Sandnes Sparebank

Directors' report 2017

Nature of the business

Sandnes Sparebank is an independent savings bank 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 Eiendomsmegling Jæren AS. 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.

Market conditions

Local conditions – Rogaland

Locally, there are several economic indicators in Rogaland that are showing a continued positive trend, but at a lower rate than at the start of the year. The regional downturn caused by the drop in the oil price in mid 2014, reached its trough at the start of 2016. Oil investments in Norway reached its nadir in 2016, and in 2017 developments have been positive. This trend is expected to continue in 2018, for which positive annual growth is expected for the first time since the oil industry slowdown. The positive investment growth is also visible locally in Rogaland. At the start of December, the regional network of the Norwegian Central Bank reported a positive trend in both investments, production and profitability. This positive trend is also visible in the labor market. NAV is reporting a continued decline in unemployment in the region. During 2017, the registered unemployment in Rogaland went from 4.5% to 3.2%. The Rogaland unemployment rate is still higher than the 2.4% national average, but the unemployment rate in the region is falling faster than in the rest of the country.

As was the case for the rest of the country, housing prices fell also during the fourth quarter. During the past 12 months, Rogaland housing prices have fallen by 1.1%, of which the decline during the fourth quarter was 2.2%. With respect to long-term housing prices, Rogaland experienced a price decline from the middle of 2014, whereas other key Norwegian cities experienced strong price growth. Thus, the housing price level in the region is at a lower level, and may therefore be assumed to be stronger going forward compared to other cities.

The time required to effect the sale of a home has receded back to normal levels after a tough market from 2014 to 2016, inclusive. During the most recent half year, the sale time of the region has increased a bit, but less so than in the rest of the country.

The housing price drop of the most recent half year may seem to be a spillover effect from the rest of the country, as opposed to earlier, when Rogaland housing prices fell due to local macro conditions. There is still some overhang of unsold homes, but the starting rate of new home projects is on its way down. Since 2014, regional population growth has been negative, due to people leaving because of the oil industry slowdown. This trend turned around in 2017, and there is yet again a net influx to the region. Job growth gives reason to believe that net influx will increase in 2018.

Increased population influx is assumed to have a positive impact on the housing market both with respect to the number of unsold homes, the time to effect a sale and price developments.

There are still a lot of vacancies in commercial property market. Vacancies are on the rise especially in the peripheral areas, and at Forus in particular. There is more activity closer to the city center. The total vacancy rate for commercial properties is now approximately 7%, up 1 percentage point since the spring of 2017. The vacancy rate for combination properties and retail premises remains unchanged, but vacancies are still increasing in the office market. The total vacancy rate of the office market is now around 14%. According to EM1 Næringseiendom, the vacancy rate at Forus is now around 22%, whereas the vacancy rate in the center of Stavanger and Sandnes is 7% and 4%, respectively. The office vacancy rate at Forus is strongly influenced by the fact that Statoil is not renewing leases expiring in April this year, representing a total of 67,000 sqm. In total, there is 200,000 sqm of vacant office floorage at Forus.

Significant differences in rents in the center relative to the periphery are being reported. There are signs of improvement in the central areas and their surrounding clusters, whereas there is continued downward price pressure in the periphery and at Forus.

With respect to real estate transactions, several commercial real estate agents in the region are reporting increased optimism in the market, and there has been a significant improvement of the transaction market in 2017. At Forus, there has been little movement in the office market, but several properties have changed hands in other segments, with an overweight of properties with long-term leases.

Earnings performance

Numbers in brackets are for the corresponding period in 2016. Unless otherwise noted, descriptions apply to the Group.

Pre-tax profits for 2017 were NOK 256.0 million. This is an increase of NOK 38.0 million compared to 2016. The increase may be explained mainly by positive interest margin developments, lower operating costs, as well as lower writedowns and losses on loans in of 2017, compared 2016. The improvement of pre-tax profits was partially offset by weaker performance by financial instruments during 2017, compared to the 2016.

