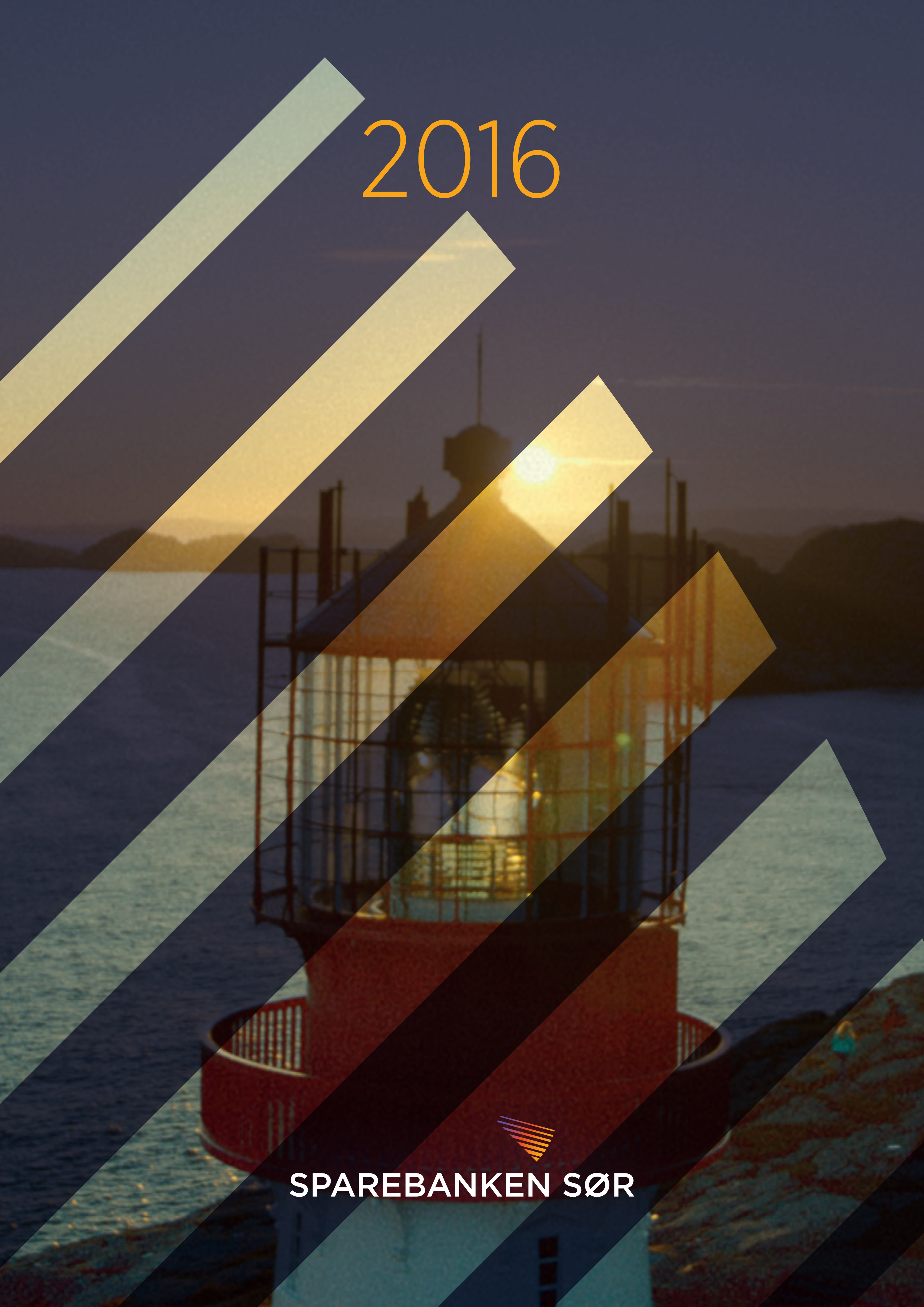

2016
SPAREBANKEN SØR

Contents

The year 2016

ALL TIME BEST RESULT

Profits from Sparebanken Sørs' activities have never been better than in 2016. The positive results have come due to a positive development in net interest income, a positive commission income and profit contributions from wholly and partly owned companies, increased income from financial instruments, low costs and low losses. The basis for the good results has been created through long-term and systematic efforts, where the employees' willingness and ability to change and improve have been crucial.

SOLID CAPITAL RATIO AND HIGH RETURN ON EQUITY

There has been considerable attention on the banks' capitalization in 2016. After the Financial Supervisory Authority increased their expectations for the common equity tier 1 capital ratio to 14.5 percent in autumn 2015, Sparebanken Sør has strengthened its core capital during the year through improved profit from ordinary operations, reduced growth in risk-weighted assets and issuance of equity share capital of NOK 600 million. These measures ensured that the bank could meet the demanded loan growth among customers, even though the growth has been lower than in the past years.

The Bank's common equity tier 1 capital ratio was 14.7 percent at the end of the year, and thus fulfilled the bank's ambition, regulatory requirements and market expectations. The Bank's leverage ratio of 8.6 percent places it amongst the most solid of the major banks in Norway, and thus amongst the best in Europe. Even with such a solid equity the group achieved a return on equity of 11.6 percent in 2016.

CUSTOMISED LOAN GROWTH AND A GOOD DEPOSIT GROWTH

As a consequence if the bank's ambition of achieving a common equity tier 1 capital ratio of 14.5 percent by the end of 2016, loan growth was reduced to 2.9 percent at year end. The deposit growth has been positive throughout the year with a total growth of 6.6 percent. Net loans amounted to NOK 90.8 billion and deposits amounted to NOK 51.6 billion, or a satisfactory 56.7 percent in deposit coverage. The bank has a good growth capacity, and expects credit growth to be higher than in the market areas where the Bank is represented.

VERY LOW LOSSES ON LOANS

Net losses on loans amounted to NOK 50 million in 2016, equivalent to 0.05 percent of net loans. The corresponding figures in 2015 was NOK 97 million and 0.11 percent of net loans. In parallel with the decline in losses, the quality of the loan portfolio has been steadily improving. This is clearly visible through a continuous reduction in defaulted and doubtful loans.

GOOD COST CONTROL GIVES THE BANK A COST LEVEL AMONG THE VERY BEST

The Bank reinforces its position as one of the most cost effective banks in the country. The cost-income ratio at year-end was 37.3 percent, compared to 46.2 percent at the same time last year. Measured as a percentage of total assets the expense ratio amounts to a satisfactory 0.75 percent, down from 0.83 percent in 2015. The strong cost position is made possible with the realization of cost synergies after the merger and the continued streamlining of the bank's operations.

ROBUST FUNDING

Financial markets developed positively in 2016 with lower credit spreads on money market funding. At the same time, we have had a situation with high NIBOR, which in turn has resulted in higher borrowing costs. The bank's funding structure has been strengthened through 2016 by an increase in common equity tier 1 capital, growth in deposits and more diversified funding through issuance of bonds in Euro. The Bank has also taken measures to adapt risk management and business activities in accordance with new EU directives implemented into Norwegian law, including EMIR, MiFID2 and PSD2.

MACROECONOMIC HIGHLIGHTS

2016 was a year of major political upheaval globally, with increased uncertainty as a consequence. For Norway - and especially Agder and Telemark – the economic development has been especially affected by the ongoing restructuring process caused by the oil price fall, and as a consequence growth has been at its lowest since the financial crisis. The business community in the region has nevertheless handled the restructuring better than expected and there are signs of accelerating economic growth. A continued low exchange rate strengthens competitiveness for export and import competing industries, and together with low interest rates, this could provide positive growth impulses.

A BANK IN DEVELOPMENT

Large and rapid changes in both customer behaviour and technology affects the development in the financial industry, and the banks' distribution models undergo major changes. Digitization and new technologies provide opportunities to improve both the customer experience and the cost position. As the region's leading bank for both retail customers, businesses and the public sector, we have been through a significant restructuring in recent years, and will go through new changes in the coming years. Through continuous change and improvement we will realise the bank's vision to create growth and development in the region. We continue the fundamental values and strengths of a soon two hundred year history, while we adapt to a future in which our customers use the bank in other ways than in the past. At the same time, we will still be the "relationship bank", with fast decisions based on local knowledge through closeness to customers and market.

It is particularly important to choose the right digital initiatives. We will not engage in technological development, but exploit new technologies with the abilty to give us competitive advantages. Contact points with customers are undergoing a continous digitization process, and we have taken a number of steps to prepare the bank in this matter. This includes better internet and mobile banking solutions, segment customized mobile apps and better payment and credit products. The Bank has also implemented new internal and external automations, and is developing new and improved CRM solutions that will provide a better and channel independent customer experience. Throughout the year, the Bank has also put in place new and modern collaborative solutions that will enable more efficient customer services.

Sparebanken Sør is at the beginning of 2017 well capitalized for future growth and can contribute to development in the region in line with our strategy. We will continue to be a leading relation oriented bank and combine this with a cost efficiency on par with the best. Along with high quality in the bank's lending, good innovative digital solutions, good growth potential and a strong market position, Sparebanken Sør will be a sound and solid bank in the years to come.

Geir Bergskaug

Geir Bergskaug
CEO

Key figures Group

NOK MILLION	31.12.2016 2)	31.12.2015 2)	31.12.2014 1)	31.12.2013 1)
				Proforma
Net interest income	1565	1 544	1 511	1 443
Net commission income	293	300	284	252
Net income from financial instruments	224	-66	184	201
Other operating income	28	14	23	22
Total net income	**2 110**	**1 792**	**2 002**	**1 918**
Total expenses	787	817	834	800
Profit before losses on loans	**1 323**	**975**	**1 168**	**1 118**
Losses on loans and guarantees	50	97	268	126
Profit before taxes	**1 273**	**878**	**900**	**992**
Tax expenses	284	231	215	219
Profit for the period	**989**	**647**	**685**	**773**
Income statement as percentage of average assets				
Net interest income	1.49 %	1.58 %	1.60 %	1.60 %
Net commission income	0.28 %	0.31 %	0.30 %	0.28 %
Net income from financial instruments	0.21 %	-0.07 %	0.20 %	0.22 %
Other operating income	0.03 %	0.01 %	0.02 %	0.03 %
Total net income	**2.01 %**	**1.83 %**	**2.12 %**	**2.13 %**
Total expenses	0.75 %	0.83 %	0.88 %	0.89 %
Profit before losses on loans	**1.26 %**	**0.99 %**	**1.24 %**	**1.24 %**
Losses on loans and guarantees	0.05 %	0.10 %	0.28 %	0.14 %
Profit before taxes	**1.21 %**	**0.90 %**	**0.96 %**	**1.10 %**
Tax expenses	0.27 %	0.24 %	0.23 %	0.24 %
Profit for the period	**0.94 %**	**0.66 %**	**0.73 %**	**0.86 %**
Average total assets	104 950	98 000	94 300	90 200
Balance sheet				
Total assets	105 455	101 334	94 062	93 758
Net loans to customers	90 928	88 387	80 913	77 450
Growth in loans as %, last 12 mths.	2.9 %	9.2 %	4.5 %	6.8 %
Customers deposits	51 562	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	6.6 %	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	56.7 %	54.7 %	59.6 %	56.5 %
Equity(Hybrid capital incl.)	10 051	8 263	7 157	6 658
Losses on loans as % of net loans, annualised	0.05 %	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.30 %	0.47 %	0.71 %	0.60 %
Other key figures				
Cost as % of income	37.3 %	45.6 %	41.7 %	41.7 %
Cost as % of income, ex net income from financial instruments	41.7 %	44.0 %	45.9 %	46.6 %
Return on equity after tax (Adjusted for hybrid capital)	11.6 %	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	128 %	108 %		
Common equity tier 1 capital ratio	14.7 %	12.7 %	13.1 %	12.8 %
Tier 1 capital ratio	16.0 %	13.5 %	14.4 %	14.2 %
Total capital ratio	17.9 %	15.5 %	15.1 %	15.1 %
Common equity tier 1 capital	9 114	7 700	7 092	6 376
Tier 1 capital	9 939	8 210	7 792	7 076
Net total primary capital	11 121	9 388	8 170	7 522
Leverage ratio	8.6 %	7.0 %	7.0 %	
Number of branches	34	40	40	44
Number of man-years in banking activity	439	449	454	489
Key figures, Equity certificates				
Equity certificate ratio (Weighted average for the year)	17.5 %	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	15 663 944	4 768 674	4 768 674	1 250 000
Profit/diluted earnings per equity certificate (Parent bank)	8.5	10.6	12.2	10.3
Profit/diluted earnings per equity certificate (Group)	10.7	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2016)	6.0	9.0	10.0	10.0
Book equity per equity certificate	116.6	219.0	212.0	187.0
Price/Book value per equity certificate	0.8	0.6	0.9	0.8
Listed price on Oslo Stock Exchange at end of period	91.3	139.0	196.0	150.0

1) excl. Negative goodwill.

2) the Group has reclassified hybrid capital from debt to equity with effect from 1 January 2015.

Report from the Board of Directors

Report from the Board of Directors

THE NATURE OF THE BUSINESS

Sparebanken Sør is an independent financial institution that engages in banking, securities and real estate brokerage activities in Vest-Agder, Aust-Agder and Telemark. In addition, the Sparebanken Sør Group engages in sale of insurance, leasing and securities through partly owned product companies, and also real estate brokerage and mortgaging through the wholly owned subsidiary Sparebanken Sør Boligkreditt AS. The bank has 34 branch offices and the head office is located in Kristiansand.

HIGHLIGHTS

Sparebanken Sør Group delivered a very solid profit in 2016 and the Board of Directors would like to point out the following highlights:

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

FRAMEWORK 2016

Low growth

The growth in the Norwegian economy has been low in 2016 and the future economic development is still uncertain. Growth in the Norwegian mainland was 0.7 percent in 2016, down from 1.1 percent in 2015. It has been the weakest year since the financial crisis, influenced by the fact that the economy is in a restructuring process caused by the oil price drop in autumn 2014. The oil price has increased from its lowest level in January. House prices in the bank's main market have had a moderate trend over several years.

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

The key interest rate

The monetary policy has been expansionary through 2016. The Executive Board in Norges Bank decided in March to lower the interest rate from 0.75 percent to 0.5 percent. The central bank has no plans for further reduction of the key interest rate in its forecast, but cannot exclude a negative interest rate if the Norwegian economy where to be stressed by large economic shocks.

Developments in financial markets

The Group has good access to funding, both home and abroad, through covered bonds and senior debt. The difference between Norges Bank's key interest rate and money market rates increased during the year, which meant that banks' funding became more expensive. Changes in the regulation of US money market funds reduced the supply of USD funding to banks, and higher liquidity premiums on short-term USD funding affected the Norwegian money market rates (NIBOR) directly. Credit spreads on the banks reference interest rate for funding (3 month NIBOR) decreased during 2016 and contributed to reduced funding costs for the part of the banks' wholesale funding which was refinanced during the year.

BUSINESS SEGMENTS

Retail banking market

The Bank has in 2016 reinforced its position as the leading bank for private customers, clubs and associations in the region. To strengthen its capital adequacy, the bank customized its lending growth in the retail market in 2016. Gross loans to retail customers amounted to NOK 59.9 billion at the end of the year, equivalent to about 65 percent of the bank's total loans. The growth was 2.8 percent. Deposits from retail customers increased by 4.7 percent to NOK 25.0 billion, and amounted at year end to about 48 percent of the bank's total deposits.

The retail market division made further developments in its organization through 2016. Further merger synergies have been realized, competence is built at both executive and advisory level, the automation work has made an important step forward, a large portion of cash handling has been streamlined and new digital customer solutions have been launched. Some offices have been closed down, others converted into offices "open by appointment". The retail market division has since the merger downsized by about 60 FTEs.

Lending growth in the retail marked will normalise in 2017. The organization will be further developed in order to adapt to current and future customer needs.

The Bank offers both life and general insurance to the retail market through Frende Forsikring and car financing through Brage Finans.

Corporate marked

The Bank has through 2016 maintained its position as the business bank for southern Norway, and stands today as a natural first choice for businesses in many parts of the bank's scope. Corporate loans increased by NOK 0.8 billion in 2016, corresponding to a growth of 2.5 percent. The moderate growth in loans was due to the Bank's ambition of an adapted moderate loan growth in 2016, in part to meet its target equity coverage. Corporate deposits increased by NOK 2.1 billion to NOK 26.6 billion. This corresponds to a growth of 8.6 percent. The bank's corporate clients constitute a balanced and solid portfolio, reflecting the business community in the region in a good way.

The Bank has strengthened its cooperation with Kristen-Norges interessefellesskap (KNIF - Norwegian Christian interest organization) through 2016. The customer segment is included in the corporate market and is considered a low-risk segment which includes hospitals and other businesses in the healthcare sector, schools, kindergartens, church entities, real estate companies, missionary organizations and children and youth organizations. Through cooperation with KNIF the bank has received several interesting new customers in 2016, and the growth in this segment has for several years shown a very positive trend.

The Bank has defined the public sector as a separate priority area, which includes municipalities, counties, municipal corporations, state and corporations owned by the local government. 27 municipalities and counties in Agder and Telemark use Sparebanken Sør as their primary bank. Growth in this segment has in recent years been very positive.

The Bank offers general insurance, pension and group life insurance to business customers through Frende Forsikring, and leasing through Brage Finans.

PROFIT FOR THE YEAR

Accounting principles

The Group's financial statement for Sparebanken Sør has been prepared in accordance with International Financial Reporting Standards, IFRS. The accounting principles are explained in the notes to the financial statements.

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

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

Profit for the Year

In 2016, Sparebanken Sør achieved a profit before tax of NOK 1.273 million, compared with NOK 878 million in 2015. This is equivalent to 1.21 percent of average total assets, compared with 0.90 percent in 2015. The Group had a solid profit before tax because of a positive development in net interest income, low costs and low losses. The development in profit before tax, ex. net income from financial instruments and adjusted for accounting events, showed a profit improvement of NOK 67 million(*). The high improvement in profit before tax totalling NOK 395 million is also strongly influenced by a high income from financial instruments.

Profit after tax totalled NOK 989 million, compared with NOK 647 million in 2015. This is equivalent to a return on equity, adjusted for hybrid capital, of 11.6 percent in 2016, and 8.4 percent in 2015

Among others, and partly due to changes in the assumptions for calculating pension commitments, a net income of NOK 12 million has been recognized over total profit. With this taken into account, the total profit amounted to NOK 1 001 million.

*) See appendix for the annual report.

Net interest income

Net interest income amounted to NOK 1 565 million in 2016, compared with NOK 1 544 million in 2015. This was equivalent to 1.49 percent of the average total assets, compared with 1.58 percent in 2015. Hybrid capital (subordinated bonds) was reclassified from debt to equity from 1 January 2015, and as a consequence related interest was reclassified from interest expense to surplus disposal. Lending margins have been under pressure in 2016. Volume growth and adjustments in the terms and conditions of deposits helped increase net interest income. The Groups costs related to new funding in the bond market was under the circumstances stable in 2016.

Commission income

Net comission income amounted to NOK 293 million, compared with NOK 300 million in 2015. This corresponds with 0.28 percent of average total assets, compared with 0.31 in 2015. The decline was mainly due to slightly lower revenues in the Group's real estate business, Sørmegleren, and higher commission costs. Revenues from other product areas have consistently shown a stable trend throughout the year.

Financial instruments

Net income from financial instruments amounted to NOK 224 million in 2016, compared with minus NOK 66 million in 2015. This is equivalent to 0.21 percent of average total assets, compared with minus 0.07 percent in 2015. In accordance with the authorities' requirements, the Bank has a considerable liquidity portfolio which is recognized at fair value. Credit spreads declined in 2016, yielding positive effects on profit compared with 2015. Net returns from shareholdings increased by NOK 59 million to NOK 114 million in 2016. This includes gains after the sale of Visa Europa til Visa Inc. and evaluation of the shareholdings in Frende and Brage. Basis-swaps are used to hedge fixed rate debt issued in Euro. The Basis-swaps has had a negative development in 2016. There has been a positive development in the portfolio of fixed rate bonds.

