

QUARTER 4  
2016  
(UNAUDITED)



SPAREBANKEN SØR

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## Key figures Group

<b>Income statement (NOK million)</b>	<b>Q4 2016</b>	<b>Q4 2015</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Net interest income	408	386	1 565	1 521
Net commission income	70	73	293	300
Net income from financial instruments	67	1	224	-66
Other operating income	8		28	14
<b>Total net income</b>	<b>553</b>	<b>460</b>	<b>2 110</b>	<b>1 769</b>
Total expenses	194	210	787	817
<b>Profit before losses on loans</b>	<b>359</b>	<b>250</b>	<b>1 323</b>	<b>952</b>
Losses on loans and guarantees	15	48	50	97
<b>Profit before taxes</b>	<b>344</b>	<b>202</b>	<b>1 273</b>	<b>855</b>
Tax expenses	73	53	284	231
<b>Profit for the period</b>	<b>271</b>	<b>149</b>	<b>989</b>	<b>624</b>
<b>Income statement as percentage of average assets</b>				
Net interest income	1.54 %	1.53 %	1.49 %	1.55 %
Net commission income	0.26 %	0.29 %	0.28 %	0.31 %
Net income from financial instruments	0.25 %	0.00 %	0.21 %	-0.07 %
Other operating income	0.03 %	0.00 %	0.03 %	0.01 %
<b>Total net income</b>	<b>2.08 %</b>	<b>1.82 %</b>	<b>2.01 %</b>	<b>1.81 %</b>
Total expenses	0.73 %	0.83 %	0.75 %	0.83 %
<b>Profit before losses on loans</b>	<b>1.35 %</b>	<b>0.99 %</b>	<b>1.26 %</b>	<b>0.97 %</b>
Losses on loans and guarantees	0.06 %	0.19 %	0.05 %	0.10 %
<b>Profit before taxes</b>	<b>1.29 %</b>	<b>0.80 %</b>	<b>1.21 %</b>	<b>0.87 %</b>
Tax expenses	0.27 %	0.21 %	0.27 %	0.24 %
<b>Profit for the period</b>	<b>1.02 %</b>	<b>0.59 %</b>	<b>0.94 %</b>	<b>0.64 %</b>
Average total assets	105 400	100 400	104 950	98 000
<b>Balance sheet</b>				
Total assets			105 455	101 334
Net loans to customers			90 928	88 387
Growth in loans as %, last 12 mths.			2.9 %	9.2 %
Customers deposits			51 562	48 349
Growth in deposits as %, last 12 mths.			6.6 %	0.2 %
Deposits as % of net loans			56.7 %	54.7 %
Equity			10 051	7 753
Losses on loans as % of net loans, annualised			0.05 %	0.11 %
Gross defaulted loans over 90 days as % of gross loans			0.30 %	0.47 %
<b>Other key figures</b>				
Cost as % of income	35.1 %	45.7 %	37.3 %	46.2 %
Cost as % of income, ex net income from financial instruments	39.9 %	45.8 %	41.7 %	44.5 %
Return on equity after tax	11.8 %	7.7 %	11.6 %	8.4 %
Liquidity reserve (LCR) (Group)			128 %	108 %
Common equity tier 1 capital ratio (added share of profit)			14.7 %	12.7 %
Tier 1 capital ratio			16.0 %	13.5 %
Total capital ratio			17.9 %	15.5 %
Common equity tier 1 capital			9 114	7 700
Tier 1 capital			9 939	8 210
Net total primary capital			11 121	9 388
Leverage ratio			8.6 %	7.0 %
Number of branches			34	40
Number of man-years in banking activity			439	449
<b>Key figures, Equity certificates</b>				
Equity certificate ratio			19.8 %	13.5 %
Number of equity certificates issued			15 663 944	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)			8.5	10.6
Profit/diluted earnings per equity certificate (Group)			10.7	17.6
Dividend last year per equity certificate			6.0	9.0
Book equity per equity certificate			116.60	219.00
Price/Book value per equity certificate			0.78	0.63
Listed price on Oslo Stock Exchange at end of period			91.25	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 Sørmeglereen. 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 Q4 2016

- Positive profit from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments due to a positive change in the value of shareholdings
- Good cost control
- Conversion of the collective defined benefit scheme into a defined contribution pension scheme
- Low losses on loans
- Return on equity after tax of 11.8 percent
- Common equity tier 1 capital ratio of 14.7 percent and leverage ratio of 8.6 percent

## Key features 2016

- Positive profit from ordinary operations
- Positive development in net interest income
- Positive net income from financial instruments due to changes in the value of bond- and shareholdings and fixed rate loans
- Good cost control
- Conversion
- Conversion of the collective defined benefit scheme into a defined contribution pension scheme
- Low losses on loans
- Deposit growth of 6.6 percent during the last 12 months
- Loan growth of 2.9 percent during the last 12 months
- The bank has also strengthened its equity through a share issuance, and has a common equity tier 1 capital ratio of 14.7 percent and leverage ratio of 8.6 percent at the end of the year.
- Return on equity after tax of 11.6 percent
- The Board will propose to the Bank's Supervisory Board to distribute a dividend for 2016 of NOK 6.00 per Equity Certificate, corresponding to 56 percent of earnings per share.

## Financial framework conditions

Norges Bank has held the key interest rate unchanged at 0.50 percent in Q4, with no adjustments at the last meeting in December.

A financial tax has been passed in the national budget involving 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.

The ministry of finance decided in December 2016 to increase the requirement for a countercyclical capital buffer of 1.5 percent to 2.0 percent with effect from 31.12.2017. The purpose is to make banks more solid and robust in case of loan losses. The increase is in line with the recommendation made by Norges Bank.

The Group has good access to funding, both home and abroad, through covered bonds and senior debt. Credit spreads has been stable in Q4, but has declined through Q3 2016.

The Annual growth in the general public's gross domestic debt (C2) was 4.8 percent at the end of December. Debt growth for households and industry amounted to 6.4 percent and 2.0 percent respectively.

## Income statement

Profit before tax was NOK 344 million in Q4 2016, compared with NOK 202 million in the same period in 2015. The Group has a solid profit before tax because of a positive development in net interest income, low costs and low losses. However, the main reasons for the increased profit are the increased income from financial instruments and the conversion of the pension scheme.

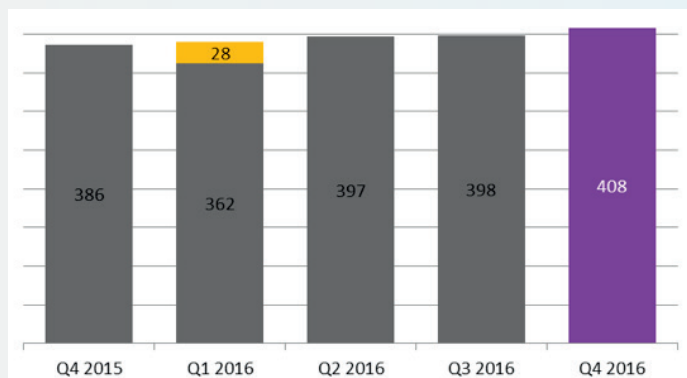
In Q4 2016 return on equity after tax was 11.8 percent, compared with 7.7 percent in Q4 2015.

Profit from ordinary operations (\*) show a decrease of NOK 4 million in Q4 2016 compared with Q4 2015.

Profit before tax amounted to NOK 1 273 million in 2016, compared with NOK 855 million in 2015. Return on equity after tax was 11,6 percent in 2016, up from 8,4 percent in 2015. Profit from ordinary operations in 2016 increased by NOK 20 million when compared with 2015.

## Net interest income

### Quarterly net interest in NOK million



Net interest income amounted to NOK 408 million in Q4 2016, compared with NOK 386 million in Q4 2015, which gave an increase of NOK 22 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 Q4 2015, there has been no fee expense in Q4 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 Q4 2015. The margin on loans in the corporate and retail market has been under pressure in Q4 2016 while deposit margins improved during the same period as a result of adjustments in the deposit conditions.

