

QUARTER 4
2015
(UNAUDITED)



SPAREBANKEN SØR

Contents

Information	2
Key figures Group	3
Report from the Board of Directors	4
Income Statement	10
Balance sheet	11
Cash flow statement	12
Equity statement	13
Notes	14
Risk and Capital management	22
Quarterly profit trend	23

Information

The merger between Sparebanken Pluss and Sparebanken Sør complies with the rules set out in IFRS 3 and has been executed as a transaction. Sparebanken Sør's net assets have been recognised in Sparebanken Pluss' balance sheet as at 1 January 2014. Negative goodwill has arisen as a result 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 recognised in its entirety immediately after the merger was completed and transferred directly to the dividend equalisation fund. (See note about the merger of the business). Negative goodwill has been excluded from both the actual accounting figures and the comparative figures.

(all key figures 2014 are excluding negative goodwill)

Income statement (NOK million)	Q4 2015	Q4 2014	31.12.2015	31.12.2014
Net interest income	386	375	1 521	1 511
Net commission income	73	78	300	284
Net income from financial instruments	1	18	-66	184
Other operating income	0	9	14	23
Total net income	460	480	1 769	2 002
Total expenses	210	220	817	834
Profit before losses on loans	250	260	952	1 168
Losses on loans and guarantees	48	19	97	268
Profit before taxes	202	241	855	900
Tax expenses	53	57	231	215
Profit for the period	149	184	624	685
Income statement as percentage of average assets				
Net interest income	1.53 %	1.59 %	1.55 %	1.60 %
Net commission income	0.29 %	0.33 %	0.31 %	0.30 %
Net income from financial instruments	0.00 %	0.08 %	-0.07 %	0.20 %
Other operating income	0.00 %	0.04 %	0.01 %	0.02 %
Total net income	1.82 %	2.03 %	1.81 %	2.12 %
Total expenses	0.83 %	0.93 %	0.83 %	0.88 %
Profit before losses on loans	0.99 %	1.10 %	0.97 %	1.24 %
Losses on loans and guarantees	0.19 %	0.08 %	0.10 %	0.28 %
Profit before taxes	0.80 %	1.02 %	0.87 %	0.96 %
Tax expenses	0.21 %	0.24 %	0.24 %	0.23 %
Profit for the period	0.59 %	0.78 %	0.64 %	0.73 %
Average total assets	100 400	93 700	98 000	94 300
Balance sheet				
Total assets			101 334	94 062
Net loans to customers			88 387	80 913
Grows in loans as %, last 12 mths.			9.2 %	4.5 %
Customers deposits			48 349	48 250
Growth in deposits as %, last 12 mths.			0.2 %	10.3 %
Deposits as % of net loans			54.7 %	59.6 %
Equity			7 753	7 157
Losses on loans as % of net loans, annualised			0.11 %	0.33 %
Gross defaulted loans over 90 days as % of gross loans			0.47 %	0.71 %
Other key figures				
Cost as % of income			46.2 %	41.7 %
Cost as % of income, ex net income from financial instruments			44.5 %	45.9 %
Return on equity after tax			8.4 %	10.1 %
Liquidity reserve (LCR) (Group)			108 %	
Core tier 1 capital ratio (added share of profit)			12.7 %	13.1 %
Core capital ratio			13.5 %	14.4 %
Total capital ratio			15.5 %	15.1 %
Core tier 1 capital			7 700	7 092
Core capital			8 210	7 792
Net total primary capital			9 388	8 170
Number of branches			40	40
Number of man-years in banking activity			449	454
Key figures, Equity certificates				
Equity certificate ratio			13.5 %	14.1 %
Number of equity certificates issued			4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)			10.8	12.2
Profit/diluted earnings per equity certificate (Group)			17.6	20.3
Proposed dividend/dividend last year per equity certificate			9.0	10.0
Book equity per equity certificate			219	212
Price/Book value per equity certificate			0.6	0.9
Listed price on Oslo Stock Exchange at end of period			139	196

General

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

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

Key features in Q4 2015

- Sound growth contributes to higher net interest income and a satisfactory result from ordinary operations
- Net income from financial instruments reduced due to write-down of liquidity portfolio
- Good cost trend
- Moderate losses on loans

Profit before tax of NOK 202 million in the Q4 2015, compared with NOK 241 million in the Q4 2014.

