

QUARTER 3
2016
(UNAUDITED)



SPAREBANKEN SØR

Contents

Key figures Group	3
Report from the Board of Directors	4
Income statement	11
Balance sheet	12
Cash flow statement	13
Equity statement	14
Notes	15
Risk and Capital management	23
Quarterly profit trend	24
Key figures Group 2013-2015	25

Key figures Group

Income statement (NOK million)	Q3 2016	Q3 2015	30.09.2016	30.09.2015	31.12.2015
Net interest income	398	387	1 157	1 135	1 521
Net commission income	78	80	223	227	300
Net income from financial instruments	93	-104	157	-67	-66
Other operating income	4	8	20	14	14
Total net income	573	371	1 557	1 309	1 769
Total expenses	184	201	593	607	817
Profit before losses on loans	389	170	964	702	952
Losses on loans and guarantees	13	17	35	49	97
Profit before taxes	376	153	929	653	855
Tax expenses	85	42	211	178	231
Profit for the period	291	111	718	475	624
Income statement as percentage of average assets					
Net interest income	1.50 %	1.55 %	1.47 %	1.56 %	1.55 %
Net commission income	0.29 %	0.32 %	0.28 %	0.31 %	0.31 %
Net income from financial instruments	0.35 %	-0.42 %	0.20 %	-0.09 %	-0.07 %
Other operating income	0.02 %	0.03 %	0.03 %	0.02 %	0.01 %
Total net income	2.15 %	1.49 %	1.98 %	1.80 %	1.81 %
Total expenses	0.69 %	0.80 %	0.76 %	0.83 %	0.83 %
Profit before losses on loans	1.46 %	0.68 %	1.23 %	0.97 %	0.97 %
Losses on loans and guarantees	0.05 %	0.07 %	0.04 %	0.07 %	0.10 %
Profit before taxes	1.41 %	0.61 %	1.18 %	0.90 %	0.87 %
Tax expenses	0.32 %	0.17 %	0.27 %	0.24 %	0.24 %
Profit for the period	1.09 %	0.44 %	0.92 %	0.65 %	0.64 %
Average total assets	105 900	99 100	104 800	97 200	98 000
Balance sheet					
Total assets			105 248	99 429	101 334
Net loans to customers			90 086	85 364	88 387
Growth in loans as %, last 12 mths.			5.5 %	7.2 %	9.2 %
Customers deposits			51 207	48 931	48 349
Growth in deposits as %, last 12 mths.			4.7 %	2.7 %	0.2 %
Deposits as % of net loans			56.8 %	57.3 %	54.7 %
Equity			9 800	7 569	7 753
Losses on loans as % of net loans, annualised			0.05 %	0.08 %	0.11 %
Gross defaulted loans over 90 days as % of gross loans			0.45 %	0.57 %	0.47 %
Other key figures					
Cost as % of income	32.1 %	54.2 %	38.1 %	46.4 %	46.2 %
Cost as % of income, ex net income from financial instruments	38.3 %	42.3 %	42.4 %	44.1 %	44.5 %
Return on equity after tax	12.0 %	5.9 %	10.7 %	8.6 %	8.4 %
Liquidity reserve (LCR) (Group)			117.0 %	109.0 %	108 %
Common equity tier 1 capital ratio (added share of profit)			14.5 %	12.6 %	12.7 %
Tier 1 capital ratio			14.9 %	12.8 %	13.5 %
Total capital ratio			16.9 %	14.8 %	15.5 %
Common equity tier 1 capital			8 250	7 074	7 700
Tier 1 capital			9 075	7 574	8 210
Net total primary capital			10 256	8 752	9 388
Leverage ratio			7.7 %	6.4 %	7.0 %
Number of branches			36	40	40
Number of man-years in banking activity			435	446	449
Key figures, Equity certificates					
Equity certificate ratio			19.8 %	13.5 %	13.5 %
Number of equity certificates issued			15 663 944	4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)			6.0	8.3	10.6
Profit/diluted earnings per equity certificate (Group)			7.4	13.4	17.6
Dividend last year per equity certificate					9.0
Book equity per equity certificate			113.40	214.00	219.00
Price/Book value per equity certificate			0.72	0.90	0.63
Listed price on Oslo Stock Exchange at end of period			81.75	188.00	139.00

General

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

Estate agency brokerage is carried out through the subsidiary Sørmeglere. General insurance and life insurance products are supplied via Frende, an insurance company of which the bank is a joint owner. The Bank is also a joint owner of Norne, a security trading company, and Brage, a leasing product supplier.

Key features in Q3 2016

- Positive profit from ordinary operations
- Net interest income under pressure
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds, stocks and fixed rate loans
- Good cost control
- Low losses on loans
- Return on equity after tax of 12.0 percent
- Common equity tier 1 capital ratio of 14.5 percent and leverage ratio on 8.2 percent, when adding 80 percent of accrued profits.

Key features after 9 months

- Positive profit from ordinary operations
- Satisfactory development in net interest income
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds, stocks and fixed rate loans
- Good cost control
- Low losses on loans
- Deposit growth of 4.7 percent during the last 12 months
- Loan growth of 5.5 percent during the last 12 months, reduced to 2.5 percent during 2016 (annualized)
- The Bank strengthened its equity in Q2 through an equity rights issue to meet both the regulatory and the markets capital requirements at year-end
- Return on equity after tax of 10.7 percent

Financial framework conditions

Norges Bank has held the key interest rate unchanged at 0.50 percent in Q3, with no adjustments at the last meeting in October. Norges Bank's analyses indicate a key interest rate close to 0.50 percent the next few years, but that it's more likely that we will see a decrease than an increase in the interest rate the coming year.

A financial tax was proposed in the national budget, the proposition involves two elements; an extra tax of 5 percent of salaries in the financial sector, and that the rate of income tax is not to be reduced to 24 percent, but continues as 25 percent in 2017. If the budget is approved with the proposed financial tax, the Group's financial tax will increase by approximately NOK 18 million.

The Group has good access to funding, both home and abroad, through covered bonds and senior debt. Credit spreads has declined in Q3 2016.

The Annual growth in the general public's gross domestic debt (C2) was 5.1 percent at the end of September. Debt growth for households and industry amounted to 6.1 percent and 2.8 percent respectively.

Income statement

Profit before tax was NOK 376 million in Q3 2016, compared with NOK 153 million in the same period in 2015. The Group had a solid profit before tax due to a satisfactory development in net interest income, low costs and low losses. The profit improvement was mainly due to increased income from financial instruments.

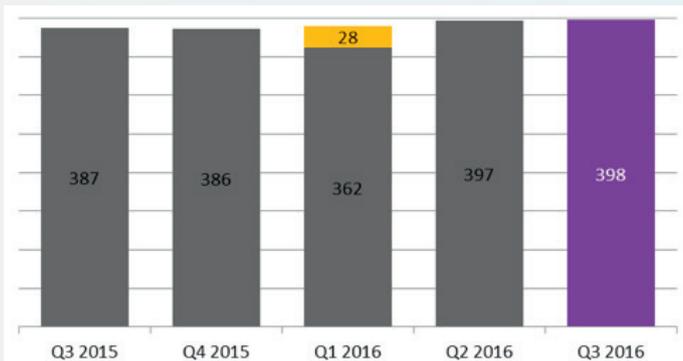
The development in profit before tax, excl. net income from financial instruments and losses, shows an underlying improvement of NOK 8 million in Q3 2016 compared with Q3 2015.

In Q3 2016 return on equity after tax was 12.0 percent, compared with 5.9 percent in Q3 2015. Return on equity after tax excl. changes in financial instruments amount to 8.8 percent in Q3 2016.