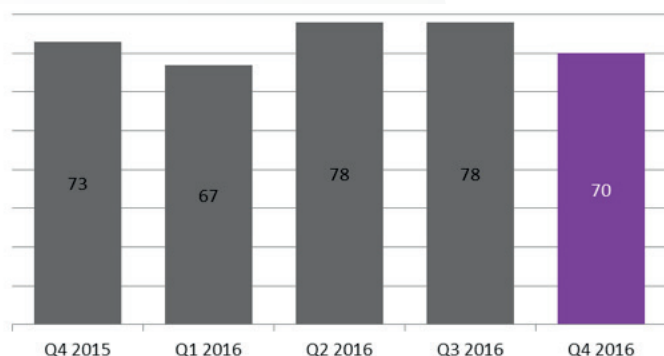
Net interest income amounted to NOK 1 565 million in 2016, compared with NOK 1 521 million last year. Adjusted for the changes in accounting principles as commented above, net interest was NOK 11 million higher in 2016.

The bank has taken action to improve net interest income by making adjustments in the terms and conditions of deposits in Q4 201. The effects of this adjustment are reflected in the accounts this quarter, but not fully until Q1 2017. In addition, the bank announced an increase of 0.15 percent in the mortgage rate 23 November 2016. Current loans will be affected from 25 January 2017.

\*) Net interest income adjusted for accounting changes, commission income, other income and costs adjusted for the conversion of the pension scheme. See appendix for calculations.

## Commission Income

Quarterly net commission income in NOK million



Net commission income amounted to NOK 70 million in Q4 2016, compared with NOK 73 million in Q4 2015.

Gross commission income amounted to NOK 82 million in Q4 2016, compared with NOK 86 million in Q4 2015.

Gross commission income in 2016 amounted to NOK 345 million, compared with NOK 347 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.

NOK million	Q4 2016	Q4 2015	Change	2016	2015	Change
Payment services	40	43	-3	165	163	2
Real estate	20	20	0	95	100	-5
Others	22	23	-1	85	84	1
<b>Total</b>	<b>82</b>	<b>86</b>	<b>-4</b>	<b>345</b>	<b>347</b>	<b>-2</b>

## Financial instruments

Net income from financial instruments amounted to NOK 67 million in Q4 2016, compared to NOK 1 million in the same period last year. The main reasons where the positive development in the value of stocks and accounting gain from buyback of issued bonds recognized at amortized cost.

Net income from financial instruments amounted to NOK 224 million in 2016, compared with NOK -66 million in 2015. The main reasons for this are a positive development in the banks liquidity portfolio, a positive development in the value of stocks and a positive development in the portfolio of fixed rate loans. Basis-swaps has had a negative development in 2016.

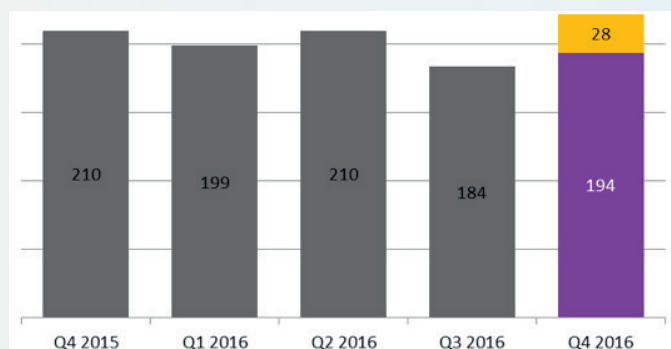
Basis swaps are used to hedge fixed rate debt issued in Euro. The value of basis swaps fluctuates due to market changes, and the fluctuations are recognized in the income statement. These are hedging instruments, and assuming the underlying bonds are held to maturity, the change in market value over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

As a result of the sale of Visa Europa to Visa Inc. in Q2 2016, the bank recognized NOK 56 million as income in 2016. NOK 22 million of this originates from the sale of Nets in 2014. In addition, NOK 34 million was recognized as income due to the banks shareholding in Visa Norge FLI which also had shareholdings in Visa Europa.

The bank has recognised NOK 31 million related to it's shareholding in Frende, respectively with NOK 8 million in dividend and NOK 23 million in return. The bank has recognized NOK 25 million related to its shareholding in Brage.

## Operating expenses

### Operating expenses quarterly in NOK million



Total operating expenses amounted to NOK 194 million in Q4 2016, compared with NOK 210 million in the same period last year.

For the banking operations alone, expenses amounted to NOK 176 million, compared with NOK 194 million in Q4 2015.

The banks collective pension scheme, which includes about 80 percent of the employees, has been discontinued in Q4 and converted to a defined contribution scheme. Net pension liabilities from the collective pension scheme were NOK 87 million at the beginning of 2016, and nearly all has been derecognized at the end of 2016. A one-time effect of NOK 41 million has been recognized as a reduction in pension costs in the statement. In addition NOK 13 million has been recognized as ending costs, which gives a net effect of NOK 28 million. The net capital effect is approximately NOK 50 million.

Adjusted for the new pension scheme, operational costs have increased somewhat in Q4 2016 compared with Q4 2015. Operational costs in 2016 show a flat development compared with 2015.

Total operating expenses as a percentage of average assets amounted to 0.73 percent (0.83 percent) in Q4 2016. Costs as a percent of income was 35.1 (45.7 percent) in the Group. Cost as percent of income, excl. financial instruments, was 39.9 percent (45.8 percent).

Operating expenses amounted to NOK 787 million in 2016, compared with NOK 817 million in 2015. The cost-income ratio was 37.3 percent (46.2 percent). Excluding the financial instruments gives a cost-income ratio of 41.7 percent (44.5 percent).

## Losses and defaulted loans

Net losses on loans amount to NOK 15 million in Q4 2016, equivalent to 0.07 per cent of net loans. The corresponding figures in 2015 were NOK 48 million and 0.22 percent of net loans.

Net losses on loans amounted to NOK 50 million in 2016, or 0.05 percent of net loans. This included an increase in collective write downs of NOK 4 million. The corresponding numbers for 2015 were NOK 97 million and 0.11 percent of net loans.

The Group's individual write-downs as at 31 December 2016 amounted to NOK 385 million, equivalent to 0.42 percent of gross loans. The Group's collective write-downs as at 31 December 2016 amounted to NOK 210 million, equivalent to 0.23 percent of gross loans.

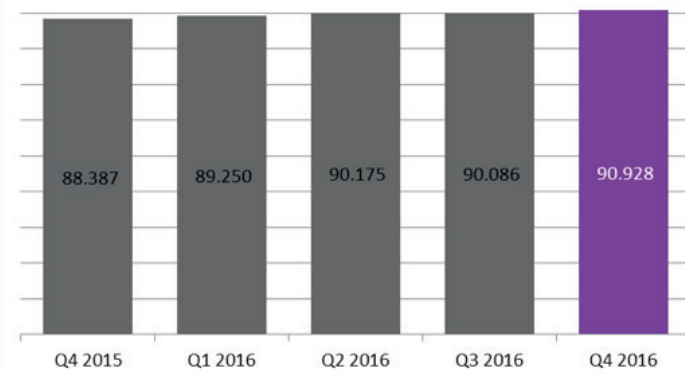
Gross non-performing loans amounted to NOK 276 million, which is 0.30 percent of gross loans. The corresponding figures in 2015 were NOK 418 million, or 0.47 per cent of gross loans.

Other doubtful loans amounted to NOK 634 million. The corresponding figure in 2015 was NOK 794 million.

IFRS 9 – Financial instruments will replace IAS 39 – Financial instruments, recognition and measurement as of 2018. There are significant changes in the impairment regulations in the new standard. Today's IAS 39 is based on an incurred loss model, while the upcoming IFRS 9 is based on an expected loss model. One implication of the new forward looking standard is new and more advanced models. The bank has though 2016 been developing models to meet the new requirements. So far the banks calculations suggest no significant change in loss provisions with IFRS 9.