Key features 2015

- Positive trend in result from ordinary operations
- Higher net interest income through volume growth
- Higher net commission income
- Net income from financial instruments reduced due to write-down of liquidity portfolio
- Operating costs in the bank have been cut by 3.7 per cent
- Low losses on loans
- Loan growth of 9.2 per cent, and deposit growth of 0.2 per cent
- Return on equity after tax of 8.4 per cent
- The Board of Directors will propose to the bank's Board of Trustees distribution of dividend for 2015 of NOK 9.00 per equity certificate, which is equivalent to 50 per cent of the profit per equity certificate

Profit before tax was NOK 855 million in 2015, compared with NOK 900 million in 2014.

Financial framework conditions

Norges Bank decided to keep its key interest rate unchanged in December 2015, at a historically low 0.75 per cent. There has been a tightening in the conditions in the financial markets through higher spreads.

Annual growth in the general public's gross domestic debt (C2) at the end of December was 5.3 per cent. Debt growth for households and industry amounted to 6.2 per cent and 3.2 per cent respectively.

Income statement

Profit before tax was NOK 202 million in the Q4 2015, compared with NOK 241 million in the same period in 2014. The decline was mainly due to lower income from financial instruments and higher losses on loans.

Profit before tax was NOK 855 million in 2015, compared with NOK 900 million in 2014, adjusted for negative goodwill.

The development in profit before tax, ex. net income from financial instruments and losses, shows an improvement of NOK 34 million in 2015.

In 2015 return on equity after tax was 8.4 per cent, compared with 10.1 per cent in 2014.

Net interest

Net interest per quarter in NOK million



In 2015, net interest income amounted to NOK 1 521 million, compared with NOK 1 511 million 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 bank is considered to have competitive terms, and the influx of new customers is satisfactory.

Net interest income in the quarter totalled NOK 386 million, compared with NOK 375 million in the same period in 2014.

As a result of higher borrowing costs in the second half of 2015 and increased capital requirements, in December the bank notified of higher interest rates and margins on loans to the Corporate Market.

Commission income

NOK million	Q4 2015	Q4 2014	Changes	2015	2014	Changes
Payment transfers	43	44	-1	163	162	1
Real estate agency	20	21	-1	100	84	16
Other product companies	23	25	-2	84	85	-1
Total	86	90	-4	347	331	16

Gross commission income totalled NOK 347 million in 2015, compared with NOK 331 million in 2014. The increase is mainly due to increased activity in the estate agency business.

Financial instruments

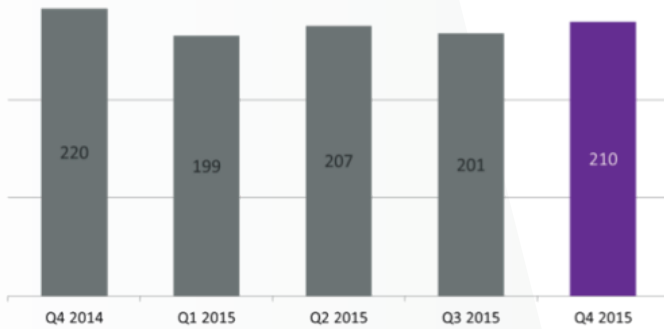
Net income on financial investments was minus NOK 66 million in 2015, compared with NOK 184 million in 2014. In line with regulatory requirements, the bank maintains a significant liquidity portfolio. The portfolio is measured at fair value. The credit spreads are higher in 2015 due to turmoil in the financial markets, which has had a negative impact on earnings. This is the main reason why net income from financial instruments was negative in 2015. In addition, the 2014 figures were impacted by the sale of the ownership interest in Nets, which alone accounted for a profit of NOK 71 million.

In the 4th quarter of 2015, the bank adjusted upward the value of its ownership interest in Visa Norge FLI by NOK 45 million. This was the result of an agreement whereby Visa Inc. acquires all the shares in Visa Europe, where Visa Norge is a member.

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

Operating expenses

Operating expenses per quarter in NOK million



Total operating expenses amounted to NOK 817 million in 2015, compared with NOK 834 million in 2014. The reduction in operating expenses was 2 per cent.

