SPAREBANKEN SØR

Annual report 2015

Contents

The year 2015

A year of change

We are in a period of major changes. That is precisely why it is good to have a completely new strategy plan that provides direction for the bank's development. We have changed in the last two years, and must change even more in the years ahead. It is only through transformation and development that we can ensure that we are a bank that creates growth and development in our region. The speed of change in the financial industry is accelerating and the banks' distribution models are affected by major changes in customer behaviour and use of financial services. Digitisation and new technologies provide challenges and opportunities. Our task in Sparebanken Sør is to adapt to the future fast enough, while still holding onto our strengths and fundamental values. To an increasing extent, customers are opting to perform tasks that were previously performed by bank employees. This also means that we are changing the way the bank's products are bought and the way the services are used. It also means that we can use our customer advisers' strong knowledge and relational skills in a more efficient manner. In short – we will use computers for what they are best at and people for what they do best!

Through good results from ordinary operations, Sparebanken Sør continues to build a sound bank in and for the region. In 2015, the bank had a profit before tax of NOK 855 million, compared with NOK 900 million in 2014. Adjusted for the development in financial instruments, the bank delivered an improved result from ordinary operations through good growth, steady net interest income, increased commission income and a reduction in costs and losses. There is strong competition in the bank's market area, but the bank has shown it is able to compete. In 2015, lending growth totalled NOK 7.5 billion, which is equivalent to 9.2 per cent. The growth is divided into NOK 4.1 billion in the Retail Banking Market and NOK 3.4 billion in the Corporate Market and means that the bank has strengthened its market position as the largest bank in the region.

In 2015, there has been continued focus on the banks' capitalisation. Sparebanken Sør aims to be well-capitalised at any time. The bank's core tier 1 capital ratio will be above the regulatory minimum requirement and will be on a level with comparable banks. The Financial Supervisory Authority of Norway has expressed expectation that the bank should have a core tier 1 capital ratio of 14.5 per cent by the end of 2016. The bank will strengthen the core tier 1 capital ratio through continued improvement of the financial results from ordinary operations, reduced growth in risk weighted balance and of the rights issue of NOK 600 million. The initiatives will ensure that the bank can continue to meet the required lending growth within the Retail Banking and Corporate Market, however, lower than the growth has been over the last year.

In 2015, our region has been, and will continue to be in 2016, in a vulnerable position. Unemployment is expected to rise as a result of the fall in oil prices and job cuts in the oil service sector. There are also indications that house prices will flatten out in the bank's primary market. On the other hand, the low Norwegian krone exchange rate has strengthened the competitiveness of the export industry, which is also important for the region. Together with low interest rate, this will curb the negative impact somewhat. Sparebanken Sør has a low direct exposure to the oil and oil service sector, but as the largest bank in the region will be affected by the general economic development in the region.

In 2015, the Board of Directors has adopted and affirmed the bank's strategy toward 2020. The bank's vision is to create growth and development for the region. This is a vision that requires commitment. In order to realise this vision, the bank shall be leading, strong and independent, with the counties of Agder and Telemark as its main market. The bank shall be a “Relationship Bank” through following a long-term perspective and having close proximity to its customers and the market, based on decisiveness through local knowledge. To a great extent it’s about continuing a strategy we have succeeded with and believe in. This provides a long-term perspective and steady course, while we are able to adjust. We will hold on fast to what we have built our expertise on and where we have a comparative advantage. The bank will continue to focus on efficient operations and stringent risk management, while modernising and adapting to a new digital life. This will secure our market position and underpin the bank’s role as the “Relationship Bank” in the region.

One of our most important tasks in 2016 will be to obtain such a good overview of what is happening that we choose the correct initiatives for Sparebanken Sør. We will not develop new technologies ourselves, but will use the new technologies that come along. We must closely monitor what captivates our customers, what our suppliers are offering and what our competitors are doing. Sounds simple? In theory yes, but it is not easy to know which solutions will be tomorrow’s winners. Under the “eLøftet” umbrella, Sparebanken Sør has launched new solutions, eSignering and eTinglysning, and we have launched our own “friends payment” system which is equivalent to “Vipps” and “MobilePay”. In future, you can also expect to find solutions that will simplify everyday life in Sparebanken Sør.

Our strategy is well-adapted to the opportunities and challenges that lie ahead, but it will challenge us – and our suppliers – in terms of pace. We will continue to be a good relationship bank, and to be one of the most cost-effective banks. This, combined with good quality lending work and wise technology choices, will ensure that Sparebanken Sør continues to be a good, strong bank in the years ahead.

Geir Bergskaug

Geir Bergskaug
CEO

Key figures Group

Income statement (NOK million)	31.12.2015	31.12.2014*	31.12.2013*
			Proforma
Net interest income	1 521	1 511	1 443
Net commission income	300	284	252
Net income from a 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 year	**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 year	**0.64 %**	**0.73 %**	**0.86 %**
Average total assets	98 000	94 300	90 200
Balance sheet			
Total assets	101 334	94 062	93 758
Net loans to customers	88 387	80 913	77 450
Growth in loans as %, last 12 mths.	9.2 %	4.5 %	6.8 %
Deposits from customers	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 %		
Core tier 1 capital ratio	12.7 %	13.1 %	12.8 %
Core capital ratio	13.5 %	14.4 %	14.2 %
Total capital ratio	15.5 %	15.1 %	15.1 %
Core tier 1 capital	7 700	7 092	6 376
Total core capital	8 210	7 792	7 076
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 allocation of profit	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	4 768 674	4 768 674	1 250 000
Profit/diluted earnings per equity certificate (Parent Bank)	10.8	12.2	10.3
Profit/diluted earnings per equity certificate (Group)	17.6	20.3	18.1
Dividend last year per equity certificate (parent bank- proposed dividend 2015)	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	196	150

* exclusive negative goodwill

Report of the Board of Directors

THE NATURE OF THE BUSINESS ACTIVITY

Sparebanken Sør is an independent financial institution that engages in banking, securities and real estate brokerage activities in Vest-Agder, Aust-Agder and Telemark. Sparebanken Sør Group engages in addition sale of insurance, leasing and securities through partly owned product companies and also mortgage financing through wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The bank has 40 branch offices and the head office is located in Kristiansand.

FRAMEWORK CONDITIONS 2015

Weaker growth

In 2015, the Norwegian economy has experienced challenges as a result of a lower level of activity in the oil sector. Preliminary estimates from Norges Bank show that the growth in Gross Domestic Product for mainland Norway fell from 2.3 per cent in 2014 to 1.4 per cent in 2015. At the same time, the fall in the oil price has weakened the Norwegian krone, which in turn has improved competitiveness in terms of traditional export goods.

Credit growth (K2) has remained relatively stable through 2015 and was 5.3 per cent at year-end. Growth in lending to households and businesses was 6.2 per cent and 3.2 per cent respectively.

The key interest rate

Norges Bank cut its key interest rate by 0.25 percentage points twice in 2015, which gave a record low key interest rate of 0.75 per cent. The Central Bank has signalled that there could be further interest rate cuts in the first half of 2016.

Despite record low interest rates, Norwegian interest rates are still higher than those of our most important trading partners.

Development in the financial markets

The second half of 2015 was characterised by great uncertainty in the international financial market. The market situation affected the Norwegian money and capital markets, which in turn were affected by the fall in the oil price. In the bond market, credit spreads for bonds issued by companies in the oil sector increased significantly, but also loans to the financial sector were also impacted by lower access to liquidity. The risk premiums for Norwegian banks' funding in senior bonds and covered bonds increased significantly during the autumn.

BUSINESS SEGMENTS

Retail banking market

As a result of the customers' changed behaviour, the bank has strengthened distribution through digital channels. Customer service centre has also introduced longer opening hours. Adjustments have also been made to the services provided in the office network. Since the merger, Retail Banking has reduced the workforce by 30 FTE.

In 2015, Retail Banking has experienced good lending growth, equivalent to a growth of 7.7 per cent. Loans totalled NOK 58.2 billion at year-end, or around 65 per cent of the bank's total loans. Deposits increased by 2.7 per cent to NOK 23.9 billion and at year-end were around 49 per cent of the bank's total deposits. In 2015, there has been a steady increase in sales of insurance, card, savings and investment products.

In 2016, the bank will have moderate lending growth to strengthen the tier 1 capital. The Retail Banking Market will take out further synergy effects of the merger, whole operations are continuously adapted to today and tomorrow's customer needs. In 2015, the bank has strengthened its position in Agder and Telemark, and has also increased its share of customers among employees in organisations affiliated with KNIF (Kristen-Norges Interessefellesskap).

Corporate market

Through 2015, the bank has strengthened its position as a commercial bank in Agder and has maintained its position in Telemark. The bank is now a natural first choice for businesses in large parts of the bank's core areas.

Gross loans to corporate customers increased by NOK 3.4 billion in 2015, which is equivalent to a growth of 12.2 per cent. Lending growth was higher than credit growth in the market, but was related to loans to strategically important customers, and helped provide a more diversified portfolio and lower portfolio risk. The bank expects a moderate and adapted lending growth in 2016, to meet the core tier 1 capital targets, among other things.

Corporate deposits were reduced by NOK 0.5 billion to NOK 24.5 billion, which is equivalent to a reduction of 2.1 per cent.

The bank's corporate customers make up a balanced and sound portfolio, which reflects the businesses in the region in a good way.

The bank strengthened its cooperation with KNIF through 2015. This customer segment is considered to be a low risk segment, which includes hospitals and other enterprises within the health sector, schools, kindergartens, church entities, real estate companies, missionary organisations and child and youth organisations. Through cooperation with KNIF, the bank also gained several interesting new customers in 2015 and the growth within the segment has shown a very positive trend over several years.

The bank offers general insurance, occupational pensions and group life insurance in Frende Forsikring, and leasing in Brage Finans. In 2015, Brage Finans recruited two new employees to the office in the bank's premises in Kristiansand.

PROFIT FOR THE YEAR

Accounting principles

The group financial statements for Sparebanken Sør have been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles are explained in the notes to the financial statements.

A going concern assumption has been used in the annual accounts. The group has had adequate financial strength, and in the view of the Board of Directors, there is nothing to indicate anything other than a going concern.

The figures referred to in the directors' report are group figures, unless it is specified that the figures concern the parent bank.

Profit for the year

In 2015, Sparebanken Sør achieved a profit before tax of NOK 855 million, compared with NOK 900 million in 2014, ex. negative goodwill. This is equivalent to 0.87 per cent of the average total assets, compared with 0.96 per cent in 2014. The main reasons for the decline was lower net income from financial instruments. The trend in the profit before tax, ex. net income from financial instruments, losses on loans and negative goodwill, showed a profit improvement of NOK 34 million.

Profit after tax totalled NOK 624 million, compared with NOK 685 million, ex. negative goodwill, in 2014. This is equivalent to a return on equity of 8.4 per cent in 2015, and 10.1 per cent in 2014.

Due to changed assumptions for calculation of pension commitments, net NOK 44 million was charged against the total profit. After this, the total profit was NOK 668 million.

Net interest income

Net interest income amounted to NOK 1 521 million, against NOK 1 511 million in 2014. This was equivalent to 1.55 per cent of the average total assets, against 1.60 per cent in 2014. Through 2015, lending margins have been under pressure. Volume growth and adjustment of the terms and conditions for deposits have contributed to higher net interest income. The group's costs related to new borrowing in the bond market were rising in the second half-year.

Commission income

Net fee and commission income was NOK 300 million, against NOK 284 million in 2014. This is equivalent to 0.31 per cent of the average total assets, against 0.30 per cent in 2014. The increase is mainly due to increased activity in the estate agency business. Sørmegleren increased its commission income by NOK 16 million, from NOK 84 million to NOK 100 million in 2015. Income from the other product areas has consistently shown a steady trend through the whole year.

Financial instruments

Net income from financial instruments was minus NOK 66 million in 2015, against NOK 184 million in 2014, which is equivalent to minus 0.07 per cent of the average total assets and 0.20 per cent in 2014. In line with regulatory requirements, the bank maintains a significant liquidity portfolio, which is measured at fair value. The credit spreads are higher in 2015 due to turmoil in the financial markets, which has had a negative impact on earnings. This was the main reason why net income from financial instruments was negative in 2015. In 2015, the value of the bank's stake in Visa Norge was adjusted by NOK 45 million, while 2014 included a gain of NOK 71 million on the sale of the bank's stake in Nets.

Costs

Group costs were NOK 817 million in 2015, against NOK 834 million in 2014 ex. negative goodwill. This is equivalent to 0.83 per cent of the average total assets and 0.88 in 2014. The ratio between expenses and income, ex. financial instruments, was 44.5 per cent, against 45.9 per cent in 2014.

Withdrawal of merger benefits through downsizing is ahead of schedule, and together with adjustments to the office structure, the bank's cost base has been reduced for the future. The bank's digitization process, which will ensure future cost-effectiveness, contributed on its own to a slight increase in IT costs in 2015.

Losses and defaulted loans

NOK 97 million in net losses was charged to the accounts, which is equivalent to 0.11 per cent of net loans. The corresponding figures for 2014 were NOK 268 million and 0.33 per cent of net loans. Losses were divided into NOK 6 million in the retail banking market and NOK 79 million in the corporate market. In addition, collective write-downs increased by NOK 12 million.

The bank has very low direct exposure to the oil service industry. However, negative economic development still involves some risk of increased defaults and loss write-downs in 2016. Based on this and empirical figures, local market conditions and the composition of the portfolio, the net loss costs for 2016 are expected still to be moderate. The bank's target of a total loss level below 0.25 per cent of gross loans is maintained for the period 2016–2018. Reference is otherwise made to Note 6, Credit risk and Note 10, Losses on loans and guarantees, for further details on risk and loss factors.

The bank's individual write-downs as at 31 December 2015 amounted to NOK 517 million, equivalent to 0.58 per cent of gross loans.

The bank's collective write-downs increased by NOK 12 million in 2015 and as at 31 December 2015 amounted to NOK 206 million, equivalent to 0.23 per cent of gross loans.

Gross defaulted loans over 90 days amounted to NOK 418 million. As a percentage of gross loans, this is equivalent to 0.47 per cent. This is a decrease from NOK 576 million in 2014 and was equivalent to 0.71 per cent of gross loans.

BALANCE SHEET

Total assets

At year-end 2015, total assets were NOK 101.3 billion, compared with NOK 94.1 billion in the previous year. This resulted in a growth of NOK 7.2 billion or 7.7 per cent.

Loans

Net loans to customers were NOK 88.4 billion, compared with NOK 80.9 billion in 2014. This resulted in a growth of NOK 7.5 billion or 9.2 per cent.

Gross loans to retail banking customers amounted to NOK 58.2 billion, against NOK 54.1 billion in 2014. This resulted in a growth of NOK 4.1 billion or 7.7 per cent. On a national basis, household lending growth has been 6.2 per cent. At year-end 2015, loans totalling NOK 25.7 billion were transferred to Sparebanken Sør Boligkreditt AS, which is an important instrument for the bank to offer competitive terms in the retail banking market. Loans to the retail banking market were 65 per cent of the Group's total loans, against 66 per cent in 2014.

Gross loans to corporate customers amounted to NOK 30.7 billion in 2015, against NOK 27.3 billion in 2014. This corresponds to a growth of NOK 3.4 billion or 12.2 per cent. On a national basis, industry lending growth has been 3.2 per cent. Lending growth in 2015 was related to loans to strategically important customers and contributes to a more diversified portfolio and lower risk portfolio. The bank will have a moderate and adjust growth in 2016 to meet the targets for core tier 1 capital ratio.

Deposits

At year-end, total deposits were NOK 48.3 billion, compared with NOK 48.2 billion in 2014. This resulted in a growth of NOK 0.1 billion or 0.2 per cent.

Deposits from retail customers amounted to NOK 23.9 billion, against NOK 23.2 billion in 2014. This resulted in a growth of NOK 0.6 billion or 2.7 per cent.

In the Corporate Market, the deposits totalled NOK 24.5 billion, compared with NOK 25.0 billion in 2014. This gave a growth of NOK 0.5 billion or 2.1 per cent.

As at 31 December 2015, deposit-to-loan ratio was 54.7 per cent, compared with 59.6 per cent in 2014. In 2015, the deposit-to-loan ratio fell, due to strong lending growth, combined with low deposit growth. The bank aims to strengthen the deposit-to-loan ratio in 2016.

Debt established through issue of securities and debt to financial institutions

Customer deposits are the bank's most important source of funding. The bank also obtains funding in the capital market through issue of interest-bearing securities. The group's securities debt increased from NOK 35.8 billion in 2014 to NOK 41.9 billion at the end of 2015. The availability of funding on competitive terms was good through the first half of 2015, but the market situation deteriorated during the autumn.

The maturity structure of external funding has been well adapted to the bank's operations and is in accordance with regulatory guidelines and board-adopted standards. Long-term bond funding has been established as covered bonds and senior debt.

Securities

At year-end, the Group's portfolio of certificates and bonds totalled NOK 10.6 billion.

The portfolio is part of the bank's liquid reserves, which has been established to ensure the liquidity during turbulent market conditions. The securities portfolio can be used as collateral for access to borrowing in Norges Bank and be included in the bank's LCR portfolio.

In 2014, the Group has realised its portfolio of interest-bearing securities which are not defined as a liquidity portfolio.

Investments in shares and equity certificates totalled NOK 487 million, of which Frende totalled NOK 182 million, Eksportfinans NOK 85 million and Brage Finans NOK 65 million.

Equity and related capital

Net primary capital amounted to NOK 9.4 billion at the end of 2015. Hybrid capital amounted to NOK 0.5 billion and subordinated loans to NOK 1.2 billion. At the end of 2015, the core tier 1 capital ratio was 12.7 per cent. The core capital ratio was 13.5 per cent and the (total) capital ratio 15.5 per cent, based on the standard method in the Basel II regulations. The Group thus fulfilled the new capital requirements for financial institutions with effect from 30 June 2015 of 11 per cent for core tier 1 capital and 14.5 per cent for total capital ratio.

For the Parent Bank, the respective figures are 12.9 per cent core tier 1 capital, 13.9 per cent core capital ratio and 16.1 per cent (total) capital ratio at the end of 2015.

Sparebanken Sør has a target at any given time to be well-capitalised. The core tier 1 equity ratio shall be above the regulatory minimum requirements and be at the level with comparable banks. The Financial Supervisory Authority of

Norway has expressed expectation that the bank should have a core tier 1 capital ratio of 14.5 per cent by the end of 2016. The bank will strengthen the core tier 1 capital ratio through continued improvement of the financial results from ordinary operations, reduced growth in risk weighted balance and of the rights issue of NOK 600 million.

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

ALLOCATION OF PROFIT FOR THE YEAR

In the view of the Board of Directors, the presented financial statements give a fair view of the Group and the parent bank's position and result. The board of directors is not aware of any circumstances that have arisen after the turn of the year, which would change its view in this respect.

The parent bank's profit totalling NOK 373 million has been proposed allocated as follows:

Dividend	NOK 43 million
Transferred to donation fund	NOK 25 million
Transferred to equalisation fund	NOK 8 million
Transferred to primary capital	NOK 297 million
Total transferred	**NOK 373 million**

EQUITY CERTIFICATES

A summary of the 20 largest equity certificate owners as at 31.12.2015 is presented in note 36. The profit per equity certificate was NOK 10.6 for the Parent bank and NOK 17.6 for the Group.

The Board of Directors will propose to the bank's Board of Trustees to distribute a dividend for 2015 of NOK 9 per equity certificate, which is equivalent to a pay-out ratio of around 50 per cent.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Sparebanken Sør Boligkreditt

Sparebanken Sør Boligkreditt AS is a wholly-owned subsidiary of Sparebanken Sør, and the company is licensed to operate as a mortgage company with the right to issue covered bonds. The main object of the company is to ensure stable and long-term funding on competitive terms.

At year-end, NOK 25.7 billion in loans were transferred to the company. The average debt-to-asset ratio was 55.3 per cent. At year-end, NOK 21.9 billion in covered bonds were issued. The cover pool totalled NOK 25.6 billion and the collateralisation ratio was 117 per cent.

The company had a profit before tax of NOK 331 million. At year-end, the capital adequacy ratio was 18.6 per cent. The company has entered into supply agreements with the parent bank, which included loan administration, staff and treasury functions.

Sørmegleren

Sørmegleren, the bank's own estate agency, has now operated in two years after the merger between ABCenter and Plussmegleren was completed. The company has 13 offices and 60 employees and is the leading estate agency business in Southern Norway (Sørlandet) with a market share of around 30 per cent. In 2015, there has been a positive trend and profit before tax was around NOK 18 million.

Other subsidiaries

The bank's other subsidiaries mainly manage commercial properties where the bank has operations.

PARTLY-OWNED PRODUCT COMPANIES

Frende Forsikring

Through Frende Forsikring the bank's retail and corporate customers are offered good general- and life insurance products. Frende Forsikring is owned by 15 independent savings banks. Sparebanken Sør has a 10 per cent ownership interest. The company has continued its strong growth as regards customers and premiums within both general and life insurance. Frende Forsikring has had a good year, and achieved a profit before tax of NOK 188 million in 2015.

Brage Finans

Brage Finans is a financing company which offers leasing and secured loans to the corporate and retail markets. Brage Finans is owned by 10 independent savings banks. Sparebanken Sør has a 14 per cent ownership interest. The company achieved a profit before tax of NOK 24 million in 2015.

Norne Securities

Norne Securities is an investment firm that provides online trading, traditional brokerage and corporate finance services. The company is owned by 14 independent Norwegian savings banks and Sparebanken Sør has an ownership of 17.6 per cent. The company achieved a profit before tax of NOK 6 million in 2015.

RISK MANAGEMENT

Risk is a fundamental aspect of banking business, and risk management represents a key area of the Bank's day-to-day operations and follow-up by the Board of Directors.

The Bank's risk management and internal control shall help to ensure that the Bank's risk is managed in a way which supports the Bank's strategic targets, contributing to the Bank's long-term wealth creation. The overall framework of the Bank's risk management and –exposure is assessed and agreed annually by the Board of Directors in connection with the maintenance of the Bank's internal strategy- and policy documents. The Board of Directors determines the framework for risk appetite, including specific management objectives and risk tolerance limits for the various risk categories, such as credit - , market -, funding - and operational risk. Systems and structure have been established for measurement, management, follow-up and control of risk and also authorisations that include reporting systems for the management and the Board of Directors for the various risk categories. The Bank's aim is to have a low level of risk exposure, and there is a continual process aimed at further developing and improving the Bank's risk management.

The most significant risk factors can be classified as financial risk, operational risk, plus strategic and business risk.

Financial risk comprises credit risk, market risk (relating to the Bank's exposure in the interest rate-, foreign exchange- and stock markets) and funding risk. Operational risk is defined as the risk of loss which may be incurred due to insufficient or failing internal processes, systems or external events. Strategic risk is related to the strategies, plans and changes which the Bank has or is planning to have in connection with its marketing efforts, while business risk includes reputation risk.

The Bank has an ongoing process relating to the monitoring and assessment of the different risk factors. Against the background of rules and regulations for risk management and internal control, all main areas have been subject to internal control processes. The bank's group management processes cases related to risk management on an ongoing basis and submits periodic reports to the Board of Directors' risk management committee. In the view of the Board of Directors, the bank's risk management functions well.

Credit risk

Credit risk is the most important risk category for the bank and is defined as the risk of losses due to customers or counterparties being unable to meet their obligations to the bank. As a consequence of this, work on credit risk has top priority in the daily operations and in the Board of Director's follow-up. The Board of Directors adopts the bank's credit strategy and policy. Credit risk is also managed through credit management routines, credit processes, and award authorities. The Board of Directors has set targets and indication of direction, as well as quantitative limits that specify constraints and limits for risk tolerance. Compliance with the bank's credit policy is monitored by the Risk Management Division, which is an independent entity in relation to the customer departments.

