2014 ANNUAL REPORT

(This translation from Norwegian has been prepared for information purposes only.)

SPAREBANKEN SØR

Content

The year 2014

ONE BANK

1 January 2014 was the beginning of a new era in the history of the bank. Two traditional and well-run banks merged, one with a history dating back to 1824 in Kristiansand and the other from 1825 in Arendal. Two complementary banks, with different perspectives and strengths, merged together. Two banks, which individually delivered historically good results in 2013 and in so doing, showed that they could maintain a steady course on their own, but which nevertheless became one bank.

Our first year of operation is now behind us and we are satisfied with the presented financial statements. The result has been achieved by almost 500 employees, who through the whole of 2014 have worked hard in the customers and region's best interests. We have had one clear aim from the outset and that is to be the bank for our region. This is expressed through our powerful ambition which says that we will;

- Contribute to further growth and development in the region through developing a large and energetic bank that focuses on the region and is regional.
- Create a new financial centre in the region with capacity, risk diversification, competitive power and profitability.
- Develop a new bank that is better equipped to manage changed framework conditions and regulatory requirements.
- Be a bank with a complete office network providing customer proximity and competitive advantages.
- Create one of the region's most attractive workplaces, with significant expertise and room for specialisation.

No other bank is better placed to deliver in accordance with this ambition.

The foundation for the result in 2014 was laid through systematic work that got underway in 2013. The management team was established at an early stage, which has enabled them to start the preparations in good time before the merger. Furthermore, all personnel were briefed on their tasks, workplace and immediate superior in good time before the year-end. A few, dedicated personnel were involved in the merger work, which ensured that the vast majority could focus on following-up our customers. This meant that the bank was ready to start a new era at the beginning of 2014.

The reason for the merger was an assumption that we should build on the best of both banks, and creating a winning team from two former competitors has had top priority. Therefore, in the first months of the year we developed a new corporate identity that everyone could identify with and established a common understanding of perspective and direction for the way forward. Even though from the outside and individually we knew each other's strengths, since the merger we have become even more certain that two complementary banks have become one. If we add to that the authorities' regulatory requirements and that the need to invest in technology also favours larger units, we have established a bank that is well equipped to meet the challenges of tomorrow.

In the first half-year, the most important prerequisites were in place. IT systems were integrated and linked, the bank established a common product structure and employees have moved together into joint offices. A new corporate identity was rolled out in all offices and digital media. In 2014, the bank has renewed and strengthened its commitment to local sports teams and through agreements with Team Sparebanken Sør cycle team, Start football club and ØIF Arendal handball club, the bank received more media coverage than the major national banks. This underlines our ambition to be a bank for the region.

The merged bank has reinforced its position as the regional bank for Agder and Telemark. Despite all the work involved in the merger, the bank has experienced growth, both in the retail banking and corporate market. Competition for mortgage customers has been strong through the year and all banks have found it necessary to cut lending rates to maintain market shares. Competition is also strong in the corporate market, but Sparebanken Sør is competitive. The bank has also received renewed trust as a business partner for Kristen-Norges Innkjøpsfellesskap (KNIF).

Sparebanken Sør will continue to be competitive in the future. An essential element will be cost efficiency and through 2014, the bank has realised a significant portion of the gains arising from the merger. Through natural attrition, partly as a result of age structure, the workforce has been reduced from 520 to 454 FTEs since the idea of a merger was introduced. This, together with the fact that the costs related to the merger have been recognised in 2014, gives the bank the best starting point for future cost-effective operations.

With 2014 behind us, we can say with certainty that implementation of the merger has gone according to plan and the positive effects have begun to materialise. New Sparebank Sør has had a very satisfactory first year of operation. The bank has presented a sound financial result, positively impacted by the income and cost trends and negatively by loss provisions the bank made in 3Q. With the transactions the bank has made in 2014 it is well positioned to face a somewhat more uncertain situation in 2015. The foundation for the new bank has been laid and we are looking forward to contributing to further growth and development in the region.

Geir Bergskaug
CEO Sparebanken Sør

Report of the Board of Directors

THE NATURE OF THE BUSINESS ACTIVITY

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.

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 mortgaging through wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The bank has 40 branch offices and the head office is located in Kristiansand.

FRAMEWORK CONDITIONS 2014

The merger

During 2014, a considerable amount of work went into implementing the merger and ensuring good integration. The merged bank has reinforced its position as the regional bank for Agder and Telemark. The merger has gone as planned and the positive effects of the merger are beginning to materialise. Colocation of bank employees has been completed and realisation of merger benefits is happening faster than anticipated. Most of the work on the merger is now considered to have been completed.

Weaker growth

On the whole, there has been a weak downward trend in credit growth from 2013 and through 2014. Households and non-financial enterprises have reduced their debt growth in this period. For households, growth has fallen from around 7 per cent on an annual basis down toward 6 per cent. Non-financial enterprises have reduced credit growth from around 4 per cent to around 3 per cent. In the bank's market area, growth has been lower and the last available statistics for the region indicate a lending growth of 3.9 per cent in total, and 5.2 and 1.2 per cent for households and non-financial enterprises respectively.

The key interest rate

Weaker growth and low interest rates among our most important trading partners and also a significant fall in the oil price and an anticipated decline in oil investments are factors that have impacted the business world in 2014. At the last monetary meeting in 2014, the executive board of Norges Bank cut the key interest rate by 0.25 percentage points to 1.25 per cent. This was the first adjustment in the interest rate since March 2012. Due to the market situation, Sparebanken Sør also cut its interest rates.

BUSINESS SEGMENTS

Retail banking market

The retail banking market is the largest organisational unit in the bank, with around 300 employees. Through 2014, the work in the division has been characterised by the merger. In addition to organisational adjustment, including physical colocation in Mandal, Kristiansand, Grimstad and Arendal, new systems and routines have been adopted and new products launched. The work through the merger year has developed a positive organisation characterised by good cooperation and adaptability.

The bank has a strong market position in the retail banking market. The digital surfaces have to an increasing extent characterised the bank's communication and sales channels. Use of self-service solutions on mobile phones and the Internet has grown rapidly and customer service has had an influx of inquiries via electronic channels in addition to the traditional switchboard service. The digital surfaces, customer service and the bank's wide distribution network have together formed a complete consultancy and service option to our customers.

In 2014, the retail banking market has had good growth in the savings and investment sector. Deposits have increased by 11.2 per cent to NOK 23.2 billion and at year-end were around 48 per cent of the bank's total deposits.

Lending growth, including loans transferred to Sparebanken Sør Boligkreditt AS has been at 4.5 per cent and at year-end, loans totalled NOK 54.1 billion. This was around 66 per cent of the bank's total loans. In 2014, there has been a steady increase in sales of insurance, card and investment products.

Corporate market

The merged bank has been well-received by businesses in the region. Through the merger, the bank has reinforced its position as a regional bank for Agder and Telemark. This is due to a doubling of the bank's financial capacity and a strengthening of the expertise in the corporate market. The bank has emerged as a natural first choice for businesses in large parts of the bank's area of operations.

The bank has had very good growth in deposits in the corporate market. Deposits have increased by 9.7 per cent to NOK 25 billion, and were around 52 per cent of the bank's total deposits at year-end.

Lending growth has been at 4.8 per cent and at year-end, the loans totalled NOK 27.5 billion, which was around 34 per cent of the bank's total loans.

The bank's corporate customers are composed of a balanced and sound portfolio, which has reflected the businesses in the region in a good way.

Sparebanken Sør has continued cooperation with Norway Christian Purchasing Society (KNIF) and will continue to focus on this customer segment in the whole of Norway. These customers include hospitals and enterprises within the health sector, schools, kindergartens, church organisation and missionary organisations and also child and youth organisations. Through this cooperation, the bank has welcomed several interesting new customers in 2014 and growth within the segment has been good. The bank's agreement with KNIF is long-term and was renewed in 2014.

The bank offers general insurance, occupational pensions and group life insurance in Frende Forsikring, and leasing in Brage Finans. The bank has its own insurance advisors, while the bank's business consultants arrange sale of leasing to Brage Finans.

PROFIT FOR THE YEAR

Sparebanken Pluss was the acquiring bank in the merger, and therefore all comparative figures in the financial statement are historical figures from Sparebanken Pluss.

In 2014, Sparebanken Sør achieved a profit before tax of NOK 1 100 million. The profit included negative goodwill of NOK 200 million. Profit after tax was NOK 885 million, which gives the bank a return on equity of 13.0 per cent after tax. Adjusted for negative goodwill, the return on equity was 10.1 per cent.

Due to changed assumptions for calculation of pension commitments, net NOK 93 million was charged against the total profit. After this, the total profit was NOK 792 million.

Net interest income

Net interest income amounted to NOK 1 511million. This was equivalent to 1.60 per cent of the average total assets. It remained stable through the year, despite two interest changes. The Group's financing costs have remained stable throughout the year, but with a declining trend towards the end of the year.

Commission income

Net fee and commission income was NOK 284 million. This is equivalent to 0.30 per cent of the average total assets. Commission income from the estate agency business was NOK 85 million of this. Revenues have shown a consistently stable trend at the anticipated level through the whole year.

Financial instruments

Net income from financial instruments was NOK 184 million, which is equivalent to 0.20 per cent of the average total assets. The return on the Group's shares was NOK 127 million of this, of which sale of Nets on its own contributed NOK 71 million. Net income from other financial instruments was NOK 57 million, of which a significant part was related to value adjustment of the fixed rate loans.

Costs

Group costs were NOK 634 million, including negative goodwill of NOK 200 million. If this is not included, the costs were NOK 834 million, which is equivalent to 0.88 per cent of the average total assets. The costs included merger costs and write-down of some properties totalling NOK 49 million.

The workforce was gradually reduced during the year due to natural attrition. This helped to lay the foundation for positive future cost development.

Losses and defaulted loans

NOK 268 million in net losses was charged to the accounts, which is equivalent to 0.33 per cent of net loans. Losses were divided into NOK 9 million in the retail banking market and NOK 259 million in the corporate market. In addition, individual write-downs identified during the merger have increased by NOK 104 million to NOK 376 million (cf. note 10).

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. During 2014, a comprehensive review was carried out on a much larger proportion of the industrial portfolio. The bank is working 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 for 2015 are expected to be significantly lower than in 2014. The bank's target of a total loss level below 0.25 per cent of gross loans is maintained for the period 2015–2017. 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 on loans totalled NOK 521 million, which is equivalent to 0.63 per cent of gross loans.

Collective write-downs have remained unchanged through the year and were NOK 194 million, which is equivalent to 0.24 per cent of gross loans.

Gross defaulted loans over 90 days and doubtful loans amounted to NOK 576 million. This is equivalent to 0.71 per cent of the gross loans.

Accounting principles

Sparebanken Sør Group's accounts have been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles have been explained in more detail in the notes to the accounts.

The annual accounts have been based on the assumption of a going concern. The Group has a sound financial situation and in the view of the Board of Directors, there are no circumstances to suggest anything other than the bank's continued operations.

The figures referred to in the annual report are group figures, unless it is stated that the figures apply to the parent bank.

BALANCE SHEET

Total assets

At year-end 2014, total assets were NOK 94.1 billion, compared with NOK 45.8 billion in the previous year. Assets totalling NOK 48.0 billion were recognised in the merger between Sparebanken Pluss and Sparebanken Sør. Adjusted for the impact of the merger, this resulted in a growth in total assets of NOK 0.3 billion. The moderate growth in total assets is mainly due to the fact that the merged bank has reduced its holdings of bonds and certificates, compared with the total of the two merged banks at year-end 2013.

Loans

Net loans to customers are NOK 80.9 billion, compared with NOK 38.0 billion in 2013. Net loans to customers totalling NOK 39.4 billion were recognised in the merger. Adjusted for the impact of the merger, this resulted in a growth in net loans to customers in 2014 of NOK 3.5 billion or 4.5 per cent.

Growth in gross loans to retail banking customers has been 4.5 per cent in 2014. On a national basis, household lending growth has been 6.2 per cent. Loans to the retail banking market were 66 per cent of the Group's total loans as at 31 December 2014. At year-end 2014, loans totalling NOK 20.1 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.

In the corporate market, the bank had a growth in gross loans of 4.8 per cent in 2014. On a national level, lending growth in the corporate market was 3.4 per cent.

Deposits

At year-end, total deposits were NOK 48.3 billion, compared with NOK 21.3 billion the previous year. Deposits from customers totalling NOK 22.5 billion were recognised in the merger. Adjusted for the impact of the merger, this resulted in a growth in deposits from customers in 2014 of NOK 4.5 billion or 10.3 per cent.

In the retail banking market growth has been 11.2 per cent. Deposits in the retail banking market have shown a steady and positive trend through the year, despite strong competition for deposits.

In the corporate market, deposit growth has been 9.7 per cent. The corporate market deposit portfolio is composed of significantly few and larger individual deposits than in the retail banking market. From experience, these can be more volatile from period to period compared with the retail banking market.

The deposit-to-loan ratio has increased in 2014 due to stronger growth in deposits relative to lending, and at year-end was 59.6 per cent.

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. As a result of good deposit growth in 2014, the bank's securities debt was reduced during the year and totalled NOK 35.8 billion at year-end.

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. The availability of funding on competitive terms was good through 2014.

Securities

At year-end, the Group's portfolio of certificates and bonds totalled NOK 10.4 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.

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

Investments in shares and equity certificates totalled NOK 445 million, of which Frende totalled NOK 167 million, Eksportfinans NOK 85 million and Brage Finans NOK 58 million.

Equity and related capital

At year-end 2014, the Group's total equity capital was NOK 7 157 million after supply of the profit for the year. Equity certificate capital totalled NOK 891 million and other equity capital NOK 6 266 million.

The bank had also issued hybrid capital equivalent to NOK 700 million and subordinated loan capital equivalent to NOK 400 million. Net primary capital totalled NOK 8 170 million.