For the banking operations alone, expenses amounted to NOK 732 million, compared with NOK 760 million in 2014. The reduction in expenses was NOK 28 million or 3.7 per cent.

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. Meanwhile, the bank is making ongoing adjustments to its IT platform to meet changes in customer behaviour. The bank’s digitization process, which will ensure future cost-effectiveness, on its own contributes to increased costs in the quarter.

Total operating expenses as a percentage of average assets amounted to 0.83 per cent (0.88 per cent). The ratio between expenses and income in the Group was 46.2 per cent in 2015 (41.7 per cent). The increase in cost percentage is due to lower income from financial instruments. The ratio between expenses and income, ex. financial instruments, was 44.5 per cent (45.9 per cent).

Losses and defaulted loans

Losses on loans were charged to the financial statements with the net amount of NOK 97 million, included an increase in collective write-downs of NOK 12 million, equivalent to 0.11 per cent of net loans. The corresponding figures in 2014 were NOK 268 million and 0.33 per cent of net loans.

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 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, the corresponding figure in 2014 was 0.71 per cent.

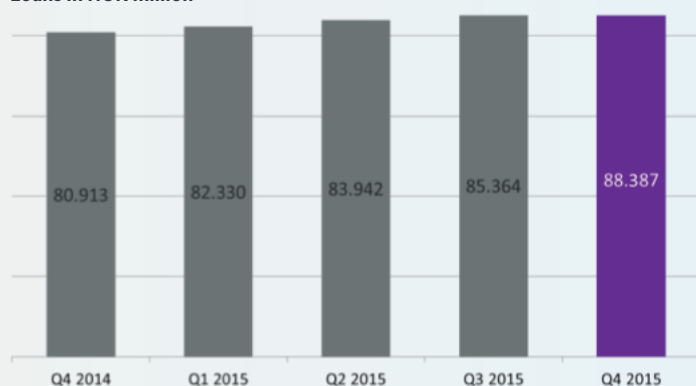
Loans

During the past 12 months, net loans increased by NOK 7.5 billion, to NOK 88.4 billion. This corresponds to a growth of 9.2 per cent.

Gross loan to retail customers has increased by NOK 4.1 billion to NOK 58.2 billion. This corresponds to a growth of 7.7 per cent.

Gross loan to corporate customers has increased by NOK 3.4 billion to NOK 30.7 billion. This corresponds to a growth of 12.2 per cent. In the 4th quarter of 2015, lending growth was high. However, this is a desired growth related to loans to strategically important customers and contributes to lower risk and a more diversified portfolio. The bank will have a low and adjust growth in 2016 to meet the targets for core tier 1 capital.

Loans to retail customers amounted to 65 per cent (66 per cent) of total loans at the end of 2015.

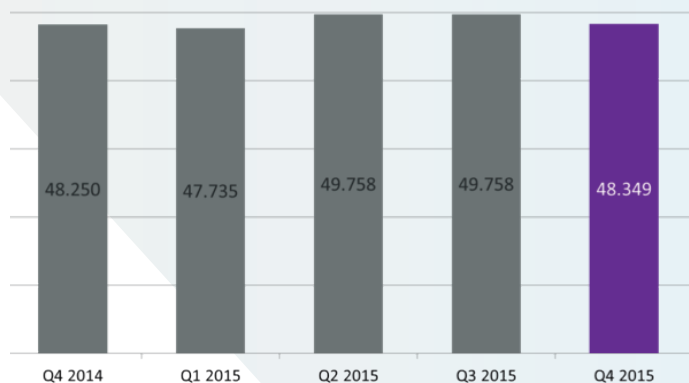
Loans in NOK million**Deposits**

During the past 12 months, customer deposits increased by NOK 0.1 billions to NOK 48.3 billion. This corresponds to a growth of 0.2 per cent.

Deposits from retail customers has increased by NOK 0.6 billion to NOK 23.9 billion. This corresponds to a growth of 2.7 per cent.

Deposits from corporate customers has decreased by NOK 0.5 billion to NOK 24.5 billion. This corresponds to a reduction of 2.1 per cent.