The bank's risk classification system is used both in the credit rating process and in the ongoing follow-up of risk at portfolio level. Under the risk classification system, customers are classified in categories of probability of default, where the probability of default over a 12-month period is estimated on the basis of internal and external financial data. A score card is used to divide the customers into 10 different risk classes and a risk class for defaulted loans and loans where write-downs have been implemented, but no default has occurred. Risk development in the portfolio and migration is assessed using the risk classification system.

Market risk

Market risk includes risk associated with profit variations in unsecured interest rate, currency and equity capital positions. Losses may arise due to fluctuations in interest rates, including credit spread, foreign exchange rates and share prices.

Sparebanken Sør shall have a low market risk. Activity in financial instruments will mainly be related to identifying the bank's exposure which arises as a result of operational circumstances related to the bank's ordinary customer activity and through funding of the operations.

The Board of Directors has established management objectives for investment in shares, bonds and positions in the interest rate and currency market. Compliance with the management objectives is followed-up on an ongoing basis and is reported to the Board of Directors.

The interest rate risk limit is determined as an upper limit for how great the loss on unsecured interest rate positions can be in case of a change in interest rate of 2 percentage points parallel shift in the yield curve. Interest rate risk which arises in the group's ordinary operations in the form of fixed rate customer loans, fixed rate investments and funding, are identified on an ongoing basis. No specific limits have been set for own-account trading. At year end, the group's net interest rate risk was NOK 1 million.

Beyond the interest rate risk limit, an upper risk tolerance has been set for profit effects due to a general market change in credit spread, which may lead to changes in value of the Group's interest-bearing securities portfolio. The Financial Supervisory Authority of Norway's stress test model for credit spread risk is used to calculate risk exposure. The bank's credit spread exposure is related to the liquidity portfolio. At year-end 2015, 73 per cent of the board-adopted limit had been used.

The Group is affected by fluctuations in the currency market through its currency activities with customers. Currency exposure is identified through using on and off-balance sheet instruments (currency futures and swaps). Currency exposure is measured when there is a 10 per cent change in exchange rate in the currency position. Limits have been set for exposure in individual currencies. The total currency risk limit is NOK 20 million.

At year-end, the Group's total share investments were NOK 487 million. Among the largest single items were Eksportfinans and assets in the product companies Frende Forsikring, Norne Securities and Brage Finans.

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able to meet its obligations or not having the capacity to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, overall guidelines and routines and through established credit issuance authorisation. Key operational management parameters are requirements for deposit-to-loan ratio, indicator value for long-term funding, stress indicator for liquidity outputs within 30 days, Liquidity Coverage Requirement (LCR) and also guidelines for survival in situations where there is no access to market funding. The liquidity risk is also managed by ensuring distribution of funding from the capital market among different maturities, funding sources and instruments.

Deposits from customers are the most important and stable source of funding. The Board of Directors emphasises that the relationship between deposits from customers and loans must be satisfactory and adjusted to the Group's total funding situation. The group's deposits to loan ratio was 54.7 per cent at the end of the year.

Sparebanken Sør Boligkreditt AS also represents an important funding instrument, which ensures access to long-term funding through issue of covered bonds. To be able to issue covered bonds, in 2015, mortgages equivalent to 44.2 per cent of the total loans to the Retail Banking, were transferred from the bank to the mortgage company.

Board-adopted target requirements for the bank's liquidity risk following guidelines issued by the Financial Supervisory Authority. At year-end, the indicator values for Sparebanken Sør were within these requirements.

The liquidity indicator for long-term funding was 106 per cent. An available liquidity buffer meant that under normal operations, the Group could have survived for 12 months without supply of new borrowing from the market.

The Group has an extensive liquidity reserve in the form of liquid interest-bearing securities. The bank also has mortgages that are ready for transfer to the mortgage company. The bank's interest-bearing liquidity portfolio consists of government securities, other zero-weighted securities, covered bonds and municipal bonds.

The bank's short-term liquidity risk is among others managed through use of a regulatory Liquidity Coverage Requirement (LCR). At year-end 2015, the LCR indicator for Sparebanken Sør (Group and Parent bank) was enough to meet all the projected liquidity maturities within the next 30 days under a stress scenario. The group and the parent company's LCR ratio was 108 per cent and 71 per cent respectively as at 31 December 2015. The authorities have planned a gradual escalation of the requirement, which as at 31 December 2015 was 70 per cent.

The Group's liquidity risk is followed-up through periodic reporting to the Board of Directors.

Operational risk

Operational risk is the risk of losses from various sources of potential losses, related to the ongoing operations of the Bank. This may result from inadequate or failed internal procedures and processes, human error or inadequate expertise, failure of IT systems, crime or internal fraud, error from subcontractors, etc.

The Bank has routines which cover all significant areas. Risk management and internal control means the process of identifying, analysing, managing and following-up the risks so that the total risk exposure agrees with the strategic objectives and ensures compliance with applicable laws and regulations, and also internal routines and guidelines. Internal control is an important tool for reducing the operational risk, both for identification and follow-up.

Compliance

The Group aims to have good processes to ensure compliance with applicable laws and regulations. Compliance risk is the risk that the Group incurs public sanctions, loss of licences, financial loss or impaired reputation due to lack of compliance with laws, regulations and industry standards. Work is ongoing to assess the best adaptation to new regulations in order to maintain compliance and efficiency in the organisation. New regulations that have an impact on the Group's operations are implemented in the bank's procedures and guidelines.

The bank's compliance function is handled by division Risk management, and the function is organised independently of the business units. Risk management has overall responsibility for frameworks, follow-up and reporting within the area of compliance.

Ownership risk

Ownership risk is the risk that the Group will incur negative results from ownership interests in strategic owned companies and / or must supply new equity to these companies. Ownership is defined as companies where Sparebanken Sør has significant ownership or influence.

The management and boards of directors of subsidiaries will be protected in accordance with the provisions of the Limited Liabilities Companies Act. Several of the companies use managers and / or employees from the Group on the board of directors or in other functions.

The bank's ownership risk is considered to be low.

Capital management

Capital management will ensure that the Group has capital adequacy that meets the regulatory requirements and that ensures good financial stability and a satisfactory return in relation to the risk profile.

Sparebanken Sør uses the standard method for credit risk and the basic method for operational risk under the current capital adequacy calculations. Through anticipated amendments to the regulations where the standard regulations are more risk-sensitive, while the application of the IRB regulations is more standard across national borders, the bank considers it not appropriate at this point time to apply for approval from the Financial Supervisory Authority of Norway to use internal credit risk calculation models (IRB). As a "standard bank", the bank will therefore have a slightly higher calculation basis of capital adequacy in relation to comparable IRB banks.

An annual assessment is made of the bank's capital requirements based on an estimated total risk. The internal capital adequacy assessment process (ICAAP) enables the bank to have good risk management and an overview of the risk to which the bank is exposed while ensuring that sufficient equity and subordinated capital has been established at any time.

The Financial Supervisory Authority of Norway has expressed expectation that the bank should have a core tier 1 capital ratio of 14.5 per cent by the end of 2016. The bank will strengthen the core tier 1 capital ratio through continued improvement of the financial results from ordinary operations, reduced growth in risk weighted balance and of the rights issue of NOK 600 million. The rights issue is fully guaranteed through a combination of an underwriting agreement syndicate and pre-subscriptions from certain larger existing equity certificate holders in the bank.

Sparebanken Sør has a target at any given time to be well-capitalised. The core tier 1 equity ratio shall be above the regulatory minimum requirements and be at the level with comparable banks. The bank's financial strength is considered to be satisfactory in light of the current regulatory requirements.

The Group's capital adequacy is followed-up through periodic reporting to the Board of Directors.

RATING

In order to expand the possibilities for funding both internationally and from various investors, the bank has an international rating from Moody's, one of the world's most recognised rating agencies. In addition to the fact that the rating outcome will show a value for the bank, the Board considers that the actual rating process and maintenance of the rating has a value for the bank in terms of improving the quality of various processes and procedures.

In May 2015, Sparebanken Sør received an upgraded long-term rating to A1 with a "Stable Outlook".

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

CORPORATE GOVERNANCE

Sparebanken Sør's principles and policy for corporate governance are based on the Norwegian Code of Practice for Corporate Governance, prepared by the Norwegian Corporate Governance Board (NUES). The Financial Supervisory Authority of Norway's model for evaluation of overall management and control, which reflects principles from the European Banking Authority (EBA), is used as far as this is relevant to the Group. See the full report in the annual report.

PERSONNEL AND WORKING ENVIRONMENT

At year-end 2015, the bank had 449 FTEs at work and 508 FTEs in the Group. The number of employees in the bank has been reduced by 71 FTE since January 2014. In 2015, the bank has implemented a number of training activities in the credit and money-laundering area. There has also been ongoing training in products, systems and routines.

Sickness absence has remained at a stable low level. In 2015, this was 4.6 per cent and the majority of this was long-term absence.

The bank has a well-functioning organisation with a good working environment and job satisfaction and in total this gives stable and good working conditions. The bank continues to invest in social activities for the employees, including company sports, art club and company cabins.

Sparebanken Sør is an Inclusive Workplace (IA bedrift) and works actively to protect the interests in the Anti-Discrimination Act. The bank arranges so that employees with disabilities are able to remain in their job. New buildings and alterations have a universal design so that everyone is able to use them on an equal footing, without special adaptations or technical aids.

Equal opportunities

Sparebanken Sør has a long-term objective to promote gender equality in all job levels. At year-end, the bank had a total of 478 employees, compared with 493 in the same period in 2014. The 478 employees were made up of 252 women and 226 men. In the corporate management team 32.6 per cent are women. In the bank's supervisory bodies, 27 per cent of the Board of Trustees and 50 per cent of the Board of Directors are women.

The bank aims to increase the proportion of women in senior positions. During recruitment, the best female applicants will always be assessed against the best male applicants. In addition, the best applicant with an ethnic minority background will be assessed against the best male and female applicants.

RESEARCH AND DEVELOPMENT

The Group does not conduct any research.

SOCIAL RESPONSIBILITY

In the last few years, there has been increasing awareness that the business community has a responsibility to society over and above making a profit. Finance Norway (FNO), the Norwegian Savings Banks Association and the Confederation of Norwegian Enterprises have put corporate social responsibility high on the agenda.

Sparebanken Sør's social responsibility is expressed in the bank's fundamental idea to contribute to growth and development in the region. Through banking operations, the bank contributes to value creation and growth for people and businesses. Sparebanken Sør also gives some of the profit back in the form of donations and initiatives for the benefit of the region and for the local communities.

Climate challenges and external environment

The bank does not use input factors or production methods that directly pollute the external environment. The bank prepares an annual climate report to identify emissions, quantify pollution and to enable the bank to implement targeted measures. The report is based on the international standard "A Corporate Accounting and Reporting Standard". The report covers consumption related to transport, energy, waste and air travel. The bank is not aware of other environmental impact beyond consumerism that can be translated into CO2 and therefore has no reporting on emissions to soil, water or noise. The bank encourages environmental awareness as regards use of paper, waste management and recycling. To reduce emissions and costs in connection with travel to and from meetings, the bank has invested in technology to conduct video conferences at several branches. In addition, all offices have technology that enables PC-supported teleconferences.

The bank has a diversified business portfolio. Several of the bank's corporate customers have operations that will have an impact on the external environment. Through providing credit, the Group has indirect possibilities to impact the external environment.

Human rights

All Sparebanken Sør's operations are located in Norway and the bank has no employees abroad or customers of importance with addresses outside Norway. The few corporate customers registered with NUF or Ltd are reviewed in particular.

Human rights, employee rights and social circumstances follow acknowledged and required norms for Norwegian companies located in Norway. The bank is a member of Finance Norway and is bound by tariff agreements within this tariff area. The bank has also entered into a separate tariff agreement (company agreement) with employee representatives in the company.

Money laundering and terror funding

The bank has its own anti-money laundering procedures and terrorist financing measures, and it has been an aim to strengthen the quality of compliance with the laws and regulations. The person in charge of the anti-money laundering in the bank has managed this work and all employees in contact with customers have attended courses and training in anti-money laundering. The anti-money laundering procedures govern relations with customers and a number of checks and reporting to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental crime) are made during the year. The bank also has strict requirements as regards identification when establishing new customer relationships.

In 2015, 100 cases were reported to Økokrim, against 54 in 2014. The increase is due to better skills and efficiency in the control.

Code of ethics and measures against corruption

According to the bank's code of ethics, employees must act with diligence and honesty. Employees should endeavour to have a behaviour that is trustworthy and according to applicable standards, laws and regulations. This will affect all our activities so that the bank achieves market confidence and ensures it's competitive and power and reputation. The code of ethics shows the expectations and requirements Sparebanken Sør has for its employees' conduct and behaviour. Management, employees, employee representatives, temporary personnel and hired consultants must follow the code of ethics. Everyone who must follow these standards must not conduct themselves in a manner that weakens confidence in Sparebanken Sør. Employees are obliged to register gifts from customers / other external parties in a separate gift book. Travel, especially abroad, is checked as regards possible irregularities and tax consequences. Travel for employees initiated by suppliers to the bank must be approved by a superior. No breach of the Code of Ethics has been reported in 2015. No cases that can be defined as corruption have been reported.

GIFTS FOR THE PUBLIC BENEFIT

Sparebanken Sør has defined donations as a strategic priority area. When awarding donations, the bank is concerned that chosen projects benefit the community in some way. In this way, making donations provides the opportunity to stimulate growth and development in society and the business community. A sustainable society and business community forms the basis for the bank's future financial results. Donations give the bank a competitive advantage and are important in building the bank's reputation.

From the 2014 financial statements NOK 25 million was transferred to the bank's donations fund.

In 2015, the donations committee has dealt with 445 cases. Of these, 193 were granted a total amount of NOK 25.3 million. Children and young people have been a priority target group and the allocations have largely been aimed at projects within childhood, sport and culture. The bank has prioritised broad rather than narrow target groups and teams rather than individual performers. The Board of Directors proposes allocation of NOK 25 million of the bank's profit for 2015 for distribution in 2016.

OUTLOOK

The Board of Directors is satisfied with the result for 2015. The bank has delivered an improved profit from ordinary operations through good growth, stable net interest income, higher commission income and a reduction in costs and losses on loans.

The Financial Supervisory Authority of Norway has expressed expectation that the bank should have a core tier 1 capital ratio of 14.5 per cent by the end of 2016. The bank will strengthen the core tier 1 capital ratio through continued improvement of the financial results from ordinary operations, reduced growth in risk weighted balance and of the rights issue of NOK 600 million. The rights issue is fully guaranteed through a combination of an underwriting agreement syndicate and pre-subscriptions from certain larger existing equity certificate holders in the bank.

As a result of the fall in the oil price and downsizing in the oil service sector unemployment is expected to rise. There are also tendencies that house prices are levelling off in the bank's main market. At the other end, a low exchange rate has helped strengthen the competitiveness of the export industry, which is also very important to the region. Together with low interest rate, this will curb the negative impact somewhat. Sparebanken Sør has a low direct exposure to the oil - and oil service sector, but as the largest bank in the region will be affected by the general economic development in the region. The Board of Directors will continue to keep a close eye on the developments.

The second half of 2015 was characterized by great uncertainty in the international financial markets. The market situation impacted the Norwegian money - and capital market, which was also impacted by the fall in oil price. The market situation has not been clarified at the beginning of 2016.

In line with the bank's recently adopted strategy, the challenges will be met with strong focus on costs and long-term value creation. The bank's investments in technology will continue and will contribute to cost-effective operations and enable improvement in the efficiency of the office structure. This, together with good quality credit work, will ensure continued profitable growth and development for Sparebanken Sør.

CLOSING REMARKS

The Board of Directors would like to thank the bank's employees for their valuable contribution to what has been a good year for Sparebanken Sør. At the same time, the Board of Directors would also like to thank the bank's customers, equity certificate holders and other business relations for supporting the bank and for the confidence they have shown in the bank over the last year.

The Board of Directors

Front from the left: Marit Kittilsen, Stein A. Hannevik, Inger Johansen.

Back from the left: Bente Pedersen, Per A. Bentsen, Torstein Moland, Erling Holm, Trond Bjørnenak, Jill Akselsen.

Siss Ågedal was not present when the picture was taken.

Kristiansand, 31 December 2015 / 3 March 2016

Stein Hannevik
Chairman

Torstein Moland
Deputy Chairman

Erling Holm

Siss Ågedal

Inger Johansen

Trond Bjørnenak

Marit Kittilsen

Jill Akselsen

Per Adolf Bentsen

Bente Pedersen

Profit and loss account

PARENT BANK		NOK MILLION		GROUP	
2014	**2015**		**Notes**	**2015**	**2014**
2 798	2 390	Interest income	14	3 119	3 593
1 714	1 252	Interest expenses	14	1 598	2 082
1 084	**1 138**	**Net interest income**	**5,14**	**1 521**	**1 511**
284	297	Commission income	15	347	331
46	47	Commission expenses		47	47
238	**250**	**Net commission income**		**300**	**284**
11	9	Dividend		3	11
204	-74	Net income from other financial instruments	11,12,16	-69	173
215	**-65**	**Net income from financial instruments**		**-66**	**184**
15	15	Other operating income		14	23
1 552	**1 338**	**Total net income**		**1 769**	**2 002**
380	389	Wages and other personal expenses	17,34	458	438
48	36	Depreciation and write-down of fixed assets and intangible assets	29	37	52
-200		Negative goodwill	37		-200
332	307	Other operating expenses	18	322	344
560	**732**	**Total expenses**	**5**	**817**	**634**
992	**606**	**Profit before losses on loans**		**952**	**1 368**
268	97	Losses on loans, guarantees, etc.	10	97	268
724	**509**	**Profit before taxes**	**5**	**855**	**1 100**
113	136	Tax expenses	19	231	215
611	**373**	**Profit for the year**		**624**	**885**
		Minority interest		2	
611	**373**	**Majority interest**		**622**	**885**
12,2	10,6	Profit/diluted earnings/result per EC (in NOK)	36	17,6	20,3

OTHER COMPREHENSIVE INCOME

PARENT BANK		NOK MILLION		GROUP	
2014	**2015**		**Notes**	**2015**	**2014**
611	373	Profit for the year		624	885
		Items that will not be reclassified to profit and loss account			
-127	59	Recognised estimate deviations, pensjons	17	59	-127
34	-15	Tax effect of recognised estimate deviations,pension	17,19	-15	34
518	**417**	**Total income for the profit year**		**668**	**792**

Notes 1 to 38 are an integral part of the consolidated financial statements.

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2014	31.12.2015		Notes	31.12.2015	31.122014
Assets					
595	332	Cash and receivables from central banks		332	595
1 510	2 017	Loans to and receivables from credit institutions	28	157	180
60 880	62 744	Net loans to customers	5,6,7,8,9,20,21,33,35	88 387	80 913
10 059	10 456	Bonds and certificates	20,21,22	10 557	10 359
445	487	Shares	20,21,23	487	445
751	659	Financial derivatives	20,21,26	813	906
1 258	1 259	Shareholdings in group companies	24		
12	13	Shareholdings in associated companies	25	13	12
17	10	Intangible assets	29	13	20
11	3	Deferred tax asset	19	8	17
475	438	Fixed assets	29	479	503
73	61	Other assets		88	112
76 086	**78 479**	**TOTAL ASSETS**	**5**	**101 334**	**94 062**
Liabilities and equity					
627	626	Debts to credit institution	28,32	576	614
48 269	48 377	Deposits from customers	5,13,20,21,30,32	48 349	48 250
18 414	19 865	Debt incurred due to issue of securities	13,20,21,27,32	41 899	35 775
517	411	Financial derivatives	21,26	413	521
83	151	Payable taxes	19	245	178
194	188	Other liabilities	31	229	231
236	160	Provisions for commitments	17	160	236
1 100	1 710	Subordinated loan capital	4,13,20,21,27	1 710	1 100
69 440	**71 488**	**Total liabilities**	**13**	**93 581**	**86 905**
891	905	Equity certificate capital	4,36	905	891
5 755	6 086	Other equity	4	6 848	6 266
6 646	**6 991**	**Total equity**	**4**	**7 753**	**7 157**
76 086	**78 479**	**TOTAL LIABILITIES AND EQUITY**	**5**	**101 334**	**94 062**

Notes 1 to 38 are an integral part of the consolidated financial statements.

Kristiansand, 31 December 2015 / 3 March 2016

Stein Hannevik
Chairman

Torstein Moland
Deputy Chairman

Erling Holm

Siss Ågedal

Inger Johansen

Trond Bjørnenak

Marit Kittilsen

Jill Akselsen

Per Adolf Bentsen

Bente Pedersen

Geir Bergskaug
CEO

Equity statement

NOK MILLION	Equity certificates	Premium fund	Dividend equalisation fund	Primary capital	Gift fund	Other equity	Minority interests	Total
GROUP								
Balance 01.01.2014	**474**	**175**	**45**	**5 418**	**45**	**254**	**7**	**6 418**
Dividend distribution for 2013						-13		-13
Profit 2014			210	328	25	321		885
Recognised estimate deviations, pension			-18	-109				-127
Tax effect estimate deviations, pension			5	29				34
Other changes						-4	-7	-11
Distributed by gift fund					-29			-29
Balance 31.12.2014	**474**	**175**	**242**	**5 667**	**41**	**558**	**0**	**7 157**
Dividend distribution for 2014						-47		-47
Profit 2015			8	297	25	292	2	624
Recognised estimate deviations, pension			8	51				59
Tax effect estimate deviations, pension			-2	-13				-15
Other changes								0
Distributed by gift fund					-25			-25
Balance 31.12.2015	**474**	**175**	**256**	**6 002**	**41**	**803**	**2**	**7 753**
PARENT BANK								
Balance 01.01.2014	**474**	**175**	**45**	**5 418**	**45**	**13**		**6 170**
Dividend distribution for 2013						-13		-13
Profit 2014			210	328	25	47		611
Recognised estimate deviations, pension			-18	-109				-127
Tax effect estimate deviations, pension			5	29				34
Distributed by gift fund					-29			-29
Balance 31.12.2014	**474**	**175**	**242**	**5 667**	**41**	**47**	**0**	**6 646**
Dividend distribution for 2014						-47		-47
Profit 2015			8	297	25	43		373
Recognised estimate deviations, pension			8	51				59
Tax effect estimate deviations, pension			-2	-13				-15
Distributed by gift fund					-25			-25
Balance 31.12.2015	**474**	**175**	**256**	**6 002**	**41**	**43**	**0**	**6 991**

Notes 1 to 38 are an integral part of the consolidated financial statements.
Reference is made to Note 36 – Equity certificates, equity capital and proposed dividend.

Cash flow statement

PARENT BANK		NOK MILLION	GROUP	
31.12.2014	**31.12.2015**		**31.12.2015**	**31.122014**
2 791	2 414	Interest payments received	3 142	3 575
-1 774	-1 319	Interest payments made	-1 669	-2 147
399	285	Other payments received	341	435
-695	-722	Operating payments	-800	-784
5	6	Establised on confirmed losses	6	5
-135	-69	Periode tax paid	-164	-211
-32	-20	Gifts paid	-20	-32
-6		Paid group contribution		
4 524	113	Change in customers deposits	104	4 521
-6 591	-1 988	Change in loans to customers	-7 598	-3 572
-1 514	**-1 300**	**Net cash flow from operational activities**	**-6 658**	**1 790**
18 216	13 401	Payments received regarding securities	6 649	11 188
-12 002	-13 927	Payments made regarding securities	-6 977	-9 111
28		Payments received regarding sale of group companies		
32	24	Payments received regarding of fixed assets	24	178
-42	-12	Payments made regarding purchase of fixed assets	-26	-44
34	139	Change in other assets	155	-10
6 266	**-375**	**Net cash flow from investment activities**	**-175**	**2 201**
554	-507	Change in loans to credit institutions	23	155
-4 031	-1	Change in deposits from credit institutions	-38	-2 879
3 990	8 720	Payments received, bond debt	20 220	7 240
-6 331	-7 093	Payments made, bond debt	-13 832	-9 573
	1 510	Payments received, subordinated loan capital	1 510	
	-900	Payments made, subordinated loan capital	-900	
-42	-47	Dividend payment	-47	-42
-18	-270	Change in other liabilities	-366	-18
-5 878	**1 412**	**Net cash flow from financing activities**	**6 570**	**-5 117**
-1 126	**-263**	**Net change in liquid assets**	**-263**	**-1 126**
1 721	**595**	**Cash and cash equivalent 01.01.**	**595**	**1 721**
595	**332**	**Cash and cash equivalent 31.12.**	**332**	**595**

The cash flow shows receipts and payments and cash equivalents during the year. Statement has been prepared in accordance with the direct method. Cash flows are classified as operating activities, investment activities or financing activities. Cash is defined as cash and claims on central banks.