Profit before tax the first 9 months of 2016 amounted to NOK 929 million, compared with NOK 653 million in the same period in 2015. The return on equity after tax was 10.7 percent in the first nine months of 2016, compared with 8.6 percent the same period last year. Return on equity after tax excluded financial instruments was 8.6 percent after the first 9 months. Profit before tax, excluded net income from financial instruments, losses and effects due to the changes in accounting principles, show an increase of NOK 31 million, comparing the first 9 months in 2016 and 2015.

Net interest income

Quarterly net interest in NOK million



Net interest income amounted to NOK 398 million in Q3 2016, compared with NOK 387 million in Q3 2015, which gave an increase of NOK 11 million.

The fee to the Norwegian Banks' Guarantee Fund amounted to NOK 37 million in 2016, and as a result of the changes in the accounting principles the fee has been deducted from net interest in its entirety in Q1 2016. While NOK 9 million was expensed in Q3 2015, there has been no fee expense in Q3 2016.

Hybrid capital was reclassified as equity with effect from 1 January 2016, and the related interest has therefore been reclassified from interest expense to surplus disposal.

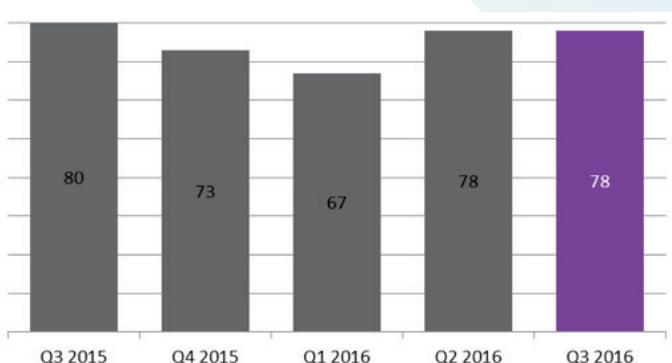
Adjusted for these two factors the net interest shows a decrease of NOK 3 million compared with Q3 2015. The margin on loans in the corporate and retail market has been under pressure in Q3 2016. While the deposit margins improved during the same period, overall there has been a downward pressure on net interest income.

Net interest income amounted to NOK 1157 million in the first 9 months of 2016, compared with NOK 1135 million in the same period last year. Adjusted for the changes in accounting principles as commented above, net interest was NOK 15 million higher in 2016.

The bank has implemented measures to improve net interest income by making adjustments in the terms and conditions of deposits. The effects of this adjustment will be reflected in the accounts next quarter, but not fully until Q1 2017.

Commission Income

Quarterly net commission income in NOK million



NOK million	Q3 2016	Q3 2015	Change	Q1-Q3 2016	Q1-Q3 2015	Change
Payment transfers	46	44	2	125	120	5
Real estate	27	27	0	75	80	-5
Others	21	21	0	63	61	2
Total	94	92	2	263	261	2

Net commission income amounted to NOK 78 million in Q3 2016, compared with NOK 80 million in Q3 2015.

Gross commission income amounted to NOK 94 million in Q3 2016, compared with NOK 92 million in Q3 2015.

Commission income in the first 9 months of 2016 amounted to NOK 263 million, compared with NOK 261 million in the same period last year. There has been an increase in commission income related to payment services and a decrease in commission income from the real estate business.

Financial instruments

Net income from financial instruments amounted to NOK 93 million in Q3 2016, compared to NOK -104 million in the same period last year. The main reasons were changes in the value of stocks, a positive development in fixed interest loans and a positive development in the value of the banks liquidity portfolio.

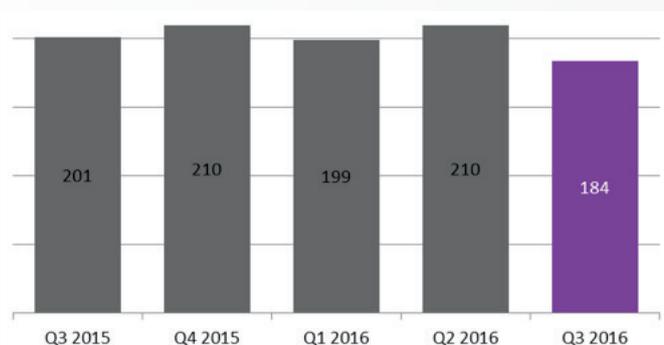
The Bank has in Q3 2016 recognized NOK 22 million in revenues due in the after settlement from the sale of Nets in 2014. This is a result of the sale of Visa Europe to Visa Inc. in Q2. The gain on 34 million recognized in Q2 was linked to the Bank's share in Visa Norge FLI, a share owner of Visa Europe.

Net income from financial instruments amounted to NOK 157 million in the first 9 months of 2016, compared with NOK -67 million in the same period in 2015. The main reasons were changes in the value of stocks, a positive development in the value of the banks liquidity portfolio, and a positive development in the fixed interest loan portfolio. There has been a negative development in basis swaps (interest and currency swaps) so far in 2016.

Basis swaps are used to hedge fixed rate debt issued in Euro. The value of basis swaps fluctuates due to market changes, and the fluctuations are recognized in the income statement. These are hedging instruments, and assuming the underlying bonds are held to maturity, the change in market value over the instruments duration equals zero. Accounting effects will therefore be reversed over time.

Operating expenses

Operating expenses quarterly in NOK million



Total operating expenses amounted to NOK 184 million in Q3 2016, compared with NOK 201 million in the same period last year.

For the banking operations alone, expenses amounted to NOK 165 million, compared with NOK 179 million in Q3 2015.

Personnel costs decreased due to fewer employees and lower pension costs. The board has decided to discontinue the Bank's defined benefit pension scheme in Q4 2016, involving about 80 % of the employees. The employees will be transferred to a defined contribution pension scheme. Net pension liabilities for the group pension scheme was NOK 87 million at the beginning of 2016. This obligation will be derecognized upon the conversion of the scheme. Part of this obligation will affect the earnings for Q4 2016 positively.

There has been a slight decrease in other operating expenses in Q3 2016, but expenses so far in 2016 compared with the same period last year show a slight increase.

Total operating expenses as a percentage of average assets amounted to 0.69 percent (0.80 percent) in Q3 2016. Costs as a percent of income was 32.1 (54.2 percent) in the Group. Cost as percent of income, excl. financial instruments, was 38.3 percent (42.3 percent).

Operating expenses amounted to NOK 593 million in the first 9 months of 2016, compared with NOK 607 million in the same period in 2015. The cost-income ratio was 38.1 percent (46.4 percent). Excluding the financial instruments gives a cost-income ratio of 42.4 percent (44.1 percent).

Losses and defaulted loans

Net losses on loans amount to NOK 13 million in Q3 2016, equivalent to 0.06 per cent of net loans. The corresponding figures in 2015 were NOK 17 million and 0.08 percent of net loans.

The Group's individual write-downs as at 30 September 2016 amounted to NOK 390 million, equivalent to 0.43 percent of gross loans. The Group's collective write-downs as at 30 September 2016 amounted to NOK 210 million, equivalent to 0.23 percent of gross loans.

Gross non-performing loans amounted to NOK 407 million, which is 0.45 percent of gross loans. The corresponding figures in 2015 were NOK 488 million, or 0.57 per cent of gross loans.

Other doubtful loans amounted to NOK 615 million. The corresponding figure in 2015 was NOK 823 million.

Net losses on loans amounted to NOK 35 million after Q3 2016, included an increase in collective write downs of NOK 4 million, amounting to 0.05 percent of net loans. The corresponding numbers for 2015 were NOK 49 million and 0.08 percent of net loans.