Sparebanken Sør's deposit as a percentage of net loans was 54.7 per cent as at 31 December 2015, down from 59.6 per cent for the same period the year before. In 2015, the deposit-to-loan ratio fell, due to strong lending growth in the 4th quarter, combined with low deposit growth. The bank aims to strengthen the deposit-to-loan ratio in 2016.

Deposits in NOK million**Financing and securities**

The bank's liquidity situation is very satisfactory. The liquidity buffers are adequate and the maturity structure for borrowings is well-adjusted to the needs of the business. New long-term borrowings are established through the issuing of covered bonds and senior debt.

As at 31 December 2015, the portfolio of interest-bearing securities in the Group totalled NOK 10.6 billion, and the liquidity indicator for long-term financing was 106 per cent.

The Group's liquidity reserves (LCR) were 108 per cent as at 31 December 2015 (71 per cent in the parent bank).

Primary capital and capital adequacy

Net primary capital amounted to NOK 9.4 billion. 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 12.6 per cent core tier 1 capital, 13.5 per cent core capital ratio and 15.7 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.

The bank's equity certificates

As at 31 December 2015, 4 768 674 equity certificates have been issued. The profit (Group) per equity certificate was in 2015 NOK 17.6 per certificate.

Dividend

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

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

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

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

The Board of Directors will propose to the bank's Board of Trustees to distribute a dividend for 2015 of NOK 9.00 per equity certificate, which is equivalent to 50 per cent of the Group's profit per equity certificate.

Subsidiaries and collaborating companies

Sørmegleren, the bank's own estate agency, has now operated in two years after the merger between ABCenter and Plussmegleren was completed. Since its establishment on 1 January 2014, Sørmegleren has become the leading estate agency business in the Agder counties and in 2015, has had a positive trend.

Sparebanken Sør Boligkreditt AS, the Bank's wholly owned subsidiary, is licensed to issue covered bonds and is used as an instrument in the bank's long-term funding strategy. As at 31 December 2015, the bank had transferred NOK 25.7 billion to Sparebanken Sør Boligkreditt AS, equivalent to 44.2 per cent of all loans to the retail market.

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

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

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

Rating

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

Outlook

The Board of Directors is satisfied with the financial performance after the fourth quarter of 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 international market situation impacted the Norwegian money - and capital market, which was also impacted by the fall in 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 via covered bonds increased significantly during the autumn. 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.

Events since the end of the quarter

There have been no events reported after 31 December 2015 which affect the presented preliminary annual accounts.

Kristiansand, 10 February 2016

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

Income statement

PARENT BANK				NOK million		GROUP			
31.12.	31.12.	Q4	Q4			Q4	Q4	31.12.	31.12.
2014	2015	2014	2015		Notes	2015	2014	2015	2014
2 798	2 390	683	560	Interest income		738	877	3 119	3 593
1 714	1 252	407	267	Interest expenses		352	502	1 598	2 082
1 084	1 138	276	293	Net interest income		386	375	1 521	1 511
284	297	79	79	Commission income		86	90	347	331
46	47	12	13	Commission expenses		13	12	47	47
238	250	67	66	Net commission income		73	78	300	284
11	9	2		Dividend			2	3	11
204	-74	26	-13	Net income from other financial instruments		1	16	-69	173
215	-65	28	-13	Net income from financial instruments		1	18	-66	184
15	15	4	3	Other operating income		0	9	14	23
1 552	1 338	375	349	Total net income		460	480	1 769	2 002
380	389	97	102	Wages and other personal expenses		118	113	458	438
48	36	23	11	Depreciation and write-down of fixed assets and intangible assets		12	24	37	52
-200				Negative goodwill	13				-200
332	307	81	81	Other operating expenses		80	83	322	344
560	732	201	194	Total operating expenses		210	220	817	634
992	606	174	155	Profit before losses on loans		250	260	952	1 368
268	97	19	48	Losses on loans and guarantees	2	48	19	97	268
724	509	155	107	Profit before taxes		7	202	855	1 100
113	136	32	27	Tax expenses	12	53	57	231	215
611	373	123	80	Profit for the period		149	184	624	885
				Minority interests		2		2	
611	373	123	80	Majority interests		147	184	622	885
12.2	10.6	3.6	2.3	The equity certificates' share of the profit divided by the number of equity certificates (in whole NOK)		4.2	5.4	17.6	20.3
				Other comprehensive income					
611	373	123	80	Profit for the period		149	184	624	885
				<i>Items that will not be reclassified to profit and loss account</i>					
-127	59	-127	59	Recognised estimate deviation, pensions		59	-127	59	-127
34	-15	34	-15	Tax effect of recognised estimate deviation, pensions		-15	34	-15	34
518	417	30	124	Total income for the period		193	91	668	792