Costs

Group costs were NOK 787 million in 2016, compared with NOK 817 million in 2015. This is equivalent to 0.75 percent of the average total assets and 0.83 in 2015. The ratio between expenses and income, ex. financial instruments, was 41.7 percent, compared with 44.5 percent in 2015.

In Q4, the bank's defined benefit pension scheme, including about 80 percent of the staff, was replaced by a defined contribution scheme. Net pension liabilities for the defined benefit pension scheme were NOK 87 million at the start of 2016, and this commitment was virtually gone by the end of 2016. As a result of the conversion a non-recurring effect of NOK 41 million and a conversion cost of NOK 13 million were recognized. Total expenses in 2016, adjusted for these non-recurring accounting events, were at the same level as for 2015 (*).

The number of employees and the number of offices have been reduced during the year. The bank's commitment to digitization, on the other hand, contributed to an efficient and good customer service in new customer channels. In sum, this has contributed positively to the cost development and will continue to do so in the future.

Losses and defaulted loans

NOK 50 million in net losses has been recognized in the income statement, which is equivalent to 0.05 percent of net loans. The corresponding figures for 2015 were NOK 97 million and 0.11 percent of net loans. Losses were divided into NOK 6 million in the retail market and NOK 40 million in the corporate market. In addition, collective write-downs increased by NOK 4 million.

Based on the bank's low direct exposure to the oil service industry, economic conditions, historical figures, local market conditions and portfolio composition, net losses is expected to be low also in 2017. For the period 2018-2020 the bank maintains the policy that the bank's total loan loss level should be below 0.20 percent of gross lending. Please refer to Note 6 on credit and note 10 for losses on loans and guarantees for further details about risk and loss ratios.

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

The bank's collective write-downs increased by NOK 4 million in 2016 and amounted to NOK 210 million as at 31 December 2016, equivalent to 0.23 percent of gross loans.

Gross defaulted loans over 90 days amounted to NOK 276 million. As a percentage of gross loans, this is equivalent to 0.30 percent. This is a decrease from NOK 418 million in 2015, equivalent to 0.47 percent of gross loans.

*) See appendix for the annual report.

BALANCE

Total assets

At year-end 2016, total assets amounted to NOK 105.5 billion, compared with NOK 101.3 billion in the previous year. This is equivalent to a growth of NOK 4.2 billion or 4.1 percent.

Loans

Net loans to customers were NOK 90.9 billion, compared with NOK 88.4 billion in 2015. This resulted in a growth of NOK 2.5 billion or 2.9 percent.

Gross loans to retail banking customers amounted to NOK 59.9 billion, compared with NOK 58.2 billion in 2015. This resulted in a growth of NOK 1.6 billion, or 2.8 percent. On a national basis, household lending growth has been 6.4 percent. At year-end 2016, loans totalling NOK 28.1 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. Loans to the retail market were 65 percent of the Group's total loans, the same as in 2015.

Gross loans to corporate customers amounted to NOK 31.7 billion in 2016, compared with NOK 30.9 billion in 2015. This corresponds to a growth of NOK 0.8 billion or 2.5 percent. On a national basis, industry lending growth has been 2 percent. The lending growth has been reduced in 2016 as a consequence of the bank's goal of achieving a common equity tier 1 capital ratio of 14.5 percent. The bank expects growth in 2017 to be higher than credit growth in the markets where the bank is represented.

Deposits

At year-end, total deposits were NOK 51.6 billion, compared with NOK 48.3 billion in 2015. This resulted in a growth of NOK 3.3 billion or 6.6 percent.

Deposits from retail customers amounted to NOK 25.0 billion, compared with NOK 23.9 billion in 2015. This resulted in a growth of NOK 1.1 billion or 4.7 percent. In the Corporate Market, the deposits totalled NOK 26.6 billion, compared with NOK 24.5 billion in 2015. This gave a growth of NOK 2.1 billion or 8.6 percent.

As at 31 December 2016, deposit-to-loan ratio was 56.7 percent, compared with 54.7 percent in 2015.

Debt established through issuance 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 the issuance of interest-bearing securities. The group's securities debt amounted to NOK 41.2 billion at the end of 2016 compared with NOK 41.9 billion at the end of 2015. Long-term bond funding is established as covered bonds and senior debt. At the end of 2016 covered bonds amounted to 60 percent of long-term bond funding.

The Group has arranged for long term funding from the international market though the established EMTN (European Medium Term Bond Note) program in Sparebanken Sør and EMTCN (European Medium Term Covered Bond Note) program in Sparebanken Sør Boligkreditt. This was utilized in Q1 2016, when Sparebanken Sør Boligkreditt AS issued covered bonds in Euro with 5 years maturity. The availability of financing on competitive terms improved throughout 2016, and was good at the end of the year.

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.

Securities

At year-end, the Group's portfolio of certificates and bonds totalled NOK 11.8 billion.

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

The Group's liquidity indicator for long term funding was 109 percent at the end of 2016. The Group's liquidity reserve (LCR) amounted to 128 percent as at 31 December 2016 (119 percent in Parent bank).

Investments in shares and equity certificates totalled NOK 542 million, of which Frende totalled NOK 205 million, Eksportfinans NOK 85 million and Brage Finans NOK 105 million.

Equity and related capital

The Bank has strengthened its primary capital in 2016 through a solid profit, customized growth in risk-weighted assets, share issuance of NOK 600 million and issuance of NOK 315 million in hybrid capital.

Net primary capital amounted to NOK 11.1 billion at the end of the year. Hybrid capital amounted to NOK 0.8 billion and subordinated loans to NOK 1.2 billion. At the end of 2016, the common equity tier 1 capital ratio was 14.7 percent. The tier 1 capital ratio was 16.0 percent and the (total) capital ratio 17.9 per cent, based on the standard method in the Basel II regulations. The Group thus fulfilled the new capital requirements for financial institutions with effect from 30 June 2016 of 11.5 percent for common equity tier 1 capital and 15.0 percent for total capital.

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

The Group's leverage ratio amounted to 8.6 percent at the end of 2016, compared with 7.0 percent at the end of 2015.

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

ALLOCATION OF PROFIT

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

The parent bank's profit totalling NOK 798 million after tax has been proposed allocated as follows:

Dividend:	NOK 94 million
Interest on hybrid capital:	NOK 33 million
Transferred to donation fund:	NOK 35 million
Transferred to equalisation fund:	NOK 40 million
Transferred to primary capital:	NOK 596 million
Total transferred:	**NOK 798 million**

EQUITY CERTIFICATES

The Bank had issued 15 663 944 equity certificates with a nominal value of NOK 50 as at 31 December 2016.

A summary of the 20 largest equity certificate owners as at 31.12.2016 is presented in note 36. The profit per equity certificate was NOK 8.5 for the parent bank and NOK 10.7 for the group.

Sparebanken Sør decided the 30th of March 2016 for a rights issue, and the rights issue has been carried out in Q2 2016. At the date of the rights issue, the 3rd of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The weighted average ownership ratio for 2016 was 17.5 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Sparebanken Sør shall through sound, stable and profitable operations ensure that its equity certificate owners achieve a competitive return in terms of dividend and return on their equity certificates. The surplus will be distributed between the equity certificate capital (equity certificate owners) and the primary capital in accordance with their share of the equity.

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

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

The board of directors will propose a dividend for 2016 of NOK 6 per equity certificate, corresponding to a dividend of approximately 56 percent of the Groups profit per equity certificate.

In addition, it will be proposed to allocate NOK 35 million to the donation fund.

The Bank's equity certificate ratio amounted to 19.8 percent before allocation of profit. With the proposed dividend and allocation to the donation fund the equity certificate ratio is reduced to 18.7 percent.

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 28.1 billion in loans were transferred to the company. The average debt-to-asset ratio was 54.7 percent. At year-end, NOK 24.6 billion in covered bonds were issued. The cover pool totalled NOK 28 billion and the over-collateralisation ratio was 14.4 percent.

The company had a profit before tax of NOK 250 million. At year-end, the capital adequacy ratio was 18.1 percent. The company has entered into supply agreements with the parent bank, which included loan administration, staff and treasury functions.

In Q1 2016 the Company issued EUR 500 million in covered bonds under the company's EMTCN program. The loan is swapped to floating financing in Norwegian kroner.

Sørmegleren

Sørmegleren, the bank's own estate agency, has now operated in 3 years after the merger between ABCenter and Plussmegleren was completed. The company is the leading estate agency business in Southern Norway (Sørlandet) with a market share of around 30 percent. In 2016, there has been a positive trend and profit before tax was around NOK 13 million. The company will in Q1 2017 open new offices in Skien and Porsgrunn, and will then have 14 offices and 70 employees.

Other subsidiaries

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

PARTLY-OWNED PRODUCT COMPANIES

Frende Forsikring

Through Frende Forsikring the bank's retail banking and corporate customers are offered both general and life insurance products. Frende Forsikring is owned by 15 independent savings banks. Sparebanken Sør has a 10 percent ownership interest. The company has continued its strong growth in customers and premiums within both general and life insurance. Frende Forsikring has had a good year, and achieved a profit before tax of NOK 311 million in 2016.

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 percent ownership interest. The company achieved a profit before tax of NOK 43 million in 2016.

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 percent. The company achieved a profit before tax of minus NOK 15 million in 2016.

RISK MANAGEMENT

Risk is a fundamental aspect of the 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 and value creation. The overall framework of the Bank's risk management and exposure is assessed and determined annually by the Board of Directors in conjunction 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 in addition to 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 includes credit risk, market risk (related 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 is the risk of unexpected income or expense fluctuations due to changes in external factors such as economic cycles, competition, customer behaviour, lack of business development and regulation by public authorities.

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

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 approves the bank's credit strategy and policy. Credit risk is also managed through credit management routines, credit processes, and credit allocation authorisations. The Board of Directors has determined objectives 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 entity independent from 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 based on 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 equity shares, bonds and positions in the interest rate and currency market. Compliance with the management objectives is followed-up on an ongoing basis and is reported to the Board of Directors.

The interest rate risk limit is determined as an upper limit for how great the loss on unsecured interest rate positions can be with a certain shift in in the yield curve. Interest rate risk in the Group's ordinary operations such as fixed rate investments and funding, are identified on an ongoing basis. At year end, the Group's net interest rate risk was NOK 54 million.

Beyond the interest rate risk limit, an upper risk tolerance level 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's stress test model for credit spread risk is used to calculate risk exposure. The bank's credit spread exposure is related to the liquidity portfolio. At year-end 2016, 93 percent of the board-adopted limit had been used.

The Group is subject to fluctuations in the foreign exchange market through its activities with customers. Foreign exchange exposure is identified using on and off-balance sheet instruments (foreign exchange futures and swaps). Foreign exchange exposure is measured as a 10 percent change in the exchange rate in the foreign exchange position. Individual exposure limits has been set for foreign exchange. The total foreign exchange risk limit is NOK 20 million.

With financing in foreign exchange arises interest and currency risk, as a result of financing carried out at fixed terms and in a foreign exchange other than NOK. The same applies to the purchase of debt securities in foreign exchange. The Bank reveals interest and foreign exchange exposure by entering derivative contracts with reputable financial counterparties. The contracts are entered under ISDA (International Swaps and Derivatives Association) with CSA (Credit Support Annex) agreements. When financing in foreign exchange and disclosure of currency risk, hedge accounting is applied for the changes in value.

At year-end, the Group's total share investments were NOK 542 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 the established credit issuance authorisation. Important operational management parameters are; the requirement for the deposit-to-loan ratio, the indicator for long-term funding, the stress indicator for liquidity outputs within 30 days(LCR), and additional guidelines for survival in situations where there is no access to market funding. The liquidity risk is also managed by ensuring a well distributed funding from the capital market with different maturities, funding sources and instruments. The liquidity risk is periodically stress tested, and contingency and recovery plans have been established for the group.

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 according to the Group's total funding situation. The group's deposits to loan ratio was 56.7 percent at the end of the year.

Sparebanken Sør Boligkreditt AS also represents an important funding instrument, which ensures access to long-term funding through the issuance of covered bonds. To be able to issue covered bonds, mortgages equivalent to 46 percent of the total loan portfolio in the retail market was transferred to Sparebanken Sør Boligkreditt in 2016.

Board-adopted target requirements for the bank's liquidity risk are in accordance with the guidelines given 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 109 percent. The available liquidity buffer meant that the Group could have continued with normal operations for over 12 months without supply of new funding 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 Sparebanken Sør Boligkreditt. The bank's interest-bearing liquidity portfolio consists of government securities, other zero-weighted securities, covered bonds and municipal bonds.

The bank's short-term liquidity risk is among others managed through the use of a regulatory Liquidity Coverage Requirement (LCR). At year-end 2016, the LCR indicator for Sparebanken Sør (Group and Parent bank) was high enough to meet all the projected liquidity maturities within the next 30 days under a stress scenario. The group and the parent company's LCR ratio was 128 percent and 119 percent respectively as at 31 December 2016. The authorities have planned a gradual escalation of the requirement, which as at 31 December 2015 was 80 percent.

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

Operational risk

Operational risk is the risk of losses from various sources related to the ongoing operations of the Bank. This may occur due to 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 that cover all significant areas. Risk management and internal control means the process of identifying, analysing, managing and controlling the risks so that the total risk exposure is in line 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 control.

Compliance

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

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

Ownership risk

Ownership risk is the risk that the Group will incur negative returns from ownership interests in strategically 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 Limited Liabilities Companies Act. Several of the companies use managers and / or employees from the Group's Board of Directors or in other functions.

The bank's ownership risk is considered low.

Capital management

Capital management will ensure that the Group has a capital adequacy in accordance with the regulatory requirements, as well as ensuring good financial stabilty and a satisfactory return that is in line with the Banks risk profile.

Sparebanken Sør uses the standard method for credit risk and the basic method for operational risk under the current capital adequacy calculations. At present, the bank does not consider it appropriate to apply for approval from the Financial Supervisory Authority to use the internal ratings-based approach. As a "standard bank", the bank therefore has a slightly higher Risk Weighted Assets when compared with the IRB banks.

The bank's capital requirements are assessed annually based on an estimated total risk. The internal capital adequacy assessment process (ICAAP) enables good risk management and an overview of the risk of which the bank is exposed, while ensuring that sufficient equity and subordinated capital is established at any time.

The bank received the final assessment of the Group's capital (SREP) in Q4 2016, and the FSA concluded with a pillar 2-addition of 2.1 percent of risk-weighted assets. The capital requirement including the Pillar 2 Supplement of 2.1 percent thus constitutes 13.6 percent. Based on an overall assessment, and partly as a result of market expectations, the Bank has adjusted to a level of at least 14.5 percent in common equity tier 1 capital.

An important objective for the Bank is to achieve a common equity tier 1 capital ratio at least at level with comparable banks. Of the largest regional banks, Sparebanken Sør is the only bank using the standard method in the capital adequacy calculations. Despite this the bank had a common equity tier 1 capital ratio of 14.7 percent by the end of 2016. If the bank had made the calculations after the IRB-method this would have given a significantly higher common equity tier 1 capital ratio. The bank's financial strength is considered satisfactory in light of the current regulatory requirements. This is supported by the Group's high Leverage Ratio of 8.6 percent.

The ministry of finance decided on December 2016 to increase the requirement for a countercyclical capital buffer from 1.5 percent to 2.0 percent with effect from 31.12.2017. This means that the capital requirement, including the Pillar 2 Supplement of 2.1 percent, increases to 14.1 percent. Further customization beyond this level will depend on market expectations, the Financial Supervisory Authority's recommendations and the Bank's own ICAAP (Internal Capital Adequacy Assessment Process).

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

RATING

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

Sparebanken Sør has a long term rating of A1 with «Stable Outlook».

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

CORPORATE GOVERNANCE

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

Sparebanken Sør principles and policy will ensure that the bank's corporate governance is in line with generally accepted perceptions and standards, applicable laws and regulations. Furthermore, corporate governance shall ensure good cooperation between the bank's different stakeholders, such as owners of equity certificates, lenders, customers, employees, governing bodies, management and the society at large. The Board believes that the bank's corporate governance is satisfactory and consistent with its principles and policy.

THE BOARD

At the elections in 2016 Chairman Stein Hannevik, Deputy Chairman Torstein Moland and members Inger Johansen, Marit Kittilsen and Erling Holm were re-elected for two years. Tone Vareberg and the employee representatives Jan Erling Tobiassen and Sigrid Evenstad Moe were elected as new members for two years. Moe quit her job in the Bank on 1 February 2017. Gunhild Tveiten Golid was through a special election elected as employee representative for a year.

PERSONNEL AND WORKING ENVIRONMENT

At year-end 2016, there were 439 FTEs and 499 FTEs in the Bank and Group respectively. The number of employees in the bank has been reduced by 80 FTE since 2013, the last year before the merger.

Sickness absence has remained at a stable low level. In 2016, there were a sicness absence of 3.7 percent, down from 4.6 percent in 2015. The majority of this was long-term absence. Through participation in the IA Agreement it's important for the bank to work systematically on the reduction and monitoring of sick leave. The Bank has made arrangements for employees with disabilities. New constructions and retrofit has been given a universal design which means that the buildings are designed so that everyone can use them without special modifications or aids.

The Bank continuously strives to ensure that the bank's employees have the skills they need for their position. Throughout 2016 there have been conducted a number of training-exercises within the authorization schemes and the credit and money laundering area. In addition, it's been carried out an ongoing training process on products, systems and procedures.

The Bank has a well-functioning organization with a good working environment and high job satisfaction, combined this provides stable and good working conditions. The Bank continues to invest in various social activities for employees in areas such as company sports, art club and cabins.

Equal opportunities

Sparebanken Sør has a long-term objective to achieve a relatively even distribution of gender at all levels. The Bank had at year-end in all 461 employees compared with 478 at the same time in 2015. Among the 461 employees there were 247 women and 214 men. There were a female proportion of 33 percent among the Bank's leaders. In the Bank's governing bodies, the female representation in the Board of Trustees amounted to 39 percent and 50 percent in the Board of directors.

The bank aims to increase the proportion of women in senior positions. When recruiting, the best female will always be assessed against the best male applicant. In addition, the best candidate from an ethnic minority background will always be assessed against the best male and best female candidates.

The Bank is committed to promote equality and prevent differential treatment and discrimination. As a consequence of this, the bank is participating in the project "Likestilt arbeidsliv (Equality in employment)" which has the aim of establishing a certification scheme for equal entities. "Likestilt arbeidsliv" is a joint project between Vest-Agder County Council, Aust-Agder County Council, The Department of Children, Youth and Family Affairs and the Chamber of Commerce in the Kristiansand region. The bank is currently conducting a pilot certification program that includes 15 other organizations from the private and public sector in the region.

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 placed 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 form of donations and initiatives for the benefit of the region and for the local communities.

Climate challenges and external environment

The bank does not use input factors or production methods that directly pollute the external environment. The bank prepares an annual climate report to identify emissions, quantify pollution and to enable the bank to implement targeted measures. The report is based on the international standard "A Corporate Accounting and Reporting Standard". The report covers consumption related to transport, energy, waste and air travel. The bank is not aware of other environmental impact beyond consumerism that can be translated into CO2 and therefore has no reporting on emissions to soil, water or noise.

The bank encourages environmental awareness as regards use of paper, waste management and recycling. To reduce emissions and costs in connection with travel to and from meetings, the bank has invested in technology to conduct video conferences at several branches. In addition, all offices have technology that enables PC-supported teleconferences.