Notes 1 to 38 are an integral part of the consolidated financial statements.

Notes 2015 - Sparebanken Sør

Note 1 – Accounting principles

1. GENERAL INFORMATION

The Sparebanken Sør Group consists of the parent bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, Bankbygg AS, AS Eiendomsvekst, Prosjektutvikling AS, Rettighetskompaniet AS and Berglyhallen AS. The Group conducts banking operations in 40 locations and real estate brokerage business in 14 locations in the Agder counties and Telemark.

Within the framework of the statutes and the applicable legislation at any time, the bank may conduct all business and services that banks in general are licensed to perform. The bank has a license as an investment firm. In the Sparebanken Sør Group, Sparebanken Sør Boligkreditt AS is a wholly owned subsidiary. Sparebanken Sør Boligkreditt AS was established to offer loans with security in mortgage within 75 per cent of the property value.

The Sparebanken Sør is an equity certificate bank. The Bank and the real estate brokerage business have its registered office in Kristiansand.

The consolidated financial statements for 2015 were prepared by the Board of Directors on 3 March 2016, and will be finally approved by the Board of Trustees on 30 March 2016. The Board of Trustees is the Bank's highest body.

2. BASIS FOR COMPILATION OF THE FINANCIAL STATEMENT

Use of IFRS

The consolidated and parent bank financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act. The financial statements for Sparebanken Sør have been compiled in Norwegian kroner (NOK), which is the functional currency of the Group. Unless stated otherwise, the values used in the financial statements have been rounded to the nearest million. The measurement basis for both the parent bank and consolidated financial statements is historical cost with the exception of the financial assets and obligations, including derivatives that are assessed as fair value with value change over the income statement.

Consolidation and group companies

The group accounts include the parent bank and the subsidiaries, where the bank alone, or together with subsidiaries, has controlling interest, usually as a result of an ownership interest of more than 50 per cent. Internal transactions and balances are netted out.

When a subsidiary is acquired, the cost price of the shares in the parent company is netted out against equity in the subsidiary at the time of the acquisition. The difference between the cost price and net book value of assets in the subsidiary at the time of the acquisition is added to the assets to which the surplus value relates within the market value of these assets. The part of the cost price that cannot be added to specific assets represents goodwill. If the value of the acquired assets exceeds the cost price, the difference is carried to income.

In the parent bank's accounts, the assets are recognised at the cost price on initial recognition. The shares are tested annually for any impairment in value and if necessary, a write-down to the recoverable amount is made.

Associated companies

Associated companies are companies in which the bank has significant interest. Significant interest exists when the bank has an equity stake between 20 % and 50 %. Associated companies are incorporated in the group accounts according to the equity method. This means that on initial recognition, the assets are recognised at cost price and then adjusted for the bank's share of the associated company's result.

In the parent bank's account, the assets are recognised at the cost price on initial recognition. The shares are tested annually for any impairment in value and if necessary, a write-down to the recoverable amount is made.

3. REVENUE

Interest income and costs related to assets and liabilities which are measured at the amortised cost are expensed as incurred using the effective interest method. All charges related to interest-bearing loans and borrowings are included in the calculation of the effective interest rate and are amortised over the expected term. Interest income and costs related to instruments that are measured at fair value through the income statement are presented as part of the net interest income. Changes in value, including changes in value related to the interest element, are recognised as net income from other financial instruments.

Commission income and expenses which are a direct payment for services provided are recognised when the services have been delivered. Fees for establishing loans are amortised over the loan's anticipated maturity period. Fees associated with loans that are measured at fair value are added to the profit and loss accounts directly.

Dividends are recognised as income in the year in which allocations are made for dividends from subsidiary companies. Dividends from others are recognised into accounts when these are paid out.

4. FINANCIAL INSTRUMENTS

4.1. Recognition and deductions

Financial assets and liabilities are recognised when the bank becomes a party to the contractual decisions.

A financial asset is deducted when the contractual rights to the cash flows from the financial asset expire, or the bank transfers the financial asset in such a way that the risk and profit potential of the asset in question is substantially transferred. A financial liability is deducted when the financial liability is discharged, cancelled or expired.

4.2 Offsetting

Financial assets and liabilities are only offset and recognised as a net amount in the balance sheet when the Group has a legally enforceable entitlement to offset, and intends to realise the asset and settle the liability simultaneously.

4.3 Classification

Financial instruments are classified into one of the following categories at the initial recognition.

- Financial instruments subject to fair value through profit or loss
- Financial derivatives designated as hedging instruments
- Financial instruments subject to voluntary categorised at fair value through profit or loss
- Loans and receivables at amortised cost
- Other liabilities at amortised cost

4.3.1 Financial instruments recognised at fair value / financial derivatives

Financial derivatives must be valued at fair value with changes in value recognised via the income statement. Sparebanken Sør has used the following financial derivatives: Interest rate swaps, currency futures and currency swaps and options on share indexes. Financial derivatives will be recognised in the balance sheet at fair value with changes in value being recognised via the income statement.

4.3.2 Financial derivatives designated as hedging instruments

The category encompasses interest swaps, used as hedging instruments for actual security of bonds issued with fixed interest rates. Hedge accounting is also addressed in Item 5.

4.3.3 Financial instruments that are voluntary valued at fair value

The group chooses the initial recognition to define any assets or liabilities at fair value with value changes in the income statement if:

- Classification reduces a mismatch in the measurement or recognition that otherwise would have occurred as a result of different rules for measurement of assets and liabilities. This applies to fixed rate loans that are hedged using derivatives.
- The financial instruments are included in a portfolio that is continuously measured and reported at fair value. In these portfolios, certificates and bonds, fixed rate loans and shares are included.

4.3.4 Loans and receivables to the amortised cost

This category includes loans and receivables that are measured at amortised cost.

4.3.5 Other liabilities at amortised cost

This category includes loans and commitments that are measured at amortised cost.

4.4 Measurement on initial recognition

All financial assets and liabilities are recognised in the balance sheet at the fair value. For instruments that are not derivatives or measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue of the financial asset or financial liability.

4.5 Subsequent measurement

4.5.1 Valuation at fair value

Fair value is the price that would be obtained upon the sale of an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the time of valuation.

4.5.1.1 Measuring of financial instruments which are traded in active markets

Financial instruments traded in an active market are valued at the observed market prices.

4.5.1.2 Measurement of financial instruments which are not traded in an active market

The fair value of financial instruments not traded on an active market is determined using a suitable valuation method. Valuation techniques are based on the recently signed transactions between independent parties, by referencing instruments with virtually the same content or by discounting cash flows. As far as possible, valuations are based on externally observed parameter values.

The fair value of interest-bearing securities is determined by established market values reported by leading external market players, or at the fair value calculated on the basis of current market yield- and credit spread curves at any time.

In calculating the fair value of swaps entered into, the market value of the relevant inter-bank interest rate curve is used at all times.

For shares that are not listed or traded actively, the change in value is based primarily on valuations carried out by others. If this is not available, the value of the shares is based on the available accounting information.

Fixed rate loans are not traded in an active market. The bank must therefore establish a market spread to estimate a fair value of loans as at 31.12. For fixed rate loans in the private market, prices published on www.finansportalen.no are used as market interest rates.

4.5.2 Measurement of financial guarantees

Financial guarantees are measured at fair value on initial recognition. At subsequent measurements, issued financial guarantees are considered to the highest amount of consideration received for the guarantee, less any amortized recognition and best estimate in the eventual redemption of the guarantee.

4.5.3 Measurement of amortized cost

Financial instruments not measured at fair value are measured at amortized cost. Revenues are calculated at the instrument's effective interest rate.

Amortized cost is defined as the book value at the initial measurement, adjusted for received/paid installments and any cumulative accrual of fees, commissions etc., with any write-downs.

The effective interest method is one which calculates the amortized cost and the accrued interest income/expenses for the relevant period. Interest income is recognized using the effective interest method. The effective interest rate is the interest rate that by discounting the loan's cash flows over the anticipated term gives a value equal to the loan's amortised cost on the date of establishment.This means that any difference between the loan's original book value and the accrued value is being amortized over the loan's expected maturity. This means that any difference between the loan's original amortized cost and book value is accrued over the expected maturity.

4.5.4 Write-down of financial assets

Losses on loans are calculated as the difference between the book value and net present value of estimated future cash flows, discounted using the effective interest rate. Use of the effective interest method means that it is made recognition of interest income on impaired loans. These loans are recognised at the internal interest rate at the date adjusted for changes in interest rates until the time of impairment. The income rates are based on the loan's recorded value.

In the balance sheet, write-down on loan engagement balance-accounted value is reduced.

In the income statement, losses on loans consist of realised losses, changes in impairment losses on loans and provisions for guarantees, as well as payment on past realised losses. Losses on loans are based on an assessment of the Bank's loan and guarantee portfolio in accordance with IAS 39. The Bank determines the losses on loans and guarantees on a quarterly basis. Defaulted and doubtful loans are followed up with regular reviews.

4.5.4.1 Reduction in value of loans and individual write-down losses

Impairment loss is made when there is objective evidence that a loan is impaired as a result of credit losses. An impairment loss is reversed when the loss is reduced and can be related objectively to an event occurring after the impairment date. All loans that are considered material will be assessed to see whether there is objective evidence of impaired credit, and the objective indication is likely to result in reduced future cash flows to the service of the engagement. Objective evidence may be defaults, bankruptcies, debt settlement, and lack of liquidity or other significant financial problems.

4.5.4.2 Collective write-downs

Loans that have not been subject to individual impairment write-downs are included in the Group's write-downs. Loans are divided into groups with similar risk characteristics, with regard to servicing. Collective write-downs are calculated on sub-groups of loans where there is objective evidence that shows that the future cash flow for the service of the engagements is weakened. Collective write-downs made in order to cover expected credit losses caused by incidents that have occurred, shall take into account losses in the portfolio at the time of measurement, but that are not yet identified at the individual's commitment level. Objective events could be a negative trend in risk classification, adverse developments in security values or negative industry developments.

4.5.4.3 Realised losses

When it is highly probable that the loss is final, this is recognised as a realised loss. This includes losses where the bank has lost its claim against the debtor as a result of bankruptcy, a debt settlement, an unsuccessful distress warrant, a legally binding court ruling or debt remission. This applies even if the Bank has otherwise suspended enforcement or waived part of or all loans. Some realised losses will be covered through the previous decision made on individual loan loss write-downs, and booked against the former provision. Realised losses, without coverage in individual impairment loss, as well as over-or under cover in relation to previous impairment loss, are recognised.

4.6 Presentation in balance sheet and income statement

4.6.1 Loans

Loans are recorded as either loans to and receivables from credit institutions or loans to customers. Interest is included in the profit and loss account.

Changes in value due to impairment charges are recognised in the profit and loss account on losses on loans, guarantees, etc.

Changes in value of fixed rate loans, which are selected at fair value, are included in the income statement under net income from financial instruments.

4.6.2 Bond and certificates

The balance sheet item includes the Group's certificates and bond portfolio. All changes in value are recognised in the profit and loss account under net income from financial instruments.

4.6.3 Shares

The balance sheet includes the Group's shares at fair value. All changes in value are recognised in the income statement under net income from financial instruments.

4.6.4 Financial derivatives

The balance sheet includes financial derivatives and value adjustments related to derivative instruments, which are recognised in the income statement under net income from financial instruments.

4.6.5 Debt to credit institutions, and deposits from customers

Balance sheet items include liabilities to credit institutions and customers. Interests are recognised in the income statement under interest expenses.

4.6.6 Debt incurred due to issue of securities

The balance sheet item includes securities debt. Interest are recognised in the income statement under interest expenses. In case of early redemption or buy-back of issued bonds, any gains and losses are recorded under net income from financial instruments.

4.6.7 Subordinated loan capital

The balance sheet includes issued subordinated loans and perpetual subordinated loans. Interest are recognised in the income statement as interest expenses.

5. HEDGE ACCOUNTING

Sparebanken Sør utilises hedge accounting in relation to the bank's funding at fixed rate terms. Hedge accounting covers the interest risk on the bonds.

The bank's criteria for classification of a derivative as a hedging instrument are:

- The hedge accounting is anticipated to be very effective, in that it counteracts changes in the fair value of the bond issued.
- The effectiveness of the hedge accounting must be expected to be effective within the range of 80% to 125%.
- The effectiveness must be able to be reliably measured.
- Satisfactory documentation has been established prior to hedging that among other things shows that the hedging is effective and is expected to remain effective throughout the entire period.

Sparebanken Sør utilises fair value hedging. Hedging is measured and documented every quarter to ensure that the hedging is effective. As a method of measuring the effectiveness of hedging, the dollar-offset method is used.

When the hedging is established and effective, interest swaps will be added to the balance sheet at the fair value and be added to the profit and loss accounts under "Net income from financial instruments".

The hedge object is recognised to the balance sheet at an amortized cost. Changes in the fair value associated with the hedged risk are accounted for as a supplement or deduction in the balance-added value of the bond debt and is added to the profit and loss accounts under "net income from financial instruments".

If circumstances should occur in which the hedging is not effective, the bank/group will amortise the change in value associated with the hedged object over the remaining period. The associated hedging instrument will continue to hold the fair value with a change in value in the profit and loss account.

6. ACCOUNTING FOR EXCHANGE RATE EFFECT

Income and expenses in foreign currency are translated into Norwegian kroner at the rates on the transaction date.

Balance sheet items denominated in foreign currencies are hedged towards similar posts on the opposite side of the balance sheet or the execution of hedging transactions. Currency derivatives (currency futures) are traded with customers are hedged in a similar manner to any external party. Assets and liabilities in foreign currencies are translated into Norwegian kroner at the banks' middle rates on the balance sheet date. All changes in value are recognised in the profit and loss account under net income from other financial instruments.

7. FIXED ASSETS

Fixed assets are recognised at cost less accumulated depreciation and amortisation. Depreciation is computed at a straight-line basis over the expected economic life of the asset. There will be an annual reassessment of the remaining useful life and residual values for each asset.

At each reporting date, it will be evaluated as to whether there are any indications of impairment. If there are indications of impairment in the value of an asset, the bank will obtain valuations or calculate the utility value of the asset. The asset is written-down to the higher of the fair value and the utility value. The basis of previous write-downs is considered at the same time.

There has been decomposition in the estimated value of property, plants and building. Property is not depreciated. Buildings and technical facilities are depreciated over their estimated useful life and are not considered to have any residual value. Improvements and periodic maintenance are amortised over the estimated useful life.

8. PENSION COST AND – OBLIGATIONS

Defined benefit pension scheme

In accordance with IAS 19, both obligations related to collective schemes in life insurance companies and unsecured obligations contained in the financial statements in accordance with the calculations performed by an external actuary. Net pension expense consists of the present value of net pension and interest cost on pension obligations, net of expected return on plan assets. Net pension expenses are included in the item wages and other personnel expenses. Changes in estimate deviations are accounted for against other comprehensive income and plan changes will be added to the profit and loss account consecutively. The defined benefit pension scheme in the life insurance company is closed.

The defined contribution scheme

The arrangement means that the bank will not guarantee a future pension. The bank pays an annual contribution to employees' collective pension savings. Payments to the arrangement are entered as expenses directly.

9. INCOME TAX

Income tax is accrued as a cost, irrespective of the time of payment. The tax charge therefore reflects this year's and future taxes payable as a result of this year's activity. The tax is expected to offset net income included in this year's tax cost and in the balance sheet called payable tax. Deferred tax is calculated on the basis of differences between the reported tax and accounting results that will be offset in the future. Tax increasing and tax reducing have temporary differences within the same time interval is offset against each other.

Any net deferred tax assets are recognised as an asset in the balance sheet when it is probable that the tax reducing differences will be realised.

Wealth tax is calculated and entered as other operational expenses in the profit and loss accounts, and payable tax in the balance sheet.

10. EQUITY

Sparebanken Sør has issued equity certificates on the Oslo Stock Exchange. The equity is split into equity certificates, premium fund dividend, equalisation fund, primary capital fund, gift fund and other equity.

To calculate the equity share, equity certificates, share premium accounts and equalisation fund shall be divided by the total equity, minus other equity.

The gift fund is part of the equity. When gifts are awarded by the bank's gift committee, the bank's gift fund is charged and this is entered as a liability on the balance sheet.

Proposed distribution of dividends is presented as other equity until final decision of distribution has taken place. Distribution is then presented as allocated dividends until payment has been made.

Sparebanken Sør owns 31 600 equity certificates as at 31.12.2015.

11. LEASE AGREEMENTS

Leases where a significant part of the risk and return which is associated with that the ownership of the asset are not transferred, are classified as operating lease agreements. Lease payments are classified as operating expenses and the income statement displays them linearly over their lifetime. Sparebanken Sør has not entered into financial lease agreements.

12. SEGMENT / SEGMENT ACCOUNTING

Segment Reporting is divided according to how the different areas are reported and monitored internally by management and the Board.

Sparebanken Sør has two operating segments:

- RM - Retail markets which include Sparebanken Sør Boligkreditt AS.
- CM - Corporate markets.

The Bank's own investment activities and estate agency business are not a separate reportable segment and come under the record as undistributed.

13. CASH FLOW STATEMENT

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents are defined as cash and receivables with central banks.

14. CHANGES IN ACCOUNTING PRINCIPLES AND NOTES

The accounting principles used are consistent with the principles used in the previous accounting period, with the exception of the changes in IFRS that have been implemented by the Group in the current accounting period. Below is a list of the changes in IFRS that have been relevant to the Group with effect from the 2015 financial statement. The Group has not changed accounting principles in 2015.

IFRS 13 Fair value measurement

Amendments are applied prospectively and clarify that the portfolio exception in IFRS 13 is not only applicable to financial assets and obligations, but also to other contracts within the scope of IAS 39. The standard has not had any significant impact on the group in 2015.

IFRIC 21 Levies

IFRIC 21 Levies clarifies that the activity which results in a liability to pay a levy, is the activity that triggers the payment of the levy, as defined in the legislation. Furthermore, IFRIC 21 states that the liability to pay a levy is recognised progressively if the activity that triggers payment occurs over a period of time (i.e. If the activity that triggers payment of the levy, as defined in the legislation, occurs over a period of time). If a duty to pay a levy is triggered when a minimum threshold is reached, the liability that arises from this duty is recognised when this minimum activity threshold has been reached. IFRIC 21 will be implemented retrospectively. From Q1 2016, the group will expense levies to the Banks' Guarantee Fund in full as a result of the standard. In 2015, the cost has been accrued and the effect is stated in a note.

15. STANDARDS AND INTERPRETATIONS THAT HAVE BEEN APPROVED, BUT NOT YET ENTERED INTO FORCE

The following new standards and interpretations to existing standards have been published and are mandatory for the company and consolidated financial statements in future accounting periods, but the Management has not chosen early adoption:

IFRS 9 Financial instruments

In July 2014, IASB published the latest sub-project in IFRS 9 and the standard has now been completed. IFRS 9 will replace changes related classification and measurement, hedge accounting and write-downs. IFRS 9 will replace IAS 39, Financial instruments – Recognition and measurement. The parts of IAS 39 that have not been changed as part of this project have been transferred and included in IFRS 9.

The standard is not yet approved by the EU. For accountable entities outside the EU/EEA, the change will apply with effect from the financial year starting on 1 January 2018 or later. The Group has begun to identify potential effects of IFRS 9, but has not come far enough in the process to comment on the accounting effects.

IFRS 15 Income from customer contracts

IFRS 15 concerns recognition of income. The standard requires a division of the customer contract into individual performance obligations. A performance obligation may be goods or a service. Income is recognised when a customer gains control of goods or a service and thus is able to determine the use and may receive the benefits of the goods or service. The standard replaces IAS 18 Operating income and IAS 11, Construction contracts and related interpretations. The standard comes into effect for financial year 2018, but early adoption is permitted. The Group has not completed any assessment regarding the impact of IFRS 15.

In addition to the aforementioned new standard and interpretation, there have also been changes to other standards that may affect the group's future reporting. The management considers the effect of the changes to these standards to have little significance to the Bank and consolidated financial statements.

Note 2 – Discretionary judgments, estimates and conditions

With the preparation of financial statements, the management makes estimates and judgments. Areas that are largely comprised of discretionary estimates have a high degree of complexity, and where assumptions and estimates are significant to the parent company the consolidated financial statements are presented below.

General

In applying the Group's accounting policies, the company's leadership exercised discretion in some areas and made assumptions about future events as the basis of accounting. There will naturally be an inherent uncertainty in the financial records based on the use of discretion and assumptions about future events. The exercise of discretion and the determination of assumptions about future events management will look to available information on the balance sheet date, historical experience with similar assessments, as well as market and third-party assessments of current conditions. Although the management considers its estimates are based on the best estimates available, one must expect that the actual outcome in some cases may differ materially from what is the basis estimates.

Estimates, assumptions and conditions that represent a significant risk of substantial changes in the carrying value of assets and liabilities within the next financial year are discussed below.

Write-downs on loans

Assessment of individual and group-related write-downs will always be based on a significant degree of discretion. Predictions based on historical information may prove to be incorrect because it can never be known for certain what relevance historical data's decisions are. When the security values are related to specific items or industries that are in crisis, the security must be realised in illiquid markets, and the assessment of the security values will in such situations to be associated with significant uncertainty.

Fair value of financial instruments

The fair value of financial instruments is partly calculated based on assumptions that are not observable in the market. This is particularly relevant in determining the premiums for credit risk by determining the fair value of fixed interest-bearing securities in the form of deposits, loans and securities issued by others. The management has, in these cases, based its assessments on information available in the market combined with the best of its judgment. Such information will include credit reviews conducted by other credit institutions.

Note 3 – Risk management

Sparebanken Sør will maximize its long term value creation, and with this objective, it is essential that the risk is subject to an active and satisfactory management. Part of the Group's business strategy is to keep a low to moderate risk profile for all enterprises. Taking risks is a basic feature of banking, and risk management is therefore a key area in both daily operations as well as the Board's ongoing work. We also refer to the Bank's Pilar 3 document which is available on the Bank's website.

ORGANISATION

Board of Directors

The Board has overall responsibility for the bank's total risk management and aims to ensure that the bank has appropriate systems in place for risk management and internal control. The Board of Directors determines risk strategies, framework for risk appetite, risk profile and tolerance. The Board of Directors also determines the strategy and guidelines for the capital plan and composition of the capital and approves the process to ensure an acceptably adequate capital level at any time (ICAAP).

Audit committee and risk committee

The Board has appointed an audit committee and risk committee as sub-committee of the Board. The purpose is to make a more thorough assessment of agreed matters, including strengthening work on financial reporting and internal control.

The bank's management

The CEO and other management are responsible for implementing risk management and internal control. Matters pertaining to changes or the implementation of new policies and strategies within the Group, should always be presented to the management group for discussion and decision. The Management considers the risk situation continuously, and evaluates the overall risk situation and its capital at least once a year. These assessments are then presented to the Board.