With a risk-weighted calculation basis (the Basel II standard method) of NOK 54.0 billion at year-end, core tier 1 capital totalled 13.1 per cent, core capital ratio was 14.4 per cent and total capital ratio was 15.1 per cent for the Sparebanken Sør group. The regulatory requirements for core tier 1 capital ratio was 10 per cent, 11.5 per cent for core capital ratio and 13.5 per cent for total capital ratio as at 31 December 2014. The Group thereby meets the capital requirements with a good margin.

For the Parent Bank, the respective figures are 13.7% core tier 1 capital, 15.1% core capital ratio and 15.9% total capital ratio.

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 had a profit of NOK 611 million. This included recognition of negative goodwill which arose during the merger as at 1 January 2014. Negative goodwill was transferred in full to the bank's equalisation fund immediately after the merger to prevent dilution of the equity ratio. This meant that NOK 200 million of the parent bank's profit of NOK 611 million was already allocated.

The parent bank's profit excluding the recognition of negative goodwill totalling NOK 411 million after tax has been proposed allocated as follows:

Dividend:	NOK 47 million
Transferred to donation fund:	NOK 25 million
Transferred to equalisation fund:	NOK 11 million
Transferred to primary fund:	NOK 328 million
Total transferred:	**NOK 411 million**

EQUITY CERTIFICATES

A summary of the 20 largest equity certificate owners as at 31.12.2014 is presented in note 36. The profit per equity certificate was NOK 12.2 for the parent bank and NOK 20.3 for the group.

The Board of Directors will propose to the bank's Board of Trustees to distribute a dividend in 2014 of NOK 10 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 20.1 billion in loans were transferred to the company. The average debt-to-asset ratio was 52.8 per cent. At year-end, NOK 17.2 billion in covered bonds were issued. The cover pool totalled NOK 20 billion and the collateralisation ratio was 116 per cent.

The company had a profit before tax of NOK 348 million. At year-end, the capital adequacy ratio was 19.4 per cent. The company has entered into supply agreements with the parent bank, which included loan administration, staff and treasury functions.

Sørmegleren

Sørmegleren AS began operations on 1 January 2014 and is a successful merger between ABCenter and Plussmegleren. 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 2014, new offices were opened in East and West Kristiansand and following the merger, Sørmegleren has strengthened its position in several locations.

Other subsidiaries

The bank's other subsidiaries mainly manage commercial properties where the bank has operations. At the end of 2014, the bank sold its shares in Markensgate 9 AS. As the company has been owned by the bank for the whole year, the company profit for 2014 has been consolidated in the group profit.

PARTLY-OWNED PRODUCT COMPANIES

Frende Forsikring

Through Frende Forsikring the bank's retail banking 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 has delivered a profit after tax of NOK 140.8 million after the fourth quarter 2014.

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 has continued the progress from 2013 and recorded a profit of NOK 15.5 million.

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.

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 has a separate risk management committee. In the Board of Directors' opinion, the Bank's risk management is satisfactory.

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 group management and 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 2014, the group's net interest rate risk was NOK 16 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 mainly related to the liquidity portfolio. At year-end 2014, 53 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 445 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 (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 59.6 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 2014, mortgages equivalent to 42 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 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 105.5 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. These totalled NOK 10.0 billion at year-end.

The bank's short-term liquidity risk is managed through use of a regulatory Liquidity Coverage Requirement (LCR). At year-end 2014, the LCR indicator for Sparebanken Sør was enough to meet all the projected liquidity maturities within the next 30 days under a stress scenario. The authorities envisage a gradual phasing-in of the requirement with 60 per cent compliance with effect from 1 October 2015.

The Group's liquidity risk is followed-up through periodic reporting to the group management and 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 licenses, 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.

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 bank aims to be well capitalised so that market opportunities may be used and business ambitions are implemented. At the same time, the robustness of the capital structure will ensure that the bank has a capital buffer to maintain ordinary operations also during recessions.

The Group is well positioned to meet the authorities' capital requirements. The capital structure of the bank is sound and capital adequacy ratio exceeds the authorities' requirements. The bank's capital plans also address new regulatory orders with respect to scope and the quality of other equity and subordinated capital.

Sparebanken Sør has not been defined as systematically important and therefore is not directly imposed the most stringent buffer requirements for core tier 1 capital that the authorities have imposed on the largest banks. In the ongoing capital adaptation, the bank will still assess the rating companies and the market's capital level expectations.

Sparebanken Sør uses the standard method for credit risk and the basic method for operational risk under the current capital adequacy rules. The bank has initiated a process to impact analyse an application for approval from the Financial Supervisory Authority of Norway to use internal credit risk calculation models (IRB).

The Group's capital adequacy is followed-up through periodic reporting to the group management and 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.

Sparebanken Sør has an international rating from Moody's, and received in March 2014 an A2 rating with "Stable Outlook". Like 82 other European banks, the outlook was adjusted to a "Negative Outlook" at the end of May.

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.

ORGANISATION

In the merger year, the bank has had strong focus on establishing the new organisation and good working environments. Following the merger, a divisionalised organisational structure was introduced with Corporate Market, Retail Banking Market and Capital Market on the commercial side and Business Development, Risk and Group Services within the staff and support areas. In addition, the merger secretariat has been organised as a separate unit and has had a special responsibility to follow-up implementation of the merger agreement.

An important factor in the merger has been to build on the banks' previous experiences and expertise. Through organisation and adaptation of work processes and routines, the aim has been to base the development on the best practices from both banks. This has largely been successful thanks to the employees' ability and willingness to find the best solutions together for the new bank.

Following the merger, the classic corporate functions are located at head office in Kristiansand, while support functions such as customer service, depository, accounting and IT operations are located in Arendal. Furthermore, Retail Banking headquarters is located in Arendal, while Corporate Market is located in Kristiansand. Coordination of functions at the head office in Kristiansand and at the branch in Arendal has meant that some employees have had to move workplace. To ease the situation for commuters, the bank adopted an arrangement with organised working hours and financial compensation.

At year-end 2014, the new organisation has been established and is well-equipped to meet the market and customers.

Within the area of HSE there have been robbery and safety drills. Established systems and routines are in accordance with the requirements set by the "Health, Safety and Environment Regulations". Cooperation between the senior safety delegate, occupational health service and the Group's HR department has been good and cases put forward have been sought to be resolved at the lowest possible level and as quickly as possible. Annual performance reviews are held. Through these reviews, the bank receives important input on the development of the organisation and each employee.

Personnel and working environment

At year-end 2014, the bank had 454 FTEs at work and 508 FTEs in the Group. The workforce has been reduced by 35 FTEs from the beginning of 2014 and by a total of 66 FTEs since the merger plan was announced at the beginning of 2013.

There has been significant focus on development of expertise in 2014. This has largely involved training on products, systems and procedures.

Sickness absence has remained at a stable low level. In 2014, this was 4.1 per cent and the majority of this was long-term absence.

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, as far as this is possible, 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 2014 the bank had a total of 493 employees, of which 263 are women and 230 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 local communities. In other words: The value the bank creates remains mainly locally for the benefit of the region.

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", which is developed by "the Greenhouse Gas Protocol Initiative". 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 5 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 and their employees, geographically 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. The person in charge of the anti-money laundering in the bank manages 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 2014, 54 cases were reported to Økokrim.

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 bribery 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 2014. No cases that can be defined as corruption have been reported.

GIFTS FOR THE PUBLIC BENEFIT

Pursuant to the Savings Bank Act, savings banks in Norway may allocate some of their profit after tax and dividend to good causes. In recent years, 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 2013 financial statements for Sparebanken Pluss and Sparebanken Sør, NOK 12.5 million was transferred from each bank to the bank's donations fund, a total of NOK 25 million.

The Board of Directors has adopted a new gift strategy for the bank and has established a donations committee. In 2014, the donations committee has dealt with 547 cases and has granted gifts totalling NOK 29,269,000. 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 2014 for distribution in 2015.

OUTLOOK

The Board of Directors is satisfied with the financial performance for 2014. The Group has achieved a good income, while the costs adjusted for merger effects show a nominal decrease. 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 for 2015 are expected to be significantly lower than in 2014. This together with realisation of merger gains through, among other things, downsizing more quickly than anticipated, and the bank is well positioned to deliver solid financial results also in 2015.

With the fall in the oil price and fewer investments on the Norwegian continental shelf, growth in the Norwegian economy is likely to slow down in 2015. The bank has low direct exposure to the oil sector. However, persistent low prices and less activity could lead to slightly lower growth in the region in the future. Meanwhile, expectations for higher international growth and the weak Norwegian krone will have a positive impact on the export industry and could thus allay any negative repercussions for the region.

Over time, the bank has seen a significant change in customer behaviour with increasing use of digital channels and fewer visits to the bank offices. On this basis, Sparebanken Sør will consider how it can best organise itself in future in relation to the distribution of its products and services, including considering future office structure. An efficient office structure staffed with competent advisors, combined with extended availability in the customer centre and good self-service solutions will be the bank's response to the changes in the customers' preferences. This will also lay the foundation for a highly competitive and cost-effective bank with good competitiveness.

The Board of Directors would like to emphasise that there is usually great uncertainty related to assessment of future conditions.

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 the merged bank. 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: Siss Ågedal, Jill Akselsen, Stein A. Hannevik, Torstein Moland, Marit Kittilsen

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

Inger Johansen was not present when the picture was taken.

Kristiansand, 31 December 2014 / 3 March 2015

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

Profit and loss account

PARENT BANK		NOK MILLION		GROUP	
2013	2014		Notes	2014	2013
1 294	2 798	Interest income	14	3 593	1 657
905	1 714	Interest expenses	14	2 082	1 055
389	**1 084**	**Net interest income**	**5,14**	**1 511**	**602**
96	284	Commission income	15	331	91
11	46	Commission expenses		47	11
85	**238**	**Net commission income**		**284**	**80**
9	11	Dividend		11	9
28	204	Net income from other financial instruments	11,12,16	173	10
37	**215**	**Net income from financial instruments**		**184**	**19**
15	15	Other operating income		23	11
526	**1 552**	**Total income**		**2 002**	**712**
142	380	Wages and other personal expenses	17,34	438	142
14	48	Depreciation and write-down of fixed assets and intangible assets	29	52	15
	-200	Negative goodwill	37	-200	
109	332	Other operating expenses	18	344	114
265	**560**	**Total expenses**	**5**	**634**	**271**
261	**992**	**Profit before losses on loans**		**1 368**	**441**
28	268	Losses on loans, guarantees, etc.	10	268	28
233	**724**	**Profit before taxes**	**5**	**1 100**	**413**
60	113	Tax expenses	19	215	111
173	**611**	**Profit for the year**		**885**	**302**
		Minority interest			
173	**611**	**Majority interest**		**885**	**302**
10,3	12,2	Profit/diluted earnings/result per EC (in NOK)		20,3	18,1

OTHER COMPREHENSIVE INCOME

PARENT BANK		NOK MILLION		GROUP	
2013	2014		Notes	2014	2013
173	611	Profit for the year		885	302
		Items that will not be reclassified to profit and loss account			
-25	-127	Recognised estimate deviations, pensions	17	-127	-25
7	34	Tax effect of recognised estimate deviations,pension	17,19	34	7
155	**518**	**Total income for the profit year**		**792**	**284**

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

Balance sheet

PARENT BANK		NOK MILLION		GROUP	
31.12.2013	31.12.2014		Notes	31.12.2014	31.122013
Assets					
1 340	595	Cash and receivables from central banks		595	1 340
579	1 510	Loans to and receivables from credit institutions	28	180	50
26 667	60 880	Net loans to customers	5,6,7,8,9,13,20,21,33,35	80 913	37 987
0	2	Repossessed properties		2	0
7 620	10 059	Bonds and certificates	20,21,22	10 359	5 783
98	445	Shares	20,21,23	445	98
203	751	Financial derivatives	20,21,26	906	203
525	1 258	Shareholdings in group companies	24		
2	12	Shareholdings in associated companies	25	12	2
9	17	Intangible assets	29	20	9
2	11	Deferred tax asset	19	17	2
255	475	Fixed assets	29	503	255
30	71	Other assets		110	30
37 330	**76 086**	**TOTAL ASSETS**	**5,13**	**94 062**	**45 759**
Liabilities and equity					
2 027	627	Debts to credit institution	28	614	2 027
21 264	48 269	Deposits from customers	5,13,20,21,30,32	48 250	21 264
9 799	18 414	Debt incurred due to issue of securities	13,20,21,27,32	35 775	17 935
241	517	Financial derivatives	21,26	521	241
71	83	Payable taxes	19	178	123
81	194	Other liabilities	31	231	83
76	236	Provisions for commitments	17	236	76
899	1 100	Subordinated loan capital	4,13,20,21	1 100	899
34 458	**69 440**	**Total liabilities**	**13**	**86 905**	**42 648**
204	891	Equity certificate capital	4,36	891	204
2 668	5 755	Other equity	4	6 266	2 907
2 872	**6 646**	**Total equity**	**4**	**7 157**	**3 111**
37 330	**76 086**	**TOTAL LIABILITIES AND EQUITY**	**5**	**94 062**	**45 759**

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

Kristiansand, 31 December 2014 / 3 March 2015

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	Divided equalisation fund	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP								
Balance 31.12.2012	**125**	**34**	**46**	**2 493**	**32**	**123**		**2 853**
Dividend distribution for 2012						-13		-13
Profit 2013				147	13	142		302
Recognised estimate deviations, pension			-2	-23				-25
Tax effect estimate deviations, pension			1	6				7
Distributed by gift fund					-13			-13
Balance 31.12.2013	**125**	**34**	**45**	**2 623**	**32**	**252**	**0**	**3 111**
Equity added through merger	349	141		2 795	13	2	7	3 307
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**
PARENT BANK								
Balance 31.12.2012	**125**	**34**	**46**	**2 493**	**32**	**13**		**2 743**
Dividend distribution for 2012						-13		-13
Profit 2013				147	13	13		173
Recognised estimate deviations, pension			-2	-23				-25
Tax effect estimate deviations, pension			1	6				7
Distributed by gift fund					-13			-13
Balance 31.12.2013	**125**	**34**	**45**	**2 623**	**32**	**13**	**0**	**2 872**
Equity added through merger	349	141		2 795	13			3 298
Balance 01.01.2014	**474**	**175**	**45**	**5 418**	**45**	**13**	**0**	**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**