Loans

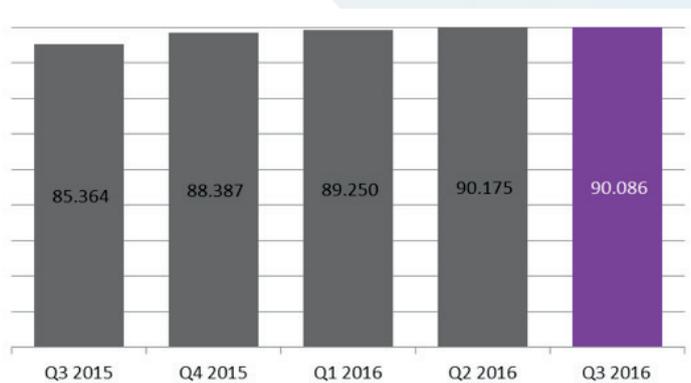
During the past 12 months, net loans have increased by NOK 4.7 billion to a total of NOK 90.1 billion, a growth of 5.5 percent. The growth after the first 9 months of 2016 was NOK 1.7 billion, equivalent to a 2.5 percent annual growth.

Gross loans to retail customers have increased by NOK 2.3 billion to NOK 59.5 billion, a growth of 4.0 percent. The growth in the first half of 2016 was NOK 1.3 billion, corresponding to an annual growth of 2.9 percent.

Gross loan to corporate customers has increased the last 12 months by NOK 2.3 billion to NOK 31.2 billion, a growth of 8.1 percent. The growth in loans the last 12 months has been high mainly due to the high growth in Q4 2015. The growth in 2016 was, however, only NOK 299 million, or 1.3 percent in annual growth. The growth is reduced in 2016 as a consequence of the bank's ambition to achieve a common equity tier 1 capital ratio of 14.5 percent at the end of 2016.

Loans to retail customers amounted to 66 percent (67 percent) of total loans at the end of Q3 2016.

Loans in NOK million



Deposits

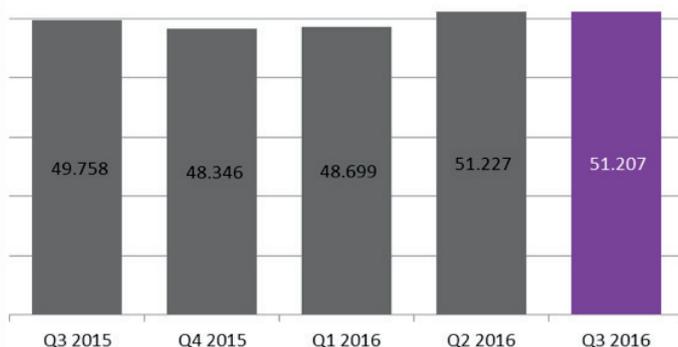
During the past 12 months, customer deposits increased by NOK 2.3 billion to NOK 51.2 billion. This corresponds to a growth of 4.7 percent. The growth in the first half of 2016 was NOK 2.9 billion, or 7.9 percent in annual growth.

Deposits from retail customers have increased by NOK 1.7 billion to NOK 25.2 billion, a growth of 7.2 percent.

Deposits from corporate customers have increased by NOK 0.6 billion to NOK 26.0 billion, a growth of 2.3 percent.

Sparebanken Sør's deposits as a percentage of net loans were 56.8 percent at 30 September 2016, down from 57.3 percent the same time last year. The deposit-to-loan ratio has declined during the last 12 months, caused by a strong lending growth in Q4 2015 and low deposit growth in 2015. Compared with year-end, however, the deposit-to-loan ratio has increased from 54.7 percent.

Deposits in NOK million



Financing and securities

The bank's liquidity situation is satisfactory. The liquidity buffers are adequate and the maturity structure for the funding is well-adjusted to the needs of the business. New long-term funding is established through the issuing of covered bonds and senior debt. The Group has also arranged for long term financing from the international market through an established EMTN program in Sparebanken Sør, and EMTCN program in Sparebanken Sør Boligkreditt. This was utilized in Q1 2016, when Sparebanken Sør Boligkreditt AS issued covered bonds in Euro with 5 years maturity.

As at 30 September 2016, the portfolio of interest-bearing securities in the Group totalled NOK 12.5 billion, and the liquidity indicator for long-term financing was 109 percent.

The Group's liquidity reserves (LCR) were 117 percent as at 30 September 2016 (99 percent in the parent bank).

Primary capital and capital adequacy

Net primary capital amounted to NOK 10.3 billion. Hybrid capital amounted to NOK 0.8 billion and subordinated loans to NOK 1.2 billion. At the end of Q3 2016, the common equity tier 1 (CET1) capital ratio was 13.6 percent. The tier 1 capital ratio was 14.9 percent and the (total) capital ratio 16.9 percent, based on the Basel II regulations. The Group has consequently fulfilled the new capital requirements for financial institutions with effect from 30 June 2016 of 11.5 percent for common equity tier 1 capital and 15 percent for (total) capital. Including an 80 percent share of the profit for Q3, the Group has a common equity tier 1 capital ratio of 14.5 percent.

For the Parent Bank, the respective figures are a common equity tier 1 capital ratio of 14.2 percent, a tier 1 capital ratio of 15.7 percent and a (total) capital ratio of 18 percent at the end of Q3 2016.

The Group's leverage ratio was 7.7 percent at the end of Q2 2016. Including the share (80 percent) of the Q3 profit the leverage is a solid 8.2 percent.

The Bank received a preliminary assessment of the Group's capital (SREP) in Q3 by the Financial Supervisory Authority (FSA),

and the FSA concluded with a pillar 2 – addition at 2.2 % of risk-weighted assets. At the same time, the FSA expects the Group to have an overall common equity core tier 1 capital ratio of 14.5 percent. Based on an overall assessment, among others as a result of market expectations, the bank chooses to adapt to a level of at least 14.5 percent in common equity tier 1 capital during 2016. It is expected that the final pillar 2 addition will be determined by the FSA during Q4 2016.

The Bank aims at a common equity tier 1 capital ratio at least at level with comparable banks. Of the largest regional banks, Sparebanken Sør is the only bank using the standard method in the capital adequacy calculations. Despite this the bank had a common equity tier 1 capital ratio of 14.5 percent by the end of Q3. If the bank had made the calculations after the IRB-method this would have given a significantly higher common equity tier 1 capital ratio.

The bank's financial strength is considered satisfactory in light of the current regulatory requirements.

The bank's equity certificates

As at 30 September 2016, 15 663 944 equity certificates have been issued. The profit (Group) per equity certificate was in Q3 2016 NOK 3.6, and NOK 7.4 for the first 9 months of 2016. Sparebanken Sør decided the 30th of March 2016 for a rights issue, and the rights issue has been carried out in Q2 2016. At the date of the rights issue, the 3rd of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The average ownership ratio after Q3 2016 (YTD) was 16.7 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Dividend

Sparebanken Sør will through sound, stable and profitable operations ensure that its equity certificate owners achieves a competitive return in terms of dividend and return on their equity certificates.

The surplus will be distributed between the equity certificate capital (equity certificate owners) and the primary capital in accordance with their share of the equity.

When determining the annual dividend, Sparebanken Sør's need for capital, including regulatory requirements, expectations from investors and the bank's strategic targets will be considered.

An ambition is that approximately half of the equity certificate capital share of annual profits after tax, should be awarded as dividend.

Subsidiaries and collaborating companies

Sparebanken Sør Boligkreditt AS, the Bank's wholly owned subsidiary, is licensed to issue covered bonds and is used as an instrument in the bank's long-term funding strategy. As at 30 September 2016, the bank had transferred NOK 28.2 billion to Sparebanken Sør Boligkreditt AS, equivalent to 47.4 percent of all loans to the retail market.

Sørmegleren, the bank's own estate agency, are the leading estate agency business in the Agder counties. The company has had a positive development and is performing very well even though the commission income is slightly down in 2016.

