as stated in note 9.</p> <p>The bank considers the need for loan loss provisions and guarantee provisions. These assessments are highly judgmental, both on specific loans and also on group of loans within corporate lending. Due to the market situation in corporate real estate loans within the primary market area of the bank, the estimates on such loan provisions are of high importance in the audit. The uncertainty relates both to the assessment on probability of default and on loss given default. On group of loans, the impairments are calculated by a technical model based on assumptions set by the bank.</p> <p>The assumptions and estimates utilized in these assessments are key in calculating the total loan loss provision, and this area is therefore considered to be a key audit matter.</p>	<p>Sandnes Sparebank has established internal control activities related to the calculation of loan loss and guarantee provisions on corporate lending.</p> <p>We assessed and tested the design of selected key controls concerning the loan loss provisions and guarantee provisions, including adequate disclosures on such provisions. The control activities we assessed and tested the design of were related to identification of impaired loans and the assessment of the expected future cash flows on these loans.</p> <p>For a sample of loans with specified loan loss provisions, we tested whether the impairment indicators were timely identified, and reviewed the estimated cash flows against our expectations and against external sources to the extent such sources were available. On loans within corporate real estate, we tested that collateral values were based on external valuations.</p> <p>On unspecified loan loss provisions calculated by the use of an impairment model, we tested the model by re-performing selected calculations. Furthermore, we reviewed the accuracy of selected parts of applied source data used in the calculations against information from the IT systems of the bank. We also assessed material assumptions used in the models against our own assumptions based on our general knowledge of the market and the bank’s business.</p> <p>We also assessed whether note disclosures on loan loss provisions and guarantee provisions on corporate lending were adequate.</p>
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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.

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. 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, 13 March 2018
Deloitte AS

Bjarte M. Jonassen

State Authorised Public Accountant

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