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

Human rights

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

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

Money laundering and terror funding

The bank has its own anti-money laundering procedures and terrorist financing measures, and it has been an aim to strengthen the quality of compliance with the laws and regulations. EU 4 Money Laundering Directive was adopted in 2015, and this is the basis for a new money laundering and regulation that is expected to be implemented in early 2018. NOU 2016: 27 "New legislation on measures to combat money laundering and terrorist II" second interim report, published on 16 December 2016 gives clear signals about demands and expectations in relation to responsibilities in this area. It is expected that the authorities will have greater focus on control of the bank's compliance with the money laundering legislation.

The anti-money laundering procedures regulates the Banks relations with customers, and a number of controls and reports to Økokrim (National Authority for Investigation and Prosecution of Economic and Environmental crime) are made during the year. The bank strives to comply with the stringent regulatory requirements related to credentials when entering new customer relationships.

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 in accordance with applicable standards, laws and regulations. This will affect all our activities, ensuring the Banks competitiveness, reputation and market confidence.. The code of ethics represents 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 follow these standards must not conduct themselves in a manner that weakens confidence in Sparebanken Sør. Employees are obliged to register gifts from customers / other external parties in a separate gift book. Travel, especially abroad, is checked as regards possible irregularities and tax consequences. Travel for employees initiated by suppliers to the bank must be approved by a superior. No breach of the Code of Ethics has been reported in 2016. No cases that can be defined as corruption have been reported.

GIFTS FOR THE PUBLIC BENEFIT

Sparebanken Sør has defined donations as a strategic priority area. When donating gifts, an important concern is for the choosen project to 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. The donations also give the bank a competitive advantage and are important in building the bank's reputation.

In 2016, the donations committee has dealt with 441 cases. Of these, 176 were granted a total amount of NOK 33.5 million. Children and young people have been a priority group and the allocations have mainly 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 35 million of the bank's profit for 2016 for distribution in 2017.

OUTLOOK

The Board of Directors is satisfied with the result for 2016. The bank has had a positive development in profit from ordinary operations through customised growth, a stable net commission income, good cost control and low losses on loans.

The outlook is considered positive but there is still uncertainty of how quickly activity will pick up. Norges Banks analysis implies a key interest rate that will remain close to current levels for some time to come.

The bank received the final assessment of the Group's capital (SREP) in Q4, where the financial authorities concluded with a pillar 2 – addition of 2.1 percent of risk weighted assets. The capital requirement including the Pillar 2 Supplement of 2.1 percent thus constitutes 13.6 percent. The Financial Supervisory Authority has stated that it expects that the group should have a common equity tier 1 capital ratio of 14.5 percent. The ministry of finance decided in December 2016 to increase the requirement for a countercyclical capital buffer of 1.5 percent to 2.0 percent with effect from 31.12.2017. The bank will adapt to the new requirement during 2017. Further adaptation beyond this level will depend on market expectations, the Financial Supervisory Authority's recommendations and the Bank's own ICAAP. Forecasts for the bank's operations for 2017 alone permit levels above 15 percent in common equity tier 1 capital.

The Group expects loan growth in 2017 to be higher than the marked credit growth in the areas where the Bank is represented. The Group's equity position provides a good growth capacity, and the Group is ready for a higher loan growth in the coming year. The bank will expand its geographic market through the opening of a new office in Bryne (Rogaland).

The Group has collaborated with more than 100 other savings banks and DNB to establish a common mobile wallet, and will together with the other 14 banks in "Frendesamarbeidet (the Frende collaboration)" own approximately 12 percent of Vipps. This collaboration will provide the best and easiest payment solution for our customers, and it strengthens the bank's competitiveness on mobile payment services in the future.

Based on the bank's low exposure to the oil service industry, economic conditions, historical figures, local market conditions and the portfolio composition, net losses is exptected to be low also in 2017. The Group can, as the region's largest bank, indirectly be affected by the decline in the oil and oil service sector. Low interest rates, however, contributes to both households and businesses and help maintain a high servicing level even with slightly lower revenues.

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

CLOSING REMARKS

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

The Board of Directors

From left: Torstein Moland, Marit Kittilsen, Gunnhild T. Golid, Erling Holm, Stein Hannevik, Inger Johansen, Tone T. Vareberg og Jan Erling Tobiassen.

Kristiansand, 31 December 2016 / 6 March 2017

Stein A. Hannevik Chairman	Torstein Moland Deputy Chairman	Inger Johansen	Erling Holm	Marit Kittilsen
Tone T. Vareberg	Jan Erling Tobiassen	Gunnhild T. Golid	Geir Bergskaug CEO	

Income statement

PARENT BANK		NOK MILLION		GROUP	
2015	**2016**		**Notes**	**2016**	**2015**
2 390	2 194	Interest income	14,33	2 928	3 119
1 229	963	Interest expenses	14,33	1 363	1 575
1 161	**1 231**	**Net interest income**	**5,14**	**1 565**	**1 544**
297	309	Commission income	15,33	345	347
47	52	Commission expenses		52	47
250	**257**	**Net commission income**		**293**	**300**
9	22	Dividend		10	3
-74	228	Net income from other financial instruments	11,12	214	-69
-65	**250**	**Net income from financial instruments**	**16**	**224**	**-66**
15	29	Other operating income		28	14
1 361	**1 767**	**Total net income**		**2 110**	**1 792**
389	359	Wages and other personal expenses	17,34	425	458
36	34	Depreciation and write-down of fixed assets and intangible assets	29	36	37
307	310	Other operating expenses	18,33	326	322
732	**703**	**Total operating expenses**	**5**	**787**	**817**
629	**1 064**	**Profit before losses on loans**		**1 323**	**975**
97	50	Losses on loans and guarantees	10	50	97
532	**1 014**	**Profit before taxes**	**5**	**1 273**	**878**
136	216	Tax expenses	19	284	231
396	**798**	**Profit for the period**		**989**	**647**
		Minority interests		1	2
396	**798**	**Majority interests**		**988**	**645**
10,6	8,5	Profit/diluted earnings per equity certificate	36	10,7	17,6

OTHER COMPREHENSIVE INCOME

PARENT BANK		NOK MILLION		GROUP	
2015	**2016**		**Notes**	**2016**	**2015**
396	798	Profit for the period		989	647
		Items that will not be reclassified to profit and loss account			
59	15	Recognised estimate deviation, pensions	17	15	59
-15	-3	Tax effect of recognised estimate deviation, pensions	17,19	-3	-15
440	**810**	**Comprehensive income for the period**		**1 001**	**691**

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

Balance

PARENT BANK		NOK MILLION		GROUP	
31.12.2015	**31.12.2016**		**Notes**	**31.12.2016**	**31.12.2015**
Assets					
332	797	Cash and receivables from central banks	20,21	797	332
2 017	2 211	Loans to credit institutions	20,21,28	156	157
62 744	62 869	Net loans to customers	5,6,7,8,9,20,21,33,34	90 928	88 387
10 456	10 957	Bonds and certificates	20,21,22	11 815	10 557
487	542	Shares	20,21,23	542	487
659	453	Financial derivatives	20,21,26	604	813
1 259	1 259	Shareholdings in group companies	24		
13	9	Shareholdings in associated companies	25	9	13
10	18	Intangible assets	29	21	13
3		Deferred tax assets	19		8
438	417	Fixed assets	29	472	479
61	58	Other assets		111	88
78 479	**79 590**	**TOTAL ASSETS**	**5**	**105 455**	**101 334**
Liabilities and equity capital					
626	232	Debts to credit institutions	13,20,21,28	178	576
48 377	51 577	Deposits from customers	5,13,20,21,30,32,33	51 562	48 349
19 865	16 584	Debt incurred due to issue of securities	13,20,21,27,32	41 217	41 899
411	366	Financial derivatives	20,21,26	616	413
151	195	Payable taxes	19	269	245
188	222	Other liabilities	31	258	229
160	77	Provisions for commitments	17	77	160
	36	Deferred tax	19	24	
1 200	1 203	Subordinated loan capital	4,13,20,21,27	1 203	1 200
70 978	**70 492**	**Total liabilities**	**5,13**	**95 404**	**93 071**
905	1 531	Equity certificate capital	4,36	1 531	905
510	825	Hybrid capital	4	825	510
6 086	6 742	Other equity	4	7 695	6 848
7 501	**9 098**	**Total equity capital**	**4**	**10 051**	**8 263**
78 479	**79 590**	**TOTAL LIABILITIES AND EQUITY CAPITAL**	**5**	**105 455**	**101 334**

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

Kristiansand, 31 December 2016 / 6 March 2017

Stein A. Hannevik
Chairman

Torstein Moland
Deputy Chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone T. Vareberg

Jan Erling Tobiassen

Gunnhild T. Golid

Geir Bergskaug
CEO

Equity statement

NOK MILLION	Equity certificates	Premium fund	Equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
GROUP									
Balance 31.12.2014	**474**	**175**	**242**		**5 667**	**41**	**558**	**-**	**7 157**
Reclassification of hybrid capital				700					700
Balance 1.1.2015	**474**	**175**	**242**	**700**	**5 667**	**41**	**558**	**0**	**7 857**
Dividend distributed for 2014							-47		-47
Redeemed hybrid capital				-500					-500
Issuance of hybrid capital				310					310
Interest expense hybrid capital				-23					-23
Profit per 31 Des. 2015			8	23	297	25	292	2	647
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Allocated gift fund						-25			-25
Balance 31.12.2015	**474**	**175**	**256**	**510**	**6 002**	**41**	**803**	**2**	**8 263**
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest expense hybrid capital				-33					-33
Profit per 31 Des. 2016			40	33	596	35	284	1	989
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
Balance 31.12.2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**1 044**	**3**	**10 051**
PARENT BANK									
Balance 31.12.2014	**474**	**175**	**242**		**5 667**	**41**	**47**		**6 646**
Reclassification of hybrid capital				700					700
Balance 1.1.2015	**474**	**175**	**242**	**700**	**5 667**	**41**	**47**	**0**	**7 346**
Dividend distributed for 2014							-47		-47
Redeemed hybrid capital				-500					-500
Issuance of hybrid capital				310					310
Interest expense hybrid capital				-23					-23
Profit per 31 Des. 2015			8	23	297	25	43		396
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Allocated gift fund						-25			-25
Balance 31.12.2015	**474**	**175**	**256**	**510**	**6 002**	**41**	**43**	**0**	**7 501**
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	545	37							582
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest expense hybrid capital				-33					-33
Profit per 31 Des. 2016			40	33	596	35	94		798
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-34			-34
Balance 31.12.2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**94**	**0**	**9 098**

Reference is made to Note 36 – Equity certificates, equity capital and proposed dividend.

Cash flow statement

PARENT BANK		NOK MILLION	GROUP	
31.12.2015	**31.12.2016**		**31.12.2016**	**31.12.2015**
2 414	2 249	Interest payment received	2 972	3 142
-1 296	-1 005	Interest payment made	-1 417	-1 646
285	330	Other payments received	371	341
-722	-719	Operating payments	-800	-800
6	14	Established on confirmed losses	14	6
-69	-138	Period tax paid	-237	-164
-20	-33	Gifts paid	-33	-20
113	3 201	Change in customers deposits	3 214	104
-1 988	-304	Change in loans to customers	-2 719	-7 598
-1 277	**3 595**	**Net cash flow from operational activities**	**1 365**	**-6 635**
13 401	10 155	Payments received regarding securities	10 519	6 649
-13 927	-10 567	Payments made regarding securities	-11 688	-6 977
24	13	Payments received regarding sale of fixed assets	27	24
-12	-30	Payments made regarding purchase of fixed assets	-59	-26
139	337	Change in other assets	337	155
-375	**-92**	**Net income from investing activites**	**-864**	**-175**
-507	-194	Change in loans to credit institutions	1	23
-1	-393	Change in deposits from credit institutions	-397	-38
8 720	300	Payments received, bond debt	9 560	20 220
-7 093	-3 311	Payments made, bond debt	-9 774	-13 832
1 200		Payments received, subordinated loan capital		1 200
-400		Payments made, subordinated loan capital		-400
-70	-76	Payments made, dividend and interest, hybrid capital	-76	-70
-500		Redeemed hybrid capital		-500
310	314	Issuance of hybrid capital	314	310
	582	Issuance of ECs	582	
-270	-260	Change in other liabilities	-246	-366
1 389	**-3 038**	**Net cash flow from financing activities**	**-36**	**6 547**
-263	**465**	**Net change in liquid assets**	**465**	**-263**
595	**332**	**Cash and cash equivalents 01.01**	**332**	**595**
332	**797**	**Cash and cash equivalents 31.12**	**797**	**332**

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 2016 - Sparebanken Sør

NOTE 1 – ACCOUNTING PRINCIPLES

1. GENERAL INFORMATION

The Sparebanken Sør Group consists of the parent bank Sparebanken Sør and the subsidiaries Sparebanken Sør Boligkreditt AS, Sørmegleren Holding AS, Bankbygg AS, AS Eiendomsvekst, Prosjektutvikling AS, Rettighetskompaniet AS and Berglyhallen AS. The Group conducts banking operations in 34 locations and real estate brokerage business in 12 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 collateral in mortgage within 75 percent 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 2016 were prepared by the Board of Directors on 6 March 2017, and will be finally approved by the Board of Trustees on 30 March 2016. The Board of Trustees is the Bank's highest body.

2. BASIS FOR COMPILATION OF THE FINANCIAL STATEMENT

Use of IFRS

The consolidated and parent bank financial statements have been compiled in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, in addition to the Norwegian disclosure requirements pursuant to the Norwegian Accounting Act. The financial statements for Sparebanken Sør have been compiled in Norwegian kroner (NOK), which is the functional exchange rate 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 change in value over 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 than 50 percent. 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 the 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. The total value of the respective assets after the added surplus is set to no higher than market value. 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 recognized 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 recognized 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 recognized at the cost price on initial recognition. The shares are tested annually for any impairment in value and if necessary, a write-down to the recoverable amount is made.

3. REVENUE

Interest income and costs related to assets and liabilities which are measured at the amortized 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 amortized over the expected term. Interest income and costs related to instruments that are measured at fair value through the income statement are presented as part of the net interest income. Changes in value, including changes in value related to the interest element, are recognized as net income from other financial instruments.

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

Dividends are recognized when these are paid out.

4. FINANCIAL INSTRUMENTS

4.1. Recognition and deductions

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

4.3 Classification

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

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

4.3.1 Financial instruments recognized at fair value / financial derivatives

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

4.3.2 Financial derivatives designated as hedging instruments

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

4.3.3 Financial instruments that are voluntary valued at fair value

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

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

4.3.4 Loans and receivables at amortised cost

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

4.3.5 Other liabilities at amortised cost

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

4.4 Measurement on initial recognition

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

4.5 Subsequent measurement

4.5.1 Valuation at fair value

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

4.5.1.1 Measuring of financial instruments which are traded in active markets

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

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

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

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

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

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

Fixed rate loans are not traded in an active market. The bank must therefore establish a market spread to estimate a fair value of loans as at 31.12. For fixed rate loans in the private market, the average of the 10 best mortgage deals 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 amortised 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 as 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 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 recognized at the internal interest rate at the date adjusted for changes in interest rates until the time of impairment. The income rates are based on the loan's recorded value.

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

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

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

4.5.4.2 Collective write-downs

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

4.5.4.3 Realised losses

When it is highly probable that the loss is final, this is recognized 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 recognized.

4.6 Presentation in balance sheet and income statement

4.6.1 Loans

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

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

4.6.2 Bond and certificates

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

4.6.4 Financial derivatives (equity and debt)

The balance sheet includes financial derivatives and value adjustments related to derivative instruments, which are recognized 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. Interest is recognized as interest expenses in the income statement.

4.6.6 Debt incurred by issuing securities

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

4.6.7 Subordinated loan capital

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

5. HEDGE ACCOUNTING

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

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

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

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

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

The hedge object is recognized to the balance sheet at amortized cost. Changes in 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 exchange are translated into Norwegian kroner at the rates on the transaction date.

Balance sheet items denominated in foreign exchange rates are hedged towards similar posts on the opposite side of the balance sheet or the execution of hedging transactions. Currencies derivatives (exchange rate futures) 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 recognized in the profit and loss account under net income from other financial instruments.

7. FIXED ASSETS

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

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

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

8. PENSION COST AND – OBLIGATIONS

Defined benefit pension scheme

In accordance with IAS 19, both obligations related to collective schemes in life insurance companies and unsecured obligations contained in the financial statements in accordance with the calculations performed by an external actuary. Net pension expense consists of the present value of net pension and interest cost on pension obligations, net of expected return on plan assets. Net pension expenses are included in the item wages and other personnel expenses. Changes in estimate deviations are accounted for against other comprehensive income and plan changes will be added to the profit and loss account consecutively. The defined benefit pension scheme in the life insurance company is closed. The arrangement was concluded in 2016 with the conversion to the defined contribution scheme.

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 registered directly as expenses.

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 recognized 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 total equity, minus other equity.

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

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

Sparebanken Sør owns 5 168 equity certificates as at 31.12.2016.

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 market, which includes loans transferred to Sparebanken Sør Boligkreditt AS.
- CM - Corporate market, which includes loans transferred to Sparebanken Sør Boligkreditt AS.

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

13. CASH FLOW STATEMENT

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

14. RECLASSIFICATION OF HYBRID CAPITAL

The Group reclassified hybrid captital(hybrid securities) who did not meet the criteria of a financial liability under IAS 32, from debt to equity as of 1 January 2015.

15. CHANGES IN ACCOUNTING PRINCIPLES AND NOTES

There have been no changes in the accounting principles affecting the financial statements of 2016.

16. 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 will be implemented retrospectively, with the exception of hedge accounting, but it is not a requirement to restate comparable figures. The accounting rules for hedge accounting will mainly be implemented retrospectively, with a few exceptions. The Group has no plans for early adaptation of the standard. The standard is expected to have effect from 1 January 2018. IFRS 9 is expected to have the following effects:

Classification and measurement:

IFRS 9 has a more principle-based approach to whether the financial assets are measured at amortized cost or fair value than IAS 39. The principles for financial liabilities are mainly the same, with some exceptions. Among other things related to changes in value of own credit risk, where liability is measured using the fair value option. In addition, financial assets held both to receive contractual cash flows and resale will mainly be measured at fair value with changes recorded as other comprehensive income (OCI).

The rules and regulations on classification and measurement will primarily affect the bank and the group, in that loans granted by the parent bank which are intended to be resold to Sparebanken Sør Boligkreditt AS must be recorded at fair value in the balance sheet, and changes in value recorded as other comprehensive income (OCI). With the current practice where the actual value is equal to fair value for loans to retail customers with floating rate, the changes are believed to have little practical importance for Sparebanken Sør.

Hedge accounting:

By removing certain requirements related to hedging effectiveness, hedge accounting will increasingly reflect the companies' risk management activities (hedge effectiveness, retrospective effectiveness test), and also increase access to secure net positions and groups of transactions.

The bank will initially not change the existing practice where all debt in fixed-rate and foreign exchange rate is classified under the rules of hedge accounting. But it can be opened for use of hedge accounting for fixed rate loans. There are no planned changes, but the conclusive assessment has not been undertaken.

Impairment:

IAS 39 is based on an incurred loss model, where loss provisions should only take place when there is objective evidence that a loss event has occurred. With IFRS 9 loss provisions will be based on future expected losses. One implication of the new standard is that there will be loss provisions also on new loans, where the write downs will be calculated based on the expectation of default in the next 12 months. For loans where the credit risk has increased significantly, write-downs will be calculated as expected credit loss over the life of the loan. This places high requirements on models for calculating expected losses.