Frende Holding (10% ownership interest) is the parent company of Frende Skadeforsikring AS and Frende Livsforsikring AS, which provides general insurance and life insurance to retail customers and corporate customers. The company has continued its strong growth with regard to customer base and premiums within both general and life insurance, and the results are developing in line with expectations.

Brage Finans (14% ownership interest) is a financing company which offers leasing and loans secured by the purchased objects to the corporate and retail markets. The company has continued the good trend and delivered positive development and profitable growth.

Norne Securities (17.6% ownership interest) is an investment firm that provides online trading, traditional brokerage and corporate finance services. The company is owned by 14 independent Norwegian savings banks.

Rating

Sparebanken Sør has an A1 rating from Moody's. All covered bonds issued by Sparebanken Sør Boligkreditt AS have also been rated by Moody's, with a rating of Aaa.

Outlook

The Board of Directors is satisfied with the financial performance after Q3, 2016. The bank has delivered an improved profit from ordinary operations through customized growth, stable commission income, good cost control and low losses on loans.

The Bank received a preliminary assessment of the Group's capital (SREP) in Q3 by the Financial Supervisory Authority (FSA), where the FSA concluded with a pillar 2 – addition at 2.2 % of risk-weighted assets. The FSA expects the Group to have an overall CET1 ratio of 14.5 percent at the end of 2016. Based on an overall assessment the bank has chosen to adapt to a level of at least 14.5 percent in CET1 capital during 2016. At the end of Q3, the Group already has a common equity tier 1 capital ratio of 14.2 percent, added the 80 percent share of profit. The Group will adapt the growth in risk weighed balance to maintain this level.

The bank expects growth at least at level with the credit growth in Norway (C2) in 2017. The Group aims for a return on equity of 9 percent.

Based on the Bank's low direct exposure to oil service industry, economic conditions, historical figures, local market conditions and portfolio composition, the net losses in 2016 is expected to be low.

The Bank shall in accordance with its strategy focus on cost and long-term value creation. The Bank's investments in technology will continue, which will contribute to cost efficient operations and enable streamlining of the office structure. This, together with good quality credit work, will contribute to a continued profitable growth and development for Sparebanken Sør.

There is still uncertainty in the Norwegian economy. Norges Bank kept its key interest rate unchanged at the last interest rate meeting and their analysis implies a key interest rate that will remain close to current levels for some time to come. The oil prices have increased in 2016, but are still at a low level. Housing prices in the Bank's main market has showed a moderate development over several years, which also shows in the statistics for Q3.

The Group has a very low direct exposure to oil and the oil sector, but is as the largest regional Bank affected by the economic development of the region. Low interest rates, however, contributes to both households and businesses and help maintain a high service level even with slightly lower income. There have been no significant changes in non-performing and doubtful loans, but the economic downturn involves the risk of increased defaults and loss-provisions.

Events since the end of the quarter

There have been no recorded incidents since 30 September 2016 that affect the quarterly accounts.

Arendal, 1 November 2016

Stein A. Hannevik
Chairman

Torstein Moland
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen
Employee representative

Sigrid Evenstad Moe
Employee representative

Geir Bergskaug
CEO

PARENT BANK					NOK million	GROUP				
31.12.	30.09.	30.09.	Q3	Q3		Q3	Q3	30.09.	30.09.	31.12.
2015	2015	2016	2015	2016		2016	2015	2016	2015	2015
2 390	1 830	1 641	596	542	Interest income	729	775	2 195	2 381	3 119
1 252	985	742	302	229	Interest expenses	331	388	1 038	1 246	1 598
1 138	845	899	294	313	Net interest income	398	387	1 157	1 135	1 521
297	218	232	78	82	Commission income	94	92	263	261	347
47	34	40	12	16	Commission expenses	16	12	40	34	47
250	184	192	66	66	Net commission income	78	80	223	227	300
9	9	22		1	Dividend	1		10	2	3
-74	-61	176	-103	102	Net income from other financial instruments	92	-104	147	-69	-69
-65	-52	198	-103	103	Net income from financial instruments	93	-104	157	-67	-66
15	12	20	6	4	Other operating income	4	8	20	14	14
1 338	989	1 309	263	486	Total net income	573	371	1 557	1 309	1 769
389	287	275	97	89	Wages and other personal expenses	104	114	326	340	458
36	25	22	9	8	Depreciation and write-down of fixed assets and intangible assets	9	9	23	25	37
307	226	230	73	68	Other operating expenses	71	78	244	242	322
732	538	527	179	165	Total operating expenses	184	201	593	607	817
606	451	782	84	321	Profit before losses on loans	389	170	964	702	952
97	49	35	17	13	Losses on loans and guarantees	2	13	17	35	97
509	402	747	67	308	Profit before taxes	7	376	153	929	855
136	109	162	19	67	Tax expenses	12	85	211	178	231
373	293	585	48	241	Profit for the period	291	111	718	475	624
					Minority interests	1		1		2
373	293	585	48	241	Majority interests	290	111	717	475	622
10,6	8,3	6,0	1,4	2,9	Profit/diluted earnings per equity certificate (in whole NOK)	3,6	3,1	7,4	13,4	17,6
					Other comprehensive income					
373	293	585	48	241	Profit for the period	291	111	718	475	624
					<i>Items that will not be reclassified to profit and loss account</i>					
59					Recognised estimate deviation, pensions					59
-15					Tax effect of recognised estimate deviation, pensions					-15
417	293	585	48	241	Sum totalresultat for perioden	291	111	718	475	668

Balance sheet

PARENT BANK			NOK million	GROUP			
31.12. 2015	30.09. 2015	30.09. 2016		Notes	30.09. 2016	30.09. 2015	31.12. 2015
			Assets				
332	816	538	Cash and receivables from central banks		538	816	332
2 017	1 755	1 740	Loans to credit institutions		242	142	157
62 744	61 013	61 953	Net loans to customers	2, 3, 5, 7, 8	90 086	85 364	88 387
10 456	11 435	12 185	Bonds and certificates	8	12 488	11 269	10 557
487	420	482	Shares	8	482	420	487
659	597	629	Financial derivatives	8, 9	808	739	813
1 259	1 258	1 259	Shareholdings in group companies				
13	12	13	Shareholdings in associated companies		13	12	13
10	19	21	Intangible assets		24	22	13
3	17		Deferred tax assets			21	8
438	464	446	Fixed assets		473	492	479
61	82	32	Other assets		94	132	88
78 479	77 888	79 298	TOTAL ASSETS	7, 8	105 248	99 429	101 334
			LIABILITIES AND EQUITY CAPITAL				
626	454	634	Debts to credit institutions		574	413	576
48 377	48 953	51 235	Deposits from customers	4, 7, 8	51 207	48 931	48 349
19 865	18 814	16 351	Debt incurred due to issue of securities	8, 10	41 175	39 565	41 899
411	489	350	Financial derivatives	8, 9	576	492	413
151	129	193	Payable taxes		246	242	245
188	279	279	Other liabilities		330	323	229
160	194	110	Provisions for commitments		110	194	160
		38	Deferred tax		27		
1 710	1 700	1 203	Subordinated loan capital	8, 10	1 203	1 700	1 710
71 488	71 012	70 393	Total liabilities		95 448	91 860	93 581
905	891	1 489	Equity certificate capital	11	1 489	891	905
		825	Hybrid capital		825		
6 086	5 985	6 591	Other equity		7 486	6 678	6 848
6 991	6 876	8 905	Total equity capital	6	9 800	7 569	7 753
78 479	77 888	79 298	TOTAL LIABILITIES AND EQUITY CAPITAL	7, 8	105 248	99 429	101 334