PARENT BANK		NOK million		GROUP	
31.12. 2014	31.12. 2015			31.12. 2015	31.12. 2014
			Assets	Notes	
595	332		Cash and receivables from central banks		332 595
1 510	2 017		Loans to and receivables from credit institutions		157 180
60 880	62 744		Net loans to customers	2,3,5,7,8	88 387 80 913
10 059	10 456		Bonds and certificates	8	10 557 10 359
445	487		Shares	8	487 445
751	659		Financial derivatives	8,9	813 906
1 258	1 259		Shareholdings in group companies		
12	13		Shareholdings in associated companies		13 12
17	10		Intangible assets		13 20
11	3		Deferred tax assets		8 17
477	438		Fixed assets		479 505
71	61		Other assets		88 110
76 086	78 479		TOTAL ASSETS	7,8	101 334 94 062
			LIABILITIES AND EQUITY CAPITAL		
627	626		Debts to credit institutions		576 614
48 269	48 377		Deposits from customers	4,7,8	48 349 48 250
18 414	19 865		Debt incurred due to issue of securities	8,10	41 899 35 775
517	411		Financial derivatives	8,9	413 521
83	151		Payable taxes		245 178
194	188		Other liabilities		229 231
236	160		Provisions for commitments		160 236
1 100	1 710		Subordinated loan capital	8,10	1 710 1 100
69 440	71 488		Total liabilities		93 581 86 905
891	897		Equity certificate capital	11	897 891
5 755	6 094		Other equity		6 856 6 266
6 646	6 991		Total equity capital	6	7 753 7 157
76 086	78 479		TOTAL LIABILITIES AND EQUITY CAPITAL	7,8	101 334 94 062

Cash flow statement

PARENT BANK		NOK million	GROUP	
31.12. 2014	31.12. 2015		31.12. 2015	31.12. 2014
2 791	2 414	Interest payment received	3 142	3 575
-1 774	-1 319	Interest payment made	-1 669	-2 147
399	285	Other payments received	341	435
-695	-722	Operating payments	-800	-784
5	6	Recoveries on confirmed losses	6	5
-135	-69	Period 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 sale 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 equivalents as at 01.01.	595	1 721
595	332	Cash and cash equivalents at end of period	332	595

GROUP			Dividend					
NOK million	Equity	Premium	equalisation-	Primary	Gift	Other	Minority	TOTAL
	certificates	fund	fund	capital	fund	equity	interests	
Balance 1.1.2014	474	175	45	5 418	45	254	7	6 418
Dividend distributed 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 distributed for 2014						-47		-47
Profit 2015						622	2	624
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	248	5 705	16	1 133	2	7 753
PARENT BANK								
Balance 1.1.2014	474	175	45	5 418	45	13		6 170
Dividend distributed 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 distributed for 2014						-47		-47
Profit 2015						373		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	248	5 705	16	373	0	6 991

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRS), including IAS 34.

The accounting principles are the same as those used in the 2014 annual financial statements.

New standards applicable for 2015 have had no effect on the financial statements.

2. LOSSES ON LOANS AND GUARANTEES

PARENT BANK		NOK million	GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
		Individual write-downs		
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-down 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 end of period	517	521

PARENT BANK			GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
		Collective write-downs on loans		
92	92	Collective write-downs of loans at start of period	92	92
96	96	Collective write-downs of loans identified in connection with merger	102	102
0	12	+ Change in collective write-downs during the period	12	0
188	200	= Collective write-downs of loans at end of period	206	194

PARENT BANK			GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
		Loss expense on loans during the period		
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-downs has been performed previously	85	142
55	8	+ Period's confirmed loss where no individual write-downs has been performed previously	8	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 guaranties	-3	0
268	97	= Loss expenses during the period	97	268

3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK		NOK million	GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
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	Defaulted loans	542	781
180	142	Individual write-downs	142	180
602	400	Net defaulted loans	400	602
0.94 %	0.66 %	Gross defaulted loans > 90 days in % of gross loans	0.47 %	0.71 %
870	778	Other doubtful loans	778	870
341	376	Individual write-downs	376	341
529	402	Net doubtful loans	402	529

A defaulted loan is the sum of a customer's total loan amount if part of the loan has been overdrawn or has arrears exceeding NOK 1,000 for more than 30 days.