The bank has though 2016 been developing models to meet the new requirements. So far the banks calculations suggest no significant change in loss provisions with IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IASB and FASB have released a new common standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers. The standard replaces all existing standards and interpretations for revenue. The core principle of IFRS 15 is that revenue is recognized to reflect the transfer of contracted goods or services to customers, and then to an amount that reflects the consideration the company expects to be entitled in exchange for those goods or services. The standard applies with a few exceptions; all income-generating contracts with customers and provides a model for recognition and measurement of the sale of certain non-financial assets (f. Ex. Sales of property, plant and equipment). The group is also considering clarifications in IFRS 15 issued by the IASB in April 2016 and will follow up any further changes to the standard.

IFRS 15 will be implemented using either full retrospective or modified retrospective method. The standard is in effect as of 1 January 2018.

The Group has not completed any assessment of the effects of IFRS 15 and it is still too early to provide an estimate of the expected impact in the consolidated income statement.

In addition to the above new standards and interpretations there are also changes in other standards that could affect the future reporting. The effects of the changes in those standards are by the management considered to have little impact on the company and consolidated accounts.

IFRIC 21 Expenses

IFRIC 21 Expenses clarifies that events involving an obligation to pay a fee, is the event that is triggering the payment of the fee, as defined in the legislation. Moreover IFRIC 21 indicates that the obligation to pay a fee is recognized gradually if the triggering obligation occurs over time (ie, if the activity that triggers the payment of the fee, as defined in the legislation, occurs over time). If an obligation to pay a fee is triggered when a minimum level is reached, the commitment arising from this obligation is recognized when this minimum level of activity is reached. IFRIC 21 shall be applied retrospectively. As a result of the standard, the Group has expensed the fee to the Guarantee Fund in its entirety from Q1 2016. It has been stipulated a new regulation for withdrawal from the Guarantee Fund. The amendment gives the right to a proportional deduction from the guarantee fund charge on withdrawal and banks may thus accrue the fee. The amendment is effective from 1 January 2017. The Bank will change the practice of treating hedge fund fees in 2017.

NOTE 2 – DISCRETIONARY JUDGMENTS, ESTIMATES AND CONDITIONS

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

General

In applying the Group's accounting policies, the company's leadership exercised discretion in some areas and made

assumptions about future events as basis of accounting. There will naturally be an inherent uncertainty in the financial records based on the use of discretion and assumptions about future events. The exercise of discretion and the determination of assumptions about future events management will look to available information on the balance sheet date, historical experience with similar assessments, as well as market and third-party assessments of current conditions. Although the management considers its estimates are based on the best estimates available, one must expect that the actual outcome in some cases may differ materially from what is the basis estimates. Estimates, assumptions and conditions that represent a significant risk of substantial changes in the carrying value of assets and liabilities within the next financial year are discussed below.

Write-downs on loans

Assessment of individual and group-related write-downs will always be based on a significant degree of discretion.

Predictions based on historical information may prove to be incorrect because it can never be known for certain what relevance historical data has as a basis for making decisions. 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 be associated with significant uncertainty.

Fair value of financial instruments

The fair value of financial instruments is partly calculated based on assumptions that are not observable in the market. This is particularly relevant when determining the premiums for credit risk, when determining the fair value of fixed interest 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 own estimates. Such information will include credit reviews conducted by other leading market participants.

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 in 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 determine risk strategies, framework for risk appetite, risk profile and risk 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-committees of the Board. The purpose is to make a more thorough assessment of agreed matters, including strengthening the work on financial reporting and internal control.

The Bank's management

The CEO and other management are responsible for implementing risk management and internal control. Matters pertaining to changes or the implementation of new policies and strategies within the Group should always be presented to the management group for discussion and decision. The management considers the risk situation continuously, and evaluates the overall risk situation and its capital at least once a year (ICAAP). 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. The unit will identify, measure and evaluate the bank's overall risk and have the responsibility for compliance.

Internal auditor

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

Risk control process

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

RISK CATEGORIES

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

Credit risk / counterparty risk

Credit risk is the risk of loss due to the Group's counterparties or customers not having the ability or willingness to meet its payment obligations. Credit risk concerns all claims on counterparties/customers. Credit risk arises when the borrower does not fulfil the loan agreement, and when the established collateral doesn't cover the commitment.

Credit risk is the Group's greatest risk, and the risk that requires the most capital. The bank's policy is for the credit exposure to be low to moderate. The Board approves the Group's credit strategy and credit policy, and credit is controlled by fixed tolerance limits and goals associated with the risk profile and exposure at portfolio level.

The Board, the management and the supervisory bodies receive regular credit risk reports. Central to this is the trend in loans divided into different risk classes and moving between classes.

Consentration risk

Concentration risk is credit risk in terms of risk of loss due to a large overall exposure to a single counterparty, groups of related counterparties(large exposures), counterparties operating in the same industry (industrial concentration) or geographic concentration.

The Bank shall have a moderate overall concentration risk. Added risk due to debtor concentration is present after the Bank's opinion, but does not represent a significant risk for the Group. This is a result of low exposure when taking into account the quality of their collateral. A similar reasoning can be applied in relation to tenant concentration.

The greatest concentration risk of Sparebanken Sør is related to "Real estate". Thus, this part of the portfolio will be exposed to risk factors that affect property companies specifically. These risk factors are first and foremost vacancy, rental prices and interest rates. The latter is a general macro variable, but property companies are more heavily exposed to interest rates than many other industries owing to a high loan interest, and because property is an asset with longevity.

At an individual level, there will be large variations in a loans relation to the sensitivity to these factors, and thereby how the loan contributes to the portfolios concentration risk. This depends among others on the tenancy, property location and type of building. In addition, the debtor's financial situation has a major impact.

The bank has set aside additional capital under ICAAP to cover concentration risk.

Settlement risk

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

Liquidity risk

Liquidity risk is defined as the risk of the Group not being able 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 shall have a moderate to low liquidity risk. Liquidity risk should be on par with comparable banks, but be reconciled with the bank's overall risk profile and the Board's approved capital requirements. The risk profile should be adapted to the current market situation and outlook. The monitoring is done by controlling exposure in relation to approved limits and by control of the qualitative requirements.

Market risk

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

Interest rate risk

Interest rate risk is defined as the risk of revenue losses arising from changes in interest rates if the fixed rate period for the Bank's liabilities and assets in and off balance, don't coincide. 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.

Exchange rate risk

Risk of financial (earnings-related) losses arising from a disadvantageous change in the value of asset and liability items (on and off the balance sheet) measured in the base exchange rate (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 percent and the exchange rate risk is regulated by limits for maximum aggregated exchange rate 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 percent and the exchange rate 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 risk

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 behaviour. Business risk can also arise as a result of government regulations. The risks also include the reputation- or the reputational risk, which is the risk, associated with increased losses, reduced income and/ or increased costs as a result of the Bank's reputation having been damaged.

STRATEGIC RISK

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

OPERATIONAL RISK

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

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

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.
- Exchange rate futures - agreements to buy or sell foreign currencies with settlement at a specified future date.
- Cross-exchange rate interest rate swaps – agreements to buy or sell both interest and exchange rate.

The purpose for using interest and exchange rate instruments is to reveal the Banks interest and exchange rate exposure.

NOTE 4 – CAPITAL ADEQUACY

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

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

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

The minimum requirement for core equity tier 1 ratio was 11.5 per cent, core capital ratio 13 per cent and total capital adequacy 15 per cent.

With effect from 31 December 2017, the counter-cyclical buffer requirement will increase from 1.5 to 2.0 percent. The minimum requirement will then be 12 percent for common equity tier 1 capital ratio, the requirement for tier 1 capital ratio will be 13.5 percent, while the requirement for total capital ratio will be 15.5 percent.

In addition, the bank must adapt to the Financial Supervisory Authority's assessment of the Group's capital (SREP), which concluded with a pillar-2 addition of 2.1 percent in 2016. This is in addition to the above minimum requirements.

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

PARENT BANK		NOK MILLION	GROUP	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
474	783	Equity certificates	783	474
175	451	Premium fund	451	175
6 002	6 606	Primary capital	6 606	6 002
41	42	Gift fund	42	41
256	297	Equalisation fund	297	256
43	94	Other equity	1 047	805
-43	-94	- Deduction for dividends included under other equity	-94	-43
-10	-18	- Deduction for intangible assets and deferred tax assets	-18	-10
6 938	**8 160**	**Total common equity tier 1 capital**	**9 114**	**7 700**
510	825	Hybrid capital	825	510
0	0	- Deduction for intangible assets and deferred tax assets		
7 448	**8 985**	**Total tier 1 capital**	**9 939**	**8 210**
		Additional capital over core capital:		
1 200	1 203	Subordinated loan capital	1 203	1 200
1 200	**1 203**	**Total additional tier 1 capital**	**1 203**	**1 200**
-22	-22	- Deduction from core and additional capital	-22	-22
8 626	**10 167**	**Net primary capital**	**11 121**	**9 388**
		Minimum requirement for subordinated capital Basel II calculated according to the standard method:		
7	7	Engagements with local and regional authorities	7	7
66	59	Engagements with institutions	36	40
251	197	Engagements with enterprises	198	251
505	455	Engagement with mass market	473	530
2 744	2 881	Engagement secured in property	3 728	3 501
71	50	Engagement which have fallen due	50	72
0	0	Engagement which are high risk	0	0
237	260	Engagement in covered bonds	67	62
137	144	Engagement in collective investment funds	44	37
51	48	Engagement, other	48	51
4 069	**4 101**	**Capital requirements for credit- and counterparty risk**	**4 651**	**4 551**
4	**5**	**Capital requirements for position-, currency- and product risk**	**5**	**4**
196	**198**	**Capital requirements for operational risk**	**259**	**252**
29	**26**	**CVA addition**	**45**	**47**
0	**0**	**Deduction from the capital requirement**	**0**	**0**
4 299	**4 330**	**Total minimum requirement for primary capital**	**4 960**	**4 854**
53 735	54 125	Risk-weighted balance (calculation basis)	62 000	60 679
12.91 %	15.08 %	Common equity tier 1 capital ratio, %	14.70 %	12.69 %
13.86 %	16.60 %	Tier 1 capital ratio, %	16.03 %	13.53 %
16.05 %	18.78 %	Total capital ratio, %	17.94 %	15.47 %
6.40 %	8.00 %	Leverage ratio	8.61 %	7.00 %

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 both 2016 and 2015.

Rapportering pr. segment		**GROUP 31.12.2016**				**GROUP 31.12.2015**		
NOK MILLION	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest	948	618	-1	1 565	979	532	33	1 544
Net other operating income	183	67	295	545	155	61	32	248
Operating expenses	371	91	325	787	354	87	376	817
Profit before losses per segment	**761**	**594**	**-32**	**1 323**	**780**	**506**	**-311**	**975**
Losses on loans and guarantees	6	40	4	50	6	80	12	97
Profit before tax per segment	**755**	**554**	**-36**	**1 273**	**774**	**427**	**-323**	**878**
Net loans to customers	60 069	30 915	-56	90 928	58 113	30 090	184	88 387
Other assets			14 527	14 527			12 947	12 947
Total assets per segment	**60 069**	**30 915**	**14 471**	**105 455**	**58 113**	**30 090**	**13 131**	**101 334**
Deposits from customers	26 473	20 270	4 819	51 562	25 492	17 826	5 031	48 349
Other liabilities	33 596	10 645	-399	43 842	32 621	12 264	-163	44 722
Total liabilities per segment	**60 069**	**30 915**	**4 420**	**95 404**	**58 113**	**30 090**	**4 868**	**93 071**
Equity			10 051	10 051			8 263	8 263
Total liabilities and equity per segment	**60 069**	**30 915**	**14 471**	**105 455**	**58 113**	**30 090**	**13 131**	**101 334**

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) next 12 months 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 are defaulted loans and loans with individual write-downs. Default is also deemed to exist when there are debt settlement proceedings or bankruptcy, or there has been taken legal steps to collect the debt. The definition of default in class K thus differs somewhat from the definition of defaulted and non-performing commitments in Note 9. The table below shows the intervals for the different risk classes based on the probability of default.

The Bank's risk classes are:

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

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

TOTAL COMMITMENTS DISTRIBUTED BY 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					GROUP			
31.12.2015		31.12.2016		NOK MILLION	31.12.2016		31.12.2015	
				Retail banking customers:				
28 646	78.0 %	27 917	79.7 %	Low risk	53 896	82.4 %	53 112	81.4 %
6 705	18.3 %	6 028	17.2 %	Medium risk	10 116	15.5 %	10 491	16.1 %
1 007	2.7 %	711	2.0 %	High risk	1 002	1.5 %	1 295	2.0 %
36 358		**34 656**		**Total non-matured or written down**	**65 014**		**64 898**	
378	1.0 %	376	1.1 %	Commitment in default and write-downs comm.	376	0.6 %	378	0.6 %
36 736	**100 %**	**35 032**	**100 %**	**Total retail banking customers**	**65 390**	**100 %**	**65 276**	**100 %**
				Corporate customers:				
18 053	48.3 %	19 418	50.0 %	Low risk	19 483	50.1 %	18 201	48.5 %
14 242	38.1 %	14 587	37.5 %	Medium risk	14 591	37.5 %	14 259	38.0 %
3 696	9.9 %	3 737	9.6 %	High risk	3 737	9.6 %	3 698	9.8 %
35 991		**37 742**		**Total non-matured or written down**	**37 811**		**36 158**	
1 398	3.7 %	1 107	2.9 %	Commitment in default and write-downs comm.	1 107	2.8 %	1 398	3.7 %
37 389	**100 %**	**38 850**	**100 %**	**Total corporate customers**	**38 919**	**100 %**	**37 556**	**100 %**
74 125		**73 882**		**Total commitments**	**104 309**		**102 832**	

GROSS LOANS DISTRIBUTED IN RISK GROUPS

PARENT BANK					GROUP			
31.12.2015		31.12.2016		NOK MILLION	31.12.2016		31.12.2015	
				Personkunder:				
24 846	76.2 %	24 879	78.6 %	Retail banking customers:	48 629	81.4 %	46 355	79.8 %
6 459	19.8 %	5 790	18.3 %	Low risk	9 797	16.4 %	10 149	17.5 %
975	3.0 %	677	2.1 %	Medium risk	966	1.6 %	1 262	2.2 %
32 281		**31 346**		**High risk**	**59 392**		**57 767**	
316	1.0 %	313	1.0 %	Total non-matured or written down	313	0.5 %	316	0.5 %
32 597	**100 %**	**31 660**	**100 %**	**Commitment in default and write-downs comm.**	**59 706**	**100 %**	**58 083**	**100 %**
				Total retail banking customers				
14 611	47.5 %	14 877	47.0 %	Corporate customers:	14 866	47.0 %	14 730	47.7 %
11 565	37.6 %	12 738	40.2 %	Low risk	12 742	40.2 %	11 582	37.5 %
3 318	10.8 %	3 073	9.7 %	Medium risk	3 073	9.7 %	3 320	10.8 %
29 494		**30 689**		**High risk**	**30 682**		**29 632**	
1 249	4.1 %	980	3.1 %	Total non-matured or written down	980	3.1 %	1 249	4.0 %
30 743	**100 %**	**31 669**	**100 %**	**Commitment in default and write-downs comm.**	**31 662**	**100 %**	**30 881**	**100 %**
				Total corporate customers				
122		**129**		**Accrued interest**	**155**		**147**	
63 462		**63 458**		**Total gross loans**	**91 523**		**89 111**	

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 2016. Gross loans with low and medium risk represent approximately 87 percent 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 collateral.

Collateral 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 31.12.2016

	PARENT BANK		GROUP	
LTV 31.12.2016	NOK MILLION	%	NOK MILLION	%
Under 40 %	1 827	7.3 %	7 680	14.4 %
41 - 50 %	1 760	7.0 %	5 510	10.4 %
51 - 60 %	2 950	11.8 %	8 411	15.8 %
61 - 70 %	5 347	21.3 %	13 975	26.3 %
71 - 75 %	3 034	12.1 %	6 328	11.9 %
76 - 80 %	2 699	10.8 %	3 468	6.5 %
81 - 85 %	2 494	9.9 %	2 733	5.1 %
86 - 90 %	1 854	7.4 %	1 928	3.6 %
91 - 95 %	1 162	4.6 %	1 186	2.2 %
96 - 100 %	1 059	4.2 %	1 074	2.0 %
Over 100 %	917	3.7 %	923	1.7 %
TOTAL	**25 103**	**100 %**	**53 216**	**100 %**

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

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

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.

Collateral 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 TYPE OF LOANS

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Loans valued at amortised cost		
8 734	8 080	Overdraft- and working capital facilities	14 839	15 741
3 301	4 285	Building loans	4 284	3 301
43 014	43 450	Repayment loans	64 731	61 631
55 049	**55 815**	**Total loans valued at amortised cost**	**83 854**	**80 673**
		Loan designated at fair value through income statement		
8 290	7 514	Fixed rate loans	7 514	8 290
8 290	**7 514**	**Total loans designated at fair value through income statement**	**7 514**	**8 290**
122	129	Accrued interest	155	147
63 461	**63 458**	**TOTAL GROSS LOANS**	**91 523**	**89 110**
-717	-589	Write-downs on lending	-595	-723
62 744	**62 869**	**TOTAL NET LOANS**	**90 928**	**88 387**

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			
31.12.2015		31.12.2016		NOK MILLION	31.12.2016		31.12.2015	
30 106	47.4 %	30 239	47.7 %	Vest-Agder	42 578	46.5 %	41 426	46.5 %
16 301	25.7 %	15 901	25.1 %	Aust-Agder	23 898	26.1 %	23 661	26.6 %
6 573	10.4 %	6 576	10.4 %	Telemark	9 141	10.0 %	8 692	9.8 %
4 778	7.5 %	4 918	7.7 %	Oslo	7 109	7.8 %	6 965	7.8 %
1 088	1.7 %	1 035	1.6 %	Akershus	2 114	2.3 %	2 004	2.2 %
1 183	1.9 %	1 213	1.9 %	Rogaland	1 733	1.9 %	1 661	1.9 %
3 311	5.2 %	3 446	5.4 %	Others	4 794	5.2 %	4 554	5.1 %
122	0.2 %	129	0.2 %	Accrued interest	155	0.2 %	146	0.2 %
63 461	**100.0 %**	**63 458**	**100.0 %**	**TOTAL GROSS LOANS**	**91 523**	**100.0 %**	**89 110**	**100.0 %**

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

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

Gross loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
32 719	31 789	Retail customers	59 861	58 230
541	334	Public administration	334	541
714	798	Primary industry	801	722
932	899	Manufacturing industry	900	936
3 313	3 399	Real estate development	3 396	3 309
1 205	1 421	Building and construction industry	1 427	1 246
15 493	15 645	Property management	15 630	15 482
475	565	Transport	570	478
1 127	1 023	Retail trade	983	1 136
389	371	Hotel and restaurant	372	391
810	898	Housing cooperatives	897	809
1 986	2 217	Financial/commercial services	2 221	2 015
3 636	3 970	Social services	3 978	3 670
122	129	Accrued interests	155	147
63 462	**63 458**	**TOTAL GROSS LOANS**	**91 523**	**89 111**
717	589	Write-downs on lending	595	723
62 744	**62 869**	**TOTAL NET LOANS**	**90 928**	**88 387**

Guarantees distributed by sector and industry

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
44	39	Retail customers	39	44
1	1	Public administration	1	1
4	3	Primary industry	3	4
258	283	Manufacturing industry	283	258
239	284	Real estate development	284	239
196	240	Building and construction industry	240	196
272	451	Property management	451	272
118	160	Transport	160	118
162	155	Retail trade	155	162
9	7	Hotel and restaurant	7	9
51	41	Financial/commercial services	41	51
50	36	Social services	36	50
1 402	**1 700**	**TOTAL GUARANTEES**	**1 700**	**1 402**