PARENT BANK			NOK million	GROUP		
31.12.	30.09.	30.09.		30.09.	30.09.	31.12.
2015	2015	2016		2016	2015	2015
2 414	1 918	1 742	Interest payment received	2 299	2 480	3 142
-1 319	-1 107	-870	Interest payment made	-1 160	-1 385	-1 669
285	215	289	Other payments received	307	253	341
-722	-572	-556	Operating payments	-637	-642	-800
6	6	3	Established on confirmed losses	3	6	6
-69	-70	-80	Period tax paid	-175	-118	-164
-20	-16	-16	Gifts paid	-16	-16	-20
113	684	2 858	Change in customers deposits	2 858	681	104
-1 988	-179	700	Change in loans to customers	-1 790	-4 499	-7 598
-1 300	879	4 070	Net cash flow from operational activities	1 689	-3 240	-6 658
13 401	6 948	6 546	Payments received regarding securities	6 796	4 278	6 649
-13 927	-8 393	-8 171	Payments made regarding securities	-8 623	-5 258	-6 977
24	24	5	Payments received regarding sale of fixed assets	19	24	24
-12	-11	-21	Payments made regarding purchase of fixed assets	-21	-11	-26
139	105	53	Change in other assets	6	101	155
-375	-1 327	-1 588	Netto kontantstrøm fra investeringsaktiviteter	-1 823	-866	-175
-507	-245	277	Change in loans to credit institutions	-85	38	23
-1	-173	8	Change in deposits from credit institutions	-2	-201	-38
8 720	4 200		Payments received, bond debt	4 760	10 200	20 220
-7 093	-3 614	-3 311	Payments made, bond debt	-5 117	-6 198	-13 832
1 510	800		Payments received, subordinated loan capital		800	1 510
-900	-200		Payments made, subordinated loan capital		-200	-900
-47	-47	-65	Dividend payment	-65	-47	-47
		314	Issuance of hybrid capital	314		
		582	Issuance of ECs	582		
-270	-52	-81	Change in other liabilities	-47	-65	-366
1 412	669	-2 276	Net cash flow from financing activities	340	4 327	6 570
-263	221	206	Net change in liquid assets	206	221	-263
595	595	332	Cash and cash equivalents as at 01.01	332	595	595
332	816	538	Cash and cash equivalents at end of period	538	816	332

Equity statement

GROUP NOK million	Dividene								TOTAL
	Equity certificates	Premium fund	equalization- fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31.12.2014	474	175	242		5 667	41	558		7157
Dividend distributed for 2014							-47		-47
Profit per 30 Sept. 2015							475		475
Distributed by gift fund						-16			-16
Balance 30.09.2015	474	175	242		5 667	25	986	0	7569
Profit 1 Oct. - 31 Dec. 2015			8		297	25	-183	2	149
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Distributed by gift fund						-9			-9
Balance 31.12.2015	474	175	256		6 002	41	803	2	7 753
Reclassification of hybrid capital 1 Jan.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of hybrid capital	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-22					-22
Profit per 30 Sept. 2016				22			695	1	718
Distributed by gift fund						-13			-13
Balance 30.09.2016	783	451	255	825	6 000	28	1 455	3	9 800
PARENT BANK									
Balance 31.12.2014	474	175	242		5 667	41	47		6 646
Dividend distributed for 2014							-47		-47
Profit per 30 Sept. 2015							293		293
Distributed by gift fund						-16			-16
Balance 30.09.2015	474	175	242		5 667	25	293	0	6 876
Profit 1 Oct. - 31 Dec. 2015			8		297	25	-250		80
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Distributed by gift fund						-9			-9
Balance 31.12.2015	474	175	256		6 002	41	43	0	6 991
Reclassification of hybrid capital 1 Jan.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of hybrid capital	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-22					-22
Profit per 30 Sept. 2016				22			563		585
Distributed by gift fund						-13			-13
Balance 30.09.2016	783	451	255	825	6 000	28	563	0	8 905

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRS), including IAS 34. The applied accounting principles are the same as used in the 2015 annual financial statements.

Due to clarifications in the interpretation of IFRIC 21 Fees, there has been a change in the accounting principles regarding the accounting of contributions to the Norwegian Banks' Guarantee Fund. The expense is determined by separate regulations as an average calculation of previous quarters. Sparebanken Sør has in Q1 changed its earlier practice of monthly cost accrual, and expensed the fee in its entirety in Q1. This has caused an interest expense NOK 27 million higher in Q1 compared with using the previous accounting principles. Similarly, the interest expense for Q3 would have been 9 million lower in 2016. A new regulation has been implemented for withdrawals from the Guarantee Fund. The amendment gives the right to a proportionate deduction from the guarantee fund charge on withdrawal and banks may thus accrue the fee. The amendment is effective from 1 January 2017, and the bank will change its practice for treating Guarantee Fund fees.

In accordance with IAS 32, hybrid capital not meeting the definition of financial obligations was reclassified from debt to equity per January 1, 2016.

There are no new standards applicable for 2016 that have significant effects on the financial statements.

2. LOSSES ON LOANS AND GUARANTEES

PARENT BANK			NOK million	GROUP		
31.12.15	30.09.15	30.09.16	Individual write-downs	30.09.16	30.09.15	31.12.15
521	521	517	Individual write-downs at start of period	517	521	521
76	65	137	- Period's confirmed loss where individual write-down has been performed previously	137	65	76
43	27	64	+ Increased individual write-downs during the period	64	27	43
77	57	55	+ New individual write-downs during the period	55	57	77
48	39	109	- Reversal of individual write-downs during the period	109	39	48
517	501	390	= Individual write-downs at end of period	390	501	517

PARENT BANK				GROUP		
31.12.15	30.09.15	30.09.16	Collective write-downs on loans	30.09.16	30.09.15	31.12.15
188	188	200	Collective write-downs of loans at start of period	206	194	194
12	0	4	+ Change in collective write-downs during the period	4	0	12
200	188	204	= Collective write-downs of loans at end of period	210	194	206

PARENT BANK				GROUP		
31.12.15	30.09.15	30.09.16	Loss expense on loans during the period	30.09.16	30.09.15	31.12.15
-4	-17	-127	Change in individual write downs during the period	-127	-17	-4
12	0	4	+ Change in collective write-downs during the period	4	0	12
76	65	137	+ Period's confirmed loss where individual write-downs has been performed previously	137	65	76
17	4	20	+ Period's confirmed loss where no individual write-downs has been performed previously	20	4	17
5	3	4	+ Recognised as interest income	4	3	5
6	6	3	- Period's recoveries relating to previous losses	3	6	6
-3	0	0	+Change in write downs on guaranties	0	0	-3
97	49	35	= Loss expenses during the period	35	49	97

3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK			NOK million	GROUP		
31.12.15	30.09.15	30.09.16		30.09.16	30.09.15	31.12.15
419	488	406	Gross non-performing loans	407	488	419
134	154	142	Individual write-downs	142	154	134
285	334	265	Net non-performing loans	265	334	285
0.66 %	0.79 %	0.65 %	Gross non-performing loans in % of gross loans	0.45 %	0.57 %	0.47 %
794	823	615	Other doubtful loans	615	823	794
384	347	248	Individual loss-provisions	248	347	384
410	476	369	Net doubtful loans	368	476	410

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

4. CUSTOMERS DEPOSITS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.15	30.09.15	30.09.16		30.09.16	30.09.15	31.12.15
23 864	23 540	25 229	Retail customers	25 229	23 540	23 864
6 593	6 345	7 278	Public administration	7 278	6 339	6 586
691	317	377	Primary industry	377	317	690
1 616	1 471	1 531	Manufacturing industry	1 531	1 470	1 614
490	397	501	Real estate development	472	396	489
948	950	832	Building and construction industry	832	949	946
2 817	3 169	2 460	Property management	2 460	3 166	2 814
677	605	795	Transport	795	605	676
893	824	899	Retail trade	899	824	892
156	175	180	Hotel and restaurant	180	175	156
266	272	268	Housing cooperatives	268	272	265
4 106	5 293	5 221	Financial/commercial services	5 221	5 288	4 102
5 252	5 074	5 327	Social services	5 327	5 069	5 246
8	521	337	Accrued interests	338	521	8
48 377	48 953	51 235	Total deposits from customers	51 207	48 931	48 349

The Group changed the industry classification for deposits and loans in Q3 2016. The new classification corresponds with what the Group uses internally. Comparable numbers are updated with the new classification.

5. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.15	30.09.15	30.09.16		30.09.16	30.09.15	31.12.15
32 719	32 999	31 526	Retail customers	59 505	57 222	58 230
541	531	267	Public administration	267	530	541
714	685	738	Primary industry	751	692	722
932	924	1 010	Manufacturing industry	1 014	930	936
3 313	3 117	3 215	Real estate development	3 171	3 115	3 309
1 205	1 183	1 329	Building and construction industry	1 373	1 224	1 246
15 493	13 765	15 954	Property management	15 962	13 755	15 482
475	480	532	Transport	541	483	478
1 127	1 015	984	Retail trade	996	1 025	1 136
389	394	374	Hotel and restaurant	376	395	391
810	826	889	Housing cooperatives	889	824	809
1 986	1 947	1 740	Financial/commercial services	1 787	1 978	2 015
3 636	3 712	3 863	Social services	3 903	3 738	3 670
122	126	125	Accrued interests	150	149	147
63 462	61 702	62 546	Total gross loans	90 685	86 059	89 111
717	689	594	Write-downs on lending	600	695	723
62 744	61 013	61 953	Total net loans	90 086	85 364	88 387

The Group changed the industry classification for deposits and loans in Q3 2016. The new classification corresponds with what the Group uses internally. Comparable numbers are updated with the new classification.

6. PRIMARY CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12.15	30.09.15	30.09.16		30.09.16	30.0.15	31.12.15
474	474	783	Equity certificates	783	474	474
175	175	451	Premium fund	451	175	175
6 002	5 667	6 000	Primary capital	6 000	5 667	6 002
41	25	28	Gift fund	28	25	41
256	242	255	Equalisation fund	255	242	256
43			Other equity	753	510	805
-43			- Deduction for dividends included under other equity			-43
-10	-19	-21	- Deduction for intangible assets and deferred tax assets	-21	-19	-10
6 938	6 564	7 497	Total common equity tier 1 capital	8 250	7 074	7 700
510	500	825	Hybrid capital	825	500	510
0	0	0	- Deduction for intangible assets and deferred tax assets			
7 448	7 064	8 322	Total tier 1 capital	9 075	7 574	8 210
			Additional capital over core capital:			
1 200	1 200	1 203	Subordinated loan capital	1 203	1 200	1 200
1 200	1 200	1 203	Total additional tier 1 capital	1 203	1 200	1 200
-22	-22	-22	- Deduction from core and additional capital	-22	-22	-22
8 626	8 242	9 503	Net primary capital	10 256	8 752	9 388
			Minimum requirement for subordinated capital Basel II calculated according to the standard method:			
7	8	7	Engagements with local and regional authorities	7	8	7
66	83	54	Engagements with institutions	41	61	40
251	1 334	169	Engagements with enterprises	170	1 334	251
505	887	422	Engagement with mass market	421	1 113	530
2 744	1 030	2 828	Engagement secured in property	3 690	1 650	3 501
71	79	60	Engagement which have fallen due	61	79	72
0	0	0	Engagement which are high risk	0	0	0
237	233	276	Engagement in covered bonds	77	68	62
137	133	139	Engagement in collective investment funds	39	34	37
51	64	48	Engagement. other	49	64	51
4 069	3 851	4 003	Capital requirements for credit- and counterparty risk	4 555	4 411	4 551
4	4	4	Capital requirements for position-, currency- and product risk	4	4	4
196	196	197	Capital requirements for operational risk	259	272	252
29	26	27	CVA addition	49	35	47
0	0	0	Deduction from the capital requirement	0	0	0
4 299	4 078	4 231	Total minimum requirement for primary capital	4 867	4 722	4 854
53 735	50 973	52 893	Risk-weighted balance (calculation basis)	60 841	59 025	60 679
12.9 %	12.9 %	14.2 %	Common equity tier 1 capital ratio. %	13.6 %	12.0 %	12.7 %
13.9 %	13.9 %	15.7 %	Tier 1 capital ratio. %	14.9 %	12.8 %	13.5 %
16.1 %	16.2 %	18.0 %	Total capital ratio. %	16.9 %	14.8 %	15.5 %

7. SEGMENT REPORTING

Income statement (NOK million)	Group 30.09.2016				Group 30.09.2015			
	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest	715	457	-16	1 157	726	395	14	1 135
Net other operating income	135	47	218	400	112	44	18	174
Operating expenses	275	66	251	593	257	62	288	607
Profit before losses per segment	575	438	-49	964	581	377	-256	702
Losses on loans and guarantees	4	27	4	35	0	49	0	49
Profit before tax per segment	571	411	-53	929	581	328	-256	653
Net loans to customers	59 683	30 349	54	90 086	56 999	28 183	182	85 364
Other assets			15 162	15 162			14 065	14 065
Total assets per segment	59 683	30 349	15 216	105 248	56 999	28 183	14 247	99 429
Deposits from customers	26 929	20 224	4 053	51 207	25 583	18 376	4 972	48 931
Other liabilities	32 754	10 125	1 363	44 241	31 416	9 807	1 706	42 929
Total liabilities per segment	59 683	30 349	5 416	95 448	56 999	28 183	6 678	91 860
Equity			9 800	9 800			7 569	7 569
Total liabilities and equity per segment	59 683	30 349	15 216	105 248	56 999	28 183	14 247	99 429

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

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

Level 2:

Instruments where the value is based on valuation techniques in which all assumptions (all input) are based on directly or indirectly observable market data. Values in this regard may be obtained from external market players or reconciled against external market players offering these types of services.

Level 3:

Instruments are based on valuation techniques in which at least one essential requirement cannot be supported based on observable market values. This category includes investments in unlisted companies and fixed rate loans where no necessary market information is available.

For a more detailed description, see Note 21 Fair value of financial instruments in the 2015 annual financial statements.

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			30.09.2016	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortised cost								
538		538		Cash and receivables from central banks	538		538	
1 740		1 740		Loans to credit institutions	242		242	
54 219			54 219	Net loans to customers (floating interest rate)	82 352			82 352
Assets recognized at fair value								
7 734			7 734	Net loans to customers (fixed interest rate)	7 734			7 734
12 185		12 185		Bonds and certificates	12 488		12 488	
482	27		455	Shares	482	27		455
629		629		Financial derivatives	808		808	
77 527	27	15 092	62 408	Total financial assets	104 644	27	14 076	90 541
Liabilities recognized at amortised cost								
634		634		Debt to credit institutions	574		574	
51 235			51 235	Deposit from customers	51 207			51 207
16 351		16 387		Debt incurred due to issue of securities	41 175		41 264	
1 203		1 187		Subordinated loan capital	1 203		1 187	
Liabilities recognized at fair value								
350		350		Financial derivatives	576		576	
69 773	0	18 508	51 235	Total financial liabilities	94 735	0	43 601	51 207