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. 2013	31.12.2014		31.12.2014	31.122013
1 254	2 791	Interest payments received	3 575	1 614
-921	-1 774	Interest payments made	-2 147	-1 072
119	399	Other payments received	435	111
-266	-695	Operating payments	-784	-272
2	5	Established on confirmed losses	5	2
-82	-135	Period tax paid	-211	-115
-10	-32	Gifts paid	-32	-10
	-6	Paid group contribution		
1 870	4 524	Change in customers deposits	4 521	1 870
-1 608	-6 591	Change in loans to customers	-3 572	-2 365
358	**-1 514**	**Net cash flow from operational activities**	**1 790**	**-237**
16 409	18 216	Payments received regarding securities	11 188	13 679
-12 464	-12 002	Payments made regarding securities	-9 111	-12 389
	28	Payments received regarding sale of group companies		
1	32	Payments received regarding of fixed assets	178	1
-8	-42	Payments made regarding purchase of fixed assets	-44	-8
1	34	Change in other assets	-10	1
3 939	**6 266**	**Net cash flow from investment activities**	**2 201**	**1 284**
-5	554	Change in loans to credit institutions	155	-30
-3 278	-4 031	Change in deposits from credit institutions	-2 879	-3 278
2 501	3 990	Payments received, bond debt	7 240	8 529
-3 039	-6 331	Payments made, bond debt	-9 573	-5 794
401		Payments received, subordinated loan capital		401
-13	-42	Dividend payment	-42	-13
1	-18	Change in other liabilities	-18	3
-3 432	**-5 878**	**Net cash flow from financing activities**	**-5 117**	**-182**
865	**-1 126**	**Net change in liquid assets**	**-1 126**	**865**
	1 340	Cash and cash equivalents 31.12.2013	1 340	
	381	Cash and cash equivalents through merger	381	
475	**1 721**	**Cash and cash equivalent 01.01**	**1 721**	**475**
1 340	**595**	**Cash and cash equivalent 31.12**	**595**	**1 340**

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 2014 - Sparebanken Sør

Note 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 and Rettighetskompaniet AS. The Group conducts banking operations in 40 locations and real estate brokerage business in 13 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 2014 were prepared by the Board of Directors on 3 March 2015, and will be finally approved by the Board of Trustees on 26 March 2015. The Board of Trustees is the Bank's highest body.

Note 2 – Accounting principles

1. 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 through profit.

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 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.

2. 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 results 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.

3. 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 in paragraphs 3.2 and 3.3.

3.1. 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.

3.2. 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.

3.3. 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.

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 highlighted 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 highlighted 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 changes in the result 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 the said 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 mainly 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, and an assessment is made of the obvious added value or impairment.

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. 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 interbank 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, posted losses 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. Non-performing 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 Group 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. Group 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. Group 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. Accrued interest is calculated using the effective interest rate method and is included in the profit and loss account.

Changes in value due to impairment charges are recognised in the profit and loss account on loans, guarantees, etc. Accrued interest on loans is recognised in the balance sheet under prepaid costs, not incurred – accrued income and not yet received.

Changes in value of fixed rate loans, which are selected at fair value, are included in the income statement under net value changes and gains on foreign exchange and securities.

4.6.2 Bond and certificates

The balance sheet item includes the Group's certificates and bond holdings. 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 expenses 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 other financial instruments.

4.6.7 Subordinated loan capital

The balance sheet includes issued subordinated loans and perpetual subordinated loans. Interest expenses 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 actual 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 added 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 stated 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. Technical facilities are depreciated over their estimated useful life and are not considered to have any residual value. Buildings are depreciated over their estimated useful life with no 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 ratification 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 31.12.2014.

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 are not a separate reportable segment and come under the record as undistributed. This item also includes unallocated Group eliminations.

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 2014 financial statement. The Group has not changed accounting principles in 2014.

IAS 32 Financial instruments – presentation

IAS 32 has been amended to clarify the meaning of "currently has a legally enforceable right to set-off", and also to clarify the application of IAS 32s in the offsetting of payment systems such as central clearing house systems which use gross settlement mechanisms that do not happen simultaneously.

IAS 39 – Recognition and measurement

IASB had adopted changes regarding the hedge accounting rules under IFRS. The changes mean that hedge accounting need not be concluded in cases where derivatives designated as hedging instruments must be transferred in order to carry out central counterparty clearing (CCP) as required by law or other regulation, provided that certain specified criteria are met.

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 will evaluate the potential effects of IFRS 9 in accordance with the other phases as soon as the final standard, including all phases, is published.

IFRS 15 Income from customer contracts

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 2017, 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 company and consolidated financial statements.

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 others in the management team are responsible for implementing risk management and internal control. The CEO has established a management group and a risk management committee that meets regularly. The Risk Control Committee will consider the Bank's total risk exposure and reconcile this with respect to the Bank's capital requirements. 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.

Risk management committee

Risk management committee shall deal with matters and provide input regarding the bank's management and control of total risk

The risk management committee is to take decisions regarding the bank's total risk exposure and reconcile this in relation to the bank's capital requirements. The risk management committee is responsible for auditing the bank's ICAAP documents and recommending any changes to the ICAAP process.

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 and risk tolerance. 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 fulfill 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 Group'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 involvement will mean considerable variation in terms of sensitivity to these factors, and how involvement 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.

A regulatory change has been adopted that involves new minimum requirements for capital adequacy ratio for banks, mortgage companies and parent companies of banking groups. With effect from 1 July 2014, the minimum requirement for core tier 1 capital ratio is 10 per cent. The requirement for core capital ratio is 11.5 per cent, while the requirement for total capital ratio is 13.5 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.

A process has been implemented to consider whether the bank should apply to the Financial Supervisory Authority of Norway for approval to use the IRB method.

PARENT BANK		NOK MILLION	GROUP	
31.12.2013	**31.12.2014**		**31.12.2014**	**31.122013**
125	474	Equity certificate	474	125
34	175	Premium fund	175	34
2 624	5 667	Primary capital	5 667	2 624
31	41	Gift fund	41	31
44	242	Equalisation fund	242	44
13	47	Other equity	558	253
-13	-48	- Deductions for dividends incl. under other equity	-48	-13
0	-17	- Deductions for intangible assets and deferred tax assets	-17	0
2 858	**6 581**	**Total core tier 1 capital**	**7 092**	**3 098**
500	700	Hybrid capital	700	500
-11	0	- Deduction for intangible assets and deferred tax assets	0	-12
3 347	**7 281**	**Total core capital**	**7 792**	**3 586**
		Additional capital over core capital:		
400	400	Subordinated loan capital	400	400
400	**400**	**Total additional core capital**	**400**	**400**
-11	-22	- Deduction from core and additional capital	-22	-10
3 736	**7 659**	**Net primary capital**	**8 170**	**3 976**
		Minimum requirement for subordinated capital Basel II calculated according to the standard method:		
3	3	Engagements with local and regional authorities	3	3
199	181	Engagements with institutions	62	18
770	1 192	Engagements with enterprises	1 192	770
338	810	Engagements with mass market	947	341
414	1 087	Engagements secured in property	1 618	753
23	91	Engagements which have fallen due	91	23
2	0	Engagements with high-risks	0	2
38	200	Engagements in covered bonds	62	23
0	0	Engagements in collective investment funds	0	0
51	62	Engagements, other	62	51
1 838	**3 626**	**Capital requirements for credit- and counterparty risk**	**4 037**	**1 984**
0	**4**	**Capital requirements for position -, currency - and product risk**	**4**	**0**
81	**193**	**Capital requirements for operational risk**	**233**	**93**
	27	**CVA addition**	**45**	
-9	**0**	**Deduction from the capital requirement**	**0**	**-9**
1 910	**3 850**	**Total minimum requirement for primary capital**	**4 319**	**2 068**
23 875	48 125	Risk-weighted balance (calculation basis)	53 988	25 850
11.9 %	13.7 %	Core tier 1 capital ratio, %	13.1 %	11.9 %
14.0 %	15.1 %	Core capital ratio, %	14.4 %	13.8 %
15.6 %	15.9 %	Total capital ratio, %	15.1 %	15.4 %

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 2014 and 2013.

Report per segment	GROUP 31.12.2014				GROUP 31.12.2013			
NOK MILLION	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest income	964	513	34	1 511	486	221	-105	602
Net other operating income	158	59	274	491	161	24	-75	110
Total operating expenses	352	91	191	634	117	26	128	271
Profit before losses per segment	**770**	**481**	**117**	**1 368**	**530**	**219**	**-308**	**441**
Losses on loans, guarantees	9	259	0	268	18	11	-1	28
Profit before tax per segment	**761**	**222**	**117**	**1 100**	**512**	**208**	**-307**	**413**
Net loans to customers	53 913	26 876	124	80 913	25 372	11 600	1 015	37 987
Other assets			13 149	13 149			7 772	7 772
Total assets per segment	**53 913**	**26 876**	**13 273**	**94 062**	**25 372**	**11 600**	**8 787**	**45 759**
Deposits from customers	24 980	18 682	4 588	48 250	11 853	6 594	2 817	21 264
Other liabilities	28 933	8 194	1 528	38 655	13 519	5 006	2 859	21 384
Total liabilities per segment	**53 913**	**26 876**	**6 116**	**86 905**	**25 372**	**11 600**	**5 676**	**42 648**
Equity			7 157	7 157			3 111	3 111
Total liabilities and equity per segment	**53 913**	**26 876**	**13 273**	**94 062**	**25 372**	**11 600**	**8 787**	**45 759**

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	0.10	0.25
C	0.25	0.50
D	0.50	0.75
E	0.75	1.25
F	1.25	2.00
G	2.00	3.00
H	3.00	5.00
I	5.00	8.00
J	8.00	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

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

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**	

In 2014, the bank changed its risk classification model. The following scale of risk classes was used in 2013:

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	10.00
J	10.01	100.00

Probability of default	
Low risk (A-D)	0.00 - 0.75%
Medium risk (E-F)	0.76 - 2.00 %
High risk (G-J)	2.01 - 100 %

TOTAL COMMITMENTS DISTRIBUTED IN RISK GROUPS

PARENT BANK 31.12.2013		NOK MILLION	GROUP 31.12.2013	
		Retail banking customers:		
7 512	56.9 %	Low risk	17 705	67.6 %
3 390	25.7 %	Medium risk	5 488	21.0 %
2 105	15.9 %	High risk	2 707	10.3 %
199	1.5 %	Unclassified	202	0.8 %
13 206		**Total non-matured or written down**	**26 102**	
0	0.0 %	Commitment in default and write-downs comm.	83	0.3 %
13 206	**100 %**	**Total retail banking customers**	**26 185**	**100 %**
		Corporate customers:		
10 654	59.3 %	Low risk	10 720	59.4 %
4 948	27.5 %	Medium risk	4 948	27.4 %
1 873	10.4 %	High risk	1 873	10.4 %
231	1.3 %	Unclassified	231	1.3 %
17 706		**Total non-matured or written down**	**17 772**	
262	1.5 %	Commitment in default and write-downs comm.	262	1.5 %
17 968	**100 %**	**Total corporate customers**	**18 034**	**100 %**
31 174		**Total commitments**	**44 219**	

GROSS LOANS DISTRIBUTED IN RISK GROUPS

PARENT BANK 31.12.2013		NOK MILLION	GROUP 31.12.2013	
		Retail banking customers:		
6 147	51.6 %	Low risk	14 974	64.7 %
3 509	29.4 %	Medium risk	5 332	23.0 %
2 137	17.9 %	High risk	2 661	11.5 %
44	0.4 %	Unclassified	111	0.5 %
11 837		**Total non-matured or written down**	**23 078**	
83	0.7 %	Commitment in default and write-downs comm.	83	0.4 %
11 920	**100 %**	**Total retail banking customers**	**23 161**	**100 %**
		Corporate customers:		
8 480	57.2 %	Low risk	8 546	57.4 %
4 148	28.0 %	Medium risk	4 148	27.8 %
1 714	11.6 %	High risk	1 714	11.5 %
231	1.6 %	Unclassified	231	1.6 %
14 573		**Total non-matured or written down**	**14 639**	
262	1.8 %	Commitment in default and write-downs comm.	262	1.8 %
14 835	**100 %**	**Total corporate customers**	**14 901**	**100 %**
80		Accrued interest	93	
26 835		**Total gross loans**	**38 155**	

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 2014. The volume of classes 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 31.12.2014

	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 %**

Loan to value ratio (LTV) loans secured with mortgage in permanent housing as at 31.12.2013

	PARENT BANK		GROUP	
LTV 31.12.2013	NOK MILLION	%	NOK MILLION	%
LTV 0 - 60%	2 629	26.4 %	7 817	36.7 %
LTV 61 - 70%	2 108	21.1 %	4 941	23.2 %
LTV 71 - 75%	1 425	14.3 %	3 269	15.4 %
LTV 76 - 80%	970	9.7 %	1 989	9.3 %
LTV 81 - 85%	730	7.3 %	1 155	5,4 %
LTV 86 - 90%	618	6.2 %	618	2.9 %
LTV 91 - 100%	942	9.5 %	942	4.4 %
LTV > 100%	547	5.5 %	547	2.6 %
TOTAL	**9 968**	**100 %**	**21 279**	**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	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
		Loans valued at amortised cost		
3 185	9 819	Overdraft- and working capital facilities	16 027	8 571
2 295	3 510	Building loans	3 510	2 295
15 831	41 348	Repayment loans	55 154	21 753
21 311	**54 677**	**Total loans valued at amortised cost**	**74 691**	**32 619**
		Loan designated at fair value through income statement		
5 443	6 769	Fixed rate loans	6 769	5 443
5 443	**6 769**	**Total loans designated at fair value through income statement**	**6 769**	**5 443**
80	143	Accrued interest	168	92
26 834	**61 589**	**TOTAL GROSS LOANS**	**81 628**	**38 154**
167	709	Write-downs on lending	715	167
26 667	**60 880**	**TOTAL NET LOANS**	**80 913**	**37 987**