**Loans**

Loans in NOK million



During the past 12 months, net loans have increased by NOK 2.5 billion to a total of NOK 90.9 billion, a growth of 2.9 percent.

Gross loans to retail customers have increased by NOK 1.6 billion to NOK 59.9 billion, a growth of 2.8 percent.

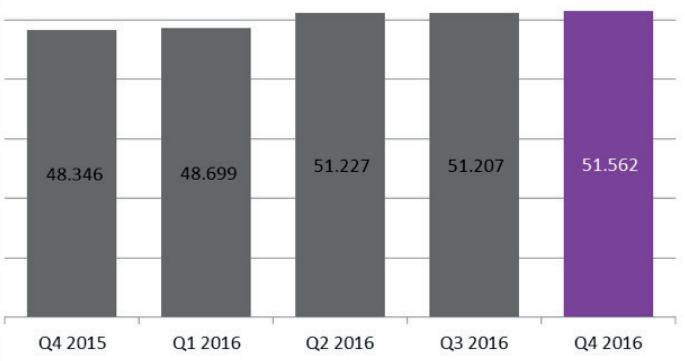
Gross loans to corporate customers have increased the last 12 months by NOK 0.8 billion to NOK 31.7 billion, a growth of 2.5 percent.

The credit 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. The bank expects credit growth in 2017 to be higher than in the markets where the bank is represented.

Loans to retail customers amounted to 65 percent (65 percent) of total loans at the end of Q4 2016.

**Deposits**

Deposits in NOK million



During the past 12 months, customer deposits increased by NOK 3.2 billion to NOK 51.6 billion. This corresponds to a growth of 6.6 percent.

Deposits from retail customers have increased by NOK 1.1 billion to NOK 25.0 billion, a growth of 4.7 percent.

Deposits from corporate customers have increased by NOK 2.1 billion to NOK 26.6 billion, a growth of 8.6 percent.

Sparebanken Sør’s deposits as a percentage of net loans were 56.7 percent at 31 December 2016, up from 54.7 percent the same time last year.



### 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.

Wholesale funding amounted to NOK 41.2 million at the end of 2016, with 60 percent of the funding through covered bonds. Long-term financing amounted to 91 percent at the end of 2016.

As at 31 December 2016, the portfolio of interest-bearing securities in the Group totalled NOK 11.8 billion, and the liquidity indicator for long-term financing was 109 percent.

The Group's liquidity reserves (LCR) were 128 percent as at 31 December 2016 (119 percent in the parent bank).

### Rating

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

### Primary capital and capital adequacy

Net primary capital amounted to NOK 11.1 billion. Hybrid capital amounted to NOK 0.8 billion and subordinated loans to NOK 1.2 billion. At the end of 2016, the common equity tier 1 (CET1) capital ratio was 14.7 percent. The tier 1 capital ratio was 16 percent and the (total) capital ratio 17.9 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.

For the Parent Bank, the respective figures are a CET1 capital ratio of 15.1 percent, a tier 1 capital ratio of 16.6 percent and a (total) capital ratio of 18.8 percent at the end of 2016.

The Group's leverage ratio was 8.6 percent at the end of 2016, compared with 7 percent at the end of 2015.

The bank received the final assessment of the Group's capital (SREP) in Q4, where the financial authorities concluded with a pillar 2 – addition of 2.1 percent of risk weighted assets, which is down 0.1 percent from the previous assessment of 2.2 percent. The capital requirement, included a pillar 2 addition of 2.1 percent, amounts to 13.6 percent. Based on an overall assessment, among others as a result of market expectations, the bank will adopt a CET1 capital ratio of at least 14.5 percent.

The Bank aims at a CET1 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 CET1 capital ratio of 14.7 percent by the end of 2016. If the bank had made the calculations after the IRB-method this would have given a significantly higher CET1 capital ratio.

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

The ministry of finance decided in December 2016 to increase the requirement for a countercyclical capital buffer from 1.5 percent to 2.0 percent with effect from 31.12.2017. When including a pillar 2 addition of 2.1 percent, this gives a new capital requirement of 14.1 percent. Further adaptation of the buffer will depend on market expectations, the Financial Authorities recommendations and the Bank's own ICAAP.

### The bank's equity certificates

As at 31 December 2016, 15 663 944 equity certificates have been issued. The profit (Group) per equity certificate was in Q4 2016 NOK 3.3 and NOK 10.7 in 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 2016 was 17.5 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

# Report from the Board of Directors

## 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.

The board of directors will propose a dividend for 2016 of NOK 6 per equity certificate, corresponding to a dividend of approximately 56 percent of the Groups profit per equity certificate. With a market price at 31 December 2016 of 91.25 this gives a direct return of 6.6 percent. In addition, it will be proposed to allocate NOK 35 million to the gift fund.

## 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 31 December 2016, the bank had transferred NOK 28.1 billion to Sparebanken Sør Boligkreditt AS, equivalent to 46.9 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 had a strong growth in customer base and premiums within both general and life insurance, and the profit-development is positive.

**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 a 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.

## Outlook

The Board of Directors is satisfied with the financial performance after Q4, 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 growth in the Norwegian economy has been low in 2016 and there is still uncertainty. Growth in the Norwegian mainland was 0.7 percent in 2016, down from 1.1 percent in 2015. It has been the weakest year since the financial crisis, influenced by the fact that the economy is in a restructuring process caused by the oil price drop in autumn 2014. The outlook is considered positive but there is still uncertainty of how quickly activity will pick up. 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 price has increased from its lowest level in January. House prices in the bank's main market have had a moderate trend over several years. Statistics for Q4 show the same.

The bank received the final assessment of the Group's capital (SREP) in Q4, where the financial authorities concluded with a pillar 2 – addition of 2.1 percent of risk weighted assets. The capital requirement, included a pillar 2 addition of 2.1 percent, amounts to 13.6 percent. The financial authorities also expect the Group to have a CET1 of at least 14.5 percent. The ministry of finance decided in December 2016 to increase the requirement for a countercyclical capital buffer of 1.5 percent to 2.0 percent with effect from 31.12.2017. Further adaptation of the buffer will depend on market expectations, the Financial Authorities recommendations and the Bank's own ICAAP. Further adaptation of the buffer will depend on market expectations, the Financial Authorities recommendations and the Bank's own ICAAP.

The Group expects a growth higher than the credit growth in 2017. The Group has a goal of a return on equity of 9 percent.

Based on the banks low direct exposure to the oil service industry, cyclical trend, historical figures, local market conditions and portfolio composition, the net losses in 2017 is expected to be low. As the region's largest bank, the Group could be affected by the decline in the oil and oil service sector. 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 has been a reduction in non-performing and doubtful loans.

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 god quality credit work, will contribute to a continued profitable growth and development for Sparebanken Sør.

## Events since the end of the quarter

There have been no recorded incidents since 31 December 2016 that affect the quarterly accounts.