4. CUSTOMERS DEPOSITS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
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 interests	8	13
48 269	48 377	Total deposits from customers	48 349	48 250

5. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK		NOK million	GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
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 interests	147	168
61 589	63 462	Total gross loans	89 111	81 628
709	718	Write-downs on lending	724	715
60 880	62 744	Total net loans	88 387	80 913

6. PRIMARY CAPITAL AND CAPITAL ADEQUACY

PARENT BANK		NOK million	GROUP	
31.12.14	31.12.15		31.12.15	31.12.14
474	474	Equity certificate	474	474
175	175	Premium fund	175	175
5 667	5 705	Primary capital	5 705	5 667
41	16	Gift fund	16	41
242	248	Equalisation fund	248	242
47	373	Other equity	1 135	558
-48	-43	- Deduction for dividends included under other equity	-43	-48
-17	-10	- Deduction 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	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 core and 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	Engagement with mass market	530	947
1 087	2 744	Engagement secured in property	3 501	1 618
91	71	Engagement which have fallen due	72	91
0	0	Engagement which are high risk	0	0
200	237	Engagement in covered bonds	62	62
0	137	Engagement in collective investment funds	37	0
62	51	Engagement, 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 %

7. SEGMENT REPORTING

Report per segment	Group 31.12.2015				Group 31.12.2014			
	RM	Undistrib.		Total	RM	Undistrib.		Total
Income statement (NOK million)	RM	CM	and elimin.	Total	RM	CM	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
Operating expenses	354	87	376	817	352	91	191	634
Profit before losses	780	506	-334	952	770	481	117	1 368
Losses on loans and guarantees	6	80	12	97	9	259	0	268
Profit before tax	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	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	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	58 113	30 090	13 131	101 334	53 913	26 876	13 273	94 062

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

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

Level 2:

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

Level 3:

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

For a more detailed description, see Note 21 Fair value of financial instruments in the 2014 annual financial statements.

Notes

PARENT BANK				NOK Million	GROUP			
Recognised value	Fair value			31.12.2015	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
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 amortised cost								
8 290			8 290	Net loans to customers (fixed interest rate)	8 290			8 290
10 456		10 456		Bonds and certificates	10 557		10 557	
487	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	Deposits 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				NOK Million	GROUP			
Recognised value	Fair value			31.12.2014	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
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 amortised cost								
6 769			6 769	Net loans to customers (fixed 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	Deposits 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

Movement level 3

GROUP / PARENT BANK

NOK million	Loans to customers	Of which credit risk	Shares	Of which credit risk
Recognised value as at 01.01.2014	5 473	-105	92	0
Acquisitions 2014 (incl. acquisitions 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
Disposals 2014	-1 588		-322	
Recognised value as at 31.12.2014	6 769	-110	394	0
Acquisitions 2015	3 030		9	
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	25	47	67	0
Disposals 2015	-1 534		-6	
Recognised value as at 31.12.2015	8 290	-62	464	0

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	31.12.2015	31.12.2014
Loans to customers	27	22
- of which, loans to corporate market (CM)	8	9
- of which, loans to retail market (RM)	19	13

9. OFFSETTING

NOK million	GROUP			
	31.12.2015	31.12.2015 (1) presented net	31.12.2014	31.12.2014 (1) presented net
Assets				
Financial derivatives	813	485	906	478
Liabilities				
Financial derivatives	413	85	521	93
NOK million	PARENT BANK			
	31.12.2015	31.12.2015 (1) presented net	31.12.2014	31.12.2014 (1) presented net
Assets				
Financial derivatives	659	333	751	327
Liabilities				
Financial derivatives	411	85	517	93

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

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

10. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities – Parent bank

NOK million	31.12.2015	31.12.2014
Bonds, nominal value	19 215	17 587
Value adjustments	382	542
Accrued interest	269	285
Debt incurred 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 adjustments	542			-160	382
Accrued interest	285			-16	269
Debt incurred due to issue of securities	18 414	8 720	-7 093	-176	19 865

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
Debt incurred 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 adjustments	692			-245	447
Accrued interest	335			-19	316
Debt incurred 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 adjustments	0				0
Total subordinated loan capital	1 100	1 510	-900	0	1 710

11. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as at 31.12.2015.