The CEO has delegated duties in accordance with the formal responsibility for internal control and risk management. The responsibility for the implementation of the annual assessment of the risk situation and the capital has been delegated to the division Risk management. This analysis should be coordinated and integrated with other planning and strategy work in the Bank. It is further delegated to the various inspections and line managers within the framework of agreed principles, instructions and authorisations.

Risk management covers the entire Group and does not perform activities, which the control function is intended to monitor. This unit must identify, measure and evaluate the bank's overall risk and take responsibility for compliance.

Internal auditor

The Bank has an internal auditor on its staff. This is a monitoring function regardless of the administration in general, designed to perform risk assessments, controls and investigations of the Bank's internal control and governance processes to assess whether they are appropriate and proper.

Risk control process

There are justifiable and appropriate strategies and processes for risk management and the assessment of capital needs and how this can be maintained. The term for this is ICAAP (the Internal Capital Adequacy Assessment Process).

RISK CATEGORIES

All risks are managed through a framework for risk appetite. There are targets for the different risk parameters. Sparebanken Sør operates with the following risk categories:

Credit risk / Counterparty risk

Credit risk is the risk of loss due to the Group's counterparties or customers not having the ability or willingness to meet its payment obligations to the Group Sparebanken Sør. Credit risk concerns all claims on counterparties/customers. Essentially this means loans and credits, but also responsibilities under issued guarantees, securities and counterparty risk arising from derivatives and foreign exchange contracts.

Credit risk is a function of two factors: servicing and the will and the value of underlying collateral. Both factors must occur for it to be able to experience losses. The first is the lack of ability to pay or the will of the debtor, and the other is that the value of the underlying collateral is not sufficient to cover the Bank's requirements for any default and subsequent realisation of security.

Credit risk is defined as a significant risk, and the Bank's policy is that credit risk exposure is low to moderate. The Board approves the Group's credit strategy and credit policy, and credit risk is controlled by fixed limits and goals linked to the risk profile and exposure on the portfolio level.

The Board, Management and control bodies receive regular reports of credit risk. Central to this is the development of lending by the various risk classes and movement between these classes.

Settlement risk

Settlement risk is a form of credit risk where a contracting party fails to fulfil its obligations regarding settlements in the form of cash or securities, and that the Bank has given notice of the payment or transfer of a security or safety. Settlement risk that the Group is exposed is considered to be low.

Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its obligations or is unable to fund its assets and also that funding cannot be achieved without incurring significant additional costs, in the form of an impairment in value of assets that must be realised, or in the form of funding at an above normal cost level. Liquidity risk also includes the risk that the financial markets, which the bank wishes to use, will cease to function.

Sparebanken Sør will have a liquidity risk in accordance with the regulatory requirements. The risk must be moderate and adapted to the bank's other activities. It must be possible to compare the bank's adaptation with comparable banks and meet the requirements of investors in the bank's securities. The monitoring is done by the control of exposure in relation to adopted limits and control of qualitative requirements.

Market risk

Market risk includes risks related to profit variations on unsecured interest rate -, currency - and equity transactions due to changes in interest and exchange rate and adjustments in share prices and may be divided into interest rate, currency, share and credit spread risk. Sparebanken Sør will have a low market risk.

Interest rate risk

Interest rate risk is defined as the risk for the revenue losses arising from changes in interest rates if the fixed rate period for the Bank's liabilities and assets in and off balance, not coincides. The interest rate risk limit is determined as an upper limit for how great the loss on unsecured interest rate positions may be in case of a 2 percentage point parallel shift in the interest rate level.

Currency risk

Risk of financial (earnings-related) losses arising from an unfavorable change in the value of asset and liability items (on and off the balance sheet) measured in the base currency (NOK) due to changes in the exchange rates. Exposure is measured as the size of the potential losses in a stress scenario where the exchange rates change by 10 per cent and the currency risk is regulated by limits for maximum aggregated currency position. Limits have been set for exposure in individual currencies.

Share risk

Share risk consists of market risk associated with positions in equity securities, including derivatives with underlying equity instruments. Exposure is measured as the size of the potential losses where the market value of the shares falls by 30 per cent and the currency risk is regulated by limits for maximum aggregated position in a share portfolio.

Spread risk

Spread risk is defined as the risk of changes in the market value of interest-bearing securities due to a general change in the credit spread. A general increase in credit spreads would lead to a reduction in value of a portfolio of interest-bearing securities. Changes in the credit spread are a consequence of changes in investors' requirement for risk premium for a shift in anticipated credit risk and / or changes in other market conditions. The bank's credit spread exposure is mainly related to the liquidity portfolio.

Business risks

Business risk is defined as the risk of unexpected revenue fluctuations based on factors other than credit risk, market risk and operational risk. The risk can occur in various business and product segments and is linked to cyclical fluctuations and changes in customer behavior. Business risk can also arise as a result of government regulations. The risks also include the reputation- or the reputational risk, which is the risk, associated with increased losses, reduced income and/or increased costs as a result of the Bank's reputation having been damaged.

Strategic risk

Strategic risks are defined as internal matters on which the strategic risks relate to the strategies, plans and changes that the Bank either has or has proposed.

Operational risk

Operational risk is the risk that the Group has for financial losses or loss of reputation due to inadequate or failing internal processes or systems, human errors or external events. Operational risk includes risk of default. Examples of operational risk relationships can be several types of adverse actions and events, including money laundering, corruption, embezzlement, insider trading, fraud, robbery, threats to employees, authorisation failures and violations on adopted procedures, the failure of IT systems, among other things.

The monitoring of operational risk is done by regular qualitative assessments. The estimated capital requirements for operational risk are carried out under the basic method, and it is assessed whether these ICAAP capital calculations are adequate. It is considered that the Group has a low operational risk.

Concentration risk

Concentration risk is credit risk arising from high overall exposure to a single counterparty or issuer of security, associated groups of counterparties, counterparties with operations in the same sector or geographical area and enterprises that use the same kind of security, trade with the same goods or have the same type of operations.

With regards to credit risk, it is an objective to avoid major risk concentrations, including large exposure to individual customers or customer groups and groups of commitments in classes within high-risk industries or geographic areas.

More risk due to the debtor's concentration is present in the opinion of the Bank, but does not represent a significant risk for the Group. This is a result of low exposure when one takes into account the quality of the collateral. A similar argument can be made in relation to the concentration on the tenant's side.

The largest sector concentration for Sparebanken Sør is related to the "rental of commercial property". Thus, this part of the portfolio may be exposed to risk factors that affect real estate companies specifically. These risk factors are mainly vacancies, rents and interest rates. The latter is a general macro variable, but real estate companies are more heavily exposed to interest rates than many other industries due to high loan interest and because the property is an asset with a long life.

The single-level commitment will mean considerable variation in terms of sensitivity to these factors, and how commitment thus contributes to the portfolio's concentration risk. Among other thing, this depends on the tenancy, property location and type of building. In addition, the debtor's financial situation may have great significance.

The bank has allocated extra capital under ICAAP to cover concentration risk.

HEDGING INSTRUMENTS

The Group uses the following hedging instruments:

- Interest rate swaps - agreements to exchange interest rates for a particular nominal amount over a specified number of periods.
- Currency futures - agreements to buy or sell foreign currencies with settlement at a specified future date.

The purpose of the use of interest rate, currency and equity instruments are to hedge future interest rate conditions or counteract the effect of exchange rate fluctuations.

Note 4 – Capital adequacy

Sparebanken Sør has a goal of maximising long-term value creation. The Group also has a goal that the risk profile should be moderate to low. This means that effective risk and capital management is a key strategic element.

Sparebanken Sør has established a strategy and process for risk measurement, -management and -control that provides an overview of the risks the Bank is exposed to. This therefore provides the basis for the assessment and calculation of the Bank's total capital, and how this can be maintained to meet the specific risks in an adequate manner. The process is described as ICAAP (the Internal Capital Adequacy Assessment Process) or "Total Capital Assessment Process." The assessment of capital needs including size, composition and the distribution of their capital needs and the level of the risks the Bank is or may be subjected to, is based on the completed stress tests that show what changes in macro variables can do to inflict greater bank losses.

The Board of Directors establishes a capital plan to ensure that the bank at any time has a total capital ratio which meets the regulatory requirements and expectations. In order to have greater flexibility in terms of strategic choices and business opportunities, the Bank has a higher equity and subordinated loan capital than the demand which is calculated from ICAAP.

The minimum requirement for core equity tier 1 ratio was 11.0 per cent, core capital ratio 12.5 per cent and total capital adequacy 14.5 per cent.

With effect from 1 July 2016, the counter-cyclical buffer requirement will increase from 1 to 1.5 per cent. The minimum requirement will then be 11.5 per cent for core tier 1 capital ratio. The requirement for core capital ratio will be 13.0 per cent, while the requirement for total capital ratio will be 15.0 per cent.

Sparebanken Sør uses the standard method for credit- and market risk and the basic method for operational risk to calculate capital adequacy in accordance with the capital adequacy rules – Basel II.

PARENT BANK		NOK MILLION	GROUP	
31.12.2014	31.12.2015		31.12.2015	31.12.2014
474	474	Equity certificate	474	474
175	175	Premium fund	175	175
5 667	6 002	Primary capital	6 002	5 667
41	41	Gift fund	41	41
242	256	Equalisation fund	256	242
47	43	Other equity	805	558
-48	-43	- Deductions for dividends incl. under other equity	-43	-48
-17	-10	- Deductions for intangible assets and deferred tax assets	-10	-17
6 581	**6 938**	**Total core tier 1 capital**	**7 700**	**7 092**
700	510	Hybrid capital	510	700
0	0	- Deduction for intangible assets and deferred tax assets		0
7 281	**7 448**	**Total core capital**	**8 210**	**7 792**
		Additional capital over core capital:		
400	1 200	Subordinated loan capital	1 200	400
400	**1 200**	**Total additional core capital**	**1 200**	**400**
-22	-22	- Deduction from additional capital	-22	-22
7 659	**8 626**	**Net primary capital**	**9 388**	**8 170**
		Minimum requirement for subordinated capital Basel II calculated according to the standard method:		
3	7	Engagements with local and regional authorities	7	3
181	66	Engagements with institutions	40	62
1 192	251	Engagements with enterprises	251	1 192
810	505	Engagements with mass market	530	947
1 087	2 744	Engagements secured in property	3 501	1 618
91	71	Engagements which have fallen due	72	91
0	0	Engagements with high-risks	0	0
200	237	Engagements in covered bonds	62	62
0	137	Engagements in collective investment funds	37	0
62	51	Engagements, other	51	62
3 626	**4 069**	**Capital requirements for credit- and counterparty risk**	**4 551**	**4 037**
4	**4**	**Capital requirements for position -, currency - and product risk**	**4**	**4**
193	**196**	**Capital requirements for operational risk**	**252**	**233**
27	**29**	**CVA addition**	**47**	**45**
0	**0**	**Deduction from the capital requirement**	**0**	**0**
3 850	**4 299**	**Total minimum requirement for primary capital**	**4 854**	**4 319**
48 125	53 735	Risk-weighted balance (calculation basis)	60 679	53 988
13.67 %	12.91 %	Core tier 1 capital ratio, %	12.69 %	13.14 %
15.13 %	13.86 %	Core capital ratio, %	13.53 %	14.43 %
15.91 %	16.05 %	Total capital ratio, %	15.47 %	15.13 %

Note 5 – Segment reporting

Sparebanken Sør has two operating segments: Retail market (RM) and Corporate market (CM). The Bank's own investment activities are not a separate reporting segment and are marked under 'Undistributed and elimination'.

See further review in the accounting principles about the segments.

The various segments' revenue and cost drivers are actually revenues and costs relating to loans and deposits in the balance.

All employees are related to the various segments. When liquidity shortfall arises in the different segments, an interest charge is paid based on an internal rate determined monthly.

The group's offices are geographically located in the Agder counties and Telemark, with the group also having customers in other geographic areas served by the established offices. Loans are in note 8 divided into geographically distributed areas.

None of the Group's customers account individually for more than 10% of turnover. This applies to 2015 and 2014.

Report per segment	GROUP 31.12.2015				GROUP 31.12.2014			
NOK MILLION	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest income	979	532	10	1 521	964	513	34	1 511
Net other operating income	155	61	32	248	158	59	274	491
Total operating expenses	354	87	376	817	352	91	191	634
Profit before losses per segment	**780**	**506**	**-334**	**952**	**770**	**481**	**117**	**1 368**
Losses on loans, guarantees	6	79	12	97	9	259	0	268
Profit before tax per segment	**774**	**427**	**-346**	**855**	**761**	**222**	**117**	**1 100**
Net loans to customers	58 113	30 090	184	88 387	53 913	26 876	124	80 913
Other assets			12 947	12 947			13 149	13 149
Total assets per segment	**58 113**	**30 090**	**13 131**	**101 334**	**53 913**	**26 876**	**13 273**	**94 062**
Deposits from customers	25 492	17 826	5 031	48 349	24 980	18 682	4 588	48 250
Other liabilities	32 621	12 264	347	45 232	28 933	8 194	1 528	38 655
Total liabilities per segment	**58 113**	**30 090**	**5 378**	**93 581**	**53 913**	**26 876**	**6 116**	**86 905**
Equity			7 753	7 753			7 157	7 157
Total liabilities and equity per segment	**58 113**	**30 090**	**13 131**	**101 334**	**53 913**	**26 876**	**13 273**	**94 062**

Sparebanken Sør Group does not report segments in the parent bank separately. Sparebanken Sør Boligkreditt AS is an integral part of the retail banking market in the group and consequently it would be misleading to report segments on the parent bank on its own.

Note 6 – Credit area and credit risk

Credit risk represents the greatest risk area for the Group. The Board sets the Bank's credit strategy with the Bank's credit policies and guidelines for credit processes to ensure that the customer portfolio has an acceptable risk profile and helps the Group to maximise its long-term value creation.

Sparebanken Sør has Agder counties and Telemark as its regional primary market. In addition, the Bank has a national market area, the organisations that are part of KNIF (Kristen-Norges Innkjøpsfellesskap) and their employees.

Loans distributed in risk classes

The models used have been based on internal and external data for calculation of probability of default (PD) and expected losses (EL) at customers and portfolio level. Retail customers and corporate customers are scored each month, and are divided into 11 classes (A – K) based on the probability of default. Class K consists of defaulted loans and commitments with individual write-downs. The table below shows the intervals for the different risk classes based on the probability of default.

The Bank's risk classes are:

Risk classes	Lower limit of default %	Upper limit of default %
A	0.00	0.10
B	0.11	0.25
C	0.26	0.50
D	0.51	0.75
E	0.76	1.25
F	1.26	2.00
G	2.01	3.00
H	3.01	5.00
I	5.01	8.00
J	8.01	99.99
K	100.00	

Probability of default	
Low risk (A-D)	0.00 - 0.75%
Medium risk (E-G)	0.76 - 3.00 %
High risk (H-J)	3.01 - 99.99 %
Default (K)	100 %

TOTAL COMMITMENTS DISTRIBUTED IN RISK GROUPS 31.12.2015

The total commitment includes the balance of granted loans and credits to customers, any unused portion of granted loans and guarantee limits and established guarantees.

PARENT BANK 31.12.2015		NOK MILLION	GROUP 31.12.2015	
		Retail banking customers:		
28 646	78.0 %	Low risk	53 112	81.4 %
6 705	18.3 %	Medium risk	10 491	16.1 %
1 007	2.7 %	High risk	1 295	2.0 %
36 358		**Total non-matured or written down**	**64 898**	
378	1.0 %	Commitment in default and write-downs comm.	378	0.6 %
36 736	**100 %**	**Total retail banking customers**	**65 276**	**100 %**
		Corporate customers:		
18 053	48.3 %	Low risk	18 201	48.5 %
14 242	38.1 %	Medium risk	14 259	38.0 %
3 696	9.9 %	High risk	3 698	9.8 %
35 991		**Total non-matured or written down**	**36 158**	
1 398	3.7 %	Commitment in default and write-downs comm.	1 398	3.7 %
37 389	**100 %**	**Total corporate customers**	**37 556**	**100 %**
74 125		**Total commitments**	**102 832**	

GROSS LOANS DISTRIBUTED IN RISK GROUPS 31.12.2015

PARENT BANK 31.12.2015		NOK MILLION	GROUP 31.12.2015	
		Retail banking customers:		
24 846	76.2 %	Low risk	46 355	79.8 %
6 459	19.8 %	Medium risk	10 149	17.5 %
975	3.0 %	High risk	1 262	2.2 %
32 281		**Total non-matured or written down**	**57 767**	
316	1.0 %	Commitment in default and write-downs comm.	316	0.5 %
32 597	**100 %**	**Total retail banking customers**	**58 083**	**100 %**
		Corporate customers:		
14 611	47.5 %	Low risk	14 730	47.7 %
11 565	37.6 %	Medium risk	11 582	37.5 %
3 318	10.8 %	High risk	3 320	10.8 %
29 494		**Total non-matured or written down**	**29 632**	
1 249	4.1 %	Commitment in default and write-downs comm.	1 249	4.0 %
30 743	**100 %**	**Total corporate customers**	**30 881**	**100 %**
122		Accrued interest	147	
63 462		**Total gross loans**	**89 111**	

TOTAL COMMITMENTS DISTRIBUTED IN RISK GROUPS 31.12.2014

The total commitment includes the balance of approved loans and credits to customers, any unused portion of approved loans and guarantee limits and established guarantees.

PARENT BANK 31.12.2014		NOK MILLION	GROUP 31.12.2014	
		Retail banking customers:		
28 886	75.9 %	Low risk	47 580	78.6 %
7 591	19.9 %	Medium risk	11 056	18.3 %
1 155	3.0 %	High risk	1 494	2.5 %
37 632		**Total non-matured or written down**	**60 130**	
420	1.1 %	Commitment in default and write-downs comm.	420	0.7 %
38 052	**100 %**	**Total retail banking customers**	**60 550**	**100 %**
		Corporate customers:		
15 542	48.1 %	Low risk	15 565	48.4 %
11 250	34.8 %	Medium risk	11 079	34.4 %
3 846	11.9 %	High risk	3 851	12.0 %
30 638		**Total non-matured or written down**	**30 495**	
1 674	5.2 %	Commitment in default and write-downs comm.	1 674	5.2 %
32 312	**100 %**	**Total corporate customers**	**32 169**	**100 %**
70 364		**Total commitments**	**92 719**	

GROSS LOANS DISTRIBUTED IN RISK GROUPS 31.12.2014

PARENT BANK 31.12.2014		NOK MILLION	GROUP 31.12.2014	
		Retail banking customers:		
25 475	74.3 %	Low risk	42 068	77.8 %
7 302	21.3 %	Medium risk	10 456	19.3 %
1 133	3.3 %	High risk	1 470	2.7 %
33 909		**Total non-matured or written down**	**53 993**	
359	1.0 %	Commitment in default and write-downs comm.	83	0.2 %
34 268	**100 %**	**Total retail banking customers**	**54 076**	**100 %**
		Corporate customers:		
12 476	45.9 %	Low risk	12 629	46.1 %
9 622	35.4 %	Medium risk	9 671	35.3 %
3 560	13.1 %	High risk	3 565	13.0 %
25 659		**Total non-matured or written down**	**25 865**	
1 519	5.6 %	Commitment in default and write-downs comm.	1 519	5.5 %
27 178	**100 %**	**Total corporate customers**	**27 384**	**100 %**
143		Accrued interest	168	
61 589		**Total gross loans**	**81 628**	

DISPLACEMENT BETWEEN RISK GROUPS DURING THE YEAR

For the Group, in the retail market portfolio, there has been a minor positive migration in the portfolio. The total risk for the retail market portfolio is considered to be very satisfactory.

For the corporate portfolio there has also been a slightly positive migration in the portfolio for 2015. Gross loans with low and medium risk represents approx. 83 per cent of the portfolio.

Classification does not take into account hedge values, only solvency.

Collateral

The Group uses a variety of collateral to reduce risk depending on market and type of transaction. The main principles for the assessment of collateral are that the estimated realisable value is as it is believed to be when there is a need for security. With the exception of the commitment which has been written down, the collateral value is calculated under the assumption of continued operation. The valuation of the security has taken into account the estimated costs to sell. The main types of collateral used are secured on real property (residential / commercial), bail (consumer guarantees and surety) the registering of useful personal property (inventory, operating supplies), and receivables. The estimated value of collateral for mortgages and loans that are transferred to Sparebanken Sør Boligkreditt AS are updated quarterly, while collateral for other loans are updated at the very least with the processing of new credit issues or the commitment follow-up. The Group's loans generally have very good security.

Security in retail markets

The majority of the retail portfolio is secured by mortgages, and the group's mortgage portfolio has the following distribution of LTV (Loan to Value).

Loan to value ratio (LTV) loans secured with mortgage in permanent housing as at 31.12.2015

	PARENT BANK		GROUP	
LTV 31.12.2015	NOK MILLION	%	NOK MILLION	%
Under 40 %	1 726	6.6 %	6 828	13.2 %
41 - 50 %	1 567	6.0 %	4 934	9.5 %
51 - 60 %	2 573	9.9 %	7 615	14.7 %
61 - 70 %	5 648	21.7 %	13 440	26.0 %
71 - 75 %	3 332	12.8 %	6 339	12.3 %
76 - 80 %	2 682	10.3 %	3 592	7.0 %
81 - 85 %	2 609	10.0 %	2 858	5.5 %
86 - 90 %	2 150	8.3 %	2 259	4.4 %
91 - 95 %	1 475	5.7 %	1 520	2.9 %
96 - 100 %	1 237	4.8 %	1 274	2.5 %
Over 100 %	1 013	3.9 %	1 025	2.0 %
TOTAL	**26 010**	**100 %**	**51 683**	**100 %**

Loan to value ratio (LTV) loans secured with mortgage in permanent housing as at 31.12.2014

	PARENT BANK		GROUP	
LTV 31.12.2014	NOK MILLION	%	NOK MILLION	%
Under 40 %	2 443	8.7 %	7 469	15.6 %
41 - 50 %	1 771	6.3 %	4 673	9.7 %
51 - 60%	2 642	9.5 %	6 435	13.4 %
61 - 70%	6 044	21.6 %	11 468	23.9 %
71 - 75%	4 234	15.2 %	5 963	12.4 %
76 - 80%	2 872	10.3 %	3 538	7.4 %
81 - 85%	2 437	8.7 %	2 688	5.6 %
86 - 90%	1 865	6.7 %	1 975	4.1 %
91 - 95%	1 275	4.6 %	1 346	2.8 %
96 - 100%	1 281	4.6 %	1 332	2.8 %
Over 100%	1 066	3.8 %	1 110	2.3 %
TOTAL	**27 930**	**100 %**	**47 997**	**100 %**

It has been emphasised that the LTV distribution is based on a traditional division in which the entire loan is placed in the interval where "the last part" of the loan belongs. This means that the actual LTV distribution will be lower than shown in the table. For a loan that is embedded with a high loan-to-value ratio, only a part of this loan volume will lie in the interval with a high loan to value ratio, while most of the loan will be in the lower intervals.

Security in corporate markets

The calculation and evaluation of collateral for corporate loans are more complex than for the retail market, and will present a greater uncertainty in the estimates at the portfolio level. However, the bank frequently reviews its loans in securities on an individual level.

Note 7 – Loans according to types of loan

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Loans valued at amortised cost		
9 819	8 734	Overdraft- and working capital facilities	15 741	16 027
3 510	3 301	Building loans	3 301	3 510
41 348	43 014	Repayment loans	61 631	55 154
54 677	**55 049**	**Total loans valued at amortised cost**	**80 673**	**74 691**
		Loan designated at fair value through income statement		
6 769	8 290	Fixed rate loans	8 290	6 769
6 769	**8 290**	**Total loans designated at fair value through income statement**	**8 290**	**6 769**
143	122	Accrued interest	147	168
61 589	**63 461**	**TOTAL GROSS LOANS**	**89 110**	**81 628**
-709	-717	Write-downs on lending	-723	-715
60 880	**62 744**	**TOTAL NET LOANS**	**88 387**	**80 913**

For impairment see note 10 - Losses on loans and guarantees, etc.