### Arendal, 15 February 2017

Stein A. Hannevik  
Chairman

Torstein Moland  
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen  
Employee representative

Gunnhild T. Golid  
Employee representative

Geir Bergskaug  
CEO

## Income statement

PARENT BANK				NOK million		GROUP			
31.12.	31.12.	Q4	Q4			Q4	Q4	31.12.	31.12.
2015	2016	2015	2016	Notes	2016	2015	2016	2015	
2 390	2 194	560	552		733	738	2 928	3 119	
1 252	963	267	220	Interest income					
				Interest expenses	325	352	1 363	1 598	
<b>1 138</b>	<b>1 231</b>	<b>293</b>	<b>332</b>	<b>Net interest income</b>	<b>408</b>	<b>386</b>	<b>1 565</b>	<b>1 521</b>	
297	309	79	77	Commission income	82	86	345	347	
47	52	13	12	Commission expenses	12	13	52	47	
<b>250</b>	<b>257</b>	<b>66</b>	<b>65</b>	<b>Net commission income</b>	<b>70</b>	<b>73</b>	<b>293</b>	<b>300</b>	
9	22			Dividend			10	3	
-74	228	-13	52	Net income from other financial instruments	67	1	214	-69	
<b>-65</b>	<b>250</b>	<b>-13</b>	<b>52</b>	<b>Net income from financial instruments</b>	<b>67</b>	<b>1</b>	<b>224</b>	<b>-66</b>	
15	29	3	9	Other operating income	8		28	14	
<b>1 338</b>	<b>1 767</b>	<b>349</b>	<b>458</b>	<b>Total net income</b>	<b>553</b>	<b>460</b>	<b>2 110</b>	<b>1 769</b>	
389	359	102	84	Wages and other personal expenses	99	118	425	458	
36	34	11	12	Depreciation and write-down of fixed assets and intangible assets	13	12	36	37	
307	310	81	80	Other operating expenses	82	80	326	322	
<b>732</b>	<b>703</b>	<b>194</b>	<b>176</b>	<b>Total operating expenses</b>	<b>194</b>	<b>210</b>	<b>787</b>	<b>817</b>	
<b>606</b>	<b>1 064</b>	<b>155</b>	<b>282</b>	<b>Profit before losses on loans</b>	<b>359</b>	<b>250</b>	<b>1 323</b>	<b>952</b>	
97	50	48	15	Losses on loans and guarantees	2	15	50	97	
<b>509</b>	<b>1 014</b>	<b>107</b>	<b>267</b>	<b>Profit before taxes</b>	<b>7</b>	<b>344</b>	<b>1 273</b>	<b>855</b>	
136	216	27	54	Tax expenses	12	73	284	231	
<b>373</b>	<b>798</b>	<b>80</b>	<b>213</b>	<b>Profit for the period</b>	<b>271</b>	<b>149</b>	<b>989</b>	<b>624</b>	
				Minority interests		2	1	2	
<b>373</b>	<b>798</b>	<b>80</b>	<b>213</b>	<b>Majority interests</b>	<b>271</b>	<b>147</b>	<b>988</b>	<b>622</b>	
10.6	8.5	2.3	2.6	Profit/diluted earnings per equity certificate	3.3	4.2	10.7	17.6	
				<b>Other comprehensive income</b>					
<b>373</b>	<b>798</b>	<b>80</b>	<b>213</b>	<b>Profit for the period</b>	<b>271</b>	<b>149</b>	<b>989</b>	<b>624</b>	
				<i>Items that will not be reclassified to profit and loss account</i>					
59	15	59	15	Recognised estimate deviation, pensions	15	59	15	59	
-15	-3	-15	-3	Tax effect of recognised estimate deviation, pensions	-3	-15	-3	-15	
<b>417</b>	<b>810</b>	<b>124</b>	<b>225</b>	<b>Comprehensive income for the period</b>	<b>283</b>	<b>193</b>	<b>1 001</b>	<b>668</b>	



PARENT BANK		NOK million			GROUP	
31.12.	31.12.				31.12.	31.12.
2015	2016	Assets		Notes	2016	2015
332	797	Cash and receivables from central banks			797	332
2 017	2 211	Loans to credit institutions			156	157
62 744	62 869	Net loans to customers		2, 3, 5, 7, 8	90 928	88 387
10 456	10 957	Bonds and certificates		8	11 815	10 557
487	542	Shares		8	542	487
659	453	Financial derivatives		8, 9	604	813
1 259	1 259	Shareholdings in group companies				
13	9	Shareholdings in associated companies			9	13
10	18	Intangible assets			21	13
3		Deferred tax assets				8
438	417	Fixed assets			472	479
61	58	Other assets			111	88
<b>78 479</b>	<b>79 590</b>	<b>TOTAL ASSETS</b>		<b>7, 8</b>	<b>105 455</b>	<b>101 334</b>
<b>LIABILITIES AND EQUITY CAPITAL</b>						
626	232	Debts to credit institutions			178	576
48 377	51 577	Deposits from customers		4, 7, 8	51 562	48 349
19 865	16 584	Debt incurred due to issue of securities		8, 10	41 217	41 899
411	366	Financial derivatives		8, 9	616	413
151	195	Payable taxes			269	245
188	222	Other liabilities			258	229
160	77	Provisions for commitments			77	160
	36	Deferred tax			24	
1 710	1 203	Subordinated loan capital		8, 10	1 203	1 710
<b>71 488</b>	<b>70 492</b>	<b>Total liabilities</b>			<b>95 404</b>	<b>93 581</b>
905	1 491	Equity certificate capital		11	1 491	905
	825	Hybrid capital			825	
6 086	6 782	Other equity			7 735	6 848
<b>6 991</b>	<b>9 098</b>	<b>Total equity capital</b>		<b>6</b>	<b>10 051</b>	<b>7 753</b>
<b>78 479</b>	<b>79 590</b>	<b>TOTAL LIABILITIES AND EQUITY CAPITAL</b>		<b>7, 8</b>	<b>105 455</b>	<b>101 334</b>

## Cash flow statement

PARENT BANK		NOK million	GROUP	
31.12. 2015	31.12. 2016		31.12. 2016	31.12. 2015
2 414	2 249	Interest payment received	2 972	3 142
-1 319	-1 005	Interest payment made	-1 417	-1 669
285	330	Other payments received	371	341
-722	-719	Operating payments	-800	-800
6	14	Established on confirmed losses	14	6
-69	-138	Period tax paid	-237	-164
-20	-33	Gifts paid	-33	-20
113	3 201	Change in customers deposits	3 214	104
-1 988	-304	Change in loans to customers	-2 719	-7 598
<b>-1 300</b>	<b>3 595</b>	<b>Net cash flow from operational activities</b>	<b>1 365</b>	<b>-6 658</b>
13 401	10 155	Payments received regarding securities	10 519	6 649
-13 927	-10 567	Payments made regarding securities	-11 688	-6 977
24	13	Payments received regarding sale of fixed assets	27	24
-12	-30	Payments made regarding purchase of fixed assets	-59	-26
139	337	Change in other assets	337	155
<b>-375</b>	<b>-92</b>	<b>Net income from investing activities</b>	<b>-864</b>	<b>-175</b>
-507	-194	Change in loans to credit institutions	1	23
-1	-393	Change in deposits from credit institutions	-397	-38
8 720	300	Payments received, bond debt	9 560	20 220
-7 093	-3 311	Payments made, bond debt	-9 774	-13 832
1 510		Payments received, subordinated loan capital		1 510
-900		Payments made, subordinated loan capital		-900
-47	-76	Dividend payment	-76	-47
	314	Issuance of hybrid capital	314	
	582	Issuance of ECs	582	
-270	-260	Change in other liabilities	-246	-366
<b>1 412</b>	<b>-3 038</b>	<b>Net cash flow from financing activities</b>	<b>-36</b>	<b>6 570</b>
<b>-263</b>	<b>465</b>	<b>Net change in liquid assets</b>	<b>465</b>	<b>-263</b>
595	332	Cash and cash equivalents as at 01.01	332	595
<b>332</b>	<b>797</b>	<b>Cash and cash equivalents at end of period</b>	<b>797</b>	<b>332</b>