The loss after taxes was NOK 197.4 million, compared to profits of NOK 171.5 million in 2016. The total loss was NOK 172.6 million, compared to a profit of NOK 174.8 million in 2016.

Return on equity before taxes was 9.7% in 2017, versus 9.3% for 2016. In 2017, return on equity after taxes was 7.5%, compared to 7.3% in 2016.

Net interest income
The Group's net interest income was NOK 474.2 (441.8) million in 2017, an increase of 7.3%. The loan portfolio is unchanged compared to 2016. The interest margin was 1.81% in 2017, compared to 1.64% in 2016.

The overall risk profile of the Bank's loan portfolio is considered moderate.

Other operating income
Total other operating income was reduced by NOK 51.6 million relative to 2016.

In 2017, net commission income was NOK 8.0 million lower than in 2016. The decline may be primarily explained by a general pressure on fee income. Dividends were NOK 12.0 million lower compared to 2016, caused primarily by the effect of the first instalment of the cash proceeds from the Visa transaction in 2016. The net return on financial investments was a positive NOK 14.9 million, compared to NOK 46.7 million in 2016. The decline is mainly due to weaker performance by financial instruments. Other income that is part of other operating income, increased by NOK 0.3 million compared to 2016.

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

Operating cost
Group operating cost was NOK 268.6 million in 2017. This is a decline of NOK 19.7 million compared to 2016. Payroll costs were NOK 5.2 million lower than in 2016. Other operating costs amounted to NOK 120.3 million in 2017, a reduction of NOK 9.4 million from 2016. Depreciation and writedowns were NOK 5.1 million lower compared to 2016.

In 2017, the Group cost to income ratio was 45.0%, while it was 46.8% in 2016. In 2017, the total cost to total asset ratio was 1.0%, compared to 1.1% in 2016.

Losses and non-performing loans
Gross non-performing loans without revaluation totaled NOK 106.6 (107.3) million at the end of 2017, corresponding to 0.48% (0.49%) of gross lending.

Loan losses and writedowns of NOK 72.5 (111.8) million were recognized during 2017, whereas writedowns of repossessed assets of NOK 0.0 (-1.9) million were recognized. As of 12/31/2017, gross lending, with individual writedowns, totaled NOK 640.8 million, compared to NOK 671.1 million as of 12/31/2016. As a percentage of gross lending, this corresponds to a decline from 3.07% as of 12/31/2016, to 2.93% as of 12/31/2017. As of 12/31/2017, net lending, with individual writedowns, totaled NOK 356.7 million, compared to NOK 374.0 million as of 12/31/2016. During 2017, previous writedowns of NOK 87.0 (132.3) million loans were confirmed.

Each quarter, the Bank do detailed reviews of the loan portfolio in order to uncover loss indicators, consider the need for writedowns and calculate writedowns for individual loans.

The Bank has a separate unit to follow up special loans, including written-down loans. The unit is looking after the Bank's best interests to ensure that realized losses will be as low as possible.

Balance sheet, liquidity and funding
Group total assets were NOK 26.1 (26.4) billion at the end of 2017, which is a decline of 1.2% compared to 2016.

During 2017, lending declined by 0.1%, and deposits declined by 0.4%. The loan to deposit ratio declined from 50.8% at the end of 2016, to 50.6% at the end of 2017. The net lending of SSB Boligkreditt constitutes a volume of NOK 6.7 (6.7) billion.

Notes and bonds were valued at NOK 3,333.2 (2,960.9) million, while equities were valued at NOK 126.5 (219.3) million. Financial derivatives amounted to NOK 154.6 (175.0) million, and financial instruments classified as available for sale totaled NOK 252.4 (272.2) million.

The Bank's liquidity situation is good.

As of 12/31/2017, SSB Boligkreditt AS has issued covered bonds worth NOK 6.0 billion.