Note 8 – Loans and guarantees broken down per geographical area, sector and industry

Gross loans distributed by geographical areas

PARENT BANK					GROUP			
31.12.2014		31.12.2015		NOK MILLION	31.12.2015		31.12.2014	
29 725	48.3 %	30 106	47.4 %	Vest-Agder	41 426	46.5 %	38 275	46.9 %
15 290	24.8 %	16 301	25.7 %	Aust-Agder	23 661	26.6 %	21 506	26.3 %
6 378	10.4 %	6 573	10.4 %	Telemark	8 692	9.8 %	8 149	10.0 %
4 661	7.6 %	4 778	7.5 %	Oslo	6 965	7.8 %	6 128	7.5 %
1 105	1.8 %	1 088	1.7 %	Akershus	2 004	2.2 %	1 799	2.2 %
1 268	2.1 %	1 183	1.9 %	Rogaland	1 661	1.9 %	1 639	2.0 %
3 019	4.9 %	3 311	5.2 %	Other counties	4 554	5.1 %	3 964	4.9 %
143	0.2 %	122	0.2 %	Accrued interest	146	0.2 %	168	0.2 %
61 589	**100.0 %**	**63 461**	**100.0 %**	**TOTAL GROSS LOANS**	**89 110**	**100.0 %**	**81 628**	**100.0 %**

Geographical distribution is based on the customer's residential/work address

Loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
34 268	32 719	Retail customers	58 230	54 076
22	26	Public administration	26	22
688	716	Primary industry	725	709
808	842	Manufacturing industry	848	819
4 217	4 692	Building and construction	4 735	4 283
548	567	Transport and communication	575	579
1 001	1 083	Retail trade	1 093	1 037
370	390	Hotel and restaurant	392	378
14 186	16 709	Property management	16 676	14 152
1 506	1 627	Financial/commercial services	1 656	1 537
3 832	3 969	Other industries	4 008	3 868
143	122	Accrued interest	147	168
61 589	**63 461**	**TOTAL GROSS LOANS**	**89 110**	**81 628**
709	717	Write-downs on lending	723	715
60 880	**62 744**	**TOTAL NET LOANS**	**88 387**	**80 913**

Guarantees distributed by sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
38	44	Retail customers	44	38
0	1	Public administration	1	0
3	4	Primary industry	4	3
195	258	Manufacturing industry	258	195
414	435	Building and construction	435	414
86	118	Transport and communication	118	86
147	162	Retail trade	162	147
7	9	Hotel and restaurant	9	7
171	272	Property management	272	171
50	51	Financial/commercial services	51	50
28	50	Other industries	50	28
1 139	**1 402**	**TOTAL GUARANTEES**	**1 402**	**1 139**

Unused credit distributed by sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
3 746	3 973	Retail customers	7 002	6 016
392	533	Public administration	533	392
162	132	Primary industry	132	164
195	295	Manufacturing industry	296	198
600	1 111	Building and construction	1 119	611
72	61	Transport and communication	61	76
381	359	Retail trade	360	385
42	49	Hotel and restaurant	49	42
1 111	2 118	Property management	2 118	1 115
165	201	Financial/commercial services	213	176
770	428	Other industries	435	777
7 636	**9 261**	**TOTAL UNUSED CREDIT**	**12 319**	**9 952**

Commitments distributed by sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
38 052	36 736	Retail customers	65 276	60 130
414	560	Public administration	560	414
853	852	Primary industry	861	876
1 198	1 395	Manufacturing industry	1 402	1 212
5 231	6 238	Building and construction	6 289	5 308
706	746	Transport and communication	754	741
1 529	1 604	Retail trade	1 616	1 569
419	448	Hotel and restaurant	450	427
15 468	19 099	Property management	19 066	15 438
1 721	1 878	Financial/commercial services	1 920	1 763
4 630	4 447	Other industries	4 493	4 673
143	122	Accrued interest	147	168
70 364	**74 125**	**TOTAL COMMITMENTS**	**102 832**	**92 719**

Note 9 – Defaulted loans

A client's commitment is considered to be in default if a payment is not paid within 30 days after the due date, or a frame credit has been overdrawn for more than 30 days. Default is also deemed to be available when debt negotiation or bankruptcy has been opened, or legal steps have been taken to collect the claim. When a customer has one or more defaulted loans, it is the customer's total debit involvement as reported as in default and not the individual loan. When there is a default, objective evidence implies that the need for impairment loss should be considered.

Total defaulted loans/credits

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
147	98	Gross defaulted loans 31-60 days	98	147
58	26	Gross defaulted loans 61-90 days	26	58
576	418	Gross defaulted loans > 90 days	418	576
781	**542**	**Gross defaulted loans/credits**	**542**	**781**
180	142	- Individual write-downs	142	180
602	**400**	**Net defaulted loans/credits**	**400**	**602**
23.0 %	26.2 %	Provision ratio defaulted loans	26.2 %	23.0 %
0.94 %	**0.66 %**	**Gross defaulted loans > 90 days in % of gross loans**	**0.47 %**	**0.71 %**

Corporate banking market

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
53	45	Gross defaulted loans 31-60 days	45	53
36	5	Gross defaulted loans 61-90 days	5	36
443	321	Gross defaulted loans > 90 days	321	443
532	**371**	**Gross defaulted loans/credits**	**371**	**532**
143	101	- Individual write-downs	101	143
389	**270**	**Net defaulted loans/credits**	**270**	**389**
26.8 %	27.2 %	Provision ratio defaulted loans	27.2 %	26.8 %

Retail banking market

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
94	53	Gross defaulted loans 31-60 days	53	94
22	21	Gross defaulted loans 61-90 days	21	22
133	97	Gross defaulted loans > 90 days	97	133
249	**171**	**Gross defaulted loans/credits**	**171**	**249**
37	41	- Individual write-downs	41	37
212	**130**	**Net defaulted loans/credits**	**130**	**212**
14.8 %	24.0 %	Provision ratio defaulted loans	24.0 %	14.8 %

As at 31 December 2015, the fair value of associated mortgage debts on defaulted loans to customers was NOK 566 million and as at 31 December 2014, NOK 904 million.

Other doubtful commitments

Commitments that are not in default, but where the customer's financial situation means that the Bank has made individual loan loss write-downs, or it is highly probable that the Bank must make loan loss write-downs, are classified as doubtful.

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
870	778	Other doubtful loans	778	870
341	376	- Individual write-downs	376	341
529	**402**	**Net doubtful loans**	**402**	**529**
39.2 %	48.4 %	Provision ratio doubtful loans	48.4 %	39.2 %

Gross defaulted loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
249	171	Retail banking customers	171	249
532	371	Corporate customers	371	532
781	**542**	**Total defaulted loans**	**542**	**781**
0	0	Public administration	0	0
0	3	Primary industry	3	0
25	9	Manufacturing industry	9	25
8	70	Building and construction	70	8
4	11	Transport and communication	11	4
10	8	Retail trade	8	10
8	6	Hotel and restaurant	6	8
367	210	Property management	210	367
100	53	Financial/commercial services	53	100
10	1	Other industries	1	10
532	**371**	**Total corporate customers**	**371**	**532**

Note 10 – Losses on loans and guarantees

Losses on loans

The various elements included in losses and write downs on loans are described under Accounting Principles. See also the notes 'Risk management in Sparebanken Sør and Credit areas and credit risk.

Individual write-downs

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
73	521	Individual write-downs at start of period	521	73
376		Individual write-downs identified in connection with merger		376
142	76	- Period's confirmed loss where individual write-downs has been performed previously	76	142
57	43	+ Increased individual write-downs during the period	43	57
180	77	+ New individual write-downs during the period	77	180
24	48	- Reversal of individual write-downs during the period	48	24
521	**517**	**= Individual write-downs at the end of period**	**517**	**521**

Collective write-downs on loans

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
92	188	Collective write-downs on loans at start of period	194	92
96		Collective write-downs on loans identified in connection with the merger		102
0	12	+ Change in collective write-downs during the period	12	0
188	**200**	**= Collective write-down of loans at end of period**	**206**	**194**

Loss expense on loans during the period

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
72	-4	Change in individual write-downs during the period	-4	72
0	12	+ Change in collective write-downs during the period	12	0
142	85	+ Period's confirmed loss where individual write-down has been performed previously	76	142
55	8	+ Period's confirmed loss where no individual write-down has been performed previously	17	55
4	5	+ Recognised as interest income	5	4
5	6	- Period's recoveries relating to previous losses	6	5
0	-3	+Change in write-downs on guarantees	-3	0
268	**97**	**= Loss expense during the period**	**97**	**268**

Individual write-downs distributed by sector and industry (parent bank = group)

NOK MILLION	31.12.2015	31.12.2014
Retail banking customers	34	67
Corporate customers	483	454
Total individual write-downs	**517**	**521**
Primary industry	4	4
Manufacturing industry	21	31
Building and construction	98	65
Transport and communication	8	6
Retail trade	45	62
Hotel and restaurant	5	10
Property management	129	132
Financial/commercial services	167	145
Other industries	6	1
Total corporate customers	**483**	**454**

The expected average annual net loss

There is NOK 517 million in individual write-downs as at 31.12.2015 (NOK 521 million as at 31.12.2014). Collective write-downs of NOK 206 million as at 31.12.2015 (NOK 194 million as at 31.12.2014) are distributed among the various risk classes.

All loans to the corporate market are priced individually based on, among other things, risks, requirements for profitability and the competitive situation. Pricing therefore reflects the risk of the commitment and achieved margins are generally larger at higher risk.

Mortgage loans are priced based on a price matrix in which both determining the loan and the risk rating are reflected.

In 2014, losses were higher than anticipated. Ahead of the merger, a study of credit quality was carried out, which concentrated on the largest commitments. In 2014, a comprehensive review was made of a large part of the corporate portfolio. The bank has worked hard to improve the credit quality in order to limit future losses. Based on this, and empirical figures, local market conditions and the composition of the portfolio, the net loss costs are still expected to be moderate for 2016. An objective that the bank's total loss level should be below 0.25 per cent of gross loans is maintained for the period 2016–2018.

Note 11 – Currency risk

The table indicates the net foreign exchange position for Sparebanken Sør, including financial derivatives. According to the Bank's internal regulations, net positions in each currency must not exceed NOK 20 million and the maximum result effect in the event of 10% rate change shall be a maximum of NOK 20 million.

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
17	1	Net total foreign currency position	1	17
2	0	Income effect at 10 % change	0	2

Note 12 – Interest rate risk

Interest rate risk occurs in connection with the Bank's ordinary lending and borrowing activities and in relation to the activities in the Norwegian and international money and capital markets. Interest risk may occur when reprising dates on assets and liabilities also including off-balance instruments, are not matched. An interest risk limit has been adopted by the Board of Directors, and is measured as a maximum loss as a result of a parallel displacement of the yield curve by two percentage point. The bank has in quarterly reporting to the Board. At year-end, the bank's interest rate risk was well within the approved limits. The Group's interest position means that any rise in interest rates was estimated to provide a positive contribution to profit equivalent to NOK 1.0 million as at 31 December 2015. The corresponding figure for the bank is NOK 2.7 million.

Interest rate risk is managed by the choice of fixed interest rates of assets and liabilities and the use of financial derivatives.

Interest rate sensitivity

The table indicates the effect on Bank earnings by 2 percentage points, an interest rate rise parallel to the Bank's total interest positions. According to the Bank's internal regulations to this effect, the amount is a maximum of NOK 100 million. The table shows the results at the end of the last 2 years.

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
10	3	Interest rate +/- 2 % points	1	16

Note 13 – Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meets its obligations, or is unable to fund ordinary lending growth.

Liquidity risk is managed through the Group's liquidity strategy, general guidelines and procedures and through established loan granting authorisation. Key operational management parameters are requirements for deposit-to-loan ratio, indicator value for long-term funding, stress indicator for liquidity coverage within 30 days (LCR) and also guidelines for survival capacity in situations where there is no access to market funding. The liquidity risk is also managed through ensuring distribution of borrowing from the capital market among various maturities, funding sources and instruments.

Deposits from customers are the bank's most stable funding source. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2015, the Group's deposit-to-loan ratio was 54.7 per cent.

In addition, Sparebanken Sør Boligkreditt AS is also an important funding instrument, which ensures access to long-term funding through issue of covered bonds. In order to be able to issue covered bonds, as at 31 December 2015, mortgages equivalent to 50 per cent of the total mortgage mass were transferred from the bank to the mortgage company.

Board-adopted target requirements for the bank's liquidity risk follow the guidelines issued by the Financial Supervisory Authority of Norway. At year-end, the indicator values for Sparebanken Sør were within the Board-adopted requirements. The liquidity indicator for long-term funding was 106 per cent. The available liquidity buffer meant that under normal operations, the Group could survive for 12 months without a supply of new funding from the market.

The Group has an extensive liquid reserve in the form of liquid, interest-bearing securities. The bank also has mortgages that are ready for transfer to the mortgage company. At year-end, the bank's interest-bearing liquidity portfolio composed of government securities, other zero-weighted securities, covered bonds and municipal bonds totalled NOK 10.6 billion.

The bank's short-term liquidity risk is managed, among other things, through using Liquid Coverage Requirement (LCR). At year-end 2015, the LCR indicator for Sparebanken Sør was 108 per cent and sufficient to meet all project liquidity maturity within the next 30 days under a stress scenario. The requirement was 70 per cent from and including 31 December 2015. The requirement is applicable at any time and will be introduced with at least 80 per cent from and including 31 December 2016, and at least 100 per cent from and including 31 December 2017.

The Group's liquidity risk is followed-up through periodic reporting to the group management and Board of Directors.

Liquidity risk

The tables show cash flows including contractual interest payments. Therefore, the numbers cannot be reconciled with the balance sheet.

						GROUP 31.12.2015
NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institution	628	227	401			
Deposits from customers	48 384	46 793	1 591			
Debt incurred due to issue of securities	43 978	79	2 142	3 161	33 170	5 427
Other liabilities	594	68	74	280	6	165
Subordinated loan capital	2 376	5	10	47	47	2 267
Loan commitments and unused credit facilities	13 472	13 472				
Total liabilities	**109 431**	**60 644**	**4 219**	**3 487**	**33 222**	**7 859**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 551	-402	-1 034	-115		
Payment received	1 569	403	1 051	115		
Total derivative obligations	**18**	**1**	**17**	**0**	**0**	**0**

NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2015
Liabilities /non-derivative obligations						
Debts to credit institution	628	227	401			
Deposits from customers	48 384	46 793	1 591			
Debt incurred due to issue of securities	20 636	48	1 431	2 237	14 685	2 235
Other liabilities	498	64	72	190	6	165
Subordinated loan capital	2 376	5	10	47	47	2 267
Loan commitments and unused credit facilities	10 414	10 414				
Total liabilities	**82 935**	**57 552**	**3 505**	**2 474**	**14 738**	**4 668**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 551	-402	-1 034	-115		
Payment received	1 569	403	1 051	115		
Total derivative obligations	**18**	**1**	**17**	**0**	**0**	**0**

NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						GROUP 31.12.2014
Liabilities /non-derivative obligations						
Debts to credit institution	647	228	2	8	410	
Deposits from customers	48 279	46 634	1 645			
Debt incurred due to issue of securities	37 507	84	1 148	4 343	25 734	6 199
Other liabilities	614	83	67	218	5	241
Subordinated loan capital	1 515	4	207	25	25	1 253
Loan commitments and unused credit facilities	11 069	11 069				
Total liabilities	**99 631**	**58 101**	**3 068**	**4 594**	**26 174**	**7 693**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-2 002	-497	-1 247	-258		
Payment received	1 918	496	1 166	256		
Total derivative obligations	**-84**	**-1**	**-81**	**-2**	**0**	**0**

NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
						PARENT BANK 31.12.2014
Liabilities /non-derivative obligations						
Debts to credit institution	647	228	2	8	410	
Deposits from customers	48 279	46 634	1 645			
Debt incurred due to issue of securities	18 975	53	720	2 529	12 684	2 988
Other liabilities	514	80	65	123	5	241
Subordinated loan capital	1 515	4	207	25	25	1 253
Loan commitments and unused credit facilities	8 753	8 753				
Total liabilities	**78 682**	**55 752**	**2 638**	**2 684**	**13 125**	**4 483**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-2 012	-497	-1 247	-258	-10	
Payment received	1 928	496	1 166	256	10	
Total derivative obligations	**-84**	**-1**	**-81**	**-2**	**0**	**0**

Maturity structure of issued bonds as at 31.12.2015

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010302425	SOR03	778	809	810	Fixed rate	No installment	19.02.2016
NO0010605454	SOR20 PRO	561	587	588	Fixed rate	No installment	30.03.2016
NO0010609720	SOR21 PRO	494	495	496	NIBOR 3 mths	No installment	09.05.2016
NO0010599731	SOR18 PRO	884	918	924	Fixed rate	No installment	11.08.2016
NO0010624703	SOR10 PRO	502	505	505	NIBOR 3 mths	No installment	05.09.2016
NO0010598535	SOR08 PRO	697	755	760	Fixed rate	No installment	20.01.2017
NO0010634801	SOR12 PRO	930	945	944	NIBOR 3 mths	No installment	16.03.2017
NO0010664956	SOR24 PRO	1 000	1 003	1 008	NIBOR 3 mths	No installment	30.11.2017
NO0010635055	SOR13 PRO	1 000	1 116	1 131	Fixed rate	No installment	26.01.2018
NO0010672793	SOR25 PRO	500	500	500	NIBOR 3 mths	No installment	05.03.2018
NO0010649338	SOR14 PRO	1 000	1 102	1 119	Fixed rate	No installment	11.05.2018
NO0010692643	SOR27 PRO	1 000	1 003	996	NIBOR 3 mths	No installment	29.10.2018
NO0010731128	SOR32 PRO	800	801	784	NIBOR 3 mths	No installment	20.02.2019
NO0010675358	SOR15 PRO	400	429	441	Fixed rate	No installment	17.06.2019
NO0010742992	SOR37 PRO	955	946	935	NIBOR 3 mths	No installment	12.08.2019
NO0010680093	SOR26 PRO	1 000	1 062	1 092	Fixed rate	No installment	16.09.2019
NO0010708019	SOR01 PRO	1 500	1 500	1 463	NIBOR 3 mths	No installment	19.03.2020
NO0010708027	SOR02 PRO	650	708	726	Fixed rate	No installment	19.03.2020
NO0010729502	SOR30 PRO	1 365	1 350	1 322	NIBOR 3 mths	No installment	21.08.2020
NO0010724081	SOR29 PRO	1 100	1 130	1 166	NIBOR 3 mths	No installment	24.11.2020
NO0010692189	SOR16 PRO	300	337	351	Fixed rate	No installment	28.04.2021
NO0010736960	SOR35PRO	500	522	538	Fixed rate	No installment	26.05.2021
NO0010735327	SOR33PRO	500	520	541	Fixed rate	No installment	06.05.2022
NO0010735418	SOR34PRO	500	520	551	Fixed rate	No installment	12.05.2025
NO0010754849	SOR41PRO	300	299	342	Fixed rate	No installment	23.12.2025
Issued by Parent bank		**19 215**	**19 865**	**20 033**			
NO0010515406	SORB16	100	100	100	NIBOR 3 mths	No installment	16.03.2016
NO0010605801	SORB19	550	550	551	NIBOR 3 mths	No installment	30.03.2016
NO0010614688	SORB01	664	664	665	NIBOR 3 mths	No installment	29.06.2016
NO0010641624	SORB20	1 000	1 002	1 004	NIBOR 3 mths	No installment	28.03.2017
NO0010623945	SORB02	1 200	1 202	1 205	NIBOR 3 mths	No installment	24.08.2017
NO0010649056	SORB06	15	16	15	NIBOR 3 mths	No installment	20.06.2018
NO0010673296	SORB21	4 500	4 507	4 488	NIBOR 3 mths	No installment	14.09.2018
NO0010679806	SORB10	4 500	4 500	4 473	NIBOR 3 mths	No installment	22.05.2019
NO0010689680	SORB22	15	15	15	NIBOR 3 mths	No installment	18.09.2019
NO0010664659	SORB07	28	28	28	NIBOR 3 mths	No installment	27.11.2019
NO0010714058	SORB24	4 500	4 447	4 404	NIBOR 3 mths	No installment	24.06.2020
no0010733421	SORB 26	2 000	1 999	1 954	NIBOR 3 mths	No installment	24.09.2020
NO0010730146	SORB25	2 000	2 000	1 938	NIBOR 3 mths	No installment	16.06.2021
NO0010671597	SORB09	350	405	419	Fixed rate	No installment	13.02.2023
NO0010670409	SORB08	500	600	633	Fixed rate	No installment	24.01.2028
Issued by Subsidiary		**21 922**	**22 034**	**21 890**			
Total bonds		**41 136**	**41 899**	**41 922**			

Sparebanken Sør Boligkreditt AS has the opportunity to extend the maturity period for 1 year on all issued bonds
The fair value is added to the accrued interest in order to be comparable with the recognised amount.

At year-end 2015, the average residual maturity of the portfolio of senior bond debt and covered bonds was 3.5 years, compared with 3.2 years at year-end 2014.

Maturity structure of issued subordinated loans as at 31.12.2015

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010697063	SOR28 PRO	400	400	396	NIBOR 3 mths + 1.80%	Sub. Loan	27.11.2023
NO0010730112	SOR31 PRO	200	199	195	NIBOR 3 mths + 1.65%	Sub. Loan	30.01.2025
NO0010737026	SOR36 PRO	300	300	290	NIBOR 3 mths + 1.52%	Sub. Loan	03.06.2025
NO0010743255	SOR38 PRO	300	300	289	NIBOR 3 mths + 1.55%	Sub. Loan	25.08.2025
NO0010641459	Not listed	200	201	203	NIBOR 3 mths + 4.75%	Hybrid cap.	29.03.2099
NO0010748908	Not listed	310	310	335	NIBOR 3 mths + 4.10%	Hybrid cap.	16.11.2099
Issued by Parent bank		**1 710**	**1 710**	**1 708**			

Liquidity indicators

Sparebanken Sør (Group) uses liquidity indicators after the Financial Supervisory Authority's standards, and these are reported to the Board as part of the risk reporting.

The model calculates the percentage of the illiquid assets that are long-term funded, i.e. with remaining maturity more than 1 year (liquidity indicator 1). In addition, indicator 2 includes financing with liquidity maturity from 1 month to 1 year. The model used is as follows:

$$\textbf{Liquidity Indicator 1(2)} = \frac{\textbf{Financing with maturity of over 1 year (1 mth.)}}{\textbf{Illiquid assets}}$$

PARENT BANK			GROUP	
31.12.2014	31.12.2015		31.12.2015	31.12.2014
111.9	112.9	Liquidity indicator 1	105.7	105.5
116.9	118.3	Liquidity indicator 2	110.6	111.3

The enterprise will at all time have a Liquidity Coverage Ratio of currently 70 per cent. This means that liquid assets must at least be equivalent to the net cash outflow in a given stress period of 30 calendar days. The Liquidity Coverage Ratio will be calculated according to the following formula and will be stated as a percentage:

$$\textbf{Liquidity Coverage Ratio (LCR)} = \frac{\textbf{Liquid assets}}{\textbf{Net cash outflow 30 days ahead given a stress situation}}$$

At year-end 2015, LCR was 108 per cent for the group and 71 per cent for the parent bank.