GROUP NOK million	Dividene								TOTAL
	Equity certificates	Premium fund	equalization- fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
<b>Balance 31.12.2014</b>	<b>474</b>	<b>175</b>	<b>242</b>		<b>5 667</b>	<b>41</b>	<b>558</b>		<b>7157</b>
Dividend distributed for 2014							-47		-47
Profit per 31 Des. 2015			8		297	25	292	2	624
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Allocated gift fund						-25			-25
<b>Balance 31.12.2015</b>	<b>474</b>	<b>175</b>	<b>256</b>	<b>0</b>	<b>6 002</b>	<b>41</b>	<b>803</b>	<b>2</b>	<b>7 753</b>
Reclassification of hybrid capital 1 Jan.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Emisjon hybridkapital				315	-1				314
Betalte renter hybridkapital				-33					-33
Profit per 31 Des. 2016				33			955	1	989
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
<b>Balance 31.12.2016</b>	<b>783</b>	<b>451</b>	<b>257</b>	<b>825</b>	<b>6 010</b>	<b>7</b>	<b>1 715</b>	<b>3</b>	<b>10 051</b>
PARENT BANK									
<b>Balance 31.12.2014</b>	<b>474</b>	<b>175</b>	<b>242</b>		<b>5 667</b>	<b>41</b>	<b>47</b>		<b>6 646</b>
Dividend distributed for 2014							-47		-47
Profit per 31 Des. 2015			8		297	25	43		373
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Allocated gift fund						-25			-25
<b>Balance 31.12.2015</b>	<b>474</b>	<b>175</b>	<b>256</b>	<b>0</b>	<b>6 002</b>	<b>41</b>	<b>43</b>	<b>0</b>	<b>6 991</b>
Reclassification of hybrid capital 1 Jan.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-33					-33
Profit per 31 Des. 2016				33			765		798
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
<b>Balance 31.12.2016</b>	<b>783</b>	<b>451</b>	<b>257</b>	<b>825</b>	<b>6 010</b>	<b>7</b>	<b>765</b>	<b>0</b>	<b>9 098</b>

## 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	31.12.16		31.12.16	31.12.15
		<b>Individual write-downs</b>		
521	517	Individual write-downs at start of period	517	521
76	159	- Period's confirmed loss where individual write-down has been performed previously	159	76
43	74	+ Increased individual write-downs during the period	74	43
77	85	+ New individual write-downs during the period	85	77
48	132	- Reversal of individual write-downs during the period	132	48
<b>517</b>	<b>385</b>	<b>= Individual write-downs at end of period</b>	<b>385</b>	<b>517</b>

PARENT BANK			GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
		<b>Collective write-downs on loans</b>		
188	200	Collective write-downs of loans at start of period	206	194
12	4	+ Change in collective write-downs during the period	4	12
<b>200</b>	<b>204</b>	<b>= Collective write-downs of loans at end of period</b>	<b>210</b>	<b>206</b>

PARENT BANK			GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
		<b>Loss expense on loans during the period</b>		
-4	-132	Change in individual write downs during the period	-132	-4
12	4	+ Change in collective write-downs during the period	4	12
76	159	+ Period's confirmed loss where individual write-downs has been performed previously	159	76
17	43	+ Period's confirmed loss where no individual write-downs has been performed previously	43	17
5	-11	+ Recognised as interest income	-11	5
6	14	- Period's recoveries relating to previous losses	14	6
-3	1	+Change in write downs on guaranties	1	-3
<b>97</b>	<b>50</b>	<b>= Loss expenses during the period</b>	<b>50</b>	<b>97</b>



### 3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK		NOK million	GROUP	
31.12.15	31.12.16		31.12.16	31.12.15
418	275	Gross non-performing loans	276	418
134	89	Individual write-downs	89	134
<b>284</b>	<b>186</b>	<b>Net non-performing loans</b>	<b>187</b>	<b>284</b>
<b>0.66 %</b>	<b>0.43 %</b>	<b>Gross non-performing loans in % of gross loans</b>	<b>0.30 %</b>	<b>0.47 %</b>
794	634	Other doubtful loans	634	794
384	296	Individual loss-provisions	296	384
<b>410</b>	<b>338</b>	<b>Net doubtful loans</b>	<b>338</b>	<b>410</b>

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	31.12.16		31.12.16	31.12.15
23 864	24 984	Retail customers	24 983	23 864
6 593	7 597	Public administration	7 597	6 586
691	495	Primary industry	495	690
1 616	1 523	Manufacturing industry	1 523	1 614
490	462	Real estate development	462	489
948	1 043	Building and construction industry	1 043	946
2 817	2 394	Property management	2 394	2 814
677	875	Transport	875	676
893	953	Retail trade	940	892
156	161	Hotel and restaurant	161	156
266	260	Housing cooperatives	260	265
4 106	5 346	Financial/commercial services	5 346	4 102
5 252	5 477	Social services	5 477	5 246
8	7	Accrued interests	7	8
<b>48 377</b>	<b>51 577</b>	<b>Total deposits from customers</b>	<b>51 562</b>	<b>48 349</b>

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	31.12.16		31.12.16	31.12.15
32 719	31 789	Retail customers	59 861	58 230
541	334	Public administration	334	541
714	798	Primary industry	801	722
932	899	Manufacturing industry	899	936
3 313	3 399	Real estate development	3 396	3 309
1 205	1 421	Building and construction industry	1 427	1 246
15 493	15 645	Property management	15 629	15 482
475	565	Transport	570	478
1 127	1 023	Retail trade	985	1 136
389	371	Hotel and restaurant	372	391
810	898	Housing cooperatives	897	809
1 986	2 217	Financial/commercial services	2 221	2 015
3 636	3 970	Social services	3 977	3 670
122	129	Accrued interests	155	147
<b>63 462</b>	<b>63 458</b>	<b>Total gross loans</b>	<b>91 523</b>	<b>89 111</b>
717	589	Write-downs on lending	595	723
<b>62 744</b>	<b>62 869</b>	<b>Total net loans</b>	<b>90 928</b>	<b>88 387</b>

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	31.12.16		31.12.16	31.12.15
474	783	Equity certificates	783	474
175	451	Premium fund	451	175
6 002	6 011	Primary capital	6 011	6 002
41	7	Gift fund	7	41
256	256	Equalisation fund	256	256
43	764	Other equity	1 718	805
-43	-94	- Deduction for dividends included under other equity	-94	-43
-10	-18	- Deduction for intangible assets and deferred tax assets	-18	-10
<b>6 938</b>	<b>8 160</b>	<b>Total common equity tier 1 capital</b>	<b>9 114</b>	<b>7 700</b>
510	825	Hybrid capital	825	510
0	0	- Deduction for intangible assets and deferred tax assets		
<b>7 448</b>	<b>8 985</b>	<b>Total tier 1 capital</b>	<b>9 939</b>	<b>8 210</b>
		<b>Additional capital over core capital:</b>		
1 200	1 204	Subordinated loan capital	1 204	1 200
<b>1 200</b>	<b>1 204</b>	<b>Total additional tier 1 capital</b>	<b>1 204</b>	<b>1 200</b>
-22	-22	- Deduction from core and additional capital	-22	-22
<b>8 626</b>	<b>10 167</b>	<b>Net primary capital</b>	<b>11 121</b>	<b>9 388</b>
		<b>Minimum requirement for subordinated capital Basel II calculated according to the standard method:</b>		
7	7	Engagements with local and regional authorities	7	7
66	59	Engagements with institutions	36	40
251	197	Engagements with enterprises	198	251
505	455	Engagement with mass market	473	530
2 744	2 881	Engagement secured in property	3 728	3 501
71	50	Engagement which have fallen due	50	72
0	0	Engagement which are high risk	0	0
237	260	Engagement in covered bonds	67	62
137	144	Engagement in collective investment funds	44	37
51	48	Engagement, other	48	51
<b>4 069</b>	<b>4 101</b>	<b>Capital requirements for credit- and counterparty risk</b>	<b>4 651</b>	<b>4 551</b>
<b>4</b>	<b>5</b>	<b>Capital requirements for position-, currency- and product risk</b>	<b>5</b>	<b>4</b>
<b>196</b>	<b>198</b>	<b>Capital requirements for operational risk</b>	<b>259</b>	<b>252</b>
<b>29</b>	<b>26</b>	<b>CVA addition</b>	<b>45</b>	<b>47</b>
<b>0</b>	<b>0</b>	<b>Deduction from the capital requirement</b>	<b>0</b>	<b>0</b>
<b>4 299</b>	<b>4 330</b>	<b>Total minimum requirement for primary capital</b>	<b>4 960</b>	<b>4 854</b>
53 735	54 125	Risk-weighted balance (calculation basis)	62 000	60 679
12.91 %	15.08 %	Common equity tier 1 capital ratio, %	14.70 %	12.69 %
13.86 %	16.60 %	Tier 1 capital ratio, %	16.03 %	13.53 %
16.05 %	18.78 %	Total capital ratio, %	17.94 %	15.47 %
6.40 %	8.00 %	Leverage ratio	8.61 %	7.00 %