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			
31.12.2013		31.12.2014		NOK MILLION	31.12.2014		31.12.2013	
17 434	65.0 %	29 725	48.3 %	Vest-Agder	38 275	46.9 %	24 805	65.0 %
3 912	14.6 %	15 290	24.8 %	Aust-Agder	21 506	26.3 %	5 926	15.5 %
		6 378	10.4 %	Telemark	8 149	10.0 %		
2 611	9.7 %	4 661	7.6 %	Oslo	6 128	7.5 %	3 335	8.7 %
619	2.3 %	1 105	1.8 %	Akershus	1 799	2.2 %	964	2.5 %
684	2.5 %	1 268	2.1 %	Rogaland	1 639	2.0 %	905	2.4 %
1 494	5.6 %	3 019	4.8 %	Other	3 964	4.9 %	2 127	5.7 %
80	0.3 %	143	0.2 %	Accrued interest	168	0.2 %	92	0.2 %
26 834	**100.0 %**	**61 589**	**100.0 %**	**TOTAL GROSS LOANS**	**81 628**	**100.0 %**	**38 154**	**100.0 %**

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

Loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
11 911	34 268	Retail customers	54 076	23 155
3	22	Public administration	22	3
122	688	Primary industry	709	133
209	808	Manufacturing industry	819	211
2 300	4 217	Building and construction	4 283	2 314
141	548	Transport and communication	579	141
549	1 001	Retail trade	1 037	558
79	370	Hotel and restaurant	378	79
8 321	14 186	Property management	14 152	8 322
401	1 506	Financial / commercial services	1 537	411
2 718	3 832	Other industries	3 868	2 735
80	143	Accrued interest	168	92
26 834	**61 589**	**TOTAL GROSS LOANS**	**81 628**	**38 154**
167	709	Write-downs on lending	715	167
26 667	**60 880**	**TOTAL NET LOANS**	**80 913**	**37 987**

Guarantees distributed by sector and industry

PARENT BANK			GROUP	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
29	38	Retail customers	38	29
1	0	Public administration	0	1
1	3	Primary industry	3	1
82	195	Manufacturing industry	195	82
313	414	Building and construction	414	313
16	86	Transport and communication	86	16
48	147	Retail trade	147	48
4	7	Hotel and restaurant	7	4
243	171	Property management	171	243
22	50	Financial/commercial services	50	22
5	28	Other industries	28	5
764	**1 139**	**TOTAL GUARANTEES**	**1 139**	**764**

Unused credit according to sector and industry

PARENT BANK			GROUP	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
1 029	3 746	Retail customers	6 016	2 759
302	392	Public administration	392	302
20	162	Primary industry	164	20
139	195	Manufacturing industry	198	139
638	600	Building and construction	611	638
26	72	Transport and communication	76	26
174	381	Retail trade	385	174
3	42	Hotel and restaurant	42	3
832	1 111	Property management	1 115	832
78	165	Financial/commercial services	176	78
200	770	Other industries	777	200
3 441	**7 636**	**TOTAL UNUSED CREDIT**	**9 952**	**5 171**

Commitments according to sector and industry

PARENT BANK			GROUP	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
12 969	38 052	Retail customers	60 130	25 943
306	414	Public administration	414	306
143	853	Primary industry	876	154
430	1 198	Manufacturing industry	1 212	432
3 251	5 231	Building and construction	5 308	3 265
183	706	Transport and communication	741	183
771	1 529	Retail trade	1 569	780
86	419	Hotel and restaurant	427	86
9 396	15 468	Property management	15 438	9 397
501	1 721	Financial/commercial services	1 763	511
2 923	4 630	Other industries	4 673	2 940
80	143	Accrued interest	168	92
31 039	**70 364**	**TOTAL COMMITMENTS**	**92 719**	**44 089**

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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
49	147	Gross defaulted loans 31-60 days	147	49
1	58	Gross defaulted loans 61-90 days	58	1
213	576	Gross defaulted loans > 90 days	576	213
263	**781**	**Gross defaulted loans/credits**	**781**	**263**
55	180	- Individual write-downs	180	55
208	**602**	**Net defaulted loans/credits**	**602**	**208**
20.4 %	23.0 %	Provision ratio defaulted loans	23.0 %	20.4 %
0.79 %	**0.94 %**	**Gross defaulted loans > 90 days in % of gross loans**	**0.71 %**	**0.56 %**

Corporate banking market

PARENT BANK			GROUP	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
29	53	Gross defaulted loans 31-60 days	53	29
1	36	Gross defaulted loans 61-90 days	36	1
182	443	Gross defaulted loans > 90 days	443	182
212	**532**	**Gross defaulted loans/credits**	**532**	**212**
50	143	- Individual write-downs	143	50
162	**389**	**Net defaulted loans/credits**	**389**	**162**
23.6 %	26.8 %	Provision ratio defaulted loans	26.8 %	23.6 %

Retail banking market

PARENT BANK			GROUP	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
20	94	Gross defaulted loans 31-60 days	94	20
-	22	Gross defaulted loans 61-90 days	22	-
31	133	Gross defaulted loans > 90 days	133	31
51	**249**	**Gross defaulted loans/credits**	**249**	**51**
4	37	- Individual write-downs	37	4
48	**212**	**Net defaulted loans/credits**	**212**	**48**
7.2 %	14.8 %	Provision ratio defaulted loans	14.8 %	7.2 %

As at 31 December 2014, the fair value of associated mortgage debts on defaulted loans to customers was NOK 904 million and as at 31 December 2013, NOK 210 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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
90	870	Other doubtful loans	870	90
21	341	- Individual write-downs	341	21
69	**529**	**Net doubtful loans**	**529**	**69**
23.3 %	39.2 %	Provision ratio doubtful loans	39.2 %	23.3 %

Gross defaulted loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
51	249	Retail banking customers	249	51
212	532	Corporate customers	532	212
263	**781**	**Total defaulted loans**	**781**	**263**
0	0	Public administration	0	0
0	0	Primary industry	0	0
0	25	Manufacturing industry	25	0
7	8	Building and construction	8	7
0	4	Transport and communication	4	0
2	10	Retail trade	10	2
0	8	Hotel and restaurant	8	0
202	367	Property management	367	202
1	100	Financial/commercial services	100	1
0	10	Other industries	10	0
212	**532**	**Total corporate customers**	**532**	**212**

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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
52	73	Individual write-downs at start of period	73	52
0	376	Individual write-downs identified in connection with merger	376	0
2	142	- Period's confirmed loss where individual write-downs has been performed previously	142	2
7	57	+ Increased individual write-downs during the period	57	7
21	180	+ New individual write-downs during the period	180	21
5	24	- Reversal of individual write-downs during the period	24	5
2		+ Amortised loans		2
75	**521**	**= Individual write-downs at the end of period**	**521**	**75**

Collective write-downs on loans

PARENT BANK			GROUP	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
92	92	Collective write-downs on loans at start of period	92	92
0	96	Collective write-downs on loans identified in connection with the merger	102	0
0	0	+ Change in collective write-downs during the period	0	0
92	**188**	**= Collective write-down of loans at end of period**	**194**	**92**

Loss expense on loans during the period

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
22	72	Change in individual write-downs during the period	72	22
0	0	+ Change in collective write-downs during the period	0	0
2	142	+ Period's confirmed loss where individual write-down has been performed previously	142	2
1	55	+ Period's confirmed loss where no individual write-down has been performed previously	55	1
5	4	+ Recognised as interest income	4	5
2	5	- Period's recoveries relating to previous losses	5	2
28	**268**	**= Loss expense during the period**	**268**	**28**

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

NOK MILLION	2014	2013
Retail banking customers	67	9
Corporate customers	454	66
Total individual write-downs	**521**	**75**
Public administration	0	0
Primary industry	4	2
Manufacturing industry	31	2
Building and construction	65	4
Transport and communication	6	
Retail trade	62	1
Hotel and restaurant	10	0
Property management	132	56
Financial/commercial services	145	1
Other industries	1	
Total corporate customers	**454**	**66**

The expected average annual net loss

There is NOK 521 million in individual write-downs as at 31.12.2014 (NOK 75 million as at 31.12.2013). Group write-downs of NOK 194 million as at 31.12.2014 (NOK 92 million as at 31.12.2013) 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 for 2015 are expected to be significantly lower than in 2014. An objective that the bank's total loss level should be below 0.25 per cent of gross loans is maintained for the period 2015–2017.

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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
8	17	Net total foreign currency position	17	8
1	2	Income effect at 10 % change	2	1

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 15.5 million as at 31 December 2014. The corresponding figure for the bank is NOK 9.7 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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
12	10	Interest rate +/- 2 % points	16	12

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. At year-end 2014–2015, the Group's deposit-to-loan ratio was 59.6 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, in 2014, mortgages equivalent to 42 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 105.4 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 billion.

The bank's short-term liquidity risk is managed, among other things, through using Liquid Coverage Requirement (LCR). At year-end 2014, the LCR indicator for Sparebanken Sør was sufficient to meet all project liquidity maturity within the next 30 days under a stress scenario. The authorities plan a gradual phasing in of the requirement with 60 per cent compliance with effect from 1 October 2015.

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

BALANCE SHEET ITEMS ACCORDING TO REMAINING MATURITY

The table below specifies the Group's financial assets and obligations classified in accordance with the maturity structure. Credits and flexi-loans are presented as loans customers with a maturity date falling within one month as a result of there being no agreed repayment date for these loans. Similarly, deposits from customers are presented without agreed maturity in the column for liquidity maturity within 1 month. All amounts are undiscounted cash flows. The table does not include future interest payments beyond the accrued interest on the balance sheet date. Other assumptions have been used as a basis in the ongoing management of the liquidity risk with regard to the due date of these balance sheet items.

Remaining time to maturity of key items in the balance sheet as at 31.12.2014 – Group

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	Undefined
Assets							
Cash and receivables from central banks	595	487					108
Loans to and receivables from credit institutions	180	40			140		
Net loans to customers	81 295	20 103	1 033	2 673	9 601	47 885	
Bonds and certificates	10 359	19	440	681	8 355	864	
Other assets	1 510						1 510
Total assets	**93 939**	**20 649**	**1 473**	**3 354**	**18 096**	**48 749**	**1 618**
Liabilities /non-derivative obligations							
Debts to credit institution	614	1			400		213
Deposits from customers	48 250	46 612	1 638				
Debt incurred due to issue of securities	35 086	236	983	3 648	24 417	5 802	
Other liabilities	1 855	83	67	218	5	241	552
Subordinated loan capital	1 100		200	300	600		
Total liabilities	**86 216**	**46 932**	**2 888**	**4 166**	**25 422**	**6 043**	**765**
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**	**0**

As at 31.12.2014, unused credit facilities on approved credit, credit cards and guaranties amounted to NOK 9 952 million, while issued guarantees stood at NOK 1 139 million.

Remaining time to maturity of key items in the balance sheet as at 31.12.2014 – Parent bank

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	Undefined
Assets							
Cash and receivables from central banks	595	487					108
Loans to and receivables from credit institutions	1 510	1 370			140		
Net loans to customers	60 504	13 127	948	2 285	7 610	36 534	
Bonds and certificates	10 059	19	140	681	8 355	864	
Other assets	2 565						2 565
Total assets	**75 233**	**15 003**	**1 088**	**2 966**	**16 105**	**37 398**	**2 673**
Liabilities /non-derivative obligations							
Debts to credit institution	627	1			400		226
Deposits from customers	48 269	46 631	1 638				
Debt incurred due to issue of securities	17 875	186	616	2 096	12 025	2 952	
Other liabilities	1 569	80	65	123	5	241	516
Subordinated loan capital	1 100		200	300	600		
Total liabilities	**68 901**	**46 898**	**2 519**	**2 519**	**13 030**	**3 193**	**742**
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**	**0**

As at 31.12.2014, unused credit facilities on approved credit, credit cards and guaranties amounted to NOK 7 636 million, while issued guarantees stood at NOK 1 139 million.

Remaining time to maturity of key items in the balance sheet as at 31.12.2013 – Group

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	Undefined
Assets							
Cash and receivables from central banks	1 340	1 302					38
Loans to and receivables from credit institutions	50	50					
Net loans to customers	37 987	11 209	660	958	4 356	20 805	
Bonds and certificates	5 783	37	1 343	189	3 826	387	
Other assets	131						131
Total assets	**45 291**	**12 598**	**2 003**	**1 147**	**8 182**	**21 192**	**169**
Liabilities /non-derivative obligations							
Debts to credit institution	2 027	1	1 235		600		191
Deposits from customers	21 264	19 667	1 597				
Debt incurred due to issue of securities	17 835	107		1 730	13 198	2 800	
Other liabilities	205	14	12	137	3		39
Subordinated loan capital	900					400	500
Total liabilities	**42 232**	**19 789**	**2 844**	**1 867**	**13 801**	**3 200**	**731**
Derivative obligations							
Financial derivatives gross settlement							
Payment	-1 975	-939	-851	-185			
Payment received	1 971	936	850	185			
Total derivative obligations	**-4**	**-3**	**-1**	**0**	**0**	**0**	**0**

As at 31.12.2013, unused credit facilities on approved credit, credit cards and guaranties amounted to NOK 3 747 million, while issued guarantees stood at NOK 764 million.