Unused credit according to sector and industry

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
3 973	3 205	Retail customers	5 490	7 002
532	499	Public administration	499	532
132	111	Primary industry	112	132
294	412	Manufacturing industry	413	295
754	606	Real estate development	609	754
355	472	Building and construction industry	474	363
2 095	1 543	Property management	1 558	2 096
61	88	Transport	89	61
358	395	Retail trade	439	359
49	51	Hotel and restaurant	52	49
26	98	Housing cooperatives	99	26
201	214	Financial/commercial services	217	214
429	1 031	Social services	1 035	436
9 261	**8 725**	**TOTAL UNUSED CREDIT**	**11 086**	**12 319**

Commitments according to sector and industry

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
36 736	35 032	Retail customers	65 390	65 276
1 075	834	Public administration	834	1 073
849	913	Primary industry	916	858
1 484	1 593	Manufacturing industry	1 595	1 488
4 307	4 289	Real estate development	4 289	4 302
1 756	2 133	Building and construction industry	2 141	1 804
17 860	17 639	Property management	17 639	17 850
654	813	Transport	819	657
1 648	1 573	Retail trade	1 577	1 658
447	429	Hotel and restaurant	431	449
836	996	Housing cooperatives	996	835
2 237	2 472	Financial/commercial services	2 479	2 280
4 115	5 036	Social services	5 049	4 155
122	129	Accrued interests	155	147
74 125	**73 882**	**TOTAL COMMITMENTS**	**104 309**	**102 832**

NOTE 9 – DEFAULTED LOANS

A client's commitment is considered to be in default if a payment is not paid within 90 days after the due date, or a frame credit has been overdrawn for more than 90 days. When a customer has one or more defaulted loans, it is the customer's total debit involvement that is 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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
418	275	Gross non-performing loans	276	418
134	89	- Individual write-downs	89	134
284	**186**	**Net non-performing loans**	**187**	**284**
32.0 %	32.3 %	Provision ratio defaulted loans	32.2 %	32.0 %
0.66 %	**0.43 %**	**Gross non-performing loans in % of gross loans**	**0.30 %**	**0.47 %**

Corporate banking market

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
321	174	Gross non-performing loans	174	321
115	71	- Individual write-downs	71	115
206	**103**	**Net non-performing loans**	**103**	**206**
35,7 %	41,0 %	Provision ratio defaulted loans	40,8 %	35,7 %

Retail banking market

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
97	101	Gross non-performing loans	102	97
19	17	- Individual write-downs	18	19
78	**83**	**Net non-performing loans**	**84**	**78**
19.5 %	17.2 %	Provision ratio defaulted loans	17.4 %	19.5 %

As at 31 December 2016, the fair value of associated mortgage debts on defaulted loans to customers was NOK 225 million and as at 31 December 2015, NOK 426 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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
794	634	Other doubtful loans	634	794
384	296	- Individual write-downs	296	384
410	**339**	**Net doubtful loans**	**338**	**410**
48.4 %	46.7 %	Provision ratio doubtful loans	46.7 %	48.4 %

Gross defaulted loans distributed by sector and industry

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
97	101	Retail banking customers	102	97
321	174	Corporate customers	174	321
418	**275**	**Total defaulted loans**	**276**	**418**
0	0	Public administration	0	0
3	1	Primary industry	1	3
0	0	Manufacturing industry	0	0
47	35	Real estate development	35	47
22	13	Building and construction industry	13	22
190	79	Property management	79	190
8	7	Transport	7	8
5	5	Retail trade	5	5
3	2	Hotel and restaurant	2	3
0	0	Housing cooperatives	0	0
26	11	Financial/commercial services	11	26
16	21	Social services	21	16
321	**174**	**Total corporate customers**	**174**	**321**

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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
521	517	Individual write-downs at start of period	517	521
76	159	- Period's confirmed loss where individual write-downs has been performed previously	159	76
43	74	+ Increased individual write-downs during the period	74	43
77	85	+ New individual write-downs during the period	85	77
48	132	- Reversal of individual write-downs during the period	132	48
517	**385**	**= Individual write-downs at the end of period**	**385**	**517**

Collective write-downs

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
188	200	Collective write-downs on loans at start of period	206	194
12	4	+ Change in collective write-downs during the period	4	12
200	**204**	**=Collective write-downs on loans at the end of period**	**210**	**206**

Loss expense on loans during the period

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
-4	-132	Change in individual write-downs during the period	-132	-4
12	4	+ Change in collective write-downs during the period	4	12
76	159	+ Period's confirmed loss where individual write-down has been performed previously	159	76
17	43	+ Period's confirmed loss where no individual write-down has been performed previously	43	17
5	-11	+ Recognised as interest income	-11	5
6	14	- Period's recoveries relating to previous losses	14	6
-3	1	+Change in write-downs on guarantees	1	-3
97	**50**	**= Loss expense during the period**	**50**	**97**

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

NOK MILLION	31.12.2016	31.12.2015
Retail banking customers	35	34
Corporate customers	350	483
Total individual write-downs	**385**	**517**
Public administration	0	0
Primary industry	2	4
Manufacturing industry	41	21
Real estate development	70	61
Building and construction industry	75	38
Property management	115	130
Transport	2	8
Retail trade	12	45
Hotel and restaurant	2	3
Housing cooperatives	0	0
Financial/commercial services	28	167
Social services	3	6
Total corporate customers	**350**	**483**

The expected average annual net loss

There is NOK 385 million in individual write-downs as at 31.12.2016 (NOK 517 million as at 31.12.2015). Group write-downs of NOK 210 million as at 31.12.2016 (NOK 206 million as at 31.12.2015) 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.

Based on the bank's low direct exposure to the oil service industry, economic conditions, historical figures, local market conditions and portfolio composition, it is expected that net losses for 2017 will also be low. For the period 2018-2020 the bank maintain the policy that total loan loss level should be below 0.20 percent of gross lending.

NOTE 11 – EXCHANGE RATE 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 exchange rate must not exceed NOK 20 million and the maximum result effect in the event of a 10% rate change shall be a maximum of NOK 20 million.

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
1	2	Net total foreign currency position	2	1
0	0	Income effect at 10 % change	0	0

NOTE 12 – INTEREST RATE RISK

Interest rate risk occurs in connection with the Bank's ordinary lending and borrowing activities and in relation to 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 don't match. An interest risk limit has been adopted by the Board of Directors, and is measured as maximum loss as a result of a parallel displacement of the yield curve by two percentage point. The bank has quarterly reporting to the Board of Directors. At year-end, the bank's interest rate risk was well within the approved limits. The Group's interest position meant that any potential increase in interest rates was estimated to provide a positive contribution to profit equivalent to NOK 36 million as at 31 December 2016. The corresponding figure for the bank is NOK 24 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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
3	50	Interest rate +/- 2 % points	54	1

NOTE 13 – LIQUIDITY RISK

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

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

Deposits from customers are the bank's most stable funding source. The Board of Directors emphasises that the ratio between deposits from customers and lending must be adapted to the Group's overall funding situation. As at 31 December 2016, the Group's deposit-to-loan ratio was 56.7 per cent, an increase from 54.7 percent as at 31 December 2015.

In addition, Sparebanken Sør Boligkreditt AS is also an important funding instrument, which ensures access to long-term funding through issue of covered bonds. In order to be able to issue covered bonds, as at 31 December 2016, mortgages equivalent to 50 percent 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 109 percent. 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 11.8 billion.

The bank's short-term liquidity risk is managed, among other things, through using Liquid Coverage Requirement (LCR). At year-end 2016, the LCR indicator for Sparebanken Sør was 128 percent and sufficient to meet all project liquidity maturity within the next 30 days under a stress scenario. The requirement was 70 percent as at 31 December 2016, and increased to 80 percent from 1 January 2017. The requirement is applicable at any time with at least 100 percent from and including 1 January 2018.

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

LIQUIDITY RISK

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

						GROUP 31.12.2016
NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institution	178	178				
Deposits from customers	51 569	50 174	1 167	228		
Debt incurred due to issue of securities	43 443	806	1 335	2 220	36 347	2 735
Other liabilities	597	114	89	305	6	83
Subordinated loan capital	1 303	1	7	25	1 270	
Loan commitments and unused credit facilities	11 881	11 881				
Total liabilities	**108 971**	**63 154**	**2 598**	**2 778**	**37 623**	**2 818**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-6 048	-189	-958	-120	-4 781	
Payment received	5 844	190	968	120	4 566	
Total derivative obligations	**-204**	**1**	**10**	**0**	**-215**	**0**

PARENT BANK 31.12.2016						
NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institution	232	232				
Deposits from customers	51 569	50 174	1 167	228		
Debt incurred due to issue of securities	18 641	786	1 237	2 010	12 890	1 718
Other liabilities	519	110	86	234	6	83
Subordinated loan capital	1 303	1	7	25	1 270	
Loan commitments and unused credit facilities	9 520	9 520				
Total liabilities	**81 784**	**60 823**	**2 497**	**2 497**	**14 166**	**1 801**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 288	-189	-958	-120	-21	
Payment received	1 299	190	968	120	21	
Total derivative obligations	**11**	**1**	**10**	**0**	**0**	**0**

GROUP 31.12.2015						
NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institution	628	227	401			
Deposits from customers	48 384	46 793	1 591			
Debt incurred due to issue of securities	43 978	79	2 142	3 161	33 170	5 427
Other liabilities	594	68	74	280	6	165
Subordinated loan capital	1 392	3	6	25	25	1 333
Loan commitments and unused credit facilities	13 472	13 472				
Total liabilities	**108 447**	**60 642**	**4 214**	**3 465**	**33 201**	**6 925**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 551	-402	-1 034	-115		
Payment received	1 569	403	1 051	115		
Total derivative obligations	**18**	**1**	**17**	**0**	**0**	**0**

PARENT BANK 31.12.2015						
NOK MILLION	TOTAL	Up to 1 mth.	From 1 mth. to 3 mths.	From 3 mths. to 1 year	From 1 year to 5 years	Over 5 years
Liabilities /non-derivative obligations						
Debts to credit institution	628	227	401			
Deposits from customers	48 384	46 793	1 591			
Debt incurred due to issue of securities	20 636	48	1 431	2 237	14 685	2 235
Other liabilities	498	64	72	190	6	165
Subordinated loan capital	1 392	3	6	25	25	1 333
Loan commitments and unused credit facilities	10 414	10 414				
Total liabilities	**81 952**	**57 549**	**3 501**	**2 452**	**14 716**	**3 733**
Derivative obligations						
Financial derivatives gross settlement						
Payment	-1 551	-402	-1 034	-115		
Payment received	1 569	403	1 051	115		
Total derivative obligations	**18**	**1**	**17**	**0**	**0**	**0**

Maturity structure of issued bonds as at 31.12.2016

NOK MILLION									
ISIN Number	Ticker	Currency	Nominal	Of which owned by the bank	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010598535	SOR08 PRO	NOK	697		731	731	Fixed rate	No installment	20.01.2017
NO0010634801	SOR12 PRO	NOK	838		841	841	NIBOR 3 mths	No installment	16.03.2017
NO0010664956	SOR24 PRO	NOK	1 000		1 002	1 010	NIBOR 3 mths	No installment	30.11.2017
NO0010635055	SOR13 PRO	NOK	1 000		1 079	1 083	Fixed rate	No installment	26.01.2018
NO0010672793	SOR25 PRO	NOK	500		501	504	NIBOR 3 mths	No installment	05.03.2018
NO0010649338	SOR14 PRO	NOK	1 000		1 067	1 071	Fixed rate	No installment	11.05.2018
NO0010692643	SOR27 PRO	NOK	1 000		1 003	1 009	NIBOR 3 mths	No installment	29.10.2018
NO0010731128	SOR32 PRO	NOK	800		801	800	NIBOR 3 mths	No installment	20.02.2019
NO0010675358	SOR15 PRO	NOK	400		421	423	Fixed rate	No installment	17.06.2019
NO0010742992	SOR37 PRO	NOK	955		949	955	NIBOR 3 mths	No installment	12.08.2019
NO0010680093	SOR26 PRO	NOK	1 000		1 042	1 048	Fixed rate	No installment	16.09.2019
NO0010708019	SOR01 PRO	NOK	1 500		1 501	1 499	NIBOR 3 mths	No installment	19.03.2020
NO0010708027	SOR02 PRO	NOK	650		694	694	Fixed rate	No installment	19.03.2020
NO0010729502	SOR30 PRO	NOK	1 365		1 353	1 360	NIBOR 3 mths	No installment	21.08.2020
NO0010724081	SOR29 PRO	NOK	1 100		1 119	1 116	Fixed rate	No installment	24.11.2020
NO0010692189	SOR16 PRO	NOK	300		330	331	Fixed rate	No installment	28.04.2021
NO0010736960	SOR35PRO	NOK	500		517	513	Fixed rate	No installment	26.05.2021
NO0010781214	SOR44PRO	NOK	300		300	300	Fixed rate	No installment	06.05.2022
NO0010735327	SOR33PRO	NOK	500		516	511	Fixed rate	No installment	06.05.2022
NO0010735418	SOR34PRO	NOK	500		518	506	Fixed rate	No installment	12.05.2025
NO0010754849	SOR41PRO	NOK	300		299	312	Fixed rate	No installment	23.12.2025
Issued by Parent bank					**16 584**	**16 616**			
NO0010641624	SORB20	NOK	737	392	345	346	NIBOR 3 mths	No installment	28.03.2017
NO0010623945	SORB02	NOK	1 000	265	736	738	NIBOR 3 mths	No installment	24.08.2017
NO0010673296	SORB21	NOK	4 500		4 505	4 523	NIBOR 3 mths	No installment	14.09.2018
NO0010679806	SORB10	NOK	4 500		4 501	4 523	NIBOR 3 mths	No installment	22.05.2019
NO0010664659	SORB07	NOK	28		28	28	NIBOR 3 mths	No installment	27.11.2019
NO0010714058	SORB24	NOK	4 500		4 459	4 483	NIBOR 3 mths	No installment	24.06.2020
XS1383921803		EURO	500		4 562	4 619	Fixed rate	No installment	22.03.2021
NO0010778954	SORB 27	NOK	4 500		4 504	4 507	NIBOR 3 mths	No installment	22.11.2021
NO0010671597	SORB09	NOK	350		398	395	Fixed rate	No installment	13.02.2023
NO0010670409	SORB08	NOK	500		595	584	Fixed rate	No installment	24.01.2028
Issued by Subsidiary					**24 633**	**24 746**			
Total bonds					**41 217**	**41 362**			

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 recognized amount.

At year-end 2016, the average residual maturity of the portfolio of senior bond debt and covered bonds was 3.2 years, compared with 3.5 years at year-end 2015.

Maturity structure of issued subordinated loans as at 31.12.2016

NOK MILLION							
ISIN Number	Ticker	Nominal	Recognised value	Fair value	Reference rate	Repayment - structure	Final maturity
NO0010697063	SOR28 PRO	400	401	402	NIBOR 3 mnd + 1,80%	No installment	27.11.2023
NO0010730112	SOR31 PRO	200	201	199	NIBOR 3 mnd + 1,65%	No installment	30.01.2025
NO0010737026	SOR36 PRO	300	301	297	NIBOR 3 mnd + 1,52%	No installment	03.06.2025
NO0010743255	SOR38 PRO	300	301	297	NIBOR 3 mnd + 1,55%	No installment	25.08.2025
Subordinated loan capital		**1 200**	**1 203**	**1 195**			

Liquidity indicators

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

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

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

PARENT BANK			GROUP	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
112.9	116.5	Liquidity indicator 1	109.0	105.7
118.3	119.4	Liquidity indicator 2	112.2	110.6

The enterprise will at all time have a liquidity reserve(LCR). The requirement was 70 percent as at 31 December 2016 and 80 percent as of 1 January 2017. This means that liquid assets must at least be equivalent to the net cash outflow in a given stress period of 30 calendar days. The Liquidity Coverage Ratio will be calculated according to the following formula and will be stated as a percentage:

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

At year-end 2016, LCR was 128 percent for the group and 135 percent for the parent bank. Corresponding numbers for 2015 was 108 for the Group and 71 percent for the parent bank.

NOTE 14 – INTEREST INCOME AND INTEREST EXPENSES

PARENT BANK			GROUP	
2015	2016	NOK MILLION	2016	2015
42	36	Interest on loans given to and receivables from credit institutions	10	11
2 151	1 980	Interest on loans given to customers	2 738	2 912
197	178	Interest on certificates and bonds	180	196
2 390	**2 194**	**Total interest income**	**2 928**	**3 119**
10	5	Interest on debt to credit institutions	5	10
767	561	Interest on debt to customers	557	767
385	323	Interest on issued securities	727	731
26	33	Interest on subordinated loans	33	26
41	41	Fee to The Norwegian Banks' Guarantee Fund	41	41
1 229	**963**	**Total interest expenses**	**1 363**	**1 575**
1 161	**1 231**	**Net interest income**	**1 565**	**1 544**

NOTE 15 – COMMISSION INCOME

PARENT BANK			GROUP	
2015	2016	NOK MILLION	2016	2015
24	25	Guarantee commission	20	19
18	18	Security trading and management	18	18
168	169	Payment transmission	169	168
28	28	Insurance services	28	28
		Real estate turnover and management	96	99
59	69	Fees from other activities	14	15
297	**309**	**Total commission income**	**345**	**347**

NOTE 16 – INCOME FROM FINANCIAL INSTRUMENTS

PARENT BANK			GROUP	
2015	2016	NOK MILLION	2016	2015
-4	-122	Changes in value - fixed rate loans - designated at fair value through profit	-122	-4
29	157	Changes in value - derivatives fixed rate loans - liable to fair value through profit	157	29
25	**35**	**Net fixed rate loans**	**35**	**25**
-146	61	Gains(losses) and change in value - certificates and bonds	60	-146
9	22	Share dividend	10	3
55	114	Gains(losses) and change in value - shares	114	55
-82	**197**	**Certificates, bonds and shares - designated at fair value through profit**	**184**	**-88**
86	167	Change in value - bonds at fixed interest rate - hedge accounting	377	87
-81	-169	Change in value - derivatives fixed rate bonds - liable to fair value through profit	-411	-82
5	**-2**	**Net issued securities at fixed rate - hedge accounting**	**-34**	**5**
NA	NA		-32	NA
-18	0	Gains (losses) from buy-back of own bonds - amortised cost	19	-13
14	21	Currency gains (losses)	21	14
-9	-1	Other financial derivatives - liable to fair value through profit	-1	-9
-13	**20**	**Net other financial instruments and derivatives**	**39**	**-8**
-65	**250**	**Net income from financial instruments**	**224**	**-66**

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	
2015	2016	NOK MILLION	2016	2015
289	292	Wages to employees and fee to elected representatives (1)	345	345
44	46	Payroll tax	54	52
39	5	Pension costs	6	40
17	16	Other personnel costs	20	21
389	**359**	**Total personnel costs**	**425**	**458**
449	439	Number of man-years as at 31.12	499	508
451	**444**	**Average number of man-years per year**	**503**	**508**

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

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

Pension

At 1 November 2016 the Bank's collective defined pension scheme for employees, via Nordea Liv and Storebrand Livsforsikring, was discontinued and replaced with a collective defined contribution scheme in Storebrand Livsforsikring. Remaining liabilities in the defined benefit schemes are linked to disability / partial disability. Employees who receive an estimated pension loss resulting from this change will be compensated.

The funded defined benefit plan now includes 21 people who are disabled / partially disabled.

The bank also has pension liabilities covering 45 persons who are not covered by the insurance scheme in connection with early retirement and supplementary pensions. These schemes are considered defined benefit schemes. Actuarial gains and deviations are recognized directly as other comprehensive income. The new pension scheme, which was introduced in 2010, is treated as a defined contribution scheme as at 31 December 2016.

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

The Bank uses the OMF rate as the reference rate. The markets for these bonds are considered to be sufficiently liquid at the reporting date.