## 7. SEGMENT REPORTING

Income statement (NOK million)	Group 31.12.2016				Group 31.12.2015			
	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest	948	618	-1	1 565	979	532	10	1 521
Net other operating income	183	67	295	545	155	61	32	248
Operating expenses	371	91	325	787	354	87	376	817
<b>Profit before losses per segment</b>	<b>761</b>	<b>594</b>	<b>-32</b>	<b>1 323</b>	<b>780</b>	<b>506</b>	<b>-334</b>	<b>952</b>
Losses on loans and guarantees	8	40	2	50	6	80	12	97
<b>Profit before tax per segment</b>	<b>753</b>	<b>554</b>	<b>-34</b>	<b>1 273</b>	<b>774</b>	<b>427</b>	<b>-346</b>	<b>855</b>
Net loans to customers	60 069	30 915	-56	90 928	58 113	30 090	184	88 387
Other assets			14 527	14 527			12 947	12 947
<b>Total assets per segment</b>	<b>60 069</b>	<b>30 915</b>	<b>14 471</b>	<b>105 455</b>	<b>58 113</b>	<b>30 090</b>	<b>13 131</b>	<b>101 334</b>
Deposits from customers	26 473	20 270	4 819	51 562	25 492	17 826	5 031	48 349
Other liabilities	33 596	10 645	-399	43 842	32 621	12 264	347	45 232
<b>Total liabilities per segment</b>	<b>60 069</b>	<b>30 915</b>	<b>4 420</b>	<b>95 404</b>	<b>58 113</b>	<b>30 090</b>	<b>5 378</b>	<b>93 581</b>
Equity			10 051	10 051			7 753	7 753
<b>Total liabilities and equity per segment</b>	<b>60 069</b>	<b>30 915</b>	<b>14 471</b>	<b>105 455</b>	<b>58 113</b>	<b>30 090</b>	<b>13 131</b>	<b>101 334</b>

## 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.

## Notes

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.12.2016	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<b>Assets recognized at amortised cost</b>								
797		797		Cash and receivables from central banks	797		797	
2 211		2 211		Loans to credit institutions	156		156	
55 355			55 355	Net loans to customers (floating interest rate)	83 414			83 414
<b>Assets recognized at fair value</b>								
7 514			7 514	Net loans to customers (fixed interest rate)	7 514			7 514
10 957		10 957		Bonds and certificates	11 815		11 815	
542	33		509	Shares	542	33		509
453		453		Financial derivatives	604		604	
<b>77 829</b>	<b>33</b>	<b>14 418</b>	<b>63 378</b>	<b>Total financial assets</b>	<b>104 842</b>	<b>33</b>	<b>13 372</b>	<b>91 437</b>
<b>Liabilities recognized at amortised cost</b>								
232		232		Debt to credit institutions	178		178	
51 577			51 577	Deposit from customers	51 562			51 562
16 584		16 616		Debt incurred due to issue of securities	41 217		41 362	
1 203		1 195		Subordinated loan capital	1 203		1 195	
<b>Liabilities recognized at fair value</b>								
366		366		Financial derivatives	616		616	
<b>69 962</b>	<b>0</b>	<b>18 409</b>	<b>51 577</b>	<b>Total financial liabilities</b>	<b>94 776</b>	<b>0</b>	<b>43 351</b>	<b>51 562</b>

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
<b>Assets recognized at amortized cost</b>								
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
<b>Assets recognized at fair value</b>								
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	
<b>76 696</b>	<b>23</b>	<b>13 464</b>	<b>63 208</b>	<b>Total financial assets</b>	<b>100 732</b>	<b>23</b>	<b>11 858</b>	<b>88 851</b>
<b>Liabilities recognized at amortised cost</b>								
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	
<b>Liabilities recognized at fair value</b>								
411		411		Financial derivatives	413		413	
<b>70 989</b>	<b>0</b>	<b>22 778</b>	<b>48 377</b>	<b>Total financial liabilities</b>	<b>92 947</b>	<b>0</b>	<b>44 619</b>	<b>48 349</b>



### Movement level 3

GROUP / PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares	Of which credit risk
<b>Recognized value as at 01.01.2015</b>	<b>6 769</b>	<b>-110</b>	<b>394</b>	<b>0</b>
Acquisitions 2015	3 030		9	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	25	47	67	0
Disposals 2015	-1 534		-6	
<b>Recognized value as at 31.12.2015</b>	<b>8 290</b>	<b>-62</b>	<b>464</b>	<b>0</b>
Acquisitions 2016	644		0	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-122	48	111	0
Disposals 2016	-1 298		-76	
<b>Recognized value as at 31.12.2016</b>	<b>7 514</b>	<b>-14</b>	<b>499</b>	<b>0</b>

### Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	31.12.2016	31.12.2015
Loan o customers	22	27
- of which, loans to corporate market (CM)	6	8
- of which, loans to retail market (RM)	16	19

## 9. OFFSETTING

	31.12.2016	31.12.2016 (1) presented net	31.12.15	GROUP 31.12.2015 (1) presented net
<b>NOK million</b>				
<b>Assets</b>				
Financial derivatives	604	297	813	485
<b>Liabilities</b>				
Financial derivatives	616	309	413	85
				PARENT BANK
	31.12.2016	31.12.2016 (1) presented net	31.12.15	31.12.2015 (1) presented net
<b>NOK million</b>				
<b>Liabilities</b>				
Financial derivatives	453	159	659	333
<b>Liabilities</b>				
Financial derivatives	366	73	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	31.12.2016	31.12.2015
Bonds, nominal value	16 204	19 215
Value adjustments	192	381
Accrued interest	188	269
<b>Debt incurred due to issue of securities</b>	<b>16 584</b>	<b>19 865</b>

### Change in debt securities – Parent bank

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	31.12.2016
Bonds, nominal value	19 215	300	-3 311		16 204
Value adjustments	381			-189	192
Accrued interest	269			-81	188
<b>Debt incurred due to issue of securities</b>	<b>19 865</b>	<b>300</b>	<b>-3 311</b>	<b>-270</b>	<b>16 584</b>

### Debt securities – Group

NOK million	31.12.2016	31.12.2015
Bonds, nominal value	40 922	41 136
Value adjustments	42	447
Accrued interest	253	316
<b>Debt incurred due to issue of securities</b>	<b>41 217</b>	<b>41 899</b>

### Change in debt securities - Group

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	31.12.2016
Bonds, nominal value	41 136	9 560	-9 774		40 922
Value adjustments	447			-405	42
Accrued interest	316			-63	253
<b>Debt incurred due to issue of securities</b>	<b>41 899</b>	<b>9 560</b>	<b>-9 774</b>	<b>-468</b>	<b>41 217</b>

### 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	31.12.2016
Subordinated loans	1 200				1 200
Hybrid capital	510			-510	0
Accrued interest	0			3	3
<b>Total subordinated loan capital</b>	<b>1 710</b>	<b>0</b>	<b>0</b>	<b>-507</b>	<b>1 203</b>

(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 31 December 2016.