Remaining time to maturity of key items in the balance sheet as at 31.12.2013 – Parent bank

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	Undefined
Assets							
Cash and receivables from central banks	1 340	1 302					38
Loans to and receivables from credit institutions	579	579					
Net loans to customers	26 667	5 792	627	802	3 598	15 849	
Bonds and certificates	7 620	37	1 343	303	5 549	387	
Other assets	656						656
Total assets	**36 862**	**7 710**	**1 970**	**1 105**	**9 147**	**16 236**	**694**
Liabilities /non-derivative obligations							
Debts to credit institution	2 027	1	1 235		600		191
Deposits from customers	21 264	19 667	1 597				
Debt incurred due to issue of securities	9 695	95		1 700	6 900	1 000	
Other liabilities	154	14	12	85	3		39
Subordinated loan capital	900					400	500
Total liabilities	**34 040**	**19 777**	**2 844**	**1 785**	**7 503**	**1 400**	**731**
Derivative obligations							
Financial derivatives gross settlement							
Payment	-1 975	-939	-851	-185			
Payment received	1 971	936	850	185			
Total derivative obligations	**-4**	**-3**	**-1**	**0**	**0**	**0**	**0**

As at 31.12.2013, unused credit facilities on approved credit, credit cards and guaranties amounted to NOK 2 016 million, while issued guarantees stood at NOK 764 million.

Maturity structure of issued bonds as at 31.12.2014

NOK MILLION

ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010563794	SOR05 PRO	104	104	104	NIBOR 3 mths	No installment	04.02.2015
NO0010629124	SOR23 PRO	512	514	515	NIBOR 3 mths	No installment	18.02.2015
NO0010601404	SOR09 PRO	550	573	574	Fixed rate	No installment	29.05.2015
NO0010585284	SOR06 PRO	530	532	533	NIBOR 3 mths	No installment	16.09.2015
NO0010580533	SOR17 PRO	800	822	830	NIBOR 3 mths	No installment	25.09.2015
NO0010629165	SOR11 PRO	215	221	222	Fixed rate	No installment	23.11.2015
NO0010302425	SOR03	900	959	964	Fixed rate	No installment	19.02.2016
NO0010605454	SOR20 PRO	800	861	872	Fixed rate	No installment	30.03.2016
NO0010609720	SOR21 PRO	800	801	812	NIBOR 3 mths	No installment	09.05.2016
NO0010599731	SOR18 PRO	1 000	1 067	1 084	Fixed rate	No installment	11.08.2016
NO0010624703	SOR10 PRO	900	914	920	NIBOR 3 mths	No installment	05.09.2016
NO0010598535	SOR08 PRO	700	778	788	Fixed rate	No installment	20.01.2017
NO0010634801	SOR12 PRO	930	956	964	NIBOR 3 mths	No installment	16.03.2017
NO0010664956	SOR24 PRO	1 000	1 002	1 027	NIBOR 3 mths	No installment	30.11.2017
NO0010635055	SOR13 PRO	1 000	1 138	1 160	Fixed rate	No installment	26.01.2018
NO0010672793	SOR25 PRO	500	501	509	NIBOR 3 mths	No installment	05.03.2018
NO0010649338	SOR14 PRO	1 000	1 118	1 144	Fixed rate	No installment	11.05.2018
NO0010692643	SOR27 PRO	1 000	1 003	1 017	NIBOR 3 mths	No installment	29.10.2018
NO0010675358	SOR15 PRO	400	430	444	Fixed rate	No installment	17.06.2019
NO0010680093	SOR26 PRO	1 000	1 061	1 099	Fixed rate	No installment	16.09.2019
NO0010708019	SOR02 PRO	1 500	1 500	1 504	NIBOR 3 mths	No installment	19.03.2020
NO0010708027	SOR01 PRO	650	707	729	Fixed rate	No installment	19.03.2020
NO0010724081	SOR29 PRO	500	511	529	NIBOR 3 mths	No installment	24.11.2020
NO0010692189	SOR16 PRO	300	338	354	Fixed rate	No installment	28.04.2021
Issued by Parent bank		**17 591**	**18 414**	**18 700**			
NO0010520406	SORB14	11	11	11	NIBOR 3 mths	No installment	16.03.2015
NO0010633415	SORB05	356	356	357	NIBOR 3 mths	No installment	23.03.2015
NO0010572118	SORB11	249	250	251	NIBOR 3 mths	No installment	23.04.2015
NO0010503410	SORB18	7	7	7	NIBOR 3 mths	No installment	28.09.2015
NO0010625841	SORB03	356	358	359	NIBOR 3 mths	No installment	05.10.2015
NO0010575210	SORB12	327	328	330	NIBOR 3 mths	No installment	26.11.2015
NO0010593437	SORB13	612	613	616	NIBOR 3 mths	No installment	14.12.2015
NO0010512502	SORB17	2	2	2	NIBOR 3 mths	No installment	14.12.2015
NO0010515406	SORB16	142	142	143	NIBOR 3 mths	No installment	16.03.2016
NO0010605801	SORB19	1 000	1 000	1 006	NIBOR 3 mths	No installment	30.03.2016
NO0010614688	SORB01	1 200	1 200	1 208	NIBOR 3 mths	No installment	29.06.2016
NO0010641624	SORB20	1 000	1 001	1 011	NIBOR 3 mths	No installment	28.03.2017
NO0010623945	SORB02	1 200	1 202	1 214	NIBOR 3 mths	No installment	24.08.2017
NO0010649056	SORB06	1 250	1 262	1 272	NIBOR 3 mths	No installment	20.06.2018
NO0010673296	SORB21	2 000	2 007	2 019	NIBOR 3 mths	No installment	14.09.2018
NO0010699341	SORB23	800	801	807	NIBOR 3 mths	No installment	13.03.2019
NO0010679806	SORB10	2 000	2 012	2 021	NIBOR 3 mths	No installment	22.05.2019
NO0010689680	SORB22	1 000	1 000	1 010	NIBOR 3 mths	No installment	18.09.2019
NO0010664659	SORB07	800	803	812	NIBOR 3 mths	No installment	27.11.2019
NO0010714058	SORB24	2 000	2 000	2 006	NIBOR 3 mths	No installment	24.06.2020
NO0010671597	SORB09	350	406	421	Fixed rate	No installment	13.02.2023
NO0010670409	SORB08	500	601	632	Fixed rate	No installment	24.01.2028
Issued by subsidiary SSB		**17 161**	**17 361**	**17 515**			
Total bonds		**34 752**	**35 775**	**36 214**			

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.

Maturity structure of issued subordinated loans as at 31.12.2014

NOK MILLION							
ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010697063	SOR28 PRO	400	400	405	NIBOR 3 mths + 1.80%	Sub. Loan	27.11.2023
NO0010641459	Not listed	200	199	208	NIBOR 3 mths + 4.75%	Hybrid cap.	30.03.2099
NO0010592348	SOR07	200	201	201	NIBOR 3 mths + 3.60%	Hybrid cap.	29.03.2099
NO0010293970	Not listed	300	300	296	NIBOR 3 mths + 1.00%	Hybrid cap.	15.12.2099
Issued by Parent bank		**1 100**	**1 100**	**1 109**			

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:

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

PARENT BANK			GROUP	
31.12.2013	31.12.2014		31.12.2014	31.12.2013
116,2	111,9	Liquidity indicator 1	105,5	108,6
126,1	116,9	Liquidity indicator 2	111,3	116,3

Note 14 – Interest income and interest expenses

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
11	70	Interest on loans given to and receivables from credit institutions	33	11
1 061	2 430	Interest on loans given to customers	3 306	1 514
222	298	Interest on certificates and bonds	254	131
		Other interest income		1
1 294	**2 798**	**Total interest income**	**3 593**	**1 657**
21	52	Interest on debt to credit institutions	40	21
515	1 091	Interest on debt to customers	1 092	515
331	487	Interest on issued securities	866	481
24	48	Interest on subordinated loans and hybrid capital	48	24
14	36	Fee to The Norwegian Banks' Guarantee Fund	36	14
905	**1 714**	**Total interest expenses**	**2 082**	**1 055**
389	**1 084**	**Net interest income**	**1 511**	**602**

Note 15 – Commission income

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
8	25	Guarantee commission	21	8
9	14	Security trading and management	14	4
55	166	Payment transmission	166	55
10	32	Insurance services	32	10
		Real estate turnover and management	83	
14	47	Fees from other activities	15	14
96	**284**	**Total commission income**	**331**	**91**

Note 16 – Income from financial instruments

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
-48	226	Changes in value - fixed rate loans - designated at fair value through profit	226	-48
39	-160	Changes in value - derivatives fixed rate loans - lisable to fair value through profit	-160	39
-9	**66**	**Net fixed rate loans**	**66**	**-9**
13	30	Gains(losses) and change in value - certificates and bonds	30	-5
9	11	Share dividend	11	9
21	116	Gains(losses) and change in value - shares	116	21
43	**157**	**Certificates, bonds and shares - designated at fair value through profit**	**157**	**25**
62	-254	Change in value - bonds at fixed interest rate - hedge accounting	-480	62
-62	245	Change in value - derivatives fixed rate bonds - liable to fair value through profit	469	-62
0	**-9**	**Net issued securities at fixed rate - hedge accounting**	**-10**	**0**
0	-15	Gains (losses) from buy-back of own bonds - amortised cost	-45	0
-3	14	Currency gains (losses)	14	-3
6	4	Other financial derivatives - liable to fair value through profit	4	6
3	**2**	**Net other financial instruments and derivatives**	**-28**	**3**
37	**215**	**Net income from financial instruments**	**184**	**19**

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	
2013	2014	NOK MILLION	2014	2013
110	297	Wages to employees and fee to elected representatives (1)	348	110
18	36	Payroll tax	43	18
11	33	Pension costs	33	11
3	14	Other personnel costs	14	3
142	**380**	**Total personnel costs**	**438**	**142**
178	454	Number of man-years as at 31.12	508	178
180	**472**	**Average number of man-years per year**	**527**	**180**

(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 (1.5 month salary in 2013). 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 53 persons as at 31.12.2014.

The secured defined benefit scheme includes 746 persons of which 311 receive pension as at 31 December 2014. The bank also has pension liabilities that apply to 50 persons who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These pension schemes are regarded as defined contribution schemes. Estimate changes and deviations are entered directly against other comprehensive income. The arrangement with a contractual right to early retirement from the age of 62 (AFP) has been taken into consideration in the pension liabilities. The new AFP early retirement scheme was introduced in 2010 and is treated as a contribution scheme as at 31 December 2014.

The pension scheme fulfills 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:

	2014	2013
Discounting interest rate	2.30 %	4.10 %
Expected wage adjustment	2.75 %	3.75 %
Expected pension adjustment	0.00 %	0.60 %
Expected 'G' -adjustment	2.50 %	3.50 %
Expected investment return on pension resources	2.30 %	4.10 %
Voluntary retirement	0.00 %	0.00 %
Propensity to take up AFP	0.00 %	0.00 %

When calculating the pension costs for 2014, the assumptions as at 31 December 2013 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 2014 and 31 December 2013, is based on the ordinary table K2013.

Breakdown of pension costs for the year

	2014		2013	
NOK MILLION	**Funded**	**Unfunded**	**Funded**	**Unfunded**
Pension earnings for the year	24	4	7	1
Interest costs on the pension commitments	23	2	6	
Recognised return on pension funds	-21		-6	
Total pension costs - defined benefit schemes	**26**	**6**	**7**	**1**
New AFP and premium deposit pension	5		2	
Total pension costs recognised in the income statement	**31**	**6**	**9**	**1**
Estimate deviations recognised in the total result	109	18	25	
Total pension costs	**140**	**24**	**34**	**1**
Movements - pension commitments				
Commitments at the beginning of the period	199	34	177	33
Commitments added through merger	364	18		
Commitments as at 01.01.2014	**563**	**52**	**177**	**33**
Pension earnings for the year	24	4	7	1
Interest costs on the pension commitments	23	2	6	
Actuarial losses/gains	91	18	13	
Pension payments	-15	-5	-4	
Pension commitments at the end of period	**686**	**71**	**199**	**34**
Movements - pension funds				
Pension funds at the beginning of the period	157		150	
Pension funds added through merger	357			
Pension funds as at 01.01.2014	**514**	**-**	**150**	**-**
Return on pension funds	21		6	
Actuarial losses/gains	-18		-8	
Payment into pension funds	19		13	
Pension payments	-15		-4	
Pension funds at the end of period	**521**	**-**	**157**	**-**
Net pension commitments at the end of period	**165**	**71**	**42**	**34**

Composition of pension assets	2014	2013
Shares	8 %	8 %
Property	15 %	17 %
Long term bonds	34 %	40 %
Short term bonds	38 %	33 %
Others	5 %	2 %
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

	2014	2013
Active members of the benefit pension scheme	435	148
Pensioners and disabled in the scheme	311	91
Total number of persons who are included in the benefit scheme	**746**	**239**
Active members of non-insured schemes	20	13
Pensioners and disabled people in non-secured schemes	30	7
Total number of people in non-secured schemes	**50**	**20**
Active members of contribution scheme	53	35
Total number of people in the contribution scheme	**53**	**35**

Expected pension expenses in 2015 are NOK 42.9 million for the Parent company / Group. Of this, NOK 37.9 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 31.12.2014. The calculation only applies to the insured performance scheme.