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

	2016	2015
Discounting interest rate	2.60 %	2.70 %
Expected wage adjustment	2.50 %	2.50 %
Expected pension adjustment	0.00 %	0.00 %
Expected 'G' -adjustment	2.25 %	2.25 %
Expected investment return on pension resources	2.60 %	2.70 %
Voluntary retirement	0.00 %	0.00 %

When calculating the pension costs for 2016, the assumptions as at 31 December 2015 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 2016 and 31 December 2015, is based on the ordinary table K2013.

Breakdown of pension costs of the year

	31.12.2016		31.12.2015	
NOK MILLION	Secured	Non secured	Secured	Non secured
Pension earnings for the year	21	3	28	5
Net scheme-change	-41			
Interest costs on the pension commitments	14	2	15	2
Recognized return on pension funds	-12		-12	
Total pension costs - defined benefit schemes	**-18**	**5**	**31**	**7**
New AFP and permium deposit pension	21		6	
Total pension costs recognised in the income statement	**3**	**5**	**37**	**7**
Estimate deviations recognised in the total result	-16	1	-58	-1
Total pension costs	**-13**	**6**	**-21**	**6**
Movements - pension commitments				
Commitments at the beginning of the period	635	73	686	71
Pension earnings for the year	21	3	28	5
Interest costs on the pension commitments	14	2	15	2
New commitment	-607			
Actuariel losses/gains	-16	1	-73	-1
Pension payments	-24	-6	-21	-4
Pension commitments at end of period	**23**	**73**	**635**	**73**
Movements - pension funds				
Pension funds at the beginning of the period	548		521	
Return on pension funds	12		12	
Actuariel losses/gains			-15	
New commitment	-566			
Payment into pension funds	49		51	
Pension payments	-24		-21	
Pension funds at end of period	**19**	**-**	**548**	**-**
Net pension commitments at end of period	**4**	**73**	**87**	**73**

Composition of pension assets	31.12.2016	31.12.2015
Shares	7.7 %	4.5 %
Short term bonds	12.1 %	6.5 %
Money market	22.9 %	24.3 %
Long term bonds	31.7 %	32.7 %
Loans and receivables	17.7 %	18.0 %
Others	7.9 %	14.0 %
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

	2016	2015
Active members of the benefit pension scheme	0	407
Pensioners and disabled in the scheme	21	304
Total number of persons who are included in the benefit scheme	**21**	**711**
Active members of non-insured schemes	14	18
Pensioners and disabled people in non-secured schemes	31	28
Total number of people in non-secured schemes	**45**	**46**
Active members of contribution scheme	461	75
Total number of people in the contribution scheme	**461**	**75**

Sensitivity analysis, pension calculation

The Bank converted from a defined benefit scheme to a defined contribution scheme as of 1 November 2016. The pension commitments were thus significantly reduced. The sensitivity analysis is therefore considered to be insignificant, and is as a consequence not included in 2016.

NOTE 18 – OTHER OPERATING EXPENSES

PARENT BANK			GROUP	
2015	2016	NOK MILLION	2016	2015
38	36	Marketing	38	40
125	128	IT costs	132	128
34	34	Operating costs - real estate	34	36
13	13	External fees	15	15
12	10	Office supplies	10	12
15	14	Wealth tax	14	15
70	75	Other operating expenses	83	76
307	**310**	**Total other operating expenses**	**326**	**322**

Remuneration to auditors is included in other operating expenses.

PARENT BANK			GROUP	
2015	2016	NOK THOUSAND	2016	2015
913	706	Ordinary audit fees	1 135	1 391
109	97	Tax advice	97	115
10	557	Other attestation services	954	597
373	366	Fees from other services 1	366	373
1 405	**1 726**	**Total remuneration of elected auditor (incl. VAT)**	**2 552**	**2 476**

NOTE 19 – TAX

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Deferred tax and deferred tax asset		
66	60	Fixed assets	57	63
-8	1	Securities	1	-8
82	51	Loans	51	82
-40	-19	Pension commitments	-19	-40
-95	-47	Bonds loans	-77	-128
-7	-10	Derivatives	11	24
-1		Other accounting provisions	0	-1
-3	**36**	**Total deferred tax and deferred tax assets**	**24**	**-8**
		Composition of tax cost for the year		
8	**39**	**Change in deferred tax**	**32**	**9**
-15	-3	Deferred tax recognised in the total result	-3	-15
		Other change in deferred tax		
-7	**36**	**Deferred tax recognised in the profit for the year**	**29**	**-6**
139	181	Tax payable on net income	255	233
-7	36	Recognised deferred tax	29	-6
4	-1	Excess provision previous years		4
136	**216**	**Tax cost for the year**	**284**	**231**
		Tax payable on net income		
144	253	27% of profit before tax	318	238
-14	-36	27% of permanent differences	-34	-14
2		Effect of change tax pe cent on deferred tax		3
7	-36	Recognised deferred tax	-29	6
139	**181**	**Tax payable on net income**	**255**	**233**
		Payable tax in the balance sheet		
139	181	Tax payable on net income	255	233
12	14	Wealth tax	14	12
151	**195**	**Payable tax in the balance sheet**	**269**	**245**

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

NOTE 20 – FINANCIAL INSTRUMENTS BY CATEGORY

					GROUP 31.12.2016
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				797	797
Loans to and receivables from credit institutions				156	156
Net loans to customers			7 514	83 414	90 928
Bonds and certificates			11 815		11 815
Shares			542		542
Financial derivatives	305	299			604
Ownership in associated companies				9	9
Total financial assets	**305**	**299**	**19 871**	**84 376**	**104 851**
Debts to credit institution				178	178
Deposits from customers				51 562	51 562
Debt incurred due to issue of securities				41 217	41 217
Financial derivatives	369	247			616
Subordinated loan capital				1 203	1 203
Total financial liabilities	**369**	**247**	**0**	**94 160**	**94 776**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 19 343 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

					PARENT BANK 31.12.2016
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				797	797
Loans to and receivables from credit institutions				2 211	2 211
Net loans to customers			7 514	55 355	62 869
Bonds and certificates			10 957		10 957
Shares			542		542
Financial derivatives	266	187			453
Ownership in group companies				1 259	1 259
Ownership in associated companies				9	9
Total financial assets	**266**	**187**	**19 013**	**59 631**	**79 097**
Debts to credit institution				232	232
Deposits from customers				51 577	51 577
Debt incurred due to issue of securities				16 584	16 584
Financial derivatives	363	3			366
Subordinated loan capital				1 203	1 203
Total financial liabilities	**363**	**3**	**0**	**69 596**	**69 962**

1. Maximum credit risk related to financial instruments voluntarily categorised at fair value, ex. shares is NOK 18 486 million.
2. Liabilities included in hedge accounting are presented as financial assets and liabilities at amortised cost.

GROUP 31.12.2015

NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				332	332
Loans to and receivables from credit institutions				157	157
Net loans to customers			8 290	80 097	88 387
Bonds and certificates			10 557		10 557
Shares			487		487
Financial derivatives	334	479			813
Ownership in associated companies				13	13
Total financial assets	**334**	**479**	**19 334**	**80 599**	**100 746**
Debts to credit institution				576	576
Deposits from customers				48 349	48 349
Debt incurred due to issue of securities				41 899	41 899
Financial derivatives	410	3			413
Subordinated loan capital				1 200	1 200
Total financial liabilities	**410**	**3**	**0**	**92 024**	**92 437**

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

PARENT BANK 31.12.2015

NOK MILLION	Fair value	Financial derivatives used as hedging instruments	Voluntary categorised at fair value (1)	Financial assets and liabilities at amortised cost (2)	Total
Cash and receivables from central banks				332	332
Loans to and receivables from credit institutions				2 017	2 017
Net loans to customers			8 290	54 454	62 744
Bonds and certificates			10 456		10 456
Shares			487		487
Financial derivatives	303	356			659
Ownership in group companies				1 259	1 259
Ownership in associated companies				13	13
Total financial assets	**303**	**356**	**19 233**	**58 075**	**77 967**
Debts to credit institution				626	626
Deposits from customers				48 377	48 377
Debt incurred due to issue of securities				19 865	19 865
Financial derivatives	408	3			411
Subordinated loan capital				1 200	1 200
Total financial liabilities	**408**	**3**	**0**	**70 068**	**70 479**

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

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 EXCHANGE RATE SWAPS

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

CERTIFICATES AND BONDS

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

LOAN

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

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

BORROWING

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

DEPOSITS

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

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

OPTIONS

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

SHARES

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

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

Classification of financial instruments

Financial instruments are classified in different levels.

Level 1:

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

Level 2:

Instrument value based on valuation techniques in which all the assumptions (all input) is based on directly or indirectly observable market data. Values here can be obtained from external market players or reconciled with the external markets which offer these types of services.

Level 3:

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

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

PARENT BANK				31.12.2015	GROUP			
Recognised	Fair value				Recognised	Fair value		
value	Level 1	Level 2	Level 3	NOK MILLION	value	Level 1	Level 2	Level 3
				Assets recognised at amortised cost				
332		332		Cash and receivables from central banks	332		332	
2 017		2 017		Loans to and receivables from credit institutions	157		157	
54 454			54 454	Net loans to customers (floating interest rate)	80 097			80 097
				Bonds and certificates				
8 290			8 290	Assets recognised at fair value	8 290			8 290
10 456		10 456		Net loans to customers (fix interest rate)	10 557		10 557	
487	23		464	Bonds and certificates	487	23		464
659		659		Shares	813		813	
76 696	**23**	**13 464**	**63 208**	**Financial derivatives**	**100 733**	**23**	**11 858**	**88 851**
				Other assets				
626		626		Total financial assets	576		576	
48 377			48 377	Liabilities recognised at amortised cost	48 349			48 349
19 865		20 033		Debt to credit institutions	41 899		41 922	
1 200		1 170		Deposit from customers	1 200		1 170	
				Debt incurred due to issue of securities				
411		411		Subordinated loan capital	413		413	
70 479	**0**	**22 240**	**48 377**	**Liabilities recognised at fair value**	**92 437**	**0**	**44 081**	**48 349**

There have been no movements between level 1 and 2 in 2016 or 2015.

Movements in values recosnized at fair value categorised at level 3

	GROUP / PARENT BANK			
NOK MILLION	Net loan to customers	Of which credit risk	Shares	Of which credit risk
Recognised value 01.01.2015	**6 769**	**-110**	**394**	**0**
Acquisition 2015	3 030		9	
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	25	47	67	0
Disposal 2015	-1 534		-6	
Recognised value 31.12.2015	**8 290**	**-62**	**464**	**0**
Acquisition 2016	644		16	
Of which, transferred from level 1 or 2	0			
Change in value recognised during the period	-122	48	55	0
Disposal 2016	-1 298		-27	
Recognised value 31.12.2016	**7 514**	**-14**	**509**	**0**

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

Net loans to customers

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

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

Shares

Concerns shares and investments in companies where there is no or low turnover and discretion must be exercised in the valuation. Multiples have been used to a greater extent and to a lesser extent earning-based methods in the valuation. The valuation is affected by the discretionary assessment.

Sensitivity analysis, Level 3

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

	GROUP / PARENT BANK	
NOK MILLION	31.12.2016	31.12.2015
Loan to customers	**22**	**27**
- of which, loans to the corporate market (CM)	6	8
- of which, loans to the retail market (RM)	16	19

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 recognized 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	
2015	2016	NOK MILLION	2016	2015
		Result / ineffectiveness in hedge accounting		
5	-2	Net income from other financial instruments	-34	5
5	**-2**	**Total**	**-34**	**5**
NA	NA	Of which is due to the basis swap	-32	NA

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

Hedge accounting in the balance sheet

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Recognitions concerning hedge accounting		
356	187	Financial derivatives	299	479
356	**187**	**Total financial assets**	**299**	**479**
10 169	8 247	Nominal hedged items	13 859	11 019
356	189	Adjustment of hedged items – hedged risk	93	481
3	3	Financial derivatives	247	3
10 528	**8 439**	**Total financial liabilities**	**14 199**	**11 503**

The hedging instrument is recognized under financial instruments. Value tied to the hedged risk is recognized 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 recognized as an adjustment of the hedged item in the balance sheet.

NOTE 22 – CERTIFICATES, BONDS AND OTHER INTEREST-BEARING SECURITIES

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Short-term investments designed at fair value through profit		
2 175	3 249	Certificates and bonds issued by public sector	3 449	2 276
8 291	7 708	Certificates and bonds issued by others	8 366	8 281
10 456	**10 957**	**Total short-term investment designed at fair value through profit**	**11 815**	**10 557**
10 456	**10 957**	**Investment in securities**	**11 815**	**10 557**

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 og AA-
Low risk	A+, A og A-
Medium risk	BBB+, BBB og BBB-
High risk	BB+, BB og BB-
Highest risk	B+ og lavere

Certificates and bonds

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Certificates and bonds		
10 416	10 924	Lowest risk	11 783	10 517
-	-	Low risk	-	-
22	-	Medium risk	-	22
-	-	High risk	-	-
-	-	Highest risk	-	-
18	33	Accrued interest	32	18
10 456	**10 957**	**Total certificates and bonds**	**11 815**	**10 557**

NOTE 23 – SHARES

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

				GROUP 31.12.2016
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value				
Frende Holding	675 324	10	205 000	152 148
Eksportfinans	4 026	1.5	85 000	74 082
Brage Finans	9 993 715	14	104 934	79 093
Visa Norge FLI			23 900	-
Eiendomskreditt	112 396	4.1	13 119	11 321
Norne Eierselskap	31 414 019	17.6	7 687	7 687
Sparebank1 SMN	222 189		14 442	12 165
Sparebank 1 SR Bank	169 925		10 323	10 111
Sparebanken Vest	162 684		7 890	5 839
Norgesinvestor Proto	156 000	17.6	20 132	15 600
Norgesinvestor IV	98 750	2.1	12 443	8 256
Other companies (44 stk)			16 382	12 150
Total shares valued at fair value			**521 251**	**388 452**
Participations classified at fair value				
Skagerak Venture Capital 1 KS		9.7	17 876	17 876
Skagerak Seed Capital II AS			3 359	3 359
Skagerak Maturo Seed AS			450	450
Total participations valued at fair value			**21 234**	**21 234**
TOTAL			**542 486**	**409 686**

				GROUP 31.12.2015
NOK THOUSAND	Number of shares	Equity stake	Book value	Acquisition cost
Shares classified at fair value				
Frende Holding	675 324	10	181 790	152 148
Eksportfinans	4 026	1.5	85 000	74 082
Brage Finans	7 000 000	14	65 100	65 093
Visa Norge FLI			45 000	-
Eiendomskreditt	112 396	4.1	14 500	11 321
Norne Eierselskap	31 414 019	17.6	7 687	7 687
Sparebank1 SMN	222 189		11 221	12 165
Sparebank 1 SR Bank	169 925		6 678	10 111
Sparebanken Vest	162 684		5 694	5 839
Norgesinvestor Proto	156 000		17 094	11 687
Norgesinvestor IV	98 750		11 850	20 100
Other companies (40)			14 413	9 653
Total shares valued at fair value			**466 027**	**379 886**
Participations classified at fair value				
Skagerak Venture Capital		9.7	17 876	17 876
Skagerak Seed Capital II AS			3 096	3 096
Total participations valued at fair value			**20 972**	**20 972**
TOTAL			**487 000**	**400 858**

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 its investments in Skagerak Venture Capital, Skagerakk Seed Capital and Skagerrak Maturo Seed AS. Uncalled capital amounted to NOK 15 888 000 as at 31.12.2016 (NOK 1 622 000 as at 31.12.2015).

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

NOTE 24 – EQUITY STAKES IN GROUP COMPANIES

			PARENT BANK 31.12.2016		
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	91 %	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	Arendal	51 %	51	191
Transitt Eieindom AS	Property management	Kristiansand	100 %	100	100
TOTAL					**1 258 564**

			PARENT BANK 31.12.2015		
NOK THOUSAND	Type of business	Registered office	Ownership interest	Share capital	Book value
Sparebanken Sør Boligkreditt AS	Mortgage company	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Real estate business	Kristiansand	91 %	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	Arendal	51 %		191
Berglyhallen AS	Property management	Kristiansand	100 %		100
TOTAL					**1 258 564**

Ownership interests are equivalent to the percentage of voting rights. Berglyhallen AS changed its name to Transitt Eiendom AS in 2016.

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

NOTE 25 – ASSOCIATED COMPANIES

				PARENT BANK 31.12.2016
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Åseral Næringshus AS	Property management	Åseral	30 %	450
Torvparkering AS	Garage	Kristiansand	23 %	7 000
Arendal Brygge AS	Property management	Arendal	35 %	500
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
TOTAL				**9 075**

				PARENT BANK 31.12.2015
NOK THOUSAND	Type of business	Registered office	Ownership interest	Book value
Torvparkering AS	Garage	Kristiansand	23 %	7 000
Arendal Brygge AS	Property management	Arendal	35 %	4 958
Søndeled Bygg AS	Property management	Arendal	29 %	1 125
TOTAL				**13 083**

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

NOTE 26 – FINANCIAL DERIVATIVES

GROUP				
NOK MILLION	31.12.2016	31.12.2016 (1) presented as net	31.12.2015	31.12.2015 (1) presented as net
Assets				
Financial derivatives	604	297	813	485
Liabilities				
Financial derivatives	616	309	413	85

PARENT BANK				
NOK MILLION	31.12.2016	31.12.2016 (1) presented as net	31.12.2015	31.12.2015 (1) presented as net
Assets				
Financial derivatives	453	159	659	333
Liabilities				
Financial derivatives	366	73	411	85

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

The bank and the Group's counter-claim rights adhere to common Norwegian law. The bank and Sparebanken Sør Boligkreditt AS has the right to offset other outstanding accounts through ISDA agreements in cases where certain events occur. The amounts have not been offset in the balance sheet as at 31 December 2016 or 31 December 2015 because the transactions are generally not settled on a net basis.