NAME	NUMBER OF EC	SHARE OF EC-CAP. %	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1. Sparebankstiftelsen Sparebanken Sør	8 125 679	51.88	11. Allumgården AS	151 092	0.96
2. Bergen Kom. Pensjonskasse	500 000	3.19	12. MP Pensjon PK	111 205	0.71
3. Arendal kom. pensjonskasse	450 000	2.87	13. Profond AS c/o A. G. Regnskap A	101 331	0.65
4. Holta invest AS	444 410	2.84	14. Ottersland AS	100 000	0.64
5. Pareto AS	417 309	2.66	15. Wenaas Kapital AS	90 350	0.58
6. Glstad invest AS	387 467	2.47	16. Artel holding A/S	82 131	0.52
7. Merrill Lynch	329 080	2.10	17. Apriori holding AS	72 575	0.46
8. EIKA utbytte VPF c/o Eika kapitalforv.	286 625	1.83	18. Varodd AS	70 520	0.45
9. Wenaasgruppen AS	186 000	1.19	19. Birkenes sparebank	66 000	0.42
10. Gumpen Bileiendom AS	154 209	0.98	20. Brøvig holding AS	65 639	0.42
<b>Total - 10 largest owners</b>	<b>11 280 779</b>	<b>72.01</b>	<b>Total - 20 largest owners</b>	<b>12 191 622</b>	<b>77.82</b>

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 5th of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The weighted average ownership ratio for 2016 was 17.5 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 31 December 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 and Capital management

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.



GROUP	Q4	Q3	Q2	Q1	Q4
NOK million	2016	2016	2016	2016	2015
Net interest income	408	398	397	362	386
Net commission income	70	78	78	67	73
Net income from financial instruments	67	93	85	-21	1
Other operating income	8	4	11	5	
<b>Total net income</b>	<b>553</b>	<b>573</b>	<b>571</b>	<b>413</b>	<b>460</b>
Total operating expenses	194	184	210	199	210
<b>Profit before losses</b>	<b>359</b>	<b>389</b>	<b>361</b>	<b>214</b>	<b>250</b>
Losses on loans and guarantees	15	13	9	13	48
<b>Profit before taxes</b>	<b>344</b>	<b>376</b>	<b>352</b>	<b>201</b>	<b>202</b>
Tax expenses	73	85	75	51	53
<b>Profit for the period</b>	<b>271</b>	<b>291</b>	<b>277</b>	<b>150</b>	<b>149</b>

## % of average assets

Net interest income	1.54	1.50	1.51	1.41	1.53
Net commission income	0.26	0.29	0.30	0.26	0.29
Net income from financial instruments	0.25	0.35	0.32	-0.08	
Other operating income	0.03	0.02	0.04	0.02	
<b>Total net income</b>	<b>2.08</b>	<b>2.15</b>	<b>2.17</b>	<b>1.61</b>	<b>1.82</b>
Total operating expenses	0.73	0.69	0.80	0.78	0.83
<b>Profit before losses</b>	<b>1.35</b>	<b>1.46</b>	<b>1.37</b>	<b>0.84</b>	<b>0.99</b>
Losses on loans and guarantees	0.06	0.05	0.03	0.05	0.19
<b>Profit before taxes</b>	<b>1.29</b>	<b>1.41</b>	<b>1.34</b>	<b>0.79</b>	<b>0.80</b>
Tax expenses	0.27	0.32	0.28	0.20	0.21
<b>Profit for the period</b>	<b>1.02</b>	<b>1.09</b>	<b>1.05</b>	<b>0.59</b>	<b>0.59</b>
Average total assets	105 400	105 900	105 600	102 900	100 400

## Balance sheet

Total assets	105 455	105 248	106 617	104 521	101 334
Net loans to customers	90 928	90 086	90 175	89 250	88 387
Growth in loans as %, last 12 mths.	2.9 %	5.5 %	7.4 %	8.4 %	9.2 %
Customers deposits	51 562	51 207	51 227	48 699	48 349
Growth in deposits as %, last 12 mths.	6.6 %	4.7 %	3.0 %	2.0 %	0.2 %
Deposits as % of net loans	56.7 %	56.8 %	56.8 %	54.6 %	54.7 %
Equity	10 051	9 800	9 521	8 363	7 753
Losses on loans as % of net loans, annualised	0.05 %	0.06 %	0.04 %	0.06 %	0.22 %
Gross defaulted loans over 90 days as % of gross loans	0.30 %	0.45 %	0.42 %	0.42 %	0.47 %

## Other key figures

Cost as % of income	35.1 %	32.1 %	36.8 %	48.2 %	45.7 %
Cost as % of income, ex net income from financial instruments	39.9 %	38.3 %	43.2 %	45.9 %	45.8 %
Return on equity after tax	11.8 %	12.7 %	13.1 %	7.7 %	7.7 %
Liquidity reserve (LCR) (Group)	128 %	117 %	153 %	137 %	108 %
Common equity tier 1 capital ratio (added share of profit)	14.7 %	14.5 %	14.1 %	12.9 %	12.7 %
Tier 1 capital ratio	16.0 %	14.9 %	14.9 %	13.6 %	13.5 %
Total capital ratio	17.9 %	16.9 %	16.9 %	15.5 %	15.5 %
Common equity tier 1 capital	9 114	8 250	8 256	7 692	7 700
Tier 1 capital	9 939	9 075	9 081	8 202	8 210
Net total primary capital	11 121	10 256	10 259	9 380	9 388
Leverage ratio	8.6 %	7.8 %	7.5 %	7.0 %	7.0 %
Number of branches	34	36	36	36	40
Number of man-years in banking activity	439	435	432	445	449

## Key figures, Equity certificates

Equity certificate ratio	19.8 %	19.8 %	19.8 %	13.0 %	13.5 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)	2.6	2.9	2.5	3.0	2.3
Profit/diluted earnings per equity certificate (Group)	3.3	3.6	3.0	4.1	4.2
Dividend last year per equity certificate	6.0	9.0	9.0	9.0	9.0
Book equity per equity certificate	116.6	113.40	110.00	214.00	219.00
Price/Book value per equity certificate	0.78	0.72	0.58	0.57	0.63
Listed price on Oslo Stock Exchange at end of period	91.25	81.75	63.75	123.00	139.00

## Key figures Goup 2013-2016

	31.12.2016	31.12.2015	31.12.2014*	31.12.2013*
<b>Income statement (NOK million)</b>				<b>Proforma</b>
Net interest income	1 565	1 521	1 511	1 443
Net commission income	293	300	284	252
Net income from financial instruments	224	-66	184	201
Other operating income	28	14	23	22
<b>Total net income</b>	<b>2 110</b>	<b>1 769</b>	<b>2 002</b>	<b>1 918</b>
Total expenses	787	817	834	800
<b>Profit before losses on loans</b>	<b>1 323</b>	<b>952</b>	<b>1 168</b>	<b>1 118</b>
Losses on loans and guarantees	50	97	268	126
<b>Profit before taxes</b>	<b>1 273</b>	<b>855</b>	<b>900</b>	<b>992</b>
Tax expenses	284	231	215	219
<b>Profit for the period</b>	<b>989</b>	<b>624</b>	<b>685</b>	<b>773</b>
<b>Income statement as percentage of average assets</b>				
Net interest income	1.49 %	1.55 %	1.60 %	1.60 %
Net commission income	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.03 %	0.01 %	0.02 %	0.03 %
<b>Total net income</b>	<b>2.01 %</b>	<b>1.81 %</b>	<b>2.12 %</b>	<b>2.13 %</b>
Total expenses	0.75 %	0.83 %	0.88 %	0.89 %
<b>Profit before losses on loans</b>	<b>1.26 %</b>	<b>0.97 %</b>	<b>1.24 %</b>	<b>1.24 %</b>
Losses on loans and guarantees	0.05 %	0.10 %	0.28 %	0.14 %
<b>Profit before taxes</b>	<b>1.21 %</b>	<b>0.87 %</b>	<b>0.96 %</b>	<b>1.10 %</b>
Tax expenses	0.27 %	0.24 %	0.23 %	0.24 %
<b>Profit for the period</b>	<b>0.94 %</b>	<b>0.64 %</b>	<b>0.73 %</b>	<b>0.86 %</b>
Average total assets	104 950	98 000	94 300	90 200
<b>Balance</b>				
Total assets	105 455	101 334	94 062	93 758
Net loans to customers	90 928	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	2.9 %	9.2 %	4.5 %	6.8 %
Customers deposits	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	6.6 %	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	56.7 %	54.7 %	59.6 %	56.5 %
Equity	10 051	7 753	7 157	6 658
Losses on loans as % of net loans, annualised	0.05 %	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.30 %	0.47 %	0.71 %	0.60 %
<b>Other key figures</b>				
Cost as % of income	37.3 %	46.2 %	41.7 %	41.7 %
Cost as % of income, ex net income from financial instruments	41.7 %	44.5 %	45.9 %	46.6 %
Return on equity after tax	11.6 %	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	128 %	108.0 %		
Common equity tier 1 capital ratio (added share of profit)	14.7 %	12.7 %	13.1 %	12.8 %
Tier 1 capital ratio	16.0 %	13.5 %	14.4 %	14.2 %
Total capital ratio	17.9 %	15.5 %	15.1 %	15.1 %
Common equity tier 1 capital	9 114	7 700	7 092	6 376
Tier 1 capital	9 939	8 210	7 792	7 076
Net total primary capital	11 121	9 388	8 170	7 522
Leverage ratio	8.6 %	7.0 %	7.0 %	
Number of branches	34	40	40	44
Number of man-years in banking activity	439	449	454	489
<b>Key figures, Equity certificates</b>				
Equity certificate ratio before profit distribution				
Number of equity certificates issued	19.8 %	13.5 %	14.1 %	7.1 %
Profit per equity certificate (Parent bank)	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Group)	8.5	10.8	12.2	10.3
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	10.7	17.6	20.3	18.1
Book equity per equity certificate	6.0	9.0	10.0	10.0
Price/Book value per equity certificate	116.6	219	212	187
Listed price on Oslo Stock Exchange at end of period	0.8	0.6	0.9	0.8