The business segments

The Retail Market
Profits before taxes were NOK 125.4 million in 2017, compared to NOK 100.7 million in 2016.

In 2017, net interest income was NOK 251.7 million, an increase of NOK 5.7 million compared to 2016. Net commission income was NOK 24.8 million in 2017, which is a reduction of NOK 4.4 million versus 2016. The decline may be primarily explained by a general pressure on fee income.

Costs in 2017 were NOK 143.3 million, compared to NOK 160.0 million in 2016. Payroll costs were NOK 1.3 million lower in 2017. Other operating costs were NOK 12.1 million lower in 2017. Depreciation/writedowns were NOK 3.4 million lower in 2017.

As of 12/31/2017, the Retail Market loan portfolio remains unchanged compared to 12/31/2016.

As of 12/31/2017, the deposit volume remains unchanged compared to 12/31/2016. The deposit to loan ratio was 41.9%, unchanged compared to 12/31/2016.

Individual writedowns of loans were reduced by NOK 0.8 million in 2017. Group writedowns went up by NOK 1.8 million, of which group writedowns in SSB Boligkreditt AS were reduced by NOK 2.1 million. As of 12/31/2017, individual writedowns and group writedowns for losses on loans totaled NOK 25.3 million and NOK 39.9 million, respectively, compared to individual writedowns of NOK 26.1 million and group writedowns of NOK 38.1 million as of 12/31/2016.Thereof, group writedowns in SSB Boligkreditt AS were NOK 4.2 million. During 2017, previous writedowns of NOK 5.4 (1.1) million loans were confirmed.

The Corporate Market

Corporate Market profits before taxes were NOK 98.3 million in 2017, compared to NOK 50.3 million in 2016.

In 2017, net interest income was NOK 222.4 million, compared to NOK 195.9 million in 2016. In 2017, net commission income was NOK 24.9 million, compared to NOK 26.5 million in 2016.

Costs in 2017 were NOK 82.3 million, compared to NOK 78.5 million in 2016. Payroll costs remain unchanged compared to 2016. Other operating cost was NOK 5.3 million higher in 2016. Depreciation/writedowns were NOK 1.6 million lower in 2017.

As of 12/31/2017, the Corporate Market loan portfolio remains unchanged compared to 12/31/2016. The deposit volume increased by NOK 0.1 billion, corresponding to 0.4%, in 2017. The deposit to loan ratio was 64.6%, compared to 63.1% at the end of 2016.

Individual writedowns of loans were reduced by NOK 12.2 million in 2017. Groupwise writedowns were reduced by NOK 4.4 million. As of 12/31/2017, individual writedowns and group writedowns for losses on loans totaled NOK 258.8 million and NOK 67.5 million, respectively, compared to individual writedowns of NOK 271.0 million and group writedowns of NOK 71.9 million as of 12/31/2016. During 2017, previous writedowns of NOK 81.6 (131.2) million loans were confirmed.

Real estate brokerage

For the real estate brokerage, profits before taxes were NOK 0.8 million in 2017, unchanged from 2016.

Other segments

Other segments include the performance by the Group's securities portfolio, as well as directors' fees and administrative cost related to functions reporting to the Board of Directors. Repossessed assets are also included.

Profits before taxes for other segments were NOK 31.4 million in 2017, compared to NOK 66.2 million in 2016. The decline is mainly due to stronger performance by financial instruments.

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 major risks, 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 assessment of its total capital requirement (Pilar II or 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

Overall, the Group has a moderate risk profile. The credit risk for current, ordinary loans is primarily in the risk categories lowest/low and medium (please refer to note 8), whereas the risk is somewhat higher for some bigger loans, as well as the doubtful loans. For loans with indications of potential loss, individual writedowns have been made on the basis of concrete evaluations.