Note 14 – Interest income and interest expenses

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
70	42	Interest on loans given to and receivables from credit institutions	11	33
2 430	2 151	Interest on loans given to customers	2 912	3 306
298	197	Interest on certificates and bonds	196	254
		Other interest income		
2 798	**2 390**	**Total interest income**	**3 119**	**3 593**
52	10	Interest on debt to credit institutions	10	40
1 091	767	Interest on debt to customers	767	1 092
487	385	Interest on issued securities	731	866
48	49	Interest on subordinated loans and hybrid capital	49	48
36	41	Fee to The Norwegian Banks' Guarantee Fund	41	36
1 714	**1 252**	**Total interest expenses**	**1 598**	**2 082**
1 084	**1 138**	**Net interest income**	**1 521**	**1 511**

Note 15 – Commission income

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
25	24	Guarantee commission	19	21
14	18	Security trading and management	18	14
166	168	Payment transmission	168	166
32	28	Insurance services	28	32
		Real estate turnover and management	99	83
47	59	Fees from other activities	15	15
284	**297**	**Total commission income**	**347**	**331**

Note 16 – Income from financial instruments

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
226	-4	Changes in value - fixed rate loans - designated at fair value through profit	-4	226
-160	29	Changes in value - derivatives fixed rate loans - lisable to fair value through profit	29	-160
66	**25**	**Net fixed rate loans**	**25**	**66**
30	-146	Gains(losses) and change in value - certificates and bonds	-146	30
11	9	Share dividend	3	11
116	55	Gains(losses) and change in value - shares	55	116
157	**-82**	**Certificates, bonds and shares - designated at fair value through profit**	**-88**	**157**
-254	86	Change in value - bonds at fixed interest rate - hedge accounting	87	-480
245	-81	Change in value - derivatives fixed rate bonds - liable to fair value through profit	-82	469
-9	**5**	**Net issued securities at fixed rate - hedge accounting**	**5**	**-10**
-15	-18	Gains (losses) from buy-back of own bonds - amortised cost	-13	-45
14	14	Currency gains (losses)	14	14
4	-9	Other financial derivatives - liable to fair value through profit	-9	4
2	**-13**	**Net other financial instruments and derivatives**	**-8**	**-28**
215	**-65**	**Net income from financial instruments**	**-66**	**184**

Changes in value on fixed-rate loans include value changes associated with changes in interest rates and margins. Refer to note 21 for further information.

Note 17 – Wages and pension

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
297	289	Wages to employees and fee to elected representatives (1)	345	343
36	44	Payroll tax	52	43
33	39	Pension costs	40	34
14	17	Other personnel costs	21	18
380	**389**	**Total personnel costs**	**458**	**438**
454	449	Number of man-years as at 31.12	508	508
472	**451**	**Average number of man-years per year**	**508**	**527**

(1) The Bank has a system of performance pay. The scheme covers all employees, with the exception of chief and deputy chief of internal audit. Depending on the achievement of objectives, a bonus payment can be provided of a maximum of 1 month salary per employee. Board members are not included in the bonus scheme.

All employees can loan up to 5 x gross annual salary at 1.5% lower interest rate than the bank's current applicable home loan interest rate. This is on the premise that the loan is within 85% of the market value.

Pension

The bank has a pension scheme for employees, via Nordea Liv and Storebrand Livsforsikring. The Group operates 2 pension schemes, a defined benefit and contribution scheme. The defined benefit pension scheme is closed and all active members of this scheme were allowed to transfer to the defined contribution scheme. All new employees are enrolled in the contribution pension scheme.

The defined contribution pension scheme encompasses 75 persons as at 31.12.2015.

The defined benefit scheme includes 711 persons of which 304 receive pension as at 31 December 2015. The bank also has pension liabilities that apply to 46 persons who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These pension schemes are regarded as defined benefit contribution schemes. Estimate changes and deviations are entered directly against other comprehensive income. The new AFP early retirement scheme was introduced in 2010 and is treated as a contribution scheme as at 31 December 2015.

The pension scheme fulfils requirements stipulated by the Act relating to Mandatory Occupational Pensions.

With effect from and including 31.12.2012, the bank changed the reference interest for discount rates from 10-year government bonds to OMF interest. The market for these bonds is considered to be adequately strong and liquid on the balance sheet date.

In the actuarial computations, as external actuary has carried out, relating to pensions, the following assumptions have been applied as a basis:

	2015	2014
Discounting interest rate	2.70 %	2.30 %
Expected wage adjustment	2.50 %	2.75 %
Expected pension adjustment	0.00 %	0.00 %
Expected 'G' -adjustment	2.25 %	2.50 %
Expected investment return on pension resources	2.70 %	2.30 %
Voluntary retirement	0.00 %	0.00 %
Propensity to take up AFP	0.00 %	0.00 %

When calculating the pension costs for 2015, the assumptions as at 31 December 2014 have been used.
The financial assumptions have been considered in a long-term perspective. The assumptions are the same as the Norwegian Accounting Standard Board's recommendations. The calculation, as of 31 December 2015 and 31 December 2014, is based on the ordinary table K2013.

Breakdown of pension costs for the year

	2015		2014	
NOK MILLION	Funded	Unfunded	Funded	Unfunded
Pension earnings for the year	28	5	24	4
Interest costs on the pension commitments	15	2	23	2
Recognised return on pension funds	-12		-21	
Total pension costs - defined benefit schemes	**31**	**7**	**26**	**6**
New AFP and premium deposit pension	6		5	
Total pension costs recognised in the income statement	**37**	**7**	**31**	**6**
Estimate deviations recognised in the total result	-58	-1	109	18
Total pension costs	**-21**	**6**	**140**	**24**
Movements - pension commitments				
Commitments at the beginning of the period	686	71	199	34
Commitments added through merger			364	18
Commitments as at 01.01.	**686**	**71**	**563**	**52**
Pension earnings for the year	28	5	24	4
Interest costs on the pension commitments	15	2	23	2
Actuarial losses/gains	-73	-1	91	18
Pension payments	-21	-4	-15	-5
Pension commitments at the end of period	**635**	**73**	**686**	**71**
Movements - pension funds				
Pension funds at the beginning of the period	521		157	
Pension funds added through merger			357	
Pension funds as at 01.01.	**521**	**-**	**514**	**-**
Return on pension funds	12		21	
Actuarial losses/gains	-15		-18	
Payment into pension funds	51		19	
Pension payments	-21		-15	
Pension funds at the end of period	**548**	**-**	**521**	**-**
Net pension commitments at the end of period	**87**	**73**	**165**	**71**

Composition of pension assets	2015	2014
Shares	6 %	8 %
Property	12 %	15 %
Long term bonds	44 %	34 %
Short term bonds	28 %	38 %
Others	10 %	5 %
Total pension assets	**100 %**	**100 %**

Pension funds are not invested in own financial instruments or other assets of the company. Pension funds are managed by the insurance companies, Nordea Liv and Storebrand Livsforsikring.

Active members in the different schemes

	2015	2014
Active members of the benefit pension scheme	407	435
Pensioners and disabled in the scheme	304	311
Total number of persons who are included in the benefit scheme	**711**	**746**
Active members of non-insured schemes	18	20
Pensioners and disabled people in non-secured schemes	28	30
Total number of people in non-secured schemes	**46**	**50**
Active members of contribution scheme	75	53
Total number of people in the contribution scheme	**75**	**53**

Expected pension expenses in 2016 are NOK 28 million for the Parent company / Group. Of this, NOK 22 million is related to the company's benefit pension scheme.

Sensitivity analysis, pension calculation

The Group pension expenses and pension liabilities are calculated according to the Norwegian Accounting Standards Board's recommendations. The sensitivity analysis indicates how a change in a simple premise, given that all other prerequisites are unchanged, affects pension expenses and gross pension liabilities for the Group as at 31.12.2015. The calculation only applies to the benefit pension scheme.

Sensitivity analysis

NOK MILLION	Discounted-interest rate	Growth in wages	Regulation of G adjustment
Pension cost on basic premises	**31**	**31**	**31**
Increase 1 % - points	26	37	29
Reduction 1 % - points	38	27	33
Gross pension obligations on basic premises	**635**	**635**	**635**
Increase 1 % - points	528	688	593
Reduction 1 % - points	725	560	686

Note 18 – Other operating expenses (incl. remuneration to auditor)

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
41	38	Marketing	40	43
115	125	IT costs	128	118
45	34	Operating costs - real estate	36	41
27	13	External fees	15	28
10	12	Office supplies	12	10
18	15	Wealth tax	15	18
76	70	Other operating expenses	76	86
332	**307**	**Total other operating expenses**	**322**	**344**

Remuneration to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2014	2015	NOK THOUSAND	2015	2014
1 288	913	Ordinary audit fees	1 391	1 458
66	109	Tax advice	115	66
111	10	Other attestation services	597	220
165	373	Fees from other services 1	373	165
1 630	**1 405**	**Total remuneration of elected auditor (incl. VAT)**	**2 476**	**1 909**

Note 19 – Tax

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Deferred tax and deferred tax asset		
76	**66**	**Fixed assets**	**63**	**74**
27	-8	Securities	-8	27
89	82	Loans	82	89
-64	-40	Pension commitments	-40	-64
-146	-95	Bonds loans	-128	-182
5	-7	Derivatives	24	39
2	-1	Other accounting provisions	-1	
-11	**-3**	**Total deferred tax and deferred tax asset**	**-8**	**-17**
		Composition of tax cost for the year		
16	**8**	**Change in deferred tax**	**9**	**-2**
34	-15	Deferred tax recognised in the total result	-15	34
		Other change in deferred tax		25
50	**-7**	**Deferred tax recognised in the profit for the year**	**-6**	**57**
65	139	Tax payable on net income	233	160
50	-7	Recognised deferred tax	-6	57
-2	4	Excess provision previous years	4	-2
113	**136**	**Tax cost for the year**	**231**	**215**
		Tax payable on net income		
195	137	27% of profit before tax	231	298
-81	-7	27% of permanent differences	-7	-81
	2	Effect of change tax pe cent on deferred tax	3	
-49	7	Recognised deferred tax	6	-57
65	**139**	**Tax payable on net income**	**233**	**160**
		Payable tax in the balance sheet		
65	139	Tax payable on net income	233	160
18	12	Wealth tax	12	18
83	**151**	**Payable tax in the balance sheet**	**245**	**178**

Wealth tax is included in payable tax in the balance sheet, however, wealth tax is presented under other operating costs in the income statement.

Note 20 – Financial instruments by category

GROUP 31.12.2015					
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				332	332
Loans to and receivables from credit institutions				157	157
Net loans to customers			8 290	80 097	88 387
Bonds and certificates			10 557		10 557
Shares			487		487
Financial derivatives	334	479			813
Ownership in associated companies				13	13
Total financial assets	**334**	**479**	**19 334**	**80 599**	**100 746**
Debts to credit institution				576	576
Deposits from customers				48 349	48 349
Debt incurred due to issue of securities				41 899	41 899
Financial derivatives	410	3			413
Subordinated loan capital				1 710	1 710
Total financial liabilities	**410**	**3**	**0**	**92 534**	**92 947**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 18 909 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

PARENT BANK 31.12.2015					
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				332	332
Loans to and receivables from credit institutions				2 017	2 017
Net loans to customers			8 290	54 454	62 744
Bonds and certificates			10 456		10 456
Shares			487		487
Financial derivatives	303	356			659
Ownership in group companies				1 259	1 259
Ownership in associated companies				13	13
Total financial assets	**303**	**356**	**19 233**	**58 075**	**77 967**
Debts to credit institution				626	626
Deposits from customers				48 377	48 377
Debt incurred due to issue of securities				19 865	19 865
Financial derivatives	408	3			411
Subordinated loan capital				1 710	1 710
Total financial liabilities	**408**	**3**	**0**	**70 578**	**70 989**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 18 808 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

					GROUP 31.12.2014
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				595	595
Loans to and receivables from credit institutions				180	180
Net loans to customers			6 769	74 144	80 913
Bonds and certificates			10 359		10 359
Shares			445		445
Financial derivatives	350	556			906
Ownership in associated companies				12	12
Total financial assets	**350**	**556**	**17 573**	**74 931**	**93 410**
Debts to credit institution				614	614
Deposits from customers				48 250	48 250
Debt incurred due to issue of securities				35 775	35 775
Financial derivatives	521				521
Subordinated loan capital				1 100	1 100
Total financial liabilities	**521**	**0**	**0**	**85 739**	**86 260**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 17 239 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

					PARENT BANK 31.12.2014
NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				595	595
Loans to and receivables from credit institutions				1 510	1 510
Net loans to customers			6 769	54 111	60 880
Bonds and certificates			10 059		10 059
Shares			445		445
Financial derivatives	289	462			751
Ownership in group companies				1 258	1 258
Ownership in associated companies				12	
Total financial assets	**289**	**462**	**17 273**	**57 486**	**75 498**
Debts to credit institution				627	627
Deposits from customers				48 269	48 269
Debt incurred due to issue of securities				18 414	18 414
Financial derivatives	517				517
Subordinated loan capital				1 100	1 100
Total financial liabilities	**517**	**0**	**0**	**68 410**	**68 927**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 16 939 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

Note 21 – Fair value of financial instruments

Methods to determine fair value

GENERAL

For financial instruments where the carrying value is a reasonable approximation of fair value, valuation methods to calculate fair value are not used. This relates mainly to assets and liabilities within a short time (three months) due for payment or where there is a short time (three months) to the next interest due date / regulation.

INTEREST RATE SWAPS AND CURRENCY SWAPS

Valuation of interest rate swaps at fair value is done through the use of valuation techniques in which the expected future cash flows are discounted to the present value. The calculation of expected cash flows and the discounting of these are carried out on the use of observable market rates for different currencies and observable exchange rates. The estimated present value is checked against the corresponding estimates from the counterparties in the contracts.

CERTIFICATES AND BONDS

The valuation of certificates and bonds is via the use of valuation techniques based on future cash flows and credit risk, assessed on the balance sheet date. The valuation is based on observable market interest rates. The bank's assessment of credit risk is based on information from various brokers.

LOAN

Valuation of lending at fair value is carried out using valuation methods where the anticipated future cash flows are discounted to present value. A risk-free interest rate is regarded as the interest rate on loans between particularly creditworthy banks. A supplement for credit risk and margins is added on the basis of the original supplement for credit risk and margin, adjusted in line with changes in the market's pricing of risk, borrower's creditworthiness and margin changes in the market.

Fair value is considered to be equal to the face value for loans with a variable interest rate.

BORROWING

Where loans are valued at fair value, borrowings are valued at the quoted prices, where available, and the securities traded in a liquid market. For other securities the valuation is made through the use of valuation techniques and the discounting of expected future cash flows. A risk-free interest rate is regarded as the interest rate on loans between banks, particularly credit-worthy ones. The mark-up for credit is made on the basis of the ongoing assessments which other market players make on the Bank's creditworthiness.

DEPOSITS

For deposits rated at fair value, the valuation occurs through the use of valuation techniques in which the expected future cash flows are discounted to present values. A risk-free interest rate is regarded as the interest rate on loans between banks, particularly credit-worthy ones. Premiums for credit are made on the basis of the ongoing assessments which other market players make on the Bank's creditworthiness. The mark-up for margins is done on the basis of the initial margin, but with subsequent adjustment of the margin in line with the margin changes in the markets.

For floating rate deposits, the fair value is considered to be equal to nominal value.

OPTIONS

The valuation of stock options and equity index options are made at fair value via the collection of market prices from the managers of the structured products.

SHARES

Stocks are valued at quoted prices where available. For others, share valuation is made using valuation techniques.

In some cases, shares in local companies must appear to be a support for a positive action in their community. For such shares, the fair value is set to the share purchase price or face value, or written down to NOK 1, where it is obvious that the shares have no commercial value.

Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

Includes financial assets and liabilities valued using the unadjusted observable market values. This includes listed shares, derivatives traded on active market places and other securities with quoted market values.

Level 2:

Instrument value based on valuation techniques in which all the assumptions (all input) is based on directly or indirectly observable market data. Values here can be obtained from external market players or reconciled with the external markets which offer 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 companies and fixed rate loans where there is no market information.

PARENT BANK				31.12.2015	GROUP			
Recognised value	Fair value Level 1	Level 2	Level 3	NOK MILLION	Recognised value	Fair value Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
332		332		Cash and receivables from central banks	332		332	
2 017		2 017		Loans to and receivables from credit institutions	157		157	
54 454			54 454	Net loans to customers (floating interest rate)	80 097			80 097
				Assets recognised at fair value				
8 290			8 290	Net loans to customers (fix interest rate)	8 290			8 290
10 456		10 456		Bonds and certificates	10 557		10 557	
487	24		464	Shares	487	24		464
659		659		Financial derivatives	813		813	
76 696	**24**	**13 464**	**63 208**	**Total financial assets**	**100 733**	**24**	**11 858**	**88 851**
				Liabilities recognised 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 recognised 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				31.12.2014	GROUP			
Recognised value	Fair value Level 1	Level 2	Level 3	NOK MILLION	Recognised value	Fair value Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
595		595		Cash and receivables from central banks	595		595	
1 510		1 510		Loans to and receivables from credit institutions	180		180	
54 111			54 111	Net loans to customers (floating interest rate)	74 144			74 144
				Assets recognised at fair value				
6 769			6 769	Net loans to customers (fix interest rate)	6 769			6 769
10 059		10 059		Bonds and certificates	10 359		10 359	
445	50		394	Shares	445	50		394
751		751		Financial derivatives	906		906	
74 239	**50**	**12 915**	**61 274**	**Total financial assets**	**93 397**	**50**	**12 040**	**81 307**
				Liabilities recognised at amortised cost				
627		627		Debt to credit institutions	614		614	
48 269			48 269	Deposit from customers	48 250			48 250
18 414		18 700		Debt incurred due to issue of securities	35 775		36 214	
1 100		1 109		Subordinated loan capital	1 100		1 109	
				Liabilities recognised at fair value				
517		517		Financial derivatives	521		521	
68 927	**0**	**20 953**	**48 269**	**Total financial liabilities**	**86 259**	**0**	**38 458**	**48 250**

There have been no movements between level 1 and 2 in 2015 or 2014.

Movements in values recognised at fair value categorised at level 3

	GROUP / PARENT BANK			
NOK MILLION	Net loan to customers	Of which credit risk	Shares	Of which credit risk
Recognised value 01.01.2014	**5 473**	**-105**	**92**	**0**
Acquisition 2014 (incl. Acquisition through merger)	2 655	-54	515	
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	229	50	108	0
Disposal 2014	-1 588		-322	
Recognised value 31.12.2014	**6 769**	**-110**	**394**	**0**
Acquisition 2015	3 030		9	
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	25	47	67	0
Disposal 2015	-1 534		-6	
Recognised value 31.12.2015	**8 290**	**-62**	**464**	**0**

Changes in value recognised in the year relate primarily to financial instruments which are recognised in the balance as at 31.12.

Net loans to customers

Loans to customers consist exclusively of fixed rate loans. With the valuation of fixed rate loans, the bank has divided this up into categories: retail markets (RM), large commercial loans and other business commitments. For the retail market, credit spread has been assessed according to current market prices for fixed-rate loans.

For large commercial loans (the 50 largest), the customers and spread are individually assessed on what each customer would be given as spread / margin as of 31.12. For other commercial loans, the value is calculated with a spread that represents a cut of what the smaller fixed-rate loans to corporate customers would be as of 31.12.

Shares

Concerns shares and investments in companies where there is no or low turnover and discretion must be exercised in the valuation. Multiples have been used to a greater extent and to a lesser extent earning-based methods in the valuation. The valuation is affected by the discretionary assessment. Analyses made by external parties in connection with the purchase analysis in the merger have been used as a reference.

Sensitivity analysis, Level 3

The sensitivity for fixed rate loans is estimated by the margin requirement is by 10 basis points. In the valuation of fixed-rate loans to private customers, the available market interest rate is applied as a basis. For the corporate market, there is a greater degree of general appraisal in determining the market spread/margin as at 31.12.

	GROUP / PARENT BANK	
NOK MILLION	31.12.2015	31.12.2014
Loan to customers	**27**	**22**
- of which, loans to the corporate market (CM)	8	9
- of which, loans to the retail market (RM)	19	13

Hedge accounting

The Bank uses hedge accounting for the portion of the debt securities that are issued as fixed rate bonds. The bonds included in the hedge accounts are recognised at cost. Subsequent measurements are recorded at amortised cost, with the change in fair value related to the hedged risk. The hedges reveal the interest rate risk in issued fixed rate bonds. Hedge accounting requires the Bank to keep the system for measuring and documenting hedge effectiveness.

Each bond issued as a fixed rate is included in the hedge. Sparebanken Sør uses fair value hedges. The hedge is measured and documented every quarter to ensure that it is effective within 80-125%. The 'dollar offset method' is used to measure the effectiveness of the hedge.

Results of hedge accounting

PARENT BANK			GROUP	
2014	2015	NOK MILLION	2015	2014
		Result / ineffectiveness in hedge accounting		
-9	5	Net income from other financial instruments	5	-10
-9	**5**	**Total**	**5**	**-10**

Ineffectiveness in hedge accounting is recognised as an interest expense and is presented in Note 16.

Hedge accounting in the balance sheet

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Recognitions concerning hedge accounting		
432	356	Financial derivatives	479	556
432	**356**	**Total financial assets**	**479**	**556**
9 812	10 169	Nominal hedged items	11 019	10 665
440	356	Adjustment of hedged items – hedged risk	481	566
	3	Financial derivatives	3	
10 252	**10 528**	**Total financial liabilities**	**11 503**	**11 231**

The hedging instrument is recognised under financial instruments. Value tied to the hedged risk is recognised under the debt incurred due to issue of securities and is presented in note 14.

Change in value of the hedging instrument during the period

The table shows changes in value of the hedging instrument during the financial year.

Change in fair value of the hedged item that may be referred to the hedged risk is recognised as an adjustment of the hedged item in the balance sheet.

Note 22 – Certificates, bonds and other interest-bearing securities

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Short-term investments designed at fair value through profit		
2 613	2 175	Certificates and bonds issued by public sector	2 276	2 913
7 446	8 291	Certificates and bonds issued by others	8 281	7 446
0	0	Certificates and bonds issued by subsidiary	0	0
10 059	**10 456**	**Total short-term investment designed at fair value through profit**	**10 557**	**10 359**
10 059	**10 456**	**Investment in securities**	**10 557**	**10 359**

Classification of financial investments

Certificates and bonds are rated externally. Where securities have an official rating that will be used, in cases where the official rating does not exist an external broker will provide a shadow rating as a basis for risk classification.

The Bank's risk category	Rating
Lowest risk	AAA, AA+, AA and AA-
Low risk	A+, A and A-
Medium risk	BBB+, BBB and BBB-
High risk	BB+, BB and BB-
Highest risk	B+ and lower

Certificates and bonds

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Certificates and bonds		
9 763	10 416	Lowest risk	10 517	10 063
9	0	Low risk	0	0
221	22	Medium risk	22	221
10	0	High risk	0	10
46	0	Highest risk	0	46
19	18	Accrued interest	18	19
10 059	**10 456**	**Total certificates and bonds**	**10 557**	**10 359**

Note 23 – Shares

All shares and participations are classified at fair value through profit.