\* Excluding negative goodwill.

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	31.12. 2016	31.12. 2015
<b>Mill. kroner</b>							
<b>Return on equity adjusted for hybrid capital</b>							
Profit after tax	281	291	277	150	149	989	624
Interest on hybrid capital	-10	-10	-7	-5	-	-33	-
<b>Profit after tax, incl. interest on hybrid capital</b>	<b>271</b>	<b>281</b>	<b>270</b>	<b>145</b>	<b>149</b>	<b>956</b>	<b>624</b>
IB Equity	9 800	9 521	8 363	7 753	7 569	7 753	7 157
IB Hybrid capital	-825	-825	-510	-510	NA	-510	IA
<b>IB Equity excl. hybrid capital</b>	<b>8 975</b>	<b>8 696</b>	<b>7 853</b>	<b>7 243</b>	<b>7 569</b>	<b>7 243</b>	<b>7 157</b>
UB Equity	10 051	9 800	9 521	8 363	7 753	10 051	7 753
UB Hybrid capital	-825	-825	-825	-510	NA	-825	IA
<b>UB Equity excl. hybrid capital</b>	<b>9 226</b>	<b>8 975</b>	<b>8 696</b>	<b>7 853</b>	<b>7 753</b>	<b>9 226</b>	<b>7 753</b>
Average equity	9 926	9 661	8 942	8 058	7 661	8 902	7 455
<b>Average equity excl. hybrid capital</b>	<b>9 101</b>	<b>8 836</b>	<b>8 275</b>	<b>7 548</b>	<b>7 661</b>	<b>8 235</b>	<b>7 455</b>
Return on equity	11.3 %	12.0 %	12.5 %	7.5 %	7.7 %	11.1 %	8.4 %
<b>Return on equity excl. hybrid capital</b>	<b>11.8 %</b>	<b>12.7 %</b>	<b>13.1 %</b>	<b>7.7 %</b>	<b>7.7 %</b>	<b>11.6 %</b>	<b>8.4 %</b>
<b>Net interest income, adjusted for accounting changes</b>							
Net interest income	408	398	397	362	386	1 565	1 521
Fee to the Norwegian Banks' Guarantee Fund	-9	-9	-9	28			
Interest on hybrid capital	-10	-10	-7	-5		-33	
<b>Net interest income, adjusted for accounting changes</b>	<b>389</b>	<b>379</b>	<b>381</b>	<b>385</b>	<b>386</b>	<b>1 532</b>	<b>1 521</b>
Average total assets	105 400	105 900	105 600	102 900	100 400	104 950	98 000
<b>As a percentage of total assets</b>	<b>1.47 %</b>	<b>1.42 %</b>	<b>1.45 %</b>	<b>1.50 %</b>	<b>1.53 %</b>	<b>1.46 %</b>	<b>1.55 %</b>
<b>Operating costs, adjusted for conversion of the pension scheme</b>							
Operating costs	194	184	210	199	210	787	817
Conversion of pension scheme	28					28	
<b>Operating costs, adjusted for conversion of the pension scheme</b>	<b>222</b>	<b>184</b>	<b>210</b>	<b>199</b>	<b>210</b>	<b>815</b>	<b>817</b>
<b>Profit from ordinary operations</b>							
Net interest income, adjusted for accounting changes	389	379	381	385	386	1 532	1 521
Nett commission income	70	78	78	67	73	293	300
Other operational income	8	4	11	5	-	28	14
Operating income, adjusted for conversion of pension scheme	222	184	210	199	210	815	817
<b>Profit from ordinary operations, before tax</b>	<b>245</b>	<b>277</b>	<b>260</b>	<b>258</b>	<b>249</b>	<b>1 038</b>	<b>1 018</b>
<b>Profit excl. finance and adjusted for accounting changes</b>							
Net interest income, adjusted for accounting changes	389	379	381	385	386	1 532	1 521
Net commission income	70	78	78	67	73	293	300
Other operational income	8	4	11	5	-	28	14
Operating income, adjusted for conversion of pension scheme	222	184	210	199	210	815	817
Losses on loans and guarantees	15	13	9	13	48	50	97
<b>Profit excl. finance and adjusted for accounting changes</b>	<b>230</b>	<b>264</b>	<b>251</b>	<b>245</b>	<b>201</b>	<b>988</b>	<b>921</b>
Tax (25 %)	58	66	63	61	50	247	230
<b>Ordinary operations / adjusted profit after losses and tax</b>	<b>173</b>	<b>198</b>	<b>188</b>	<b>184</b>	<b>151</b>	<b>741</b>	<b>691</b>
Average equity excl. hybrid capital	9 101	8 836	8 275	7 548	7 661	8 235	7 455
<b>Return on equity, profit excl. finance and adjusted for accounting changes</b>	<b>7.5 %</b>	<b>8.9 %</b>	<b>9.2 %</b>	<b>9.8 %</b>	<b>7.8 %</b>	<b>9.0 %</b>	<b>9.3 %</b>
<b>Ordinary operations / adjusted profit after losses and tax</b>							
<b>Average interest / interest margins</b>							
Average lending rate RM (Return)	2.78 %	2.82 %	2.88 %	2.95 %	3.11 %	2.86 %	3.41 %
Average lending rate CM (Return)	3.53 %	3.49 %	3.53 %	3.61 %	3.34 %	3.55 %	3.70 %
Average deposit rate RM	0.87 %	0.92 %	0.99 %	1.00 %	1.16 %	0.93 %	1.54 %
Average deposit rate CM	1.16 %	1.22 %	1.26 %	1.23 %	1.20 %	1.19 %	1.64 %
Average 3 month NIBOR	1.13 %	1.07 %	1.00 %	1.08 %	1.14 %	1.07 %	1.29 %
Lending margin RM (lending rate - 3 month NIBOR)	1.65 %	1.75 %	1.88 %	1.87 %	1.97 %	1.79 %	2.12 %
Lending margin CM (lending rate - 3 month NIBOR)	2.40 %	2.42 %	2.53 %	2.53 %	2.20 %	2.48 %	2.41 %
Deposit margin RM (3 month NIBOR - deposit rate)	0.26 %	0.15 %	0.01 %	0.08 %	-0.02 %	0.14 %	-0.25 %
Deposit margin CM (3 month NIBOR - deposit rate)	-0.03 %	-0.15 %	-0.26 %	-0.15 %	-0.06 %	-0.12 %	-0.35 %



# SPAREBANKEN SØR