NOTE 27 – DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities – group

NOK MILLION	31.12.2016	31.12.2015
Bonds, nominal value	40 922	41 136
Value adjustments	42	447
Accrued interest	253	316
Total debt due to issue of securities	**41 217**	**41 899**

Change in debt securities – group

NOK MILLION	31.12.2015	Issued	Matured / Redeemed	Other changes during the period	31.12.2016
Bonds, nominal value	41 136	9 560	-9 774		40 922
Value adjustment	447			-405	42
Accrued interest	316			-63	253
Total debt due to issue of securities	**41 899**	**9 560**	**-9 774**	**-468**	**41 217**

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

NOK MILLION	31.12.2015	Issued	Matured / Redeemed	Other changes during the period	31.12.2016
Subordinated loans	1 200				1 200
Accrued interest	0			3	3
Total subordinated loan capital	**1 200**	**0**	**0**	**3**	**1 203**

Debt securities – parent bank

NOK MILLION	31.12.2016	31.12.2015
Bonds, nominal value	16 204	19 215
Value adjustment	192	381
Accrued interest	188	269
Total debt due to issue of securities	**16 584**	**19 865**

Change in debt securities – parent bank

NOK MILLION	31.12.2015	Issued	Matured / Redeemed	Other changes during the period	31.12.2016
Bonds, nominal value	19 215	300	-3 311		16 204
Value adjustment	381			-189	192
Accrued interest	269			-81	188
Total debt due to issue of securities	**19 865**	**300**	**-3 311**	**-270**	**16 584**

NOTE 28 – LOANS AND DEBTS TO CREDIT INSTITUTIONS

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Loans to credit institutions		
1 905	2 099	Without agreed maturity	44	45
112	112	With agreed maturity	112	112
		Accrued interest		
2 017	**2 211**	**Total loan to credit institutions**	**156**	**157**
		Debts to credit institutions		
7	27	Without agreed maturity	27	7
618	205	With agreed maturity	151	568
1		Accrued interest		1
626	**232**	**Total debts to credit institutions**	**178**	**576**

NOTE 29 – FIXED ASSETS

GROUP	Machinery,fixture and fittings and transportequipments		Real estate		Intangible assets	
NOK MILLION	2016	2015	2016	2015	2016	2015
Acquisition cost 01.01.	**238**	**252**	**568**	**578**	**176**	**181**
Additions during the year	11	9	30	17	18	1
Disposals during the year	-29	-23	-28	-27	-12	-6
Acquisition cost 31.12.	**220**	**238**	**570**	**568**	**182**	**176**
Accumulated depreciations and write-downs 31.12.	171	183	147	144	161	163
Book value as at 31.12	**49**	**55**	**423**	**424**	**21**	**13**
Ordinary depreciation	14	16	9	9	10	9
Impairments			3	3		
Gains/losses on sale			4	4		

PARENT BANK	Machinery,fixture and fittings and transportequipments		Real estate		Intangible assets	
NOK MILLION	2016	2015	2016	2015	2016	2015
Acquisition cost 01.01.	**225**	**239**	**527**	**551**	**75**	**80**
Additions during the year	11	9	1	3	18	1
Disposals during the year	-29	-23	-12	-27	-12	-6
Acquisition cost 31.12.	**207**	**225**	**516**	**527**	**81**	**75**
Accumulated depreciations and write-downs 31.12.	160	173	146	141	63	65
Book value as at 31.12	**47**	**52**	**370**	**386**	**18**	**10**
Ordinary depreciation	13	15	8	9	10	9
Impairments			3	3		
Gains/losses on sale			4	4		

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 16.1 million in 2016 (NOK 15.2 million in 2015) 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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
23 864	24 984	Retail customers	24 983	23 864
6 593	7 597	Public administration	7 597	6 586
691	495	Primary industry	495	690
1 616	1 523	Manufacturing industry	1 523	1 614
490	462	Real estate development	462	489
948	1 043	Building and construction industry	1 043	946
2 817	2 394	Property management	2 394	2 814
677	875	Transport	875	676
893	953	Retail trade	940	892
156	161	Hotel and restaurant	161	156
266	260	Housing cooperatives	260	265
4 106	5 346	Financial/commercial services	5 346	4 102
5 252	5 477	Social services	5 477	5 246
8	7	Accrued interests	7	8
48 377	**51 577**	**Total deposits from customers**	**51 562**	**48 349**

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
40 708	42 520	Deposits from customers with no fixed maturity	42 508	40 680
7 661	9 049	Deposits from customers with agreed maturity	9 047	7 661
48 369	**51 570**	**Total deposits from customers**	**51 555**	**48 341**
8	7	Accrued interest	7	8
48 377	**51 577**	**Total deposits from customers incl. accrued interest**	**51 562**	**48 349**

NOTE 31 – OTHER LIABILITIES

PARENT BANK			GROUP	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
13	15	Trade creditors	23	22
15	15	Tax withholdings	19	18
25	41	Clearing accounts	41	25
62	61	Other liabilities	68	72
34	33	Accrued holiday pay	39	40
39	57	Other incurred costs	68	52
188	**222**	**Total other liabilities**	**258**	**229**

NOTE 32 – AVERAGE INTEREST RATES

PARENT BANK			GROUP	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
		Debt to credit institutions		
1.52 %	1.40 %	Debt to credit institutions	1.40 %	1.52 %
		Deposits from customers		
1.15 %	1.01 %	Deposits from customers	1.01 %	1.15 %
		Debt incurred due to issue of securities		
2.05 %	1.95 %	Bond debt - floating interest rate	1.71 %	1.72 %
3.85 %	3.52 %	Bond debt - fixed interest rate	3.24 %	3.86 %

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	Chairman of the Board of Trustees
Loans as at 31.12	14 888	20 843	2 341
Interest income	141	289	64
Deposits as at 31.12	4 913	4 374	1
Interest cost	48	40	0

Subsidiaries	Loans	Interest income	Deposits	Interest cost	Interest on bonds	Management fee
Prosjektutvikling AS	18 361	908	101	2		
Eiendomsvekst AS	5 000	0	2 488	9		
Rettighetskompaniet AS	0	0	3 026	17		
Transitt Eiendom AS	25 354	6		42		
Sørmegleren Holding AS	13 333	2 102	9 502	2 329		
Sparebanken Sør Boligkreditt AS	2 055 482	31 453	54 254	298	529	52 888
Total	**2 117 530**	**34 469**	**69 371**	**2 697**	**529**	**52 888**

Associated companies	Loans	Interest income	Deposits	Interest cost
Arendal Brygge AS	50 219	1 614	135	0
Søndeled Bygg AS			0	0
Torvparkering AS	118 349	2 033	5 025	32
Total	**168 568**	**3 647**	**5 160**	**32**

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	31.12.2016	31.12.2015
Sparebanken Sør Boligkreditt AS	28 125	25 686

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 2016, Sparebanken Sør Boligkreditt has an overdraft facility of NOK 2,500 million with Sparebanken Sør. In addition Sparebanken Sør Boligkreditt AS has a revolving credit facility with the Parent bank at all times, for which an annual commission is paid.

NOTE 34 – REMUNERATION, ETC

Information in this note applies to status for the Group's Board of Directors, management and employee representatives as of 31.12.

2016

Key personel NOK THOUSAND	Role	Number of equity certificates	Wages	Perfor-mance bonus	Taxable benefits	Pension cost	Total remuneration	Loans
Geir Bergskaug	CEO	23 463	2 665	125	167	2 123	5 080	2 959
Lasse Kvinlaug	Deputy CEO/Director, Corporate market	2 312	1 718	89	228	425	2 460	996
Gunnar Thomassen	Director, Retail market	1 430	1 608	84	188	173	2 053	2 648
Rolf H. Søraker	Director, Group support	868	1 321	74	143	129	1 667	979
Marianne Lofthus	Director, Capital market	0	1 242	70	172	240	1 724	16
Bjørn A. Friestad	Director, Risk management	2 393	1 374	75	185	226	1 860	1 761
Gry Moen	Director, Business support	118	1 241	70	175	236	1 722	5 527
Total			**11 169**	**587**	**1 258**	**3 552**	**16 566**	**14 888**

2015

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

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

There is a bonus system for all the bank's employees including the group's executives. Ref. note 17.

Board of directors NOK THOUSAND	Role	Number of equity certificates	Remuneration	Pension	Fringe benefits	Total remuneration	Loans
							2016
Stein A. Hannevik	Chairman	10 467	696	1 760	65	2 521	5 325
Torstein Moland	Deputy chairman	0	245			245	2 231
Inger Johansen	Member	0	138			138	2 613
Marit Kittelsen	Member	0	116			116	1 389
Erling Holm	Member	0	242			242	0
Tone Vareberg	Member	0	79			79	0
Jan Erling Tobiassen	Employee representative	0	77			77	456
Sigrid Evenstad Moe	Employee representative	0	75			75	3 680
Siss June Ågedal 1)	Member	0	25			25	108
Jill Akselsen 1)	Member	0	27			27	0
Trond Bjørnenak 1)	Member	2 000	27			27	0
Bente Pedersen 1)	Employee representative	118	25			25	2 460
Per Adolf Bentsen 1)	Employee representative	118	25			25	2 580
Total			**1 797**			**3 622**	**20 843**

1) Member of the executive board in January and February 2016.

Board of directors NOK THOUSAND	Role	Number of equity certificates	Remuneration	Loans
				2015
Stein A. Hannevik 1)	Chairman	60	2 871	3 339
Torstein Moland	Deputy chairman	0	160	1 912
Jill Akselsen	Member	0	103	0
Trond Bjørnenak	Member	0	103	0
Inger Johansen	Member	0	128	2 954
Siss June Ågedal	Member	0	130	0
Marit Kittelsen	Member	0	103	1 254
Erling Holm	Member	0	163	0
Bente Pedersen	Employee representative	0	100	2 562
Per Adolf Bentsen	Employee representative	0	100	2 589
Total			**3 960**	**14 610**

Board of Trustees NOK THOUSAND	Role	Number of equity certificates	Remunerations	Loans 2016
Øystein Haga	Chairman, Deposit elected	0	37	2 341
Tormod Nyberg 2)	Deputy Chairman, EC owner	30 495	7	0
Jorunn Aarrestad	Deposit elected	0	2	2 503
Kai Magne Strat	Deposit elected	0	14	597
Oddbjørn Lia	Deposit elected	0	8	2 329
Øyvind Tveit	Deposit elected	0	43	0
Anders Gaudestad	Deposit elected	0	2	8 067
Mette Vestberg Sørensen	Deposit elected	0	10	29
Ole Tom Haddeland	Deposit elected	0	2	911
Ståle Rysstad	Deposit elected	0	29	0
Lisa Jensen	Deposit elected	0	7	0
Wigdis Hansen	Deposit elected	0	12	3
Yngvar Aulin	Deposit elected	0	12	670
Tor Kim Steinsland	Deposit elected	0	8	2 396
Terje Røsnes	Deposit elected	600	7	958
Birgitte Midgaard	Deposit elected	0	10	229
Erling Laland	Publicly selected	0	2	1 631
Harald Fauskanger Andersen	Publicly selected	0	24	2 987
Nils Johannes Nilsen	Publicly selected	0	0	0
Alf Albert	EC owner	50 000	0	1 935
Kristian Tørres Brøvig	EC owner	9 747	2	0
Helge Sandåker 3)	EC owner	0	2	1 035
Tone Helene Strat 3)	EC owner	0	18	972
Kari Anne Norbø 3)	EC owner	0	2	0
Svein Bringsjord 4)	EC owner	7 300	2	1 972
Egil Galteland	EC owner	6 020	4	0
Karen Andersen	Elected by employees	0	4	1 726
Ellen Haugen	Elected by employees	118	7	1 519
Per Bø	Elected by employees	118	7	3 106
Nina Merete Olsen	Elected by employees	70	2	3 125
Bente Sørensen	Elected by employees	198	24	1 236
Hege Kirkhus	Elected by employees	118	2	3 125
Birger Sløgedal	Elected by employees	618	26	2 634
Tommy Holter Moi	Elected by employees	118	2	3 448
Anne Efjestad	Elected by employees	118	4	495
Total			**344**	**51 980**

1. Remuneration the Board of trustees and the Election Committee
2. Represents Acto AS og Acan AS
3. Represents Sparebankstiftelsen Sparebanken Sør which owns 8 125 679 equity certificates
4. Represents Sparebankstiftelsen Sparebanken Sør and 7 300 own equity certificates

				2015
The board of trustees NOK THOUSAND	Role	Number of own equity certificates	Remunerations	Loans
Øystein Haga	Chairman, Deposit elected	0	32	2 493
Carsten Akselsen	Deputy chairman, EC owner	10 250	2	0
Terje Røsnes	Deposit selected	600	0	1 126
Mette Vestberg Sørensen	Deposit selected	0	0	29
Yngvar Aulin	Deposit selected	0	2	645
Ståle Rysstad	Deposit selected	0	2	3
Per Olav Skutle	Deposit selected	0	0	0
Kjell Bjarne Back	Deposit selected	0	2	0
Tor Kim Steinsland	Deposit selected	0	2	1 963
Kai Magne Strat	Deposit selected	0	0	5 606
Linda Gjertsen	Deposit selected	0	2	816
Lisa Jensen	Deposit selected	0	2	0
Wigdis Hansen	Deposit selected	0	2	3
Birgitte Midgaard	Deposit selected	0	2	268
Øyvind Tveit	Deposit selected	0	11	0
Hans Otto Lund	Municipal/Public selected	0	2	2 071
Atle Drøsdal	Municipal/Public selected	0	2	0
Tove M. Kirkevik	Municipal/Public selected	0	2	1 635
Jone Nikolai Nyborg	Municipal/Public selected	0	2	0
Ernst David Kolstad	Municipal/Public selected	0	2	975
Bernt Slettedal	Municipal/Public selected	0	0	0
Harald Fauskanger Andersen	Municipal/Public selected	0	0	3 038
Torunn Ostad	Municipal/Public selected	0	2	0
Erling Laland	Municipal/Public selected	0	0	1 801
Tormod Nyberg 2)	EC owner	7 241	0	0
Egil Galteland	EC owner	3 010	2	0
Jens Helge Hodne 3)	EC owner	300	19	0
Endre Glastad 4)	EC owner	100 000	0	0
Karl Moursund 5)	EC owner	62 300	0	0
Tone Helene Strat 1)	EC owner	0	2	592
Eirik C. Sætra 1)	EC owner	0	2	621
Ole Martin Retterholdt 1)	EC owner	0	2	587
Cheryl MacDonald 1)	EC owner	0	0	3 786
Søren Seland 1)	EC owner	0	2	1 603
Einar Amundsen 1)	EC owner	0	2	238
Arvid Berg	Elected by employees	0	2	897
Jan Erling Tobiassen	Elected by employees	0	2	700
Bente Sørensen	Elected by employees	60	2	1 246
Jahn Frode Hanssen	Elected by employees	0	2	2 300
Pål Hompland	Elected by employees	0	2	3 011
Andreas Gulsrud	Elected by employees	50	2	2 772
Merete Lie Seland	Elected by employees	0	0	2 600
Anne Efjestad	Elected by employees	0	2	25
Ellen Haugen	Elected by employees	0	2	1 517
Erik Opsal	Elected by employees	0	0	1 091
Birger Sløgedal	Elected by employees	0	2	2 789
Arve Askildsen	Elected by employees	0	2	1 748
Per Bø	Elected by employees	0	0	3 193
Total			**130**	**53 789**

1. Represents Sparebankstiftelsen Sparebanken Sør which owns 2 432 024 equity cetificates
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	
31.12.2015	31.12.2016	NOK MILLION	31.12.2016	31.12.2015
		Assets pledged as collateral		
8 719	8 801	Bonds pledged for drawing-rights in Norges Bank	8 801	8 719
		Guarantee liabilities		
376	567	Payment guarantees	567	376
945	1 036	Contract guarantees	1 036	945
0	0	Guarantees for taxes	0	0
91	97	Other guarantees	97	91
1 412	**1 700**	**Total guarantee liabilities**	**1 700**	**1 412**

NOTE 36 – EQUITY CERTIFICATES, EQUITY CAPITAL AND PROPOSED DIVIDEND

The 20 largest equity certificate owners as at 31.12.2016

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	8 125 679	51.88
2.	Bergen Kom. Pensjonskasse	500 000	3.19
3.	Arendal Kom. pensjonskasse	450 000	2.87
4.	Holta Invest AS	444 410	2.84
5.	Pareto AS	417 309	2.66
6.	Glastad Invest AS	387 467	2.47
7.	Merrill Lynch	329 080	2.10
8.	EIKA utbytte VPF c/o Eika kapitalforv.	286 625	1.83
9.	Wenaasgruppen AS	186 000	1.19
10.	Gumpen Bileiendom AS	154 209	0.98
	Total - 10 largest owners	**11 280 779**	**72.01**

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
11.	Allumgården AS	151 092	0.96
12.	MP Pensjon PK	111 205	0.71
13.	Profond AS	101 331	0.65
14.	Ottersland AS	100 000	0.64
15.	Wenaas Kapital AS	90 350	0.58
16.	Artel Holding A/S	82 131	0.52
17.	Apriori Holding AS	72 575	0.46
18.	Varodd AS	70 520	0.45
19.	Birkenes Sparebank	66 000	0.42
20.	Brøvig Holding AS	65 639	0.42
	Total - 20 largest owners	**12 191 622**	**77.82**

As of 31 December 2016, the equity capital totaled NOK 783 197 200, divided into 15 663 944 equity certificates, with a nominal value of NOK 50.

Proposed, not approved dividend

	PARENT BANK	
	2016	2015
Total proposed dividend	NOK 94,0 million	NOK 42,9 million
Proposed dividend per equity certificate	NOK 6,0 per certificate	NOK 9,0 per certificate
Number of equity certificates	15 663 944	4 768 674

Dividends for the fiscal year 2016 are classified as other equity as at 31.12.2016.
The dividend approved by the Board of Trustees 30 March 2016 for the financial year 2015 was paid in 2016.

Equity certificate capital and result per equity certificate

NOK MILLION	31.12.2016	31.12.2015
Number of equity certificates	15 663 944	4 768 674
Nominal value	50	100
Equity certificate capital(1)	783	474
Premium fund (1)	451	175
Dividend equalisation fund(1)	297	256
Total equity share capital (A)	**1 531**	**905**
Total equity share capital (Parent bank)	9 098	7 501
- hybrid capital	(825)	(510)
- other equity	(94)	(43)
Equity share capital excl. Hybrid capital and other equity share capital (B)	**8 179**	**6 948**
Ownership ratio after allocation (A/B)	**18.7 %**	**13.0 %**
Ownership ratio, weighted average (1)	**17.5 %**	**13.5 %**

NOK MILLION	2016	2015
Profit for the year, parent bank	798	396
- interest on hybrid capital	(33)	(23)
Dividend basis, parent bank	**765**	**373**
Profit for the year per EC, Parent Bank (1)	8.5	10.6
Profit for the year, Group	988	645
- interest on hybrid capital	(33)	(23)
Dividend basis, the Group	**955**	**622**
Profit for the year per EC, Group (1)	10.7	17.6

1. Average ownership ratio is the basis for calculating earnings per share and allocation of profit. Sparebanken Sør adopted on 30 March 2016 a rights issue which was completed in Q2. Allocation of new evidence was made on 3 May and on this date increased ownership ratio from 13.0 percent to 19.8 percent. The weighted average ownership ratio for 2016 was 17.5 percent. Hybrid capital classified as equity is excluded when calculating the ownership ratio.

Earnings per. share is calculated by dividing net income attributable to the holders of equity certificates according to the EC ratio and the number of outstanding equity certificates at the end of the year.

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 5 168 of its own equity certificates as at 31.12.2016.

NOTE 37 – MERGER OF BUSINESS

It has not been made acquisitions or other forms of business combinations in 2015 and 2016.

NOTE 38 – SUBSEQUENT EVENTS AND CONTINGENCIES

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

Calculations

NOK MILLION	31.12.2016	31.12.2015
Return on equity adjusted for hybrid capital		
Profit after tax	989	647
Interest on hybrid capital	-33	-23
Profit after tax, incl. Interest on hybrid capital	**956**	**624**
IB Equity	7 753	7 857
IB Hybrid capital	-510	-700
IB Equity excl. Hybrid capital	**7 243**	**7 157**
UB Equity	10 051	8 263
UB Hybrid capital	-825	-510
UB Equity excl. Hybrid capital	**9 226**	**7 753**
Average equity	8 902	8 060
Average equity excl. Hybrid capital	**8 235**	**7 455**
Return on equity	11.1 %	8.0 %
Return on equity excl. Hybrid capital	**11.6 %**	**8.4 %**
Net interest income, adjusted for accounting changes		
Net interest income	1 565	1 544
Interest on hybrid capital	-33	-23
Net interest income, adjusted for accounting changes	**1 532**	**1 521**
Average total assets	104 950	98 000
As a percentage of total assets	**1.46 %**	**1.55 %**
Operating costs, adjusted for conversion of the pension scheme		
Operating costs	787	817
Conversion of pension scheme	28	
Operating costs, adjusted for conversion of the pension scheme	**815**	**817**
Ordinary operations (Adjusted profit)		
Net interest income, adjusted for accounting changes	1 532	1 521
Net commision income	293	300
Other operating income	28	14
Operating costs, adjusted for conversion of the pension scheme	815	817
Ordinary operations (Adjusted profit), before tax	**1 038**	**1 018**
Profit excl. Finance, and adjusted for accoutning events		
Net interest income, adjusted for accounting changes	1 532	1 521
Net commision income	293	300
Other operating income	28	14
Operating costs, adjusted for conversion of the pension scheme	815	817
Losses on loans and quarantees	50	97
Profit excl. Finance, and adjusted for accoutning events	**988**	**921**
Tax (25 %)	247	230
Ordinary operations (Adjusted profit), after tax	**741**	**691**
Average equity, excl. Hybrid capital	8 235	7 455
Return on equity, profit excl. Finance and adjusted for accounting events	**9.0 %**	**9.3 %**

Corporate Governance

Sparebanken Sør is an independent financial services group with principal activities in banking, securities and real estate in the Agder counties and Telemark. Sparebanken Sør Group consists, in addition to the parent company Sparebanken Sør, of the following companies:

					PARENT BANK 31.12.2016
NOK THOUSAND	Type of business	Office location	Owner share	Share capital	Nominal value
Sparebanken Sør Boligkreditt AS	Credit institution	Kristiansand	100 %	525 000	1 245 695
Sørmegleren Holding AS	Estate agency firm	Kristiansand	91 %	5 728	6 983
Rettighetskompaniet AS	Management 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	Arendal	51 %	51	191
Transitt eiendom	Property management	Kristiansand	100 %	100	100
Total					**1 258 564**

The headquarters and registered address of the bank is in Kristiansand. The head office of the retail banking division and some of the corporate functions are located in Arendal. The bank's organisation number is 937 894 538

This report is based on NUES (Norwegian Code of Practice for Corporate Governance) and the "comply or explain" demand from Oslo Stock Exchange.