				GROUP 31.12.2015
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value				
Frende Holding	673 296	10	181 790	152 148
Eksportfinans	4 026	1,5	85 000	74 082
Brage Finans	7 000 000	14	65 100	65 093
Visa Norge FLI			45 000	
Eiendomskreditt	112 396	4,1	14 500	11 321
Norne Eierselskap	31 414 019	17,6	7 687	7 687
Sparebank1 SMN	222 189		11 221	12 165
Sparebank 1 SR Bank	169 925		6 678	10 111
Sparebanken Vest	162 684		5 694	5 839
NorgesInvestor Proto	156 000		17 094	11 687
NorgesInvestor IV	98 750		11 850	20 100
Other companies (40)			14 413	9 653
Total shares valued at fair value			**466 027**	**379 886**
Participations classified at fair value				
Skagerak Venture Capital 1 KS		9,7	17 876	17 876
Skagerak Seed Capital			3 096	3 096
Total participations valued at fair value			**20 972**	**20 972**
Total			**487 000**	**400 858**

				GROUP 31.12.2014
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value				
Frende Holding	673 296	10	167 004	152 147
Eksportfinans	4 026	1,5	85 000	74 081
Brage Finans	7 000 000	14	58 100	58 100
Eiendomskreditt	112 396	4.1	12 500	11 321
Norne Eierselskap	31 414 019	17.6	7 687	7 687
Visa International	12 145		23 880	12 154
Sparebank1 SMN	222 189		12 998	12 165
Sparebank 1 SR Bank	169 925		8 921	10 111
Sparebanken Vest	87 526		4 420	3 772
NorgesInvestor Proto	156 000		15 600	15 600
NorgesInvestor IV	98 750		12 048	8 256
Other companies (40)			16 993	14 200
Total shares valued at fair value			**425 152**	**379 594**
Participations classified at fair value				
Skagerak Venture Capital 1 KS		9,7	17 172	17 172
Skagerak Seed Capital			2 676	2 676
Total participations valued at fair value			**19 848**	**19 848**
Total			**445 000**	**399 442**

Sparebanken Sør's subsidiaries which are included in the consolidated financial statements have no investments in shares as at 31 December. The above overview is therefore the same for the parent bank and the Group.

The Bank's investment in the venture company is largely a participation in an investment company. The company prepares valuations itself based on the underlying portfolio value, which the bank uses in valuation.

The Group has committed to additional payments related to investment in the Skagerrak Venture Capital 1 KS and Skagerak Seed Capital. As at 31.12.2015 non-mobilised capital is NOK 1,622,000 (as at 31.12.2014 NOK 2,865,000).

Note 24 – Equity stakes in group companies

PARENT BANK 31.12.2015

NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Real estate business	Kristiansand	100 %	5 728	6 983
Rettighetskompaniet AS	Management of name rights	Arendal	100 %	500	2 660
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Bankbygg AS	Property management	Bygland	51 %		191
Berglyhallen AS	Property management	Kristiansand	100%		100
Total					**1 258 564**

PARENT BANK 31.12.2014

NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Real estate business	Kristiansand	100 %	5 728	6 983
Rettighetskompaniet AS	Management of name rights	Arendal	100 %	500	2 660
AS Eiendomsvekst	Property management	Arendal	100 %	3 000	2 935
Prosjektutvikling AS	Property management	Arendal	100 %	100	-
Bankbygg AS	Property management	Bygland	51 %		191
Total					**1 258 464**

Ownership interests are equivalent to the percentage of voting rights.

Refer to 'Note 33: Information of related parties' for additional information relating to transactions with subsidiaries.

Note 25 – Associated companies

PARENT BANK 31.12.2015

NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Torvparkering AS	Parking garages	Kristiansand	23 %	7 000
Arendal Brygge AS	Property management	Arendal	35 %	4 958
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
Total				**13 083**

PARENT BANK 31.12.2014

NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Arendal Brygge AS	Property management	Arendal	35 %	10 713
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
Total				**11 838**

The only difference between the parent company and the Group is that the shares in the associated companies are recognised using the equity method in the consolidated financial statements and the cost method in the parent company.

Refer to 'Note 33: Information of related parties' for additional information relating to transactions with subsidiaries.

Note 26 – Financial derivatives

				GROUP
NOK MILLION	31.12.2015	31.12.2015 (1) presented as net	31.12.2014	31.12.2014 (1) presented as net
Assets				
Financial derivatives	813	485	906	478
Liabilities				
Financial derivatives	413	85	521	93

				PARENT BANK
NOK MILLION	31.12.2015	31.12.2015 (1) presented as net	31.12.2014	31.12.2014 (1) presented as net
Assets				
Financial derivatives	659	333	751	327
Liabilities				
Financial derivatives	411	85	517	93

(1) Shows assets and liabilities if the bank and group had netted their financial derivatives for individual counterparty.

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 in cases where certain events occur. The amounts have not been offset in the balance sheet as at 31 December 2015 or 31 December 2014 because the transactions are generally not settled on a net basis.

Note 27 – Debt securities and subordinated loan capital

Debt securities – group

NOK MILLION	31.12.2015	31.12.2014
Bonds, nominal value	41 136	34 748
Value adjustments	447	692
Accrued interest	316	335
Total debt due to issue of securities	**41 899**	**35 775**

Change in debt securities – group

NOK MILLION	31.12.2014	Issued	Matured / Redeemed	Other changes during the period	31.12.2015
Bonds, nominal value	34 748	20 220	-13 832		41 136
Value adjustment	692			-245	447
Accrued interest	335			-19	316
Total debt due to issue of securities	**35 775**	**20 220**	**-13 832**	**-264**	**41 899**

Change in subordinated loan capital and hybrid capital – parent bank and group

NOK MILLION	31.12.2014	Issued	Matured / Redeemed	Other changes during the period	31.12.2015
Subordinated loans	400	1 200	-400		1 200
Hybrid capital	700	310	-500		510
Value adjustment	0				0
Total subordinated loan capital	**1 100**	**1 510**	**-900**	**0**	**1 710**

Debt securities – parent bank

NOK MILLION	31.12.2015	31.12.2014
Bonds, nominal value	19 215	17 587
Value adjustment	382	542
Accrued interest	269	285
Total debt due to issue of securities	**19 865**	**18 414**

Change in debt securities – parent bank

NOK MILLION	31.12.2014	Issued	Matured / Redeemed	Other changes during the period	31.12.2015
Bonds, nominal value	17 587	8 720	-7 093		19 215
Value adjustment	542			-160	382
Accrued interest	285			-16	269
Total debt due to issue of securities	**18 414**	**8 720**	**-7 093**	**-176**	**19 865**

Note 28 – Loans and debts to credit institutions

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Loans to credit institutions		
1 365	1 905	Without agreed maturity	45	35
145	112	With agreed maturity	112	145
		Accrued interest		
1 510	**2 017**	**Total loan to credit institutions**	**157**	**180**
		Debts to credit institutions		
210	7	Without agreed maturity	7	210
417	618	With agreed maturity	568	404
	1	Accrued interest	1	
627	**626**	**Total debts to credit institutions**	**576**	**614**

Note 29 – Fixed assets

GROUP	Machinery, fixture and fittings and transportequipments		Real estate		Intangible assets	
NOK MILLION	2015	2014	2015	2014	2015	2014
Acquisition cost at the beginning of the period	252	135	578	216	181	56
Acquisition added through merger		147		407		143
Depreciation connected with the merger				162		
Acquisition cost 01.01.	**252**	**282**	**578**	**785**	**181**	**199**
Additions during the year	9	11	17	19	1	14
Disposals during the year	-23	-41	-27	-226	-6	-32
Acquisition cost 31.12.	**238**	**252**	**568**	**578**	**176**	**181**
Accumulated depreciations and write-downs 31.12.	183	186	144	141	163	161
Book value as at 31.12	**55**	**66**	**424**	**437**	**13**	**20**
Ordinary depreciation	16	21	9	9	9	10
Impairments		3	3	9		
Gains/losses on sale		-2	4	5		

PARENT BANK	Machinery, fixture and fittings and transportequipments		Real estate		Intangible assets	
NOK MILLION	2015	2014	2015	2014	2015	2014
Acquisition cost at the beginning of the period	239	134	551	216	80	56
Acquisition added through merger		135		198		42
Depreciation connected with the merger				175		
Acquisition cost 01.01.	**239**	**269**	**551**	**589**	**80**	**98**
Additions during the year	9	10	3	18	1	14
Disposals during the year	-23	-40	-27	-56	-6	-32
Acquisition cost 31.12.	**225**	**239**	**527**	**551**	**75**	**80**
Accumulated depreciations and write-downs 31.12.	173	175	141	140	65	63
Book value as at 31.12	**52**	**64**	**386**	**411**	**10**	**17**
Ordinary depreciation	15	20	9	6	9	10
Impairments		3	3	9		
Gains/losses on sale		-2	4	2		

Anticipated economic lifetime harmonises with the depreciation period for the individual groups of fixed assets. The fixed assets are depreciated on a straight line basis. The Group's buildings are located in the bank's own region and are mainly used for the bank's own use.

The depreciation rate for buildings is in the range of 2–5 per cent and the depreciation rate for machinery, fixtures & fittings, transport and intangible assets is in the range of 10–33 per cent.

The Bank leases property and paid NOK 15.2 million in 2015 (NOK 16.4 million in 2014) in annual rent. The normal rental period is 5 years, with an option for a further 5 years.

Note 30 – Deposits from customers

Deposits from customer according to sector and industry

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
23 233	23 864	Retail customers	23 864	23 233
4 278	4 428	Public administration	4 428	4 278
256	680	Primary industry	680	256
2 015	2 219	Manufacturing industry	2 219	2 015
2 206	2 447	Building and construction	2 447	2 206
1 265	1 326	Transport and communication	1 326	1 265
931	865	Retail trade	865	931
149	154	Hotel and restaurant	154	149
3 417	3 085	Property management	3 056	3 399
2 382	2 740	Financial/commercial services	2 739	2 381
8 124	6 561	Other industries	6 563	8 124
13	8	Accrued interest	8	13
48 269	**48 377**	**Total deposits from customers**	**48 349**	**48 250**

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
40 269	40 708	Deposits from customers with no fixed maturity	40 680	40 250
7 987	7 661	Deposits from customers with agreed maturity	7 661	7 987
48 256	**48 369**	**Total deposits from customers**	**48 341**	**48 237**
13	8	Accrued interest	8	13
48 269	**48 377**	**Total deposits from customers incl. accrued interest**	**48 349**	**48 250**

Note 31 – Other liabilities

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
12	13	Trade creditors	22	21
14	15	Tax withholdings	18	23
33	25	Clearing accounts	25	33
60	62	Other liabilities	72	65
35	34	Accrued holiday pay	40	40
40	39	Other incurred costs	52	49
194	**188**	**Total other liabilities**	**229**	**231**

Note 32 – Average interest rates

PARENT BANK			GROUP	
31.12.2014	31.12.2015		31.12.2015	31.12.2014
		Debt to credit institutions		
1.92 %	1.52 %	Debt to credit institutions	1.52 %	1.92 %
		Deposits from customers		
2.06 %	1.15 %	Deposits from customers	1.15 %	2.06 %
		Debt incurred due to issue of securities		
2.68 %	2.05 %	Bond debt - floating interest rate	1.72 %	2.25 %
4.36 %	3.85 %	Bond debt - fixed interest rate	3.86 %	4.32 %

Average interest rate has been calculated as a weighted average of the actual interest rate conditions as at 31 December, defined as annual interest in arrears.No liabilities have special conditions.

The total liabilities to credit institutions are mainly in NOK. Debt established through issue of securities is entirely in NOK.

Note 33 – Information on associated parties

Sparebanken Sør has entered into transactions with associated parties as described in this note and note 34. Transactions with subsidiaries have been eliminated in the consolidated financial statements. Sparebanken Sør's equity certificate owners appear in note 36. Besides loans granted on special terms to employees, all transactions with associated parties have been established on market terms. Other than transactions identified in this note, and note 34, and eliminated transactions with the Sparebanken Sør, there is no significant transactions or outstanding claims with associated parties.

NOK THOUSAND	Group management	Board of Directors	Control Committee	Chairman of the Board of Trustees
Loans as at 31.12.15	16 038	13 356	645	2 493
Interest income	248	256	26	78
Deposits as at 31.12.15	8 743	5 359	5 332	99
Interest cost	127	104	95	0

Subsidiaries	Loans	Interest income	Deposits	Interest cost	Interest on bonds	Management fee
Prosjektutvikling AS	19 046	827	16	3		
Eiendomsvekst AS	2 545	0	8	8		
Rettighetskompaniet AS	0	0	2 294	31		
Sørmegleren Holding AS	14 400	5 126	25 533	5 228		
Sparebanken Sør Boligkreditt AS	1 860 492	35 642	50 081	374	2 573	44 228
Total	**1 896 482**	**41 595**	**77 932**	**5 644**	**2 573**	**44 228**

Associated companies	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	50 971	1 677	91	1
Søndeled Bygg AS			0	0
Torvparkering		38	8 290	53
Total	**50 971**	**1 714**	**8 381**	**54**

Sparebanken Sør has deducted loans transferred to Sparebanken Sør Boligkreditt AS. The agreements have been drawn up so that the loans qualify for deduction. The scope of such deducted loans has been stated below.

NOK MILLION	31.12.2015	31.12.2014
Sparebanken Sør Boligkreditt AS	25 686	20 079

Sparebanken Sør Boligkreditt AS purchases the majority of services from the bank. All transactions between the companies have been entered into on market terms. As of 31 December 2015, Sparebanken Sør Boligkreditt has an overdraft facility of NOK 5,500 million with Sparebanken Sør. In addition Sparebanken Sør Boligkreditt AS has a revolving credit facility with the Parent bank at all times, for which an annual commission is paid.

Note 34 – Remuneration, etc

Information in this note applies to status for the Group's Board of Directors, management and employee representatives as of 31.12.2015.

NOK thousand

Key personnel	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	0	2 591	59	197	2 125	4 971	2 945
Lasse Kvinlaug	Deputy CEO/ Director, Corporate market	180	1 658	41	203	425	2 327	1 239
Gunnar Thomassen	Director, Retail market	0	1 555	39	226	173	1 993	2 670
Rolf H. Søraker	Director, Group support	0	1 264	34	182	130	1 609	817
Marianne Lofthus	Director, Capital market	0	1 199	33	173	240	1 645	6
Bjørn A. Friestad	Director, Risk management	475	1 328	35	181	226	1 770	1 842
Gry Moen	Director, Business support	0	1 204	33	214	237	1 688	4 922
Tellef Myrvold	Director, Merger secretariat	20	1 254	33	192	301	1 780	1 596
Total			**12 053**	**307**	**1 568**	**3 856**	**17 784**	**16 038**

The CEO has an agreement of one year severance pay in case of imposed resignation before the end of the agreed period of tenure.

There is a bonus system for all the bank's employees including the group's executives.

NOK thousand

Board of directors	Role	Number of equity certificates	Fees and other remunerations	Loans
Stein A. Hannevik 1)	Chairman	60	2 871	3 339
Torstein Moland	Deputy Chairman	0	160	1 912
Jill Akselsen	Member	0	103	0
Trond Bjørnenak	Member	0	103	0
Inger Johansen	Member	0	128	2 954
Siss June Ågedal	Member	0	130	0
Marit Kittilsen	Member	0	103	1 254
Erling Holm	Member	0	163	0
Bente Pedersen	Member	0	100	2 562
Per Adolf Bentsen	Member	0	100	2 589
Total			**3 960**	**13 356**

1) Executive Chairman in 2015.

NOK thousand

Control committee	Role	Number of equity certificates	Fees and other remunerations	Loans
Dag Jørgen Hveem	Chairman	0	110	0
Georg Fritzman	Deputy Chairman	0	70	0
Yngvar Aulin	Member	0	60	645
Sverre Irgens	Member	0	60	0
Total			**300**	**645**

NOK thousand

Board of Trustees	Role	Number of equity certificates	Fees and other remunerations	Loans
Øystein Haga	Chairman, Depositor elected	0	32	2 493
Carsten Akselsen	Deputy Chairman, EC owner	10 250	2	0
Terje Røsnes	Depositor selected	600	0	1 126
Mette Vestberg Sørensen	Depositor selected	0	0	29
Yngvar Aulin	Depositor selected	0	2	645
Ståle Rysstad	Depositor selected	0	2	3
Per Olav Skutle	Depositor selected	0	0	0
Kjell Bjarne Back	Depositor selected	0	2	0
Tor Kim Steinsland	Depositor selected	0	2	1 963
Kai Magne Strat	Depositor selected	0	0	5 606
Linda Gjertsen	Depositor selected	0	2	816
Lisa Jensen	Depositor selected	0	2	0
Wigdis Hansen	Depositor selected	0	2	3
Birgitte Midgaard	Depositor selected	0	2	268
Øyvind Tveit	Depositor selected	0	11	0
Hans Otto Lund	Municipal/Public selected	0	2	2 071
Atle Drøsdal	Municipal/Public selected	0	2	0
Tove M. Kirkevik	Municipal/Public selected	0	2	1 635
Jone Nikolai Nyborg	Municipal/Public selected	0	2	0
Ernst David Kolstad	Municipal/Public selected	0	2	975
Bernt Slettedal	Municipal/Public selected	0	0	0
Harald Fauskanger Andersen	Municipal/Public selected	0	0	3 038
Torunn Ostad	Municipal/Public selected	0	2	0
Erling Laland	Municipal/Public selected	0	0	1 801
Tormod Nyberg 2)	EC owner	7 241	0	0
Egil Galteland	EC owner	3 010	2	0
Jens Helge Hodne 3)	EC owner	300	19	0
Endre Glastad 4)	EC owner	100 000	0	0
Karl Moursund 5)	EC owner	62 300	0	0
Tone Helene Strat 1)	EC owner	0	2	592
Eirik C. Sætra 1)	EC owner	0	2	621
Ole Martin Retterholdt 1)	EC owner	0	2	587
Cheryl MacDonald 1)	EC owner	0	0	3 786
Søren Seland 1)	EC owner	0	2	1 603
Einar Amundsen 1)	EC owner	0	2	238
Arvid Berg	Elected by employees	0	2	897
Jan Erling Tobiassen	Elected by employees	0	2	700
Bente Sørensen	Elected by employees	60	2	1 246
Jahn Frode Hanssen	Elected by employees	0	2	2 300
Pål Hompland	Elected by employees	0	2	3 011
Andreas Gulsrud	Elected by employees	50	2	2 772
Merete Lie Seland	Elected by employees	0	0	2 600
Anne Efjestad	Elected by employees	0	2	25
Ellen Haugen	Elected by employees	0	2	1 517
Erik Opsal	Elected by employees	0	0	1 091
Birger Sløgedal	Elected by employees	0	2	2 789
Arve Askildsen	Elected by employees	0	2	1 748
Per Bø	Elected by employees	0	0	3 193
Total			**130**	**53 789**

(1) Represents Sparebankstiftelsen Sparebanken Sør, which owns 2,432,024 equity certificates, (2) Represents Acto AS, (3) Represents Hodcon AS, (4) Represents Glastad Invest AS, (5) Represents Sparebankstiftelsen DNB.

Note 35 – Assets pledged as collateral and guarantee liabilities

PARENT BANK			GROUP	
31.12.2014	31.12.2015	NOK MILLION	31.12.2015	31.12.2014
		Assets pledged as collateral		
8 731	8 719	Bonds pledged for drawing-rights in Norges Bank	8 719	8 731
		Guarantee liabilities		
432	376	Payment guarantees	376	432
599	945	Contract guarantees	945	599
6	0	Guarantees for taxes	0	6
102	91	Other guarantees	91	102
1 139	**1 412**	**Total guarantee liabilities**	**1 412**	**1 139**

Note 36 – Equity certificates, equity capital and proposed dividend

The 20 largest equity certificate owners as at 31.12.2015

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	2 432 024	51.00
2.	Holta Invest AS	134 410	2.82
3.	Arendal Kom. Pensjonskasse	130 000	2.73
4.	EIKA utbytte VPF	126 223	2.65
5.	Pareto AS	124 150	2.60
6.	Glastad Invest AS	100 000	2.10
7.	SEB London branch	80 650	1.69
8.	Sparebankstiftelsen DNB	62 300	1.31
9.	MP Pensjon PK	56 900	1.19
10.	Gustav Pedersen AS	53 760	1.13
	Total - 10 largest owners	**3 300 417**	**69.21**

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Wenaasgruppen AS	53 760	1.13
12.	NorgesInvestor Proto AS	48 604	1.02
13.	Bergen Kom. Pensjonskasse	46 880	0.98
14.	Allumgården	45 179	0.95
15.	Sparebanken Vest	45 000	0.94
16.	Gumpen Bileiendom AS	40 730	0.85
17.	Brøvig Holding AS	34 800	0.73
18.	Varodd AS	32 800	0.69
19.	Sparebanken Sør	31 600	0.66
20.	Wenaas Kapital AS	26 880	0.56
	Total - 20 largest owners	**3 706 650**	**77.73**

As of 31 December 2015, the equity capital totaled NOK 476,867,400, divided into 4,768,674 equity certificates, with a nominal value of NOK 100.

Proposed, not approved dividend

	PARENT BANK	
	2015	2014
Total proposed dividend	NOK 42.9 million	NOK 47.7 million
Proposed dividend per equity certificate	NOK 9.0 per certificate	NOK 10,0 per certificate
Number of equity certificates	4 768 674	4 768 674

Dividends for the fiscal year 2015 are classified as other equity as at 31.12.2015.
The dividend approved by the Board of Trustees 26 March 2015 for the financial year 2014 was paid in 2015.

Equity certificate capital and result per equity certificate

2015

Number of equity certificates	Nominal value	Equity certificate capital(1)	Premium fund (1)	Dividend equalisation fund(1)	Ownership ratio 01.01.(2)	Profit for the year, Parent Bank (1,2)	Profit for the year per EC, Parent Bank	Profit for the year, Group (1,2)	Profit for the year per EC, Group
4 768 674	100	477	175	256	13.5 %	373	10,6	622	17.6

2014

Number of equity certificates	Nominal value	Equity certificate capital(1)	Premium fund (1)	Dividend equalisation fund(1)	Ownership ratio 01.01.(2)	Profit for the year, Parent Bank (1,2)	Profit for the year per EC, Parent Bank	Profit for the year, Group (1,2)	Profit for the year per EC, Group
4 768 674	100	477	175	242	14.1 %	411	12,2	685	20.3

1. Figures in NOK million.
2. The equity certificate ownership ratio has been adjusted as at 1 January 2014, due to recognition of negative goodwill which has also been allocated directly to the equalisation fund. For this reasons, negative goodwill has also been excluded from the profit for the financial year and the profit per equity certificate.

Profit per equity certificates are calculated as the relationship between the year's results attributable to the owners of the equity certificates according to the equity certificates ratio of the parent company 01.01, and the number of issues equity certificates at the end of the year.

The ownership ratio which the equity certificate represents as at 1 January 2016 is 13.0 per cent, which is the per cent for allocation of the 2016 result.

Equity certificates owned by the Managing Director, leading employees, members of the Board of Directors, members of the Board of Trustees and control committee and their personal associates defined according to the Accounts Act § 7–26 and supplementary regulations § 8–20 are stated in Note 34.

Sparebanken Sør owns 31,600 of its own equity certificates as at 31.12.2015.

Note 37 – Merger of business

Sparebanken Pluss and Sparebanken Sør merged with effect from 1 Januar 2014. Sparebanken Pluss was the acquiring bank in the merger and was renamed Sparebanken Sør. As a result of the merger, negative goodwill has arisen because of the fact that the value of net assets does not correspond with the fee paid in the merger. To prevent dilution of the equity ratio, negative goodwill has been recognized in its entirety immediately after the merger was completed and transferred directly to the dividend equalization fund. For more information, see the Annual Report and notes for 2014.

It has not been made acquisitions or other forms of business combinations in 2015.

Note 38 – Subsequent events and contingencies

It has not been any events of major significance to the accounts after the balance sheet date.

Corporate Governance

Sparebanken Sør and Sparebanken Pluss merged with effect from 1 January 2014. Sparebanken Pluss was the acquiring savings bank and the name of the new bank is Sparebanken Sør. The bank's organisation number is 937 894 538. The headquarters and registered address of the bank is in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal.

This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and Oslo Stock Exchange's requirement to follow or explain deviations from this.

The company's intention with this document is:

- To clarify the role sharing between the bank's governing bodies and the management of day-to-day operations
- To optimise the company's values in a long-term perspective
- Equal and secure access to reliable and current information on the company's operations
- Equal treatment of the equity certificate holders

The corporate governance principles have been specified in various policy documents for Sparebanken Sør's operations. This includes the bank's articles of association, strategies, Board instructions, instructions for the CEO, framework for management and control, ethical guidelines and procedures for own-account trading.

STATEMENT ON CORPORATE GOVERNANCE

The statement is based on NUES' recommendation and on the "comply or explain" principle.