There has only been small changes to the Bank's credit risk during 2017. During 2017, the calculation base for capital adequacy was reduced by 1.4% at Group level, which reduces the Bank's credit risk, when seen in isolation. The Bank's exposure to major loans was reduced by 64% during 2017. On the other hand, the credit risk has increased somewhat due to further macro-economic uncertainty.

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. 70% of the exposure to corporate customers satisfies the Group's internal requirement for classification as low risk. At the end of 2017, the lending volume is at the same level as at the end of 2016.

The quality of the retail loan portfolio is considered to be good. 86.5% of the retail loan portfolio satisfies the Group's internal requirement for classification as low risk. Despite negative home price developments in the Bank's catchment area, as well as the still somewhat higher unemployment rate in Rogaland, the Bank remains satisfied with the quality of its retail customer loan portfolio.

For the Group, non-performing loans and defaults beyond 90 days remained stable during 2017. Continued uncertainty regarding the economic cycle may have a negative impact on future defaults. The Bank is focusing on this area by identifying potential defaults at an early stage. We are still of the opinion that internal guidelines and practice for proper lending support the Bank's expectations of no significant negative changes in credit quality and losses in 2017.

Liquidity risk

The Bank's liquidity strategy was revised by the Board of Directors at the start of 2018. 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 "AAA" rating from Fitch.

At the end of 2017, loans worth NOK 6.7 billion had been transferred from the Bank to SSB Boligkreditt. SSB Boligkreditt has issued covered bonds with a nominal value NOK 6.6 billion. In addition, bonds with a face value of NOK 7.9 billion have been issued by Sandnes Sparebank.

The Group's deposit to loan ratio was stable during 2017, and was just over the 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 does not entail relatively 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, bonds or notes.

The Bank's holdings of bonds and notes are part of the Bank's liquid assets. The Group has requirements regarding the ratings of investment securities, and an additional main principle is that the security 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 our own trading of foreign currencies, 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. At the end of the year, the estimated earnings effect of a positive interest rate shift of 2% was NOK 1.3 million, whereas the estimated earnings effect of a negative interest rate shift of 2%, was NOK -2.4 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 risks. 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 enables the Bank to analyze operational events and then initiate changes to internal processes to reduce the likelihood of recurrence.

Capital management

At the Group level, the capital ratio was 20.0% (19.7%), the Tier-1 capital ratio 18.1% (17.5%) and the core Tier-1 ratio 16.6% (15.6%) as of 12/31/2017. For the Parent Bank, the capital ratio was 22.3% (21.8%), the Tier-1 capital ratio 20.0% (19.2%) and the core Tier-1 ratio 18.3% (17.1%).

The increase may be explained by this year's retained earnings.

Organization, employees and environment
In 2017, the Group's average number of full time equivalent employees was 135. At the end of the year, the Group had 135 full-time employee equivalents, a decline of 1 equivalent since the end of 2016. Aktiv Eiendom had 22 full-time equivalents at the end of the year. At the end of the year, the Bank itself had 113 full-time employee equivalents, with a decline of 3 equivalents during 2017.

The Bank has got a new management team. Our new CEO, Trine Stangeland, started March 1, 2017, and our new CFO, Tomas Nordbø Middelthon, started April 1. A new position as Director of Customer Experiences was established, and it was filled by Lene Nordahl on June 14. And, Erik Kvia Hansen started as the new Director of the Retail Market on July 1.

In 2017, the Bank prepared new strategic plans and it is now positioned for moderate growth in our core markets. The EIKA partnership, new systems and new EIKA products have been a focus for the Bank also in 2017.

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 65% of the Bank's employees. The Bank's management team consists of four 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 scheme for financial advisors, and authorized in accordance with the authorization scheme for general insurance sales people and advisors.
During 2018, the advisor team of the Bank will be authorized for the new credit authorization system.

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 3.4% in 2017. 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 12/31/2017, the SADG price was NOK 54.50, versus NOK 40.30 at the end of 2016.