Sensitivity analysis

NOK MILLION	Discounted-interest rate	Growth in wages	Regulation of G adjustment
Pension cost on basic premises	**26**	**26**	**26**
Increase 1 % - points	21	30	24
Reduction 1 % - points	32	23	28
Gross pension obligations on basic premises	**686**	**686**	**686**
Increase 1 % - points	579	765	657
Reduction 1 % - points	817	620	716

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

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
12	41	Marketing	43	12
38	115	IT costs	118	40
10	45	Operating costs - real estate	41	10
2	27	External fees	28	2
5	10	Office supplies	10	5
9	18	Wealth tax	18	9
33	76	Other operating expenses	86	36
109	**332**	**Total other operating expenses**	**344**	**114**

Remuneration to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2013	2014	NOK THOUSAND	2014	2013
844	1 288	Ordinary audit fees	1 458	1 031
	66	Tax advice	66	
375	111	Other attestation services	220	428
1 220	165	Fees from other services (1)	165	1 227
2 438	**1 630**	**Total remuneration of elected auditor (incl. VAT)**	**1 909**	**2 687**

(1) Fees for other services apply largely to assistance and confirmation in connection with the merger with Sparebanken Sør and also the implementation of the financial Due Diligence of Sparebanken Sør in the spring of 2013.

Note 19 – Tax

PARENT BANK					GROUP			
31.12.2013	Added through merger	01.01.2014	31.12.2014	NOK MILLION	31.12.2014	01.01.2014	Added through merger	31.12.2013
				Deferred tax and deferred tax asset				
43	36	79	76	Fixed assets	74	101	58	43
5	16	21	27	Securities	27	19	14	5
23	-24	-1	89	Loans	89	-1	-24	23
-21	-7	-28	-64	Pension commitments	-64	-28	-7	-21
-30	-80	-110	-146	Bonds loans	-182	-117	-87	-30
-22	33	11	5	Derivatives	39	13	35	-22
	1	1	2	Other accounting provisions		-2	-2	
-2	**-25**	**-27**	**-11**	**Total deferred tax and deferred tax asset**	**-17**	**-15**	**-13**	**-2**

31.12.2013	31.12.2014	Deferred tax and deferred tax asset	31.12.2014	31.12.2013
-10	**16**	**Change in deferred tax**	**-2**	**-10**
7	34	Deferred tax recognised in the total result	34	7
		Other change in deferred tax	25	
-3	**50**	**Deferred tax recognised in the profit for the year**	**57**	**-3**

31.12.2013	31.12.2014	Composition of recognised tax	31.12.2014	31.12.2013
63	65	Tax payable on net income	160	114
-3	50	Recognised deferred tax	57	-3
	-2	Excess provision previous years	-2	
60	**113**	**Tax cost for the year**	**215**	**111**

31.12.2013	31.12.2014	Tax payable on net income	31.12.2014	31.12.2013
65	195	27% of profit before tax	298	116
-5	-81	27% of permanent differences	-81	-5
3	-49	Recognised deferred tax	-57	3
63	**65**	**Tax payable on net income**	**160**	**114**

31.12.2013	31.12.2014	Payable tax in the balance sheet	31.12.2014	31.12.2013
63	65	Tax payable on net income	160	114
8	18	Wealth tax	18	9
71	**83**	**Payable tax in the balance sheet**	**178**	**123**

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 pr. 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 pr. 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.

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
GROUP pr. 31.12.2013					
Cash and receivables from central banks				1 340	1 340
Loans to and receivables from credit institutions				50	50
Net loans to customers			5 473	32 514	37 987
Bonds and certificates			5 783		5 783
Shares			98		98
Financial derivatives	91	112			203
Ownership in associated companies				2	2
Other assets	16			14	30
Total financial assets	**107**	**112**	**11 354**	**33 920**	**45 493**
Debts to credit institution				2 027	2 027
Deposits from customers				21 264	21 264
Debt incurred due to issue of securities				17 935	17 935
Financial derivatives	241				241
Other liabilities	16			69	84
Subordinated loan capital				899	899
Total financial liabilities	**257**	**0**	**0**	**42 195**	**42 451**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 11,361 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

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
PARENT BANK pr. 31.12.2013					
Cash and receivables from central banks				1 340	1 340
Loans to and receivables from credit institutions				579	579
Net loans to customers			5 473	21 194	26 667
Bonds and certificates			6 360	1 261	7 620
Shares			98		98
Financial derivatives	91	112			203
Ownership in group companies				525	525
Ownership in associated companies				2	2
Other assets	16			14	30
Total financial assets	**107**	**112**	**11 931**	**24 915**	**37 065**
Debts to credit institution				2 027	2 027
Deposits from customers				21 264	21 264
Debt incurred due to issue of securities				9 799	9 799
Financial derivatives	241				241
Other liabilities	16			69	84
Subordinated loan capital				899	899
Total financial liabilities	**257**	**0**	**0**	**34 058**	**34 315**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 11,938 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 credit worthy 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				31.12.2014	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**

PARENT BANK				31.12.2013	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				
1 340		1 340		Cash and receivables from central banks	1 340		1 340	
579		579		Loans to and receivables from credit institutions	50		50	
21 194			21 194	Net loans to customers (floating interest rate)	32 514			32 514
1 261		1 271		Bonds and certificates				
				Assets recognised at fair value				
5 473			5 473	Net loans to customers (fix interest rate)	5 473			5 473
6 360		6 360		Bonds and certificates	5 783		5 783	
98	7		92	Shares	98	7		92
203		203		Financial derivatives	203		203	
16		16		Other assets	16		16	
36 524	**7**	**9 769**	**26 759**	**Total financial assets**	**45 477**	**7**	**7 392**	**38 079**
				Liabilities recognised at amortised cost				
2 027		2 027		Debt to credit institutions	2 027		2 027	
21 264			21 264	Deposit from customers	21 264			21 264
9 799		9 882		Debt incurred due to issue of securities	17 935		18 063	
899		894		Subordinated loan capital	899		894	
				Liabilities recognised at fair value				
241		241		Financial derivatives	241		241	
16		16		Other liabilities	16		16	
34 246	**0**	**13 060**	**21 264**	**Total financial liabilities**	**42 382**	**0**	**21 241**	**21 264**

The parent bank has recognised the bonds issued by the subsidiary at fair value, and the bonds have been eliminated in the consolidated financial statements – hence the difference between the fair value of bonds in the parent bank against the consolidated financial statements as at 31.12.2013. There have been no movements between level 1 and 2 in 2014 or 2013.

Movements in values recognised at fair value categorised at level 3

	GROUP / PARENT BANK			
NOK MILLION	Net loans to customers	Of which credit risk	Shares	Of which credit risk
Recognised value 01.01.2013	**5 471**	**-93**	**88**	**0**
Acquisition 2013	533			
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	-54	-12	4	0
Disposal 2013	-477			
Recognised value 31.12.2013	**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**

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.

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.

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.

	GROUP / PARENT BANK	
NOK MILLION	31.12.2014	31.12.2013
Loan to customers	**22**	**21**
- of which, loans to the corporate market (CM)	9	11
- of which, loans to the retail market (RM)	13	10

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	
2013	2014	NOK MILLION	2014	2013
		Result / ineffectiveness in hedge accounting		
0	-9	Net income from other financial instruments	-10	0
0	**-9**	**Total**	**-10**	**0**

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	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
		Recognitions concerning hedge accounting		
112	432	Financial derivatives	556	112
112	**432**	**Total financial assets**	**556**	**112**
3 671	9 812	Nominal hedged items	10 662	3 671
112	440	Adjustment of hedged items – hedged risk	566	112
3 783	**10 252**	**Total financial liabilities**	**11 227**	**3 783**

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	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
		Long-term investments valued at amortised cost		
1 261	0	Certificates and bonds issued by subsidiary	0	0
1 261	**0**	**Total long-term investment valued at amortised cost**	**0**	**0**
		Short-term investments designed at fair value through profit		
1 349	2 613	Certificates and bonds issued by public sector	2 913	1 349
4 434	7 446	Certificates and bonds issued by others	7 446	4 434
577	0	Certificates and bonds issued by subsidiary	0	0
6 360	**10 059**	**Total short-term investment designed at fair value through profit**	**10 359**	**5 783**
7 620	**10 059**	**Investment in securities**	**10 359**	**5 783**

Covered bonds (OMF) included in the swap scheme with the government, have been recognised in the balance sheet for the parent bank as at 31 December 2013. The bank's agreement with the government, according to the swap exchange arrangement, past due in March 2014.

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	
31.12.2013	31.12.2014	NOK MILLION	31.12.2014	31.12.2013
		Certificates and bonds		
7 364	9 763	Lowest risk	10 063	5 527
25	9	Low risk	0	25
220	221	Medium risk	221	220
0	10	High risk	10	0
0	46	Highest risk	46	0
11	19	Accrued interest	19	11
7 620	**10 059**	**Total certificates and bonds**	**10 359**	**5 783**

Note 23 – Shares

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

31.12.2014				GROUP
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**

31.12.2013				GROUP
NOK THOUSAND	**Number of shares**	**Equity stake**	**Book value**	**Acquisition cost**
Shares classified at fair value				
NorgesInvestor IV AS	98 750	2,1	9 712	8 256
Norgesinvestor Oppotunities II AS	50 000	17,3	5 410	5 000
NorgesInvestor III AS	119 597	2,0	1 410	30
Nets AS	501 350	0,27	39 138	21 729
Eiendomskreditt AS	112 396	4,1	12 500	11 321
Eksportfinans ASA	529	0,2	10 015	7 879
VISA International a-shares	1 489	0	2 017	638
VISA International c-shares	3 475	0	4 707	1 488
Other companies (17)			996	1 079
Total shares valued at fair value			**85 906**	**57 420**
Participations classified at fair value				
Skagerak Venture Capital 1 KS			12 143	14 589
Total participations valued at fair value			**12 143**	**14 589**
TOTAL			**98 049**	**72 009**

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 31.12.2014 non-mobilised capital is NOK 2,865,000 (as at 31.12.2013 NOK 3,050,000).

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

Note 24 – Equity stakes in group companies

31.12.2014					PARENT BANK
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**

31.12.2013					PARENT BANK
NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Pluss Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	525 000
Total					**525 000**

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

31.12.2014				PARENT BANK
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Arendal Brygge AS	Property management	Arendal	29 %	10 713
Søndeled Bygg AS	Property management	Arendal	35 %	1 125
Total				**11 838**

31.12.2013				PARENT BANK
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Plussmegleren Holding AS	Real estate brokerage	Kristiansand	20 %	2 250
Total				**2 250**

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.

Note 26 – Financial derivatives

				GROUP
NOK MILLION	31.12.14	31.12.2014 (1) presented as net	31.12.13	31.12.2013 (1) presented as net
Assets				
Financial derivatives	906	477	203	99
Liabilities				
Financial derivatives	521	93	241	137

				PARENT BANK
NOK MILLION	31.12.14	31.12.2014 (1) presented as net	31.12.13	31.12.2013 (1) presented as net
Assets				
Financial derivatives	751	326	203	99
Liabilities				
Financial derivatives	517	93	241	137

(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 and a master agreement in cases where certain events occur. The amounts have not been offset in the balance sheet as at 31 December 2014 or 31 December 2013 because the transactions are generally not settled on a net basis.

Note 27 – Debt securities and subordinated loan capital

Debt securities – group

NOK MILLION	31.12.14	31.12.13
Bonds, nominal value	34 748	17 728
Value adjustments	692	100
Accrued interest	335	107
Total debt due to issue of securities	**35 775**	**17 935**

Change in debt securities – group

NOK MILLION	31.12.2013	Added in the merger	Issued	Matured / Redeemed	Other changes during the period	31.12.2014
Bonds, nominal value	17 728	19 353	7 240	-9 573		34 748
Value adjustment	100	365			227	692
Accrued interest	107	240			-12	335
Total debt due to issue of securities	**17 935**	**19 958**	**7 240**	**-9 573**	**215**	**35 775**

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

NOK MILLION	31.12.2013	Added in the merger	Issued	Matured / Redeemed	Other changes during the period	31.12.2014
Subordinated loans	400					400
Hybrid capital	500	200				700
Value adjustment	-1	1				0
Total subordinated loan capital	**899**	**201**				**1 100**

Debt securities – parent bank

NOK MILLION	31.12.14	31.12.13
Bonds, nominal value	17 587	9 600
Value adjustment	542	104
Accrued interest	285	95
Total debt due to issue of securities	**18 414**	**9 799**

Change in debt securities – parent bank

NOK MILLION	31.12.2013	Added in the merger	Issued	Matured / Redeemed	Other changes during the period	31.12.2014
Bonds, nominal value	9 600	10 328	3 990	-6 331		17 587
Value adjustment	104	339			99	542
Accrued interest	95	194			-4	285
Total debt due to issue of securities	**9 799**	**10 861**	**3 990**	**-6 331**	**95**	**18 414**

Note 28 – Loans and debts to credit institutions

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
		Loans to credit institutions		
573	1 365	Without agreed maturity	35	44
6	145	With agreed maturity	145	6
		Accrued interest		
579	**1 510**	**Total loan to credit institutions**	**180**	**50**
		Debts to credit institutions		
191	210	Without agreed maturity	210	191
1 836	417	With agreed maturity	404	1 836
2 027	**627**	**Total debts to credit institutions**	**614**	**2 027**

Note 29 – Fixed assets

GROUP	Machinery, fixture and fittings transport equipments		Real estate		Intangible assets	
NOK MILLION	2014	2013	2014	2013	2014	2013
Acquisition cost 31.12.	135	135	216	216	56	56
Acquisition added through merger	147		407		143	
Depreciation connected with the merger			162			
Acquisition cost 01.01.	**282**	**135**	**785**	**216**	**199**	**56**
Additions during the year	11	8	19		14	
Disposals during the year	-41	-2	-226		-32	
Acquisition cost 31.12.	**252**	**141**	**578**	**216**	**181**	**56**
Accumulated depreciations and write-downs 31.12.	186	94	141	8	161	47
Book value as at 31.12	**66**	**47**	**437**	**208**	**20**	**9**
Ordinary depreciation	21	13	9	2	10	
Impairments			12			
Gains/losses on sale	-2		5			