Values

The bank's values and guidelines for ethics and social responsibility have great significance for how the company is perceived. It is even more important that it is perceived that actions by the company and each employee have followed our values and guidelines.

Social responsibility

Sparebanken Sør wants to be a responsible and enthusiastic contributor to society. The bank's business objective cannot be achieved until we act in concert with the society in which we operate.

By being a community building company, Sparebanken Sør contributes toward sustainable industrial and social development through creating values for the region. The bank also supports projects within culture, sport and other areas that contribute positively in the local community where the bank has offices. In addition to traditional sponsorship of teams and clubs, as an independent savings bank we also continue our common, strong tradition of providing cash donations to non-profit organisations.

Ethical guidelines

The Board of Directors of Sparebanken Sør has adopted its own "Ethics document".

As a basis for its operations, the bank will follow stringent requirements for honesty and good business ethics. Therefore, the bank expects that employees will have a high degree of integrity and conduct in accordance with the bank's ethical guidelines.

The bank's ethical guidelines cover representatives and employees and provide guidance related to customer care, gifts, confidentiality, participation in other business and related-party transactions. The guidelines also include an information requirement for employees in case of breach of internal guidelines, laws and regulations. The procedure for how such information / notification shall be given is described in more detail.

One of the bank's aims is that advisers in Sparebanken Sør will be authorised. Through authorisation, each employee is tested both through theory and practical knowledge on ethical theory and dilemmas. It is the bank's intention that the ethical guidelines will be reviewed by a superior with all employees at least once a year.

Measures against money laundering and terror funding

Sparebanken Sør must comply with the authorities' anti-money laundering regulations that will help to combat money laundering and terror funding. This also includes both an automatic reporting system for suspicious transactions and a responsibility for each employee to report individual cases and if necessary implement enhanced customer control. The bank has adopted procedures for this and provides continuous training of employees, especially those that deal directly with customers.

Environmental matters

Sparebanken Sør takes the climate challenges into consideration. It is increasingly important to protect the environment and the bank would like to do its bit to contribute.

Sparebanken Sør has defined work on internal environmental efficiency as a priority area in the banks' climate work.

Deviations from the recommendation: No deviations.

OPERATIONS

Sparebanken Sør is a merger of Sparebanken Pluss and Sparebanken Sør with effect from 1 January 2014. Banking operations in the merged banks can be traced back to 1824.

The object of Sparebanken Sør is to promote saving by accepting deposits from an unrestricted number of depositors and to manage safely the funds they have been entrusted with in accordance with the statutory rules that apply to savings banks.

Sparebanken Sør can perform all normal banking transactions and services and provide investment services in accordance with the applicable regulations at any time.

See the articles of association on the bank's website www.sor.no.

Objectives and main strategies

Sparebanken Sør has a strategy to achieve high value creation in order to generate growth and development in the region – including providing good advice, proximity to the market, leading regional market position, local decision-making power, competitive products, motivated employees and cost-effective processes. One of the bank's aims is to create a new financial centre in the region with capacity, diversification of risk, competitive power and profitability.

The bank's strategic position will be achieved through customer orientation, based on building relations, expertise, financial advice and cross-sales and in this way build reputation, ensure profitability and create loyal customers.

Sparebanken Sør has the counties of Agder as its market base. The bank will also strengthen its position in the KNIF segment (Kristen-Norges Innkjøpsfelleskap) and in Telemark, both in the Retail Banking and Corporate Market. Expansion in KNIF segment and in Telemark will provide growth potential and diversification of risk. The growth will be controlled and based on profitability and low risk.

Deviations from the recommendation: No deviations.

EQUITY AND DIVIDENDS

Equity

Sparebanken Sør's equity is complex for several reasons. The most important of these are the size of the Group, a stable market for long-term funding and the bank's aims in a long-term, strategic perspective. Through annual evaluation of management and control, including the Internal Capital Adequacy Assessment Process (ICAPP), the Group has strong focus on ensuring that equity is adapted to goals, strategies and risk profile. The capital situation is monitored closely through the year with internal estimates and reports.

Dividend

The risk-adjusted return is assumed to be high and competitive in the market. The equity certificate owners' mathematical share of the profit is divided between cash dividend and equalisation fund.

Emphasis is placed on the bank's equity development, solvency, liquidity situation and market adjustment when determining the size of the cash dividend and the share of the profit.

Board authorisations

The bank's articles of association have no provisions relating to purchase of own equity certificates. Decisions on this must be dealt with and approved by the Board of Trustees, who may authorise the Board of Directors. Such decisions / authorisation are otherwise based on the Financial Institutions' Act and the principles in the Public Limited Companies Act.

Deviations from the recommendation: No deviations.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE PARTIES

The bank will place strong emphasis on transparency in relation to those who provide the bank with equity and funding, and those who have relations with the bank in other ways.

Sparebanken Sør has one equity certificate class and all equity certificate holders are treated equally. The bank follows the provisions of the Financial Institutions Act on restrictions in ownership and voting rights insofar as the provisions apply to savings bank with listed equity certificates. Existing equity certificates have preference in the event of increases in capital, unless special circumstances dictate that this is waived. The reasons for waiver will then be given and this will be published in a stock exchange report.

In cases where the bank conducts transactions in own equity certificates, these are done on the stock exchange.

Should significant transactions occur between the Sparebanken Sør Group and equity certificate holders, Board members, executive personnel or close associates of these, the Board of Directors shall ensure that a valuation has been made by an independent third party.

The bank is bound by the Stock Exchange's rules for reporting financial and other information to the market.

Deviations from the recommendation: No deviations.

FREE NEGOTIABILITY

Sparebanken Sør's equity certificate has been listed on Oslo Stock Exchange and is freely negotiable.

The only restriction is statutory requirements which currently determine that acquisition of a qualified share of the equity capital, of 10 per cent or more, requires consent from the Ministry of Finance.

Listing on the stock exchange ensures that the bank follows the market conditions which apply at any time in the equity market.

Deviations from the recommendation: No deviations.

THE BOARD OF TRUSTEES

A savings bank is basically an independent institution and management structure and the composition of the governing bodies differs from limited liability companies, to which bodies a savings bank shall have. Sparebanken Sør complies with the provisions in the Financial Institutions Act. This is believed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

The bank's highest governing body is the Board of Trustees, who shall ensure that the bank serves its purpose in accordance with the laws, articles of association and the Board of Trustees' resolutions. Significant traditional arrangements have been made in the composition of the Board of Trustees in the first two years, as part of the merger agreement. Up to 31 December 2015, the Board of Trustees is composed as follows:

- 14 representatives from the depositors
- 9 representatives from the authorities
- 12 representatives from the equity certificate holders
- 13 representatives from the employees

From and including 2016, the Board of Trustees will be composed of 28 members. 12 representatives from the depositors, 3 representatives from the authorities, 6 representatives from the equity certificate holders and 7 representatives from the employees. Arrangements have been approved that ensure a geographical distribution of the representatives from the market areas of the two banks.

Notice of the Board of Trustees' meetings will be sent with at least 21 days' notice. The Board of Trustees does not make decisions in other case than those specified in the notice of meeting.

The Board of Directors and auditor attend the Board of Trustees.

Deviations from the recommendation: No deviations.

NOMINATING COMMITTEES

In accordance with the bank's articles of association, 4 nominating committees are elected:

- One nominating committee with 8 members is elected from among the members of the Board of Trustees and shall have representatives from all groups represented in the Board of Trustees.
- One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- One nominating committee with 4 members is elected from among the equity certificate-elected members of the Board of Trustees.
- A nominating committee is appointed for the employee representatives comprising 6 members, of which 2 are from each of the merged banks and 2 are representatives of the management of the two banks. The nominating committee shall have an advisory function as regards the elections the employee shall hold for the Board of Trustees in the merged bank.

Members of the various nominating committees are published on the bank's website www.sor.no.

The work of the nominating committees

The Board of Trustees' nominating committee prepares election of the Chairman and Deputy Chairman of the Board of Trustees, the Chairman, Deputy Chairman and other members and deputy members of the Board of Directors, excluding the employees' representatives. Likewise, elections of the Chairman, members and deputy members of the Nominating Committee.

The reasons for the recommendations of the Board of Trustees, the depositor-elected, equity certificate-elected and employees' nominating committees shall be given.

Deviations from the recommendation: No deviations.

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1. Up to 31 December 2015, the Board of Directors was composed of 10 members elected by the Board of Trustees, including two members elected from the employees.

Starting with 2016, the Board of Directors will be composed of 7–8 members, of which at least two are from Vest-Agder, two from Aust-Agder and at least one from Telemark. Two members are also to be elected from the employees.

It has been agreed that representation from the merged banks shall also be balanced for a period of 4 years after the transition period.

Board members are elected for two years.

The composition of the Board has been based on expertise, capacity and diversity and on the banks' articles of association as regards geographical distribution.

The Board of Directors' independence

None of the bank's day-to-day management is a member of the Board of Directors.

The Board members' independence

All the Board of Trustees elected Board members are independent of executive personnel. The Board members are also independent of significant business connections.

Deviations from the recommendation: No deviations.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors manages the bank's operations and the work of the Board follows a fixed annual plan and instructions. The Board of Directors is responsible for ensuring that the funds they have been entrusted with are managed in a safe and appropriate manner. The Board of Directors shall ensure satisfactory organisation of the bank's operations, keep abreast of the bank's financial position and ensure that its operation, accounting and asset management are subject to satisfactory control.

The Board of Directors shall oversee the daily management and the bank's operations in general.

The Board of Directors shall ensure that the bank has good management and control systems in order to meet the provisions that apply to the business.

The Board of Directors conducts an annual self-assessment.

The Audit Committee

The Audit Committee has separate instructions adopted by the Board of Directors. The committee is a preparatory and advisory committee for the Board of Directors to strengthen the work on financial reporting and internal control. At least one of the committee's members will be independent and have qualifications (formal or total qualifications) in accounting and auditing.

The Audit Committee prepares the Board of Directors' follow-up of the account reporting process, monitors the internal control and risk management systems, has ongoing contact with the bank's independent auditors, and assesses and monitors auditor independence.

The Board of Directors elects 4 members of the committee from among the Board members, The Chairman of the Board is elected as Chairman of the Audit Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Risk Committee

The Risk Committee has separate instructions adopted by the Board of Directors. The Risk Committee is a preparatory and advisory committee to the Board of Directors and shall ensure that risk and capital management in the Group supports the Group's strategic development and achievement of objectives while ensuring financial stability and prudent asset management. The Risk Committee shall monitor the overall risk and assess whether the group's management and control systems have been adjusted to the risk level and the scope of the business.

The Board of Directors elects 4 members of the committee from among the Board members. The Chairman of the Board is elected as Chairman of the Risk Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee shall help the bank to reach its objectives and promote good management and control of the bank's risk, including ensuring that remuneration arrangements that do not encourage taking too high a risk. The committee shall also contribute to consistency between the bank's overall objectives, risk tolerance and long-term interests.

The committee prepares all cases relating to remuneration arrangements for the Board of Directors. The committee shall support the Board of Directors' work on determining and ensuring that the bank at any time has and practises the guidelines and frameworks for remuneration arrangements.

The bank has established a remuneration committee made up of 4 Board members. The Chairman of the Board is elected as Chairman of the Remuneration Committee.

The majority of the committee is, in accordance with NUES' recommendation, independent of the business.

RISK MANAGEMENT AND INTERNAL CONTROL

The bank has established a separate risk management committee and a separate risk management - and control division. In accordance with the act and regulations, and also internally adopted management, control and reporting procedures, there is clear division of responsibility between the various governing bodies in the bank. Key bodies are the Board of Trustees, Control Committee, the Board of Directors, external auditing, internal auditing, group management and risk management committee.

Control Committee

At the meeting on 13 January 2016, the Board of Trustees resolved to discontinue the control committee.

Internal audit

The bank's internal auditor reports to the Board of Directors and submits an annual report to the Board of Directors on completed audit projects. On behalf of the Board of Directors, the internal auditor shall ensure that adequate and efficient internal control and risk management has been established and implemented. Separate instructions have been prepared for the internal audit manager. The Board of Directors approves annually the internal audit's annual plan and resource requirements. The internal auditor may participate as an observer at the Board of Directors' meetings.

Internal control

The bank is keen to have good processes to ensure compliance with applicable laws and regulations. The bank has established a compliance functions that is attended to by Risk Management, organised independently of the business units. The compliance function ensures the practical implementation of the bank's internal control. The internal control includes the whole of the bank's operations.

Risk management and total capital ratio

Good risk and capital management is a key part of Sparebanken Sør's long-term value creation. The bank's overall objectives follow the strategic mission. The targeted return is decisive for the bank's activities and specification of targets. There is focus to ensure the bank's short and long-term competitive power. Sparebanken Sør's market and business objectives are balanced against the bank's risk capacity and willingness. Risk and capital assessments are an integral part of the bank's strategic and business processes.

The Board of Directors has adopted guidelines for the bank's capital assessment. A process is implemented annually related to the bank's risk and capital adequacy assessment (ICAAP). Thus, the Board of Directors ensures that the bank has capital that is adequate based on the desired risk and the bank's operations and ensures that the bank is adequately capitalised based on regulatory requirements. This is based on requirements set by the authorities and the banks own assessments.

The bank must adhere to the Financial Supervisory Authority of Norway's provisions for "Minimum total capital ratio requirement and provisions on major commitments with individual customers as regards the capital base".

Deviation from the recommendation: No deviations

REMUNERATION TO THE BOARD OF DIRECTORS

Directors' fees are determined by the Board of Trustees following a recommendation from the Nominating Committee. The size of the fees reflects the Board of Directors' responsibilities, expertise, time and the complexity of the business. The members of the board's sub-committee receive special compensation.

Deviation from the recommendation: No deviations.

REMUNERATION TO EXECUTIVE PERSONNEL

Remuneration to the CEO is determined by the Board of Directors. Remunerations to directors in the group management is determined by the CEO according to guidelines adopted by the Board of Directors following a recommendation from the Remuneration Committee. Remuneration to the internal audit manager is determined by the Board of Directors following a recommendation from the Remuneration Committee. None of the directors have performance-based remuneration beyond participating in the bank's ordinary bonus scheme, which includes all employees in the bank. The internal audit manager does not have performance-based remuneration and also does not participate in the bank's ordinary bonus scheme.

Deviation from the recommendation: No deviations.

INFORMATION AND COMMUNICATION

The bank shall have an open and active dialogue with all stakeholders. It is the intention of the bank that customers, equity certificate holders, lenders (financial market players) and public authorities shall have simultaneous access to correct, clear, relevant and complete information on the bank's strategies and financial objectives, development and financial situation.

Information to the market is communicated through quarterly stock exchange and press releases, own Investor Relations on the bank's website and accounting reports.

Deviation from the recommendation: No deviations.

COMPANY ACQUISITION

Sparebanken Sør is an independent institution that cannot be taken over by others through acquisition. The ownership structure is regulated by law and no one may own more than 10 per cent of the bank's equity capital. Acquisition exceeding this limit must be approved by the Financial Supervisory Authority of Norway.

Sparebankstiftelsen Sparebanken Sør has an ownership interest of 51 per cent of the equity certificates in the merged bank.

This is believed to be within the wording of the recommendation "to the extent appropriate to savings banks with listed equity certificates".

Deviation from the recommendation: No deviations.

EXTERNAL AUDITOR

An external auditor is chosen by the Board of Trustees and submits an annual auditor's report concerning the annual financial statements. The external auditor participates in the Board meeting that deals with the final annual financial statements. The external auditor also attends meetings with the Audit Committee and has an annual meeting with the Board of Directors without the administration present. The external auditor's fees are dealt with by the Board of Trustees when the annual financial statements are discussed. The relationship with the external auditor is also regulated in a separate engagement letter, which inter alia deals with the parties' responsibilities.

The Audit Committee shall monitor the auditor's independence, including any other services provided by the auditor.

Deviation from the recommendation: No deviations.

Declaration from the Board of Directors and CEO

Declaration in accordance with the Securities Trading Act, Paragraph § 5-5

The Board of Directors and Sparebanken Sør's Chief Executive Officer hereby confirm that the Bank and the Group's 2015 financial statements have been prepared in accordance with the currently valid accounting standards and that the information provided in the accounts gives a true and correct picture of the Bank's assets, liabilities, financial position and overall result.

In addition, we confirm that the annual accounts give a true and correct picture of the Bank's and the Group's development, result and financial position, together with a description of the most central risk- and uncertainty factors facing the Bank and the Group.

Kristiansand, 31 December 2015 / 3 March 2016

Stein A. Hannevik Chairman	Torstein Moland Deputy Chairman	Trond Bjørnenak	Inger Johansen	Siss Ågedal	Jill Akselsen
Marit Kittilsen	Erling Holm	Bente Pedersen	Per Adolf Bentsen		Geir Bergskaug CEO

Auditor's report for 2015

To the Board of Trustees of Sparebanken Sør

Independent auditor's report

Report on the Financial Statements

We have audited the accompanying financial statements of Sparebanken Sør, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2015, profit and loss account, other comprehensive income, equity statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Chief Executive Officer's Responsibility for the Financial Statements

The Board of Directors and the Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as the Board of Directors and the Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for the parent company and the group Sparebanken Sør as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report and in the statements on Corporate Governance and Social Responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information”, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company’s accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Kristiansand, 3 March 2016
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant (Norway)

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

The Control Committee's annual report for 2015

To Sparebanken Sør's Board of Trustees

THE CONTROL COMMITTEE'S ANNUAL REPORT FOR 2015

The Control Committee has, during the year, in accordance to current instruction monitored that Sparebanken Sør's operations have been conducted in compliance with the Savings Bank Act, the Bank's bylaws, the Board of Trustees' resolutions and other currently valid rules and regulations.

The Control Committee has examined the Bank's annual financial statements for 2015 and recommended that the prepared financial statements are adopted as the Bank's official accounts for 2015.

The Control Committee is of the opinion that the Board of Directors' assessment of the Bank's financial position is adequate.

Kristiansand, 4 March 2016

Dag Jørgen Hveem	Georg Fritzman	Yngvar Aulin	Sverre Irgens

Organisation

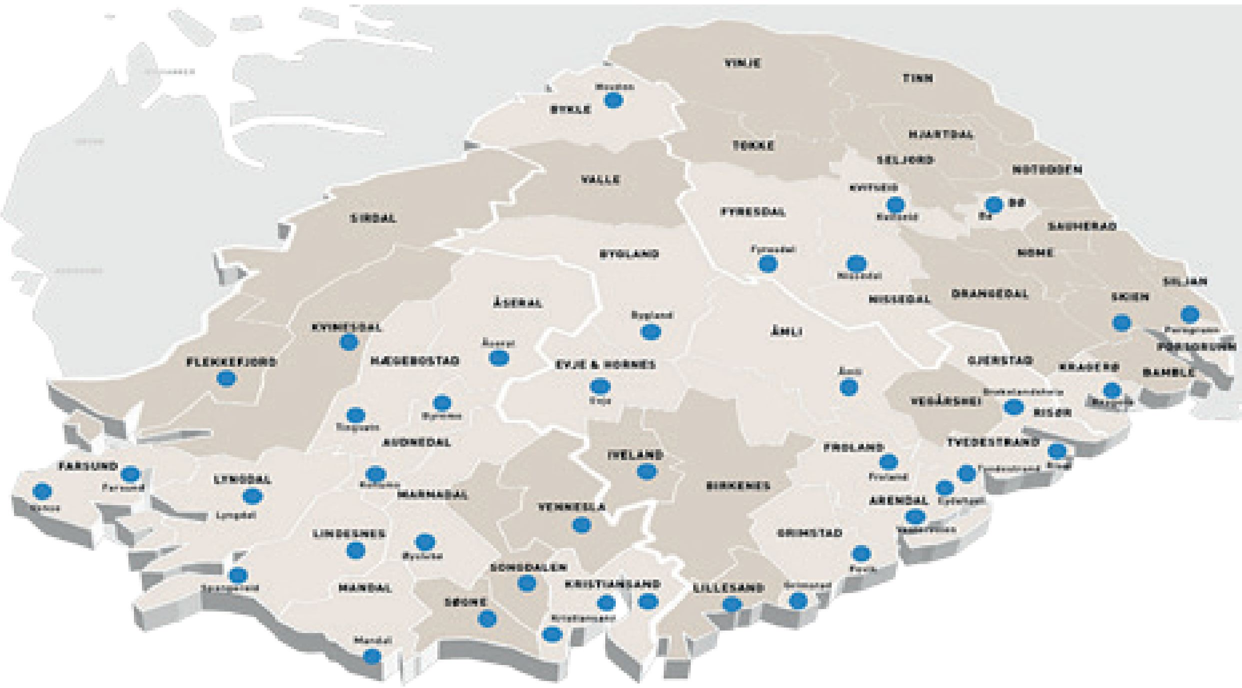
Board of Trustees

Board of Directors

CEO
Geir Bergskaug

Deputy CEO / Director Corporate market	**Director Retail banking**	**Director Capital market**	**Director Group support**	**Director Risk management**	**Director Business support**
Lasse Kvinlaug	Gunnar Thomassen	Marianne Lofthus	Rolf H. Søraker	Bjørn Friestad	Gry Moen

THE BANK'S BRANCHES



The Group Management

Geir Bergskaug (1960)

CEO from 1 January 2014. Former CEO of the "old" Sparebanken Sør from 1 November 2010. Worked in Gjensidige as Director and Executive Vice President (1999–2010), chairman of the board of Gjensidige Bank (2008–2010), General Manager / Director of DnB NOR (1988–1999). Master of Business and Economics from the Norwegian School of Economics and Business Administration. Additional education from Harvard Business School in Boston – GMP, INSEAD, Fontainebleau in France – MBA.

Lasse Kvinlaug (1961)

Deputy Chief Executive from 1 January 2014 and Corporate Market Director. Master of Business and Economics. Formerly worked in Sparebanken Pluss as Deputy Chief Executive, Director and General Manager (1997–2013). Also experience from Sparebanken NOR / Sparebanken ABC (1987–1997), as Assistant General Manager with responsibility for the corporate market in Kristiansand. Financial Consultant in Statoil (1984–87)

Marianne Lofthus (1961)

Capital Market Director from 1 January 2014 and General Manager of Sparebanken Sør Boligkreditt. Was CFO in Sparebanken Pluss (2003–2013) and has many years of experience from the financial operations in Sparebanken Pluss, Norsk Hydro and Sparebanken NOR. Master of Business and Economics from the Norwegian School of Economics and Business Administration.

Gunnar P. Thomassen (1965)

Retail Banking Market Director from 1 January 2014. Previously worked in Sparebanken Sør as director, regional director and bank manager (1999–2013) Also has experience from Ernst & Young Management Consulting and the Industrial Fund/SND Graduate engineer in Industrial Economics from the Norwegian University of Science and Technology.

The Group Management

Rolf H. Søraker (1960)

Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Was Managing Director of Sør Boligkreditt (2008–2013). Also has experience from the educational system and the Norwegian Armed Forces. Education from the Norwegian Armed Forces, Telemark University College and BI, Master of Management.

Bjørn A. Friestad (1959)

Risk Management Director from 1 January 2014. Was responsible for credit and business development in Sparebanken Plus (2001–2013). Has a wide range of experience from various business areas in Sparebanken Agder / Sparebanken Pluss since 1986. Master in Business and Economics and aut. financial analyst (AFA) from the Norwegian School of Economics and Business Administration.

Gry Moen (1963)

Business Development Director from 1 January 2014. Has also worked in "old" Sparebanken Sør as Business Development Director from 2011. Was General Manager of ABCenter Holding (2009–2010) and Marketing Director in Sparebanken Sør (2006–2009). Has previous experience from Statoil, Telenor and LOS / Agder Energi. Education from Trondheim Business College / Ecôle Superiéure de Commerce Grenobles/Nantes.

SPAREBANKEN SØR

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