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.12.2015	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortized cost								
332		332		Cash and receivables from central banks	332		332	
2 017		2 017		Loans to credit institutions	157		157	
54 454			54 454	Net loans to customers (floating interest rate)	80 097			80 097
Assets recognized at fair value								
8 290			8 290	Net loans to customers (fixed interest rate)	8 290			8 290
10 456		10 456		Bonds and certificates	10 557		10 557	
487	23		464	Shares	487	23		464
659		659		Financial derivatives	813		813	
76 696	23	13 464	63 208	Total financial assets	100 732	23	11 858	88 851
Liabilities recognized at amortised cost								
626		626		Debt to credit institutions	576		576	
48 377			48 377	Deposit from customers	48 349			48 349
19 865		20 033		Debt incurred due to issue of securities	41 899		41 922	
1 710		1 708		Subordinated loan capital	1 710		1 708	
Liabilities recognized at fair value								
411		411		Financial derivatives	413		413	
70 989	0	22 778	48 377	Total financial liabilities	92 947	0	44 619	48 349

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			30.09.2015	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortized cost								
816		816		Cash and receivables from central banks	816		894	
1 755		1 755		Loans to credit institutions	142		142	
52 492			52 492	Net loans to customers (floating interest rate)	76 845			76 845
Assets recognized at fair value								
8 519			8 519	Net loans to customers (fixed interest rate)	8 519			8 519
11 435		11 435		Bonds and certificates	11 269		11 269	
420	24		396	Shares	420	24		396
597		597		Financial derivatives	739		739	
76 034	24	14 603	61 407	Total financial assets	98 750	24	13 044	85 760
Liabilities recognized at amortised cost								
454		454		Debt to credit institutions	413		413	
48 953			48 953	Deposit from customers	48 931			48 931
18 414		19 001		Debt incurred due to issue of securities	39 565		39 703	
1 700		1 691		Subordinated loan capital	1 700		1 691	
Liabilities recognized at fair value								
489		489		Financial derivatives	492		492	
70 010	0	21 635	48 953	Total financial liabilities	91 101	0	42 299	48 931

Movement level 3

GROUP / PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares	Of which credit risk
Recognized value as at 01.01.2015	6 769	-110	394	0
Acquisitions Q1 - Q3 2015	2 984			
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	45	60	2	0
Disposals Q1 - Q3 2015	-1 279			
Recognized value as at 30.09.2015	8 519	-50	396	0
Acquisitions Q4 2015	46		9	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-20	-12	65	0
Disposals Q4 2015	-255		-6	
Recognized value as at 31.12.2015	8 290	-62	464	0
Acquisitions Q1 - Q3 2016	402		8	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	2	5	43	0
Disposals Q1 - Q3 2016	-960		-60	
Recognized value as at 30.09.2016	7 734	-57	455	0

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	30.09.2016	30.09.2015	31.12.2015
Loan to customers	22	29	27
- of which, loans to corporate market (CM)	7	9	8
- of which, loans to retail market (RM)	16	20	19

9. OFFSETTING

GROUP

NOK million	30.06.16	30.06.2016 (1) presented net	30.06.15	30.06.2015 (1) presented net	31.12.15	31.12.2015 (1) presented net
Assets						
Financial derivatives	808	671	739	352	813	485
Liabilities						
Financial derivatives	576	440	492	105	413	85

PARENT BANK

NOK million	30.06.16	30.06.2016 (1) presented net	30.06.15	30.06.2015 (1) presented net	31.12.15	31.12.2015 (1) presented net
Liabilities						
Financial derivatives	629	510	597	213	659	333
Liabilities						
Financial derivatives	350	231	489	105	411	85

(1) Financial derivatives indicate assets and liabilities in cases where the bank and the Group have recognized their financial derivatives net in relation to each individual counterparties.

The bank and the Group's counter-claim rights adhere to common Norwegian law. The Bank and Sparebanken Sør Boligkreditt AS has the right to offset other outstanding accounts through ISDA agreements and a master agreement in cases where certain events occur. The amounts have not been offset in the balance sheet because the transactions are generally not settled on a net basis.

10. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities – Parent bank

NOK million	30.09.2016	30.09.2015	31.12.2015
Bonds, nominal value	15 904	18 173	19 215
Value adjustments	291	441	381
Accrued interest	156	200	269
Debt incurred due to issue of securities	16 351	18 814	19 865

Change in debt securities – Parent bank

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	30.09.2016
Bonds, nominal value	19 215	0	-3 311		15 904
Value adjustments	381			-90	291
Accrued interest	269			-113	156
Debt incurred due to issue of securities	19 865	0	-3 311	-203	16 351

Debt securities – Group

NOK million	30.09.2016	30.09.2015	31 Dec. 2015
Bonds, nominal value	40 779	38 750	41 136
Value adjustments	197	578	447
Accrued interest	199	237	316
Debt incurred due to issue of securities	41 175	39 565	41 899

Change in debt securities - Group

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	30.09.2016
Bonds, nominal value	41 136	4 760	-5 117		40 779
Value adjustments	447			-250	197
Accrued interest	316			-117	199
Debt incurred due to issue of securities	41 899	4 760	-5 117	-367	41 175

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

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	30.09.2016
Subordinated loans	1 200				1 200
Hybrid capital	510			-510	0
Accrued interest	0			3	3
Total subordinated loan capital	1 710	0	0	-507	1 203

- (1) In accordance to IAS 32, hybrid capital not meeting the definition of financial obligations was reclassified from debt to equity 1 January 2016.

11. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as at 30.09.2016.

NAME	NUMBER OF EC	SHARE OF EC-CAP. %	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1. Sparebankstiftelsen	8 125 679	51.88	11. Allumgården AS	151 861	0.97
2. Arendal kom. pensjonskasse	450 000	2.87	12. MP Pensjon PK	112 733	0.72
3. Holta invest AS	444 410	2.84	13. Profond AS c/o A. G. Regnskap A	101 331	0.65
4. Pareto AS	417 309	2.66	14. Ottersland AS	100 000	0.64
5. Glastad invest AS	387 467	2.47	15. Wenaas Kapital AS	90 350	0.58
6. Merrill Lynch	329 080	2.10	16. Spareskillingsbanken	87 780	0.56
7. EIKA utbytte VPF c/o Eika kapitalforv.	313 609	2.00	17. Artel holding A/S	82 131	0.52
8. Bergen Kom. Pensjonskasse	300 000	1.92	18. Skandinaviska Enskilda Banken	80 650	0.51
9. Wenaasgruppen AS	186 206	1.19	19. Apriori holding AS	72 575	0.46
10. Gumpen Bileiendom AS	154 209	0.98	20. Varodd AS	70 520	0.45
Total - 10 largest owners	11 107 969	70.91	Total - 20 largest owners	12 057 900	76.97

Sparebanken Sør decided the 30th of March 2016 for a rights issue, and the rights issue has been carried out in Q2 2016. At the date of the rights issue, the 3rd of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The weighted average ownership ratio for Q3 2016 was 16.7 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Sparebanken Sør owns 5 168 of its own equity certificates. As at 30 September 2016, the equity certificate capital was NOK 783 197 200 NOK distributed over 15 663 944 equity certificates with a nominal value of NOK 50.

12. TAX EXPENSES

The ordinary tax rate of 25 % is used for calculation of payable tax.

Risk management ensures that the Group's risk exposure is known at any time and is instrumental in helping the Group to achieve its strategic objectives, and also compliance with laws, regulations and regulatory requirements. Governing targets have been established for the Group's overall risk level, while specific governing targets have been established for each risk area. Systems have been established to calculate, manage and control risk. The aim of capital management is to ensure that the Group has an acceptable tier 1 capital ratio, is financially stable and achieves a satisfactory return in relation to its risk profile. The Group's total capital ratio and risk exposure are monitored through periodic reports.

Credit risk

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

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

Market risk

Market risk generally arises from the Group's unsecured transactions in the interest rate, currency and equity markets, and can be divided into interest rate risk, currency risk, share risk and spread risk. The risk is linked to variations in results caused by changes in the interest rate, market prices and/or exchange rates. Guidelines and limits have been established by the Board of Directors for managing market risk.