	NUMBER	SHARE OF		NUMBER	SHARE OF
NAME	OF EC	EC-CAP.%	NAME	OF EC	EC-CAP.%
1. Sparebankstiftelsen Sparebanken Sør	2 432 024	51.00	11. Wenaasgruppen AS	53 760	1.13
2. Holta Invest AS	134 410	2.82	12. NorgesInvestor Proto AS	48 604	1.02
3. Arendal Kom. Pensjonskasse	130 000	2.73	13. Bergen Kom. Pensjonskasse	46 880	0.98
4. EIKA utbytte VPF	126 223	2.65	14. Allumgården	45 179	0.95
5. Pareto AS	124 150	2.60	15. Sparebanken Vest	45 000	0.94
6. Glastad Invest AS	100 000	2.10	16. Gumpen Bileiendom AS	40 730	0.85
7. SEB London branch	80 650	1.69	17. Brøvig Holding AS	34 800	0.73
8. Sparebankstiftelsen DNB	62 300	1.31	18. Varodd AS	32 800	0.69
9. MP Pensjon PK	56 900	1.19	19. Sparebanken Sør	31 600	0.66
10. Gustav Pedersen AS	53 760	1.13	20. Wenaas Kapital AS	26 880	0.56
Total - 10 largest owners	3 300 417	69.21	Total - 20 largest owners	3 706 650	77.73

As at 31.12.2015, Sparebanken Sør owns 31 600 of its own equity certificates. Equity certificate ratio as at 01.01.2015 was 13.5 %.

As at 31.12.2015, equity certificate capital was NOK 476 867 400 divided between 4 768 674 equity certificates with a nominal value of NOK 100.

12. TAX EXPENSES

The ordinary tax rate of 27 % is used for calculation of payable tax. Deferred tax assets as at 31.12.2015 are calculated at tax rate of 25 %.

13. MERGER OF BUSINESS

Sparebanken Pluss and Sparebanken Sør merged with effect from 1 January 2014. Sparebanken Pluss was the acquiring bank in the merger and was renamed Sparebanken Sør. Negative goodwill has arisen as a result 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 recognised in its entirety immediately after the merger was completed and transferred directly to the dividend equalization fund.

Risk and Capital management

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

Credit risk

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

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

Market risk

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

Liquidity risk

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

Operational risk

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

Business risk

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

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

GROUP					
NOK million	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Net interest income	386	387	381	367	375
Net commission income	73	80	79	68	78
Net income from financial instruments	1	-104	8	29	18
Other operating income		8	3	3	9
Total net income	460	371	471	467	480
Total operating expenses	210	201	207	199	220
Profit before losses	250	170	264	268	260
Losses on loans and guarantees	48	17	18	14	19
Profit before taxes	202	153	246	254	241
Tax expenses	53	42	67	69	57
Profit for the period	149	111	179	185	184

GROUP					
% of average assets	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Net interest income	1.53	1.55	1.57	1.57	1.59
Net commission income	0.29	0.32	0.33	0.29	0.33
Net income from financial instruments	0	-0.42	0.03	0.12	0.08
Other operating income	0	0.03	0.01	0.01	0.04
Total net income	1.82	1.48	1.94	1.99	2.04
Total operating expenses	0.83	0.80	0.85	0.85	0.93
Profit before losses	0.99	0.68	1.09	1.14	1.11
Losses on loans and guarantees	0.19	0.07	0.07	0.06	0.08
Profit before taxes	0.80	0.61	1.02	1.08	1.03
Tax expenses	0.21	0.17	0.28	0.29	0.24
Profit for the period	0.59	0.44	0.74	0.79	0.79

SPAREBANKEN SØR