The company's intention with this document is:

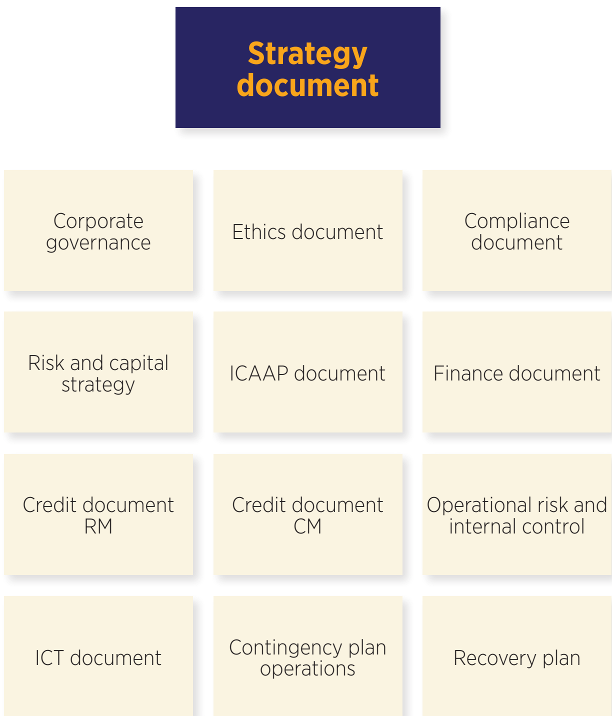
- To clarify the role sharing between the bank's governing bodies and the management of day-to-day operations
- To optimise the company's values in a long-term perspective
- Equal and secure access to reliable and current information on the company's operations
- Equal treatment of the equity certificate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

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

THE RELATIONS WITH THE BANKS OTHER POLICY DOCUMENTS

The Banks strategy document specifies the overall plans for the group, and to complement the totality of the group's governing documents there should be a close correlation between the overall strategy document and the complementary and more detailed governance documents.

The structure of the various documents is stated below.



For some policy documents there are in addition supplementary documents adopted by the administration. To ensure that the various control documents correspond with the Group's objectives the governing documents shall be revised and maintained regularly. An audit is normally carried out within a 12 month period with the decision of the relevant authority.

For operationalization of the Bank's strategic objectives, detailed annual action plans will be prepared, which are also related to the critical success factors included in the strategy document.

The document owner is responsible for ongoing maintenance including proposals for changes, and hereby to ensure that they are treated in accordance with the Bank's procedures. The document owner is responsible for implementing the governing documents of the organization.

STATEMENT ON CORPORATE GOVERNANCE

Values

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

Social responsibility

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

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

Ethical guidelines

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

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

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

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

Measures against money laundering and terror funding

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

Environmental matters

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

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

Deviations from the recommendation: No deviations.

OPERATIONS

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 the KNIF segment and in Telemark will provide growth potential and diversification of risk. The growth will be controlled and based on profitability and low risk.

Deviations from the recommendation: No deviations.

EQUITY AND DIVIDENDS

Equity

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

Dividend

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

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

Board authorisations

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

Deviations from the recommendation: No deviations.

EQUAL TREATMENT OF SHARE-HOLDERS AND TRANSACTIONS WITH CLOSE PARTIES

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

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

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

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

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

Deviations from the recommendation: No deviations.

FREE NEGOTIABILITY

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

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

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

Deviations from the recommendation: No deviations.

THE BOARD OF TRUSTEES

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

The bank's highest governing body is the Board of Trustees, who shall ensure that the bank serves its purpose in accordance with the laws, articles of association and the Board of Trustees' resolutions.

The Board of Trustees consists of 28 members. 12 representatives of the customers, 3 representatives from the public sector, 6 representatives of the equity certificate holders and 7 representatives of the employees. An arrangement to ensure the geographical spread in the representation of the Bank's market areas has been adopted.

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

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

Deviations from the recommendation: No deviations.

NOMINATING COMMITTEES

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

- The Trustees Election Committee shall prepare the elections of Trustees. 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.
- The Depositor Nomination Committee shall prepare the election of depositors to the Board of Trustees. One nominating committee with 4 members is elected from among the depositor-elected members of the Board of Trustees.
- Nomination Committee for the equity certificate holders shall prepare the election of representatives of the equity owners to the Board of Trustees. One nominating committee with 4 members is elected from among the equity certificate-elected members of the Board of Trustees.
- The nomination committee for employees shall prepare the election of employee representatives to the Board of Trustees. The Nomination Committee consists of 6 members, of which 4 are appointed by the employees and 2 by the management.

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 for elections of the Chairman, members and deputy members of the Nominating Committee.

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

Deviations from the recommendation: No deviations.

THE BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The composition of the Board of Directors is stated in Article 4-1. Starting with 2016, the Board of Directors will be composed of 7–8 members, of which at least two are from Vest-Agder, two from Aust-Agder and at least one from Telemark. Two members are also to be elected from the employees. 8 members for the Board of Trustees were elected by the Trustees March 2016.

It has been agreed that representation from the merged banks shall also be balanced until 31 December 2019.

Board members are elected for two years.

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

The Board of Directors' independence

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

The Board members' independence

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

Deviations from the recommendation: No deviations.

THE WORK OF THE BOARD OF DIRECTORS

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

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

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

The Board of Directors conducts an annual self-assessment.

The Audit Committee

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

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

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

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

The Risk Committee

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

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

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

The Remuneration Committee

The Remuneration Committee has separate instructions adopted by the Board of Directors. The Remuneration Committee will help to ensure that there is consistency between the bank's remuneration arrangements, the overall objectives, risk tolerance and long-term interests.

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

The bank has established a remuneration committee made up of 5 Board members, of which one member is an employee representative. The Chairman of the Board is elected as Chairman of the Remuneration Committee.

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

Internal audit

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

Internal control

The bank is keen to have good processes to ensure compliance with applicable laws and regulations. The bank has established a compliance functions that is attended to by Risk Management, organised independently of the business units. The compliance function ensures the practical implementation of the bank's internal control. The internal control includes the whole of the Group'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. The ICAAP - process is based on requirements set by the authorities and the banks own assessments.

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

Deviation from the recommendation: No deviations.

REMUNERATION TO THE BOARD OF DIRECTORS

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

Deviation from the recommendation: No deviations.

REMUNERATION TO EXECUTIVE PERSONNEL

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

Deviation from the recommendation: No deviations.

INFORMATION AND COMMUNICATION

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

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

Deviation from the recommendation: No deviations.

COMPANY ACQUISITION

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

Sparebankstiftelsen Sparebanken Sør has an ownership interest of 51 percent 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 2016 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 2016 / 6 March 2017

Stein A. Hannevik
Chairman

Torstein Moland
Deputy Chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone T. Vareberg

Jan Erling Tobiassen

Gunnhild T. Golid

Geir Bergskaug
CEO

To the Board of Trustees of Sparebanken Sør

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebanken Sør. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and income statement, equity statement, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and

- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and income statement, equity statement, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Independent Auditor's Report - Sparebanken Sør

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of loans to customers	
We focused on this area because management largely use subjective judgement when assessing the need for impairment of loans to customers. Further, loans to customers represent a significant portion of total assets. The bank's systems and controls for monitoring of loans and identification of impaired loans as well as assessment of such loans are central. Use of judgement may affect accounting profit for the period and classification of loans based on their risk profile may affect compliance with solvency regulations. At the end of each reporting period, accounting regulations require the bank to assess whether there are objective indicators that a loan is impaired. If objective indicators exist that a loss has incurred, impairment should be calculated as the difference between the carrying amount of the loan and the net present value of future cash flows from the loan. Both assessments require use of judgement. During the audit we paid special attention to: • Management's process of identifying loans that show objective indicators of being impaired • The assumptions made by management when calculating the impairment loss on loans that show objective indicators of being impaired See note 6, note 7 and note 10 to the financial statements for a description of	We assessed design and tested operating effectiveness of controls over valuation of loans to customers. These controls address identification of loans to customers showing objective indicators of being impaired and calculation of the impairment loss. We determined that we could rely on these controls for the purposes of our audit. We examined a sample of loans to customers to form our own judgement as to whether these loans showed objective indicators of being impaired and compared our judgement to that of management. We found that management's conclusions in respect of these loans were reasonable. Where impairment was individually calculated, we tested a sample by assessing the recoverable amount used by management to support the calculation of impairment loss. We challenged management's assessment by interviewing client account managers and management. We compared the recoverable amount to external evidence where available. The outcome of our testing showed that the assumptions used by management when calculating individual impairment losses were reasonable. Where impairment was calculated collectively for groups of loans, we tested the data and assumptions used for a sample of groups, as well as verifying mathematical accuracy of the impairment loss calculated by the model. The outcome of our testing showed that assumptions used in calculating impairment losses were reasonable and that the impairment losses were accurately calculated.

Independent Auditor's Report - Sparebanken Sør

the group's credit risk and impairment of loans to customers.

IT systems supporting financial reporting

We focused on this area because the bank's financial reporting system and business as a whole are dependent on complex IT and payment systems. Potential weaknesses in automated processes and related IT dependent manual controls may disrupt the continuous operation of the IT and payment systems and cause risk of misstatements.

The bank uses external service organisations to run certain key IT and payment systems. The auditors of the respective service organisations are contracted to evaluate design and test operating effectiveness of the controls addressing integrity of the IT and payment systems that are relevant to financial reporting. We reviewed the reports received and assessed potential weaknesses and remediation initiatives. We also performed testing of access controls related to the bank's IT systems and segregation of duties where this was considered necessary to our audit.

Our assessment and testing shows that we can rely on the IT and payment systems for the purposes of our audit.

Pension obligations

We focused on accounting for pension obligations because the bank has discontinued its collective defined benefit pension schemes and replaced them with a collective defined contribution scheme. The changes made to agreements with the employees has accounting implications in 2016 where measurement and classification is dependent on judgement on the part of actuaries and management.

See note 17 to the financial statements for a description of the group's pension schemes.

We reviewed and understood decisions made, drafts of agreements and terms related to the transition from a defined benefit to a defined contribution scheme. The new set of agreements and the accounting treatment chosen have been discussed with management and assessed in light of accounting regulations for pensions. We agree with management's presentation and classification of the accounting implications.

The bank has used external actuary to calculate pension obligations in the financial statements. We had dialogue with the actuary and have assessed the calculations made by the actuary as well as the actuary's competence. The assumptions used in the calculations are in accordance with recommendations and consistent with the bank's situation.

Other information

Management is responsible for the other information. The other information comprises the Report from the Board of Directors and the statements on Corporate Governance, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Company's or the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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 the statement on Corporate Governance concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly

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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, 6 March 2017
PricewaterhouseCoopers AS

Reidar Henriksen
State Authorised Public Accountant

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

Organisation

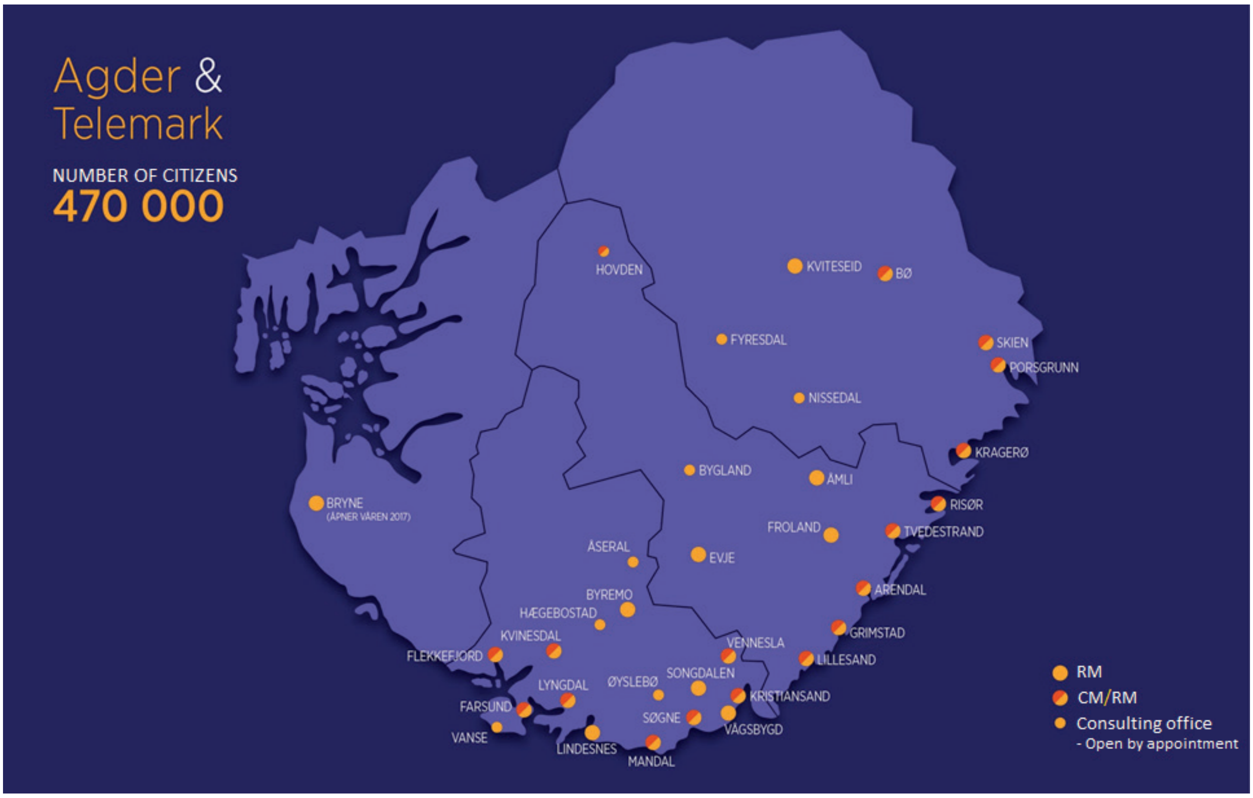
Board of Trustees

The Board of Directors

CEO
Geir Bergskaug

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

THE BANK'S BRANCHES



The Group Management

GEIR BERGSKAUG (1960)

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

Lasse Kvinlaug (1961)

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

Marianne Lofthus (1961)

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

Gunnar P. Thomassen (1965)

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

The Group Management

Rolf H. Søraker (1960)

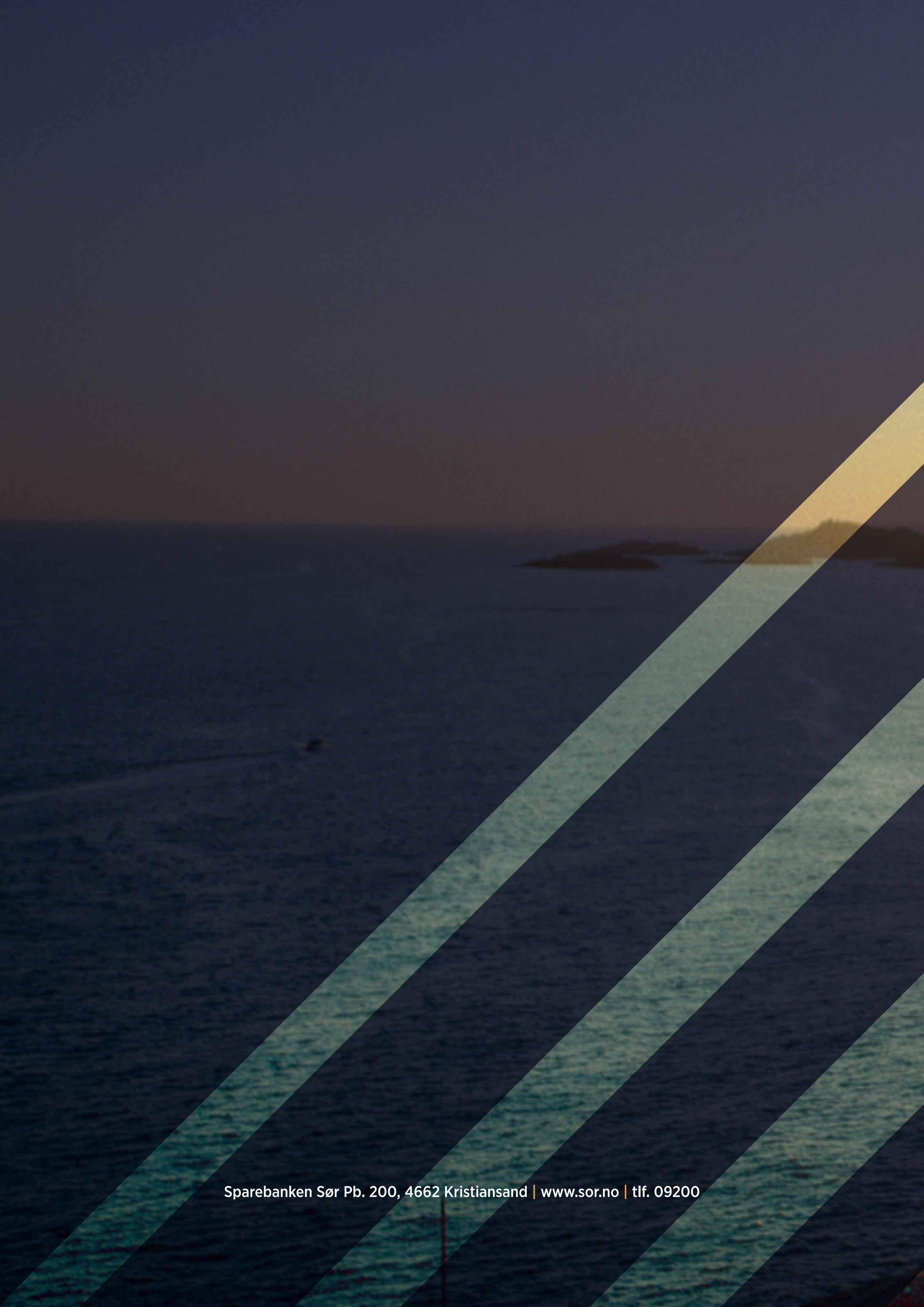
Group Support Director from 1 January 2014. Was also Group Support Director in the "old" Sparebanken Sør from (2009–2013) and has a wide range of experience from various roles in Sparebanken Sør from 1986. Was Managing Director of Sør Boligkreditt (2008–2013). Also has experience from the educational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

BJØRN A. FRIESTAD (1959)

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

GRY MOEN (1963)

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



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