PARENT BANK	Machinery, fixture and fittings transport equipments		Real estate		Intangible assets	
NOK MILLION	2014	2013	2014	2013	2014	2013
Acquisition cost 31.12.	134	134	216	216	56	56
Acquisition added through merger	135		198		42	
Depreciation connected with the merger			175			
Acquisition cost 01.01.	**269**	**134**	**589**	**216**	**98**	**56**
Additions during the year	10	8	18		14	
Disposals during the year	-40	-2	-56		-32	
Acquisition cost 31.12.	**239**	**140**	**551**	**216**	**80**	**56**
Accumulated depreciations and write-downs 31.12.	175	93	140	8	63	47
Book value as at 31.12	**64**	**47**	**411**	**208**	**17**	**9**
Ordinary depreciation	20	13	6	2	10	
Impairments			12			
Gains/losses on sale	-2		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 16.4 million in 2014 (NOK 2.7 million in 2013) 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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
7 919	23 233	Retail customers	23 233	7 919
2 271	4 278	Public administration	4 278	2 271
48	256	Primary industry	256	48
1 165	2 015	Manufacturing industry	2 015	1 165
1 318	2 206	Building and construction	2 206	1 318
782	1 265	Transport and communication	1 265	782
677	931	Retail trade	931	677
49	149	Hotel and restaurant	149	49
1 708	3 417	Property management	3 399	1 708
974	2 382	Financial/commercial services	2 381	974
4 338	8 124	Other industries	8 124	4 338
15	13	Accrued interest	13	15
21 264	**48 269**	**Total deposits from customers**	**48 250**	**21 264**

PARENT BANK			GROUP	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
9 942	40 269	Deposits from customers with no fixed maturity	40 250	9 942
11 307	7 987	Deposits from customers with agreed maturity	7 987	11 307
21 249	**48 256**	**Total deposits from customers**	**48 237**	**21 249**
15	13	Accrued interest	13	15
21 264	**48 269**	**Total deposits from customers incl. accrued interest**	**48 250**	**21 264**

Note 31 – Other liabilities

PARENT BANK			GROUP	
2013	2014	NOK MILLION	2014	2013
2	12	Trade creditors	21	2
7	14	Tax withholdings	23	7
6	33	Clearing accounts	33	6
36	60	Other liabilities	65	38
12	35	Accrued holiday pay	40	12
18	40	Other incurred costs	49	18
81	**194**	**Total other liabilities**	**231**	**83**

Note 32 – Average interest rates

PARENT BANK			GROUP	
31.12.13	31.12.14		31.12.14	31.12.13
		Debt to credit institutions		
2.19 %	1.92 %	Debt to credit institutions	1.92 %	2.19 %
		Deposits from customers		
2.42 %	2.06 %	Deposits from customers	2.06 %	2.42 %
		Debt incurred due to issue of securities		
2.72 %	2.68 %	Bond debt - floating interest rate	2.25 %	2.39 %
4.53 %	4.36 %	Bond debt - fixed interest rate	4.32 %	4.53 %

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 Group, 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	16 666	9 197	669	2 527
Interest income	287	310	27	57
Deposits as at 31.12.15	5 349	6 484	4 849	174
Interest cost	113	127	93	0

Subsidiaries	Loans	Interest income	Deposits	Interest cost	Interest on bonds	Management fee
Prosjektutvikling AS	19 736	874	15	8		
Eiendomsvekst AS	5 000		2 477	9		
Rettighetskompaniet AS			1 545	18		
Sørmegleren Holding AS	15 467	7 039	15 875	7 242		
Sparebanken Sør Boligkreditt AS	1 330 419	41 319	12 588	16 437	44 892	32 521
Total	**1 370 621**	**49 232**	**32 500**	**23 713**	**44 892**	**32 521**

Associated companies	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	51 757	1 885	406	4
Søndeled Bygg AS			0	0
Total	**51 757**	**1 885**	**406**	**4**

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	31.12.2014	31.12.2013
Sparebanken Sør Boligkreditt AS	20 079	11 320

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 2014, Sparebanken Sør Boligkreditt has an overdraft facility amounting to NOK 5,500 million with Sparebanken Sør. In addition Sparebanken Sør Boligkreditt AS has a loan facility available 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 31.12.2014.

Key personnel	Stilling	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	0	2 524	0	179	1 806	4 509	2 982
Lasse Kvinlaug	Deputy CEO/ Director, Corporate market	180	1 579	0	172	450	2 201	1 597
Gunnar Thomassen	Director, Retail market	0	1 479	30	158	157	1 824	2 692
Rolf Søraker	Director, Group support	0	1 040	30	134	113	1 317	947
Marianne Lofthus	Director, Capital market	0	1 127	86	63	208	1 484	41
Bjørn A. Friestad	Director, Risk management	475	1 279	0	163	208	1 650	1 593
Gry Moen	Director, Business support	0	1 162	30	161	227	1 580	5 127
Tellef Myrvold	Director, Merger secretariat	20	1 215	0	166	263	1 644	1 687
Total			**11 405**	**176**	**1 196**	**3 432**	**16 209**	**16 666**

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.

Board of directors		Number of equity certificates	Fees and other remunerations	Taxable benefits	Pension cost	Total remuneration	Loans
Stein A. Hannevik	Chairman	60	2 465	181	1 249	3 895	1 426
Torstein Moland	Deputy chairman	0	160			160	0
Jill Akselsen	Member	0	108			108	0
Trond Bjørnenak	Member	0	108			108	0
Inger Johansen	Member	0	100			100	2 996
Siss June Ågedal	Member	0	130			130	0
Marit Kittelsen	Member	0	108			108	0
Erling Holm	Member	0	140			140	0
Bente Pedersen	Member	0	100			100	2 548
Per Adolf Bentsen	Member	0	100			100	2 227
Total			**3 519**	**181**	**1 249**	**4 949**	**9 197**

Control committee		Number of equity certificates	Fees and other remunerations	Loans
Dag Jørgen Hveem	Chairman	0	107	0
Georg Fritzman	Deputy chairman	0	70	0
Yngvar Aulin	Member	0	60	669
Sverre Irgens	Member (Leave)	0	0	0
Eva Elisabeth Johnsen Holm	Member (Deputy)	0	48	4 641
Total			**285**	**5 310**

Board of Trustees		Number of equity certificates	Fees and other remunerations	Loans
Øystein Haga	Chairman, Depositor elected	0	39	2 527
Carsten Akselsen	Deputy Chairman, EC owner	10 250	9	0
Terje Røsnes	Depositor selected	600	9	1 190
Mette Vestberg Sørensen	Depositor selected	0	9	29
Yngvar Aulin	Depositor selected	0	9	669
Ståle Rysstad	Depositor selected	0	12	9
Per Olav Skutle	Depositor selected	0	7	0
Kjell Bjarne Back	Depositor selected	0	9	0
Tor Kim Steinsland	Depositor selected	0	11	1 892
Kai Magne Strat	Depositor selected	0	11	7 964
Linda Gjertsen	Depositor selected	0	9	685
Lisa Jensen	Depositor selected	0	9	0
Wigdis Hansen	Depositor selected	0	11	53
Birgitte Midgaard	Depositor selected	0	9	295
Øyvind Tveit	Depositor selected	0	18	0
Hans Otto Lund	Municipal/Public selected	0	12	2 074
Atle Drøsdal	Municipal/Public selected	0	2	0
Tove M. Kirkevik	Municipal/Public selected	0	9	1 675
Jone Nikolai Nyborg	Municipal/Public selected	0	9	0
Ernst David Kolstad	Municipal/Public selected	0	9	995
Bernt Slettedal	Municipal/Public selected	0	2	0
Harald Fauskanger Andersen	Municipal/Public selected	0	14	2 175
Torunn Ostad	Municipal/Public selected	0	9	105
Erling Laland	Municipal/Public selected	0	2	1 942
Tormod Nyberg 2)	EC owner	2 700	7	0
Egil Galteland	EC owner	3 010	9	0
Jens Helge Hodne 3)	EC owner	300	28	0
Endre Glastad 4)	EC owner	91 250	0	0
Karl Moursund 5)	EC owner	62 300	4	0
Tone Helene Strat 1)	EC owner	0	17	650
Eirik C. Sætra 1)	EC owner	0	11	1 053
Ole Martin Retterholdt 1)	EC owner	0	11	669
Cheryl MacDonald 1)	EC owner	0	11	3 848
Søren Seland 1)	EC owner	0	11	1 706
Einar Amundsen 1)	EC owner	0	9	254
Arvid Berg	Elected by employees	0	9	1 092
Jan Erling Tobiassen	Elected by employees	0	9	932
Bente Sørensen	Elected by employees	60	12	1 033
Jahn Frode Hanssen	Elected by employees	0	9	2 501
Pål Hompland	Elected by employees	0	9	2 221
Andreas Gulsrud	Elected by employees	50	7	3 237
Merete Lie Seland	Elected by employees	0	4	2 692
Anne Efjestad	Elected by employees	0	9	1 606
Ellen Haugen	Elected by employees	0	9	1 513
Erik Opsal	Elected by employees	0	9	541
Birger Sløgedal	Elected by employees	0	14	2 545
Arve Askildsen	Elected by employees	0	11	1 843
Per Bø	Elected by employees	0	9	3 304
Total			**487**	**57 518**

(1) Represents Sparebankstiftelsen Sparebanken Sør, which owns 3,518,674 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	
31.12.13	31.12.14	NOK MILLION	31.12.14	31.12.13
		Assets pledged as collateral		
4 188	8 731	Bonds pledged for drawing-rights in Norges Bank	8 731	4 188
		Guarantee liabilities		
352	432	Payment guarantees	432	352
365	599	Contract guarantees	599	365
0	6	Guarantees for taxes	6	0
46	102	Other guarantees	102	46
764	**1 139**	**Total guarantee liabilities**	**1 139**	**764**

Note 36 – Equity certificates, equity capital and proposed dividend

The 20 largest equity certificate owners as at 31.12.2014

	NAME	NUMBER OF EC	SHARE OF EC-CEP. %
	Sparebankstilftelsen		
1.	Sparebanken Sør	3 518 674	73.79
2.	Parento AS	124 150	2.60
3.	Glastad Invest AS	91 250	1.91
4.	Verdipapirforndet BKA	66 460	1.39
5.	Sparebankstiftelsen DNB	62 300	1.31
6.	Brøvig Holdig AS	34 800	0.73
7.	Harald Espedal AS	34 542	0.72
8.	Varodd AS	32 800	0.69
9.	Gumpen B eiendom AS	32 350	0.68
10.	Sparebanken Sør	31 600	0.66
	Total - 10 largest owners	**4 028 926**	**84.49**

	NAME	NUMBER OF EC	SHARE OF EC-CEP. %
11.	MP Pensjon PK	26 900	0.56
12.	Spareskillingsbanken	26 600	0.56
13.	Allumgården	25 179	0.53
14.	Birkenes Sparebank	20 000	0.42
15.	Flekkefjord Sparebank	15 800	0.33
16.	Albert Alf	15 120	0.32
17.	Apriori Holding AS	13 900	0.29
18.	Strømme Leif Eiendom	13 400	0.28
19.	Lund Hans Arvid	12 500	0.26
20.	Spectatio Invest	11 900	0.25
	Total - 20 largest owners	**4 210 225**	**88.28**

As of 31 December 2014, 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	
	2014	2013
Total proposed dividend	NOK 47.7 million	NOK 12.5 million
Proposed dividend per equity certificate	NOK 10,0 per certificate	NOK 10.0 per certificate
Number of equity certificates	4 768 674	1 250 000

Equity certificate capital and result per equity certificate

Number of equity certificates	Nominal value	Equity certificate capital(1)	Premium 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	242	14.1%	411	12,2	685	20,3

Number of equity certificates	Nominal value	Equity certificate capital(1)	Premium fund (1)	Ownership ratio 01.01.	Profit for the year, Parent Bank (1)	Profit for the year per EC, Parent Bank	Profit for the year, Group (1,2)	Profit for the year per EC, Group
1 250 000	100	125	34	7.5%	172	10,3	302	18,1

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 2015 was 13.5 per cent. As of 31 December 2013, it was 7.13 and for the merged bank (cf. Note relating to the merger) it was 14.1 per cent as at 1 January 2014.

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 31.12.2014.

Note 37 – Merger of business

The merger of Sparebanken Pluss and Sparebanken Sør took place on 1 January 2014. Sparebanken Pluss is the acquiring bank in the merger and has changed its name to Sparebanken Sør. In accounting terms, the merger has been carried out according to the acquisition method, in line with IFRS 3. The bank has its head office in Kristiansand.

On 12 March 2013, the Boards of Directors of the banks confirmed a Letter of Intent regarding the merger. On 15 May 2013, the merger plan was accepted by the Boards of Directors of the banks and the merger was finally ratified by the banks' Board of Trustees on 20 June 2013. On 17 December 2013, the Boards of Directors of the two banks confirmed the implementation of the merger as of 1 January 2014, after authorisation had been obtained from the Financial Supervisory Authority and the Ministry of Finance. In the final merger plan, the exchange ratio was determined and a decision was made to increase the capital in Sparebanken Pluss by 3,518,674 new equity certificates that were to represent remuneration to the equity certificate holders in Sparebanken Sør.

The fair value of the 3,518,674 equity certificates issued as remuneration to the equity certificate holders in Sparebanken Sør was set at NOK 140 per equity certificate. The value used is the final quoted price before the merger was implemented on 1 January 2014, adjusted because the fee certificates were not entitled to dividends for 2013. In addition, dividends approved for distribution to equity certificate owners in the "old" Sparebanken Sør have been treated as a cash fee.

The Bank's primary capital was adjusted up to the stake of net assets, in accordance with the acquisition analysis. Negative goodwill was calculated and determined as the difference between the fair value of the issued equity certificates and their stake of the net assets at the point of acquisition. The table below shows the remuneration, fair value of assets and liabilities from Sparebanken Sør, and also the calculation of negative goodwill at the point of implementation.

Adjustments have been made in the acquisition analysis related to the items loans and ownership interests in group companies in 2014. Adjustments have also been made related to the payment. The impact of net assets is negative by NOK 61 million in the parent bank and NOK 22 million in the Group.