Liquidity risk

Liquidity risk is risk linked to Sparebanken Sør's ability to finance its lending growth and fulfil its loan obligations subject to market conditions. Liquidity risk also includes the risk of the financial markets that the Group wishes to use, ceasing to function. Guidelines and limits for the management of liquidity risk have been established by the Board of Directors.

Operational risk

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

Business risk

Business risk is defined as the risk of unexpected revenue fluctuations based on factors other than credit risk, liquidity risk, market risk and operational risk. This risk could for example arise as a result of the authorities introducing amendments to regulations or the implementation of financial or monetary policy measures, including changes in tax, duty and currency legislation, which could have a negative impact on the business.

It is a precondition for Sparebanken Sør that risk must be subject to active and satisfactory management, based on objectives and limits established by the Board of Directors for risk exposure and risk tolerance.

Quarterly profit trend

GROUP	Q3	Q2	Q1	Q4	Q3
NOK million	2016	2016	2015	2015	2015
Net interest income	398	397	362	386	387
Net commission income	78	78	67	73	80
Net income from financial instruments	93	85	-21	1	-104
Other operating income	4	11	5		8
Total net income	573	571	413	460	371
Total operating expenses	184	210	199	210	201
Profit before losses	389	361	214	250	170
Losses on loans and guarantees	13	9	13	48	17
Profit before taxes	376	352	201	202	153
Tax expenses	85	75	51	53	42
Profit for the period	291	277	150	149	111

% of average assets

Net interest income	1.50	1.51	1.41	1.53	1.55
Net commission income	0.29	0.30	0.26	0.29	0.32
Net income from financial instruments	0.35	0.32	-0.08		-0.42
Other operating income	0.02	0.04	0.02		0.03
Total net income	2.15	2.17	1.61	1.82	1.48
Total operating expenses	0.69	0.80	0.78	0.83	0.80
Profit before losses	1.46	1.37	0.84	0.99	0.68
Losses on loans and guarantees	0.05	0.03	0.05	0.19	0.07
Profit before taxes	1.41	1.34	0.79	0.80	0.61
Tax expenses	0.32	0.28	0.20	0.21	0.17
Profit for the period	1.09	1.05	0.59	0.59	0.44
Average total assets	105 900	105 600	102 900	100 400	99 100

Balance sheet

Total assets	105 248	106 617	104 521	101 334	99 429
Net loans to customers	90 086	90 175	89 250	88 387	85 364
Growth in loans as %, last 12 mths.	5.5 %	7.4 %	8.4 %	9.2 %	7.2 %
Customers deposits	51 207	51 227	48 699	48 349	48 931
Growth in deposits as %, last 12 mths.	4.7 %	3.0 %	2.0 %	0.2 %	2.7 %
Deposits as % of net loans	56.8 %	56.8 %	54.6 %	54.7 %	57.3 %
Equity	9 800	9 521	8 363	7 753	7 569
Losses on loans as % of net loans, annualised	0.06 %	0.04 %	0.06 %	0.22 %	0.08 %
Gross defaulted loans over 90 days as % of gross loans	0.45 %	0.42 %	0.42 %	0.47 %	0.57 %

Other key figures

Cost as % of income	32.1 %	36.8 %	48.2 %	45.7 %	54.2 %
Cost as % of income, ex net income from financial instruments	38.3 %	43.2 %	45.9 %	45.8 %	42.3 %
Return on equity after tax	12.0 %	12.5 %	7.5 %	7.7 %	5.9 %
Liquidity reserve (LCR) (Group)	117 %	153 %	137 %	108.0 %	
Common equity tier 1 capital ratio (added share of profit)	14.5 %	14.1 %	12.9 %	12.7 %	12.6 %
Tier 1 capital ratio	14.9 %	14.9 %	13.6 %	13.5 %	12.8 %
Total capital ratio	16.9 %	16.9 %	15.5 %	15.5 %	14.8 %
Common equity tier 1 capital	8 250	8 256	7 692	7 700	7 074
Tier 1 capital	9 075	9 081	8 202	8 210	7 574
Net total primary capital	10 256	10 259	9 380	9 388	8 752
Leverage ratio	7.8 %	7.5 %	7.0 %	7.0 %	
Number of branches	36	36	36	40	40
Number of man-years in banking activity	435	432	445	449	446

Key figures, Equity certificates

Equity certificate ratio	19.8 %	19.8 %	13.0 %	13.5 %	13.5 %
Number of equity certificates issued	15 663 944	15 663 944	4 768 674	4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)	2.9	2.5	3.0	2.3	1.4
Profit/diluted earnings per equity certificate (Group)	3.6	3.0	4.1	4.2	3.1
Dividend last year per equity certificate	9.0	9.0	9.0	9.0	10.0
Book equity per equity certificate	113.40	110.00	214.00	219.00	214.00
Price/Book value per equity certificate	0.72	0.58	0.57	0.63	0.88
Listed price on Oslo Stock Exchange at end of period	81.75	63.75	123.00	139.00	188.00

	31.12.2015	31.12.2014*	31.12.2013*
Income statement (NOK million)			Proforma
Net interest income	1 521	1 511	1 443
Net commission income	300	284	252
Net income from financial instruments	-66	184	201
Other operating income	14	23	22
Total net income	1 769	2 002	1 918
Total expenses	817	834	800
Profit before losses on loans	952	1 168	1 118
Losses on loans and guarantees	97	268	126
Profit before taxes	855	900	992
Tax expenses	231	215	219
Profit for the period	624	685	773
Income statement as percentage of average assets			
Net interest income	1.55 %	1.60 %	1.60 %
Net commission income	0.31 %	0.30 %	0.28 %
Net income from financial instruments	-0.07 %	0.20 %	0.22 %
Other operating income	0.01 %	0.02 %	0.03 %
Total net income	1.81 %	2.12 %	2.13 %
Total expenses	0.83 %	0.88 %	0.89 %
Profit before losses on loans	0.97 %	1.24 %	1.24 %
Losses on loans and guarantees	0.10 %	0.28 %	0.14 %
Profit before taxes	0.87 %	0.96 %	1.10 %
Tax expenses	0.24 %	0.23 %	0.24 %
Profit for the period	0.64 %	0.73 %	0.86 %
Average total assets	98 000	94 300	90 200
Balance			
Total assets	101 334	94 062	93 758
Net loans to customers	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	9.2 %	4.5 %	6.8 %
Customers deposits	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	54.7 %	59.6 %	56.5 %
Equity	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.47 %	0.71 %	0.60 %
Other key figures			
Cost as % of income	46.2 %	41.7 %	41.7 %
Cost as % of income, ex net income from financial instruments	44.5 %	45.9 %	46.6 %
Return on equity after tax	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	108 %		
Common equity tier 1 capital ratio (added share of profit)	12.7 %	13.1 %	12.8 %
Tier 1 capital ratio	13.5 %	14.4 %	14.2 %
Total capital ratio	15.5 %	15.1 %	15.1 %
Common equity tier 1 capital	7 700	7 092	6 376
Tier 1 capital	8 210	7 792	7 076
Net total primary capital	9 388	8 170	7 522
Leverage ratio	7.0 %	7.0 %	
Number of branches	40	40	44
Number of man-years in banking activity	449	454	489
Key figures, Equity certificates			
Equity certificate ratio before profit distribution	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent bank)	10.8	12.2	10.3
Profit per equity certificate (Group)	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	9.0	10.0	10.0
Book equity per equity certificate	219	212	187
Price/Book value per equity certificate	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	139.00	196.00	150.00

* Excluding negative goodwill.

SPAREBANKEN SØR