During 2016, 15,909,091 new equity capital certificates were issued, after a successful NOK 350 million rights issue. At the turn of the year, the Bank had 2,310 registered owners of equity capital certificates. At this point in time, the 20 biggest owners controlled 55.32% of the equity certificate capital. The total number of equity capital certificates as of 12/31/2017 was 23,014,902, of which 35,818 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;

"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 half of the equity certificate capital’s share of profits will be distributed as dividends, and correspondingly that half 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 Board of Directors wants to contribute to improved liquidity for the equity capital certificate. Thus, the Bank has a liquidity guarantee agreement with an external party.

Application of loss for 2017

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 2017 of NOK 2.8 per equity capital certificate, corresponding to 50% of the Group's earnings per equity capital certificate. Of the NOK 34.1 million dividend allocated to the primary capital, the Board of Directors proposes an allocation to the Gift Fund of NOK 10 million, and NOK 24.1 million as customer dividend.

The Board of Directors proposes the following allocation:	**Amount (in millions of NOK)**
For allocation	197.6
To cash dividends on equity capital certificates	64.4
To equalization reserves	65.0
To the Savings Bank Fund	34.4
To the Gift Fund/customer dividend	34.1
From reserves for unrealized gains	- 0.5
Total proposed allocation	**197.6**

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 65.38% of the allocated profits.

Events after the balance sheet date

There have been no significant events after the date of the balance sheet that affects the financial statements as of 12/31/2017.

Prospects for 2018

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 towards 2020 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.

On 1/26/2018, 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. This supports the Bank's vision and will be a means to improve the customer experience. The first opportunity to pay customer dividend will be for the 2017 financial year, to be adopted by the Board of Trustees in March of 2018.

As an Eika Alliance bank, the Bank is able to offer a greater range of products and services than it was as an independent bank. Eika Gruppen is a strategically important partner in order for Sandnes Sparebank to achieve its vision. The Bank supports the strategy and direction adopted by the Eika Gruppen going forward. The total deliveries by Eika Gruppen contribute to the competitiveness of Sandnes Sparebank, allowing us to build on our strong market position

Regional macro conditions are showing signs of somewhat higher economic activity going forward. The Bank is well positioned, with available resources both with respect to capital requirements and the competencies needed to take part in increased growth going forward. There are still individual companies and industries that are struggling to adapt to a new activity and price level, and there is still idle capacity within commercial property in the region.

The Bank delivers annual earnings that are within the investor guidance for the year. Losses, expenses, dividend rate and Core Tier-1 capital are all well within the communicated targets.

The Bank is well capitalized. At the end of the year, the Bank had a Core Tier-1 capital ratio of 16.6%, after payment of the annual dividend of 50%. This is an increase from the start of the year of 15.6%, and well within the target Core Tier-1 capital ratio of at least 15.2% adopted by the Board of Directors.

Prospects for 2018 are better than they have been in recent years, but the region still has its challenges. Thus, the Bank's estimates include significant provisions for losses also

in 2018. The Bank’s cost level is expected to remain at about the same level as in 2017, adjusted for wage growth and cost increases. Based on these premises, from 2017, the Board expects to implement a dividend policy for the Bank of paying up to half its earnings as dividend, subject to expected earnings performance, external framework conditions and the Group’s estimated need for Tier-1 capital. However, the Directors want to stress that

there is uncertainty related to all future estimates. The Board of Directors is expecting good and stable development of the underlying banking operations, and improving market conditions. The Bank is well prepared for 2018, in the form of good liquidity, good solvency and competencies.

Sandnes, March 13, 2018
The Board of Directors of Sandnes Sparebank

Harald Espedal Chairman of the Board	**Frode Svaboe** Deputy Chairman	**Heidi Nag Flikka** Director	**Marion Svihus** Director

Arne Lee Norheim Director	**Birte Norheim** Director	**Solveig Vatne** Employee representative	**Jan Inge Aarreberg** Employee representative	**Trine Karin Stangeland** Managing Director