Fee	Quantity	Value per equity certificate	Fee, NOK million
Equity instruments (3,518,674 ordinary equity certificates)	3 518 674	140,0	493
Dividend/cash fee to equity capital certificate owners			30
Total fees			**522**

Identifiable assets and liabilities in the balance sheet	PARENT BANK	GROUP
Cash and receivables from central banks	381	381
Loans to and receivables from credit institutions	1 485	285
Gross loans, customers	28 144	39 885
Provisions for losses	-472	-478
Repossessed properties	2	2
Bonds and certificates	8 464	6 445
Shares	536	536
Financial derivatives	363	400
Shareholding in group companies	757	
Intangible assets	4	7
Deferred tax asset	24	11
Fixed assets	266	448
Other assets	34	55
Debts to credit institutions	-2 630	-1 465
Deposits from customers	-22 492	-22 476
Debt incurred due to issue of securities	-10 861	-19 958
Financial derivatives	-61	-66
Other liabilities	-106	-137
Obligations associated with period tax	-64	-111
Provisions for obligations	-38	-34
Hybrid capital	-201	-201
Net assets	**3 532**	**3 532**
Sparebanken's primary capital (owner ratio 79.54)	2 809	2 809
Equity certificate capital's share of identifiable net assets (owner ratio 20.46)	723	723
Total fees	**522**	**522**
Negative goodwill (fee – value-adjusted equity certificate capital)	-200	-200

Negative goodwill of NOK 200 million has been entered as revenue in its entirety in the first quarter of 2014, in the Profit and Loss Account and is transferred to the bank's equalisation fund to prevent equity dilution. In the calculation of net assets included in the merger, the dividend for 2013 (paid to equity certificate owners in the transferring company) and appropriated gifts have been excluded. These could have been included as part of the fee in connection with the merger, as they went to the bank's owners at the time of the merger.

If the merger had been carried out with effect from 1 January 2013, the Profit and Loss Account would have shown net interest income of NOK 1,018 million (parent bank) and NOK 1,443 million (group). The annual result would have been NOK 711 million (parent bank) and NOK 973 million (group).

The equity ratio in the merging bank is 14.1 per cent. This amounted to 7.1 per cent in Sparebanken Pluss and 20.5 per cent in Sparebanken Sør before the merger was implemented.

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 merged bank is in Kristiansand. The head office of the retail banking division and some of the shared 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 Executive Chairman of the Board and the CEO, framework for management and control, ethical guidelines and procedures for own-account trading.

The deviations from NUES' recommendation, which have been commented in this document, have all been approved by the Financial Supervisory Authority of Norway in connection with consent to the merger between Sparebanken Pluss and Sparebanken Sør.

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. Our business objective cannot be achieved until we act in concert with the society in which we operate.

By being a community building company, we contribute toward sustainable industrial and social development through creating values for the region. The bank also support projects within culture, sport and other areas that contribute positively to our local community. 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 assumes 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 employee 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 has been described.

One of the bank's aims is that advisers in Sparebanken Sør will be authorised in the necessary authorisation schemes. Through this authorisation, each employee is tested in theoretical and practical knowledge of 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 area 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 we would like to do our bit to contribute.

Sparebanken Sør has defined work on environmental efficiency as a priority area in the bank's 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 and in Telemark will provide growth potential and diversification of risk. The growth will be controlled and based on profitability and diversification of 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 (ICAAP), 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 SHARE-HOLDERS AND TRANSACTIONS WITH CLOSE PARTIES

Sparebanken Sør wants to continue the mutual beneficial relationship of trust between the merged banks and the main stakeholders in the new bank. Therefore, 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 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.

If the bank has transactions in own equity certificates, these are made 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, cf. section 7 of the Savings Bank Act relating to which bodies a savings bank shall have. Sparebanken Sør complies with the provisions in the Savings Bank 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. This is evident from the bank's articles of association. 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

When composing the Board of Trustees in the merged bank, there must be an equal distribution between representatives from former Sparebanken Pluss and Sparebanken Sør.

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, nominating committee 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.

The articles of association state transitional arrangements regarding the composition of the nominating committees up to 31 December 2015. 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, election of the Chairman, Deputy Chairman, members and deputy members of the Control Committee, and election 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 5-1 of the articles of association. Up to 31 December 2015, the Board of Directors will be composed of 10 members elected by the Board of Trustees, including two members elected from the employees.

Up to and including 2015, the Board of Directors will be composed of 7–9 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 Chairman of the Board, former CEO of Sparebanken Pluss, has been elected as Executive Chairman of the Board for a period of 2 years.

The Board members' independence

With the exception of the Chairman of the Board, 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 and is obliged to ensure that accounting and asset management are subject to satisfactory control.

The Board of Directors shall ensure that the bank has good internal control 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 shall have qualifications in accounting or 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 practices 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.

In accordance with NUES' recommendation, such a committee should be composed of Board members who are independent of executive personnel. As the Chairman of the Board is an executive Chairman of the Board and former employee, a deviation from the recommendation is reported.

Deviation from the recommendation: As part of the merger agreement's intention of balance and parallelism between the banks, the Executive Chairman of the Board has been elected as the Chairman of the Remuneration Committee. This has been approved by the Ministry of Finance.

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, Board of Directors, external auditing, internal auditing, group management and risk management committee.

Control Committee

The Control Committee has 4 members, is independent of the Board of Directors and the administration and is elected by the Board of Trustees every other year. One member of the committee shall satisfy the requirements set for judges pursuant to Act no. 5 of 13 August 1915. On behalf of the Board of Trustees, the Control Committee shall supervise that the bank's activities are in accordance with laws, regulations and instructions issued by the Board of Trustees.

The committee shall ensure that the company has adequate management systems and internal control schemes.

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 is secretary of the Control Committee and 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 its own 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 bank's 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. Members of the Audit Committee receive a separate remuneration.

For a period of two years up to 31 December 2015, the Chairman of the Board is the Executive Chairman of the Board and he receives the same as he would have received as CEO of Sparebanken Pluss.

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 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 73.8 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 2014 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 2014 / 3 March 2015

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

Auditor's report for 2014

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 2014, 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 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

PricewaterhouseCoopers AS, Postboks 447, NO-4664 Kristiansand
T: 02316, org. no.: 987 009 713 MVA, www.pwc.no
Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

Auditor's report for 2014

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 Corporate Social Responsibility concerning the financial statements and 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 2015
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 2014

TO SPAREBANKEN SØR'S BOARD OF TRUSTEES

THE CONTROL COMMITTEE'S ANNUAL REPORT FOR 2014

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 2014 and recommended that the prepared financial statements are adopted as the Bank's official accounts for 2014.

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

Arendal, 3 March 2015

Dag Jørgen Hveem   Georg Fritzman   Yngvar Aulin   Sverre Irgens

Organisation

Board of Trustees

Board of Directors

CEO
Geir Bergskaug

Deputy CEO / Director Corporate market
Lasse Kvinlaug

Director Retail banking
Gunnar Thomassen

Director Capital market
Marianne Lofthus

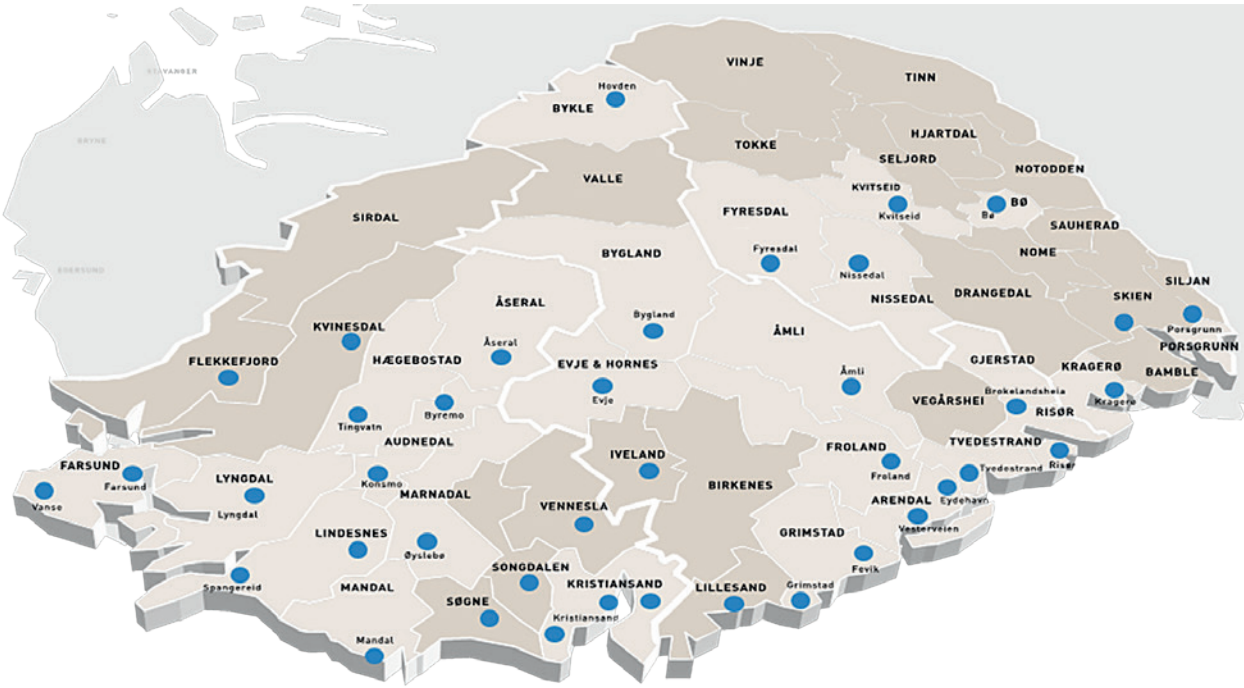
Director Group support
Rolf Søraker

Director Risk management
Bjørn Friestad

Director Business support
Gry Moen

Director Merger secretariat
Tellef Myrvold

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.

Tellef A. Myrvold (1951)

Merger Secretariat Director from 1 January 2014. Was responsible for coordination of the merger process between Sparebanken Pluss and Sparebanken Sør (2013). Bank Director in Sparebanken Pluss with responsibility for the bank's accounts / finance function, management of the bank's properties, and also IT operations. Previously worked as Chief Auditor in Sparebanken Pluss (1994–2001) Qualified auditor with many years of experience in external audits, including ten years in own auditing business.

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.

INFORMATION

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. As a result, all comparative figures in the financial statements are historical figures from Sparebanken Pluss.

As the official 2013 accounting figures for Sparebanken Pluss compared with the 2014 accounting figures for the merged bank do not show the actual trend for the period, pro forma figures have been used in the comparative figures for the key figures. Pro forma financial information has been compiled in order to show the merged bank adjusted as if the transaction had been carried out with effect from 1 January 2013. Pro forma financial information has solely been compiled for guidance purposes, and there is greater uncertainty linked to pro forma financial information than the historical information.

In addition, the recognition of negative goodwill has been excluded in the key figures presented. The merger complies with the rules set out in IFRS 3 and has been executed as a transaction. Sparebanken Sør' 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 37 – Merger of business). Negative goodwill has been excluded from both the actual accounting figures and the comparative figures.

Key figures concerning equity certificates have not been reworked in the statement.

Key figures Group

(All key figures are exclusive negative goodwill)

Income statement (NOK million)	31.12.2014	31.12.2013
		Proforma
Net interest income	1 511	1 443
Net commission income	284	252
Net income from a financial instruments	184	201
Other operating income	23	22
Total net income	**2 002**	**1 918**
Total expenses	834	800
Profit before losses on loans	**1 168**	**1 118**
Losses on loans and guarantees	268	126
Profit before taxes	**900**	**992**
Tax expenses	215	219
Profit for the period	**685**	**773**
Income statement as percentage of average assets		
Net interest income	1.60 %	1.60 %
Net commission income	0.30 %	0.28 %
Net income from financial instruments	0.20 %	0.22 %
Other operating income	0.02 %	0.03 %
Total net income	**2.12 %**	**2.13 %**
Total expenses	0.88 %	0.89 %
Profit before losses on loans	**1.24 %**	**1.24 %**
Losses on loans and guarantees	0.28 %	0.14 %
Profit before taxes	**0.95 %**	**1.10 %**
Tax expenses	0.23 %	0.24 %
Profit for the period	**0.73 %**	**0.86 %**
Average total assets	94 300	90 200
Balance sheet		
Total assets	94 062	93 758
Net loans to customers	80 913	77 450
Growth in loans as %, last 12 mths.	4.5 %	6.8 %
Deposits from customers	48 250	43 740
Growth in deposits as %, last 12 mths.	10.3 %	8.3 %
Deposits as % of net loans	59.6 %	56.5 %
Equity	7 157	6 658
Losses on loans as % of net loans, annualised	0.33 %	0.16 %
Gross defaulted loans over 90 days		
as % of gross loans	0,71 %	0.60 %
Other key figures		
Cost as % of income	41.7 %	41.7 %
Return on equity after tax	10.1 %	12.3 %
Core tier 1 capital ratio	13.1 %	12.8 %
Core capital ratio	14.4 %	14.2 %
Total capital ratio	15.1 %	15.1 %
Total core capital		7 076
Total primary capital	8 170	7 522
Number of branches	40	44
Number of man-years in banking activity	454	489
Key figures where history is not pro forma		
Equity certificate ratio	14.1 %	7.1 %
Number of equity certificates issued	4 768 674	1 250 000
Profit/diluted earnings per equity certificate (Parent Bank)	12.2	10,3
Profit/diluted earnings per equity certificate (Group)	20.3	18.1
Dividend last year per equity certificate (parent bank- proposed dividend 2014)	10.0	10.0
Book equity per equity certificate	214	187
Price/Book value per equity certificate	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	196	150

Sparebanken Sør P.O.Box 200, N4662 Kristiansand | www.sor.no | tel. +47 09200