

QUARTER 2
2016
(UNAUDITED)



SPAREBANKEN SØR

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Key figures Group

Income statement (NOK million)	Q2 2016	Q2 2015	30.06.2016	30.06.2015	31.12.2015
Net interest income	397	381	759	748	1 521
Net commission income	78	79	145	147	300
Net income from financial instruments	85	8	64	37	-66
Other operating income	11	3	16	6	14
Total net income	571	471	984	938	1 769
Total expenses	210	207	409	406	817
Profit before losses on loans	361	264	575	532	952
Losses on loans and guarantees	9	18	22	32	97
Profit before taxes	352	246	553	500	855
Tax expenses	75	67	126	136	231
Profit for the period	277	179	427	364	624
Income statement as percentage of average assets					
Net interest income	1.51 %	1.57 %	1.46 %	1.57 %	1.55 %
Net commission income	0.30 %	0.33 %	0.28 %	0.31 %	0.31 %
Net income from financial instruments	0.32 %	0.03 %	0.12 %	0.08 %	-0.07 %
Other operating income	0.04 %	0.01 %	0.03 %	0.01 %	0.01 %
Total net income	2.17 %	1.94 %	1.90 %	1.97 %	1.81 %
Total expenses	0.80 %	0.85 %	0.79 %	0.85 %	0.83 %
Profit before losses on loans	1.37 %	1.09 %	1.11 %	1.11 %	0.97 %
Losses on loans and guarantees	0.03 %	0.07 %	0.04 %	0.07 %	0.10 %
Profit before taxes	1.34 %	1.01 %	1.07 %	1.05 %	0.87 %
Tax expenses	0.28 %	0.28 %	0.24 %	0.28 %	0.24 %
Profit for the period	1.05 %	0.74 %	0.82 %	0.76 %	0.64 %
Average total assets	105 600	97 400	104 250	96 250	98 000
Balance sheet					
Total assets			106 617	98 715	101 334
Net loans to customers			90 175	83 942	88 387
Growth in loans as %, last 12 mths.			7.4 %	5.5 %	9.2 %
Customers deposits			51 227	49 758	48 349
Growth in deposits as %, last 12 mths.			3.0 %	5.1 %	0.2 %
Deposits as % of net loans			56.8 %	59.3 %	54.7 %
Equity			9 521	7 461	7 753
Losses on loans as % of net loans, annualized			0.05 %	0.08 %	0.11 %
Gross defaulted loans over 90 days as % of gross loans			0.42 %	0.57 %	0.47 %
Other key figures					
Cost as % of income	36.8 %	43.9 %	41.6 %	43.3 %	46.2 %
Cost as % of income, ex net income from financial instruments	43.2 %	44.7 %	44.5 %	45.1 %	44.5 %
Return on equity after tax	12.5 %	9.7 %	10.0 %	10.0 %	8.4 %
Liquidity reserve (LCR) (Group)			153.0 %	98.0 %	108 %
Common equity tier 1 capital ratio (added share of profit)			14.1 %	12.7 %	12.7 %
Tier 1 capital ratio			14.9 %	13.0 %	13.5 %
Total capital ratio			16.9 %	14.5 %	15.5 %
Common equity tier 1 capital			8 256	7 078	7 700
Tier 1 capital			9 081	7 578	8 210
Net total primary capital			10 259	8 456	9 388
Leverage ratio			7.5 %		7.0 %
Number of branches			36	40	40
Number of man-years in banking activity			432	444	449
Key figures, Equity certificates					
Equity certificate ratio			19.8 %	13.5 %	13.5 %
Number of equity certificates issued			15 663 944	4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)			3.2	6.9	10.6
Profit/diluted earnings per equity certificate (Group)			4.0	10.3	17.6
Dividend last year per equity certificate				10.0	9.0
Book equity per equity certificate			110	211	219
Price/Book value per equity certificate			0.58	0.90	0.63
Listed price on Oslo Stock Exchange at end of period			63.75	190.00	139.00

General

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

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

Key features in Q2 2016

- Satisfactory progress in net interest income and income from ordinary operations
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds, fixed rate loans and stocks
- Good cost control
- Low losses on loans
- Return on equity after tax on 12.5 percent
- Issuance of equity certificates with net proceeds of NOK 584 millions
- Common equity tier 1 capital ratio of 14.1 percent and leverage ratio on 7.8 percent, added 80 percent of accrued profit.

Key features the 1st half of 2016

- Satisfactory development in net interest and profit from ordinary operations
- Increased interest margins in the corporate market
- Stable commission income
- Positive net income from financial instruments due to changes in the value of bonds and equity shares
- Good cost control
- Low losses on loans
- Deposit growth of 3.0 percent the last 12 months
- Loan growth of 7.4 percent the last 12 months, reduced first half of 2016 to 4 percent (annualized)
- Return on equity after tax of 10 percent

Financial framework conditions

Norges Bank has held the key interest rate unchanged at 0.50 percent in Q2, with no adjustments at the last meeting in June. The conditions in the financial market tightened in 2015, leading to higher spreads. There has been a slight decrease in spreads in Q2 2016.

The Annual growth in the general public's gross domestic debt (C2) was 4.9 percent at the end of June. Debt growth for households and industry amounted to 5.9 percent and 3.0 percent respectively.

Income statement

Profit before tax was NOK 352 million in Q2 2016, compared with NOK 246 million in the same period in 2015. The main reasons for the increased profit are the increase in net interest income following the changes in accounting principles, increased income from financial instruments and low losses.

As a result of the changes in the accounting principles in Q1 2016, the fee to the Norwegian Banks' Guarantee Fund has been expensed in full in Q1, rather than being accrued over the whole year. The change in accounting principles affects the interim, but not the annual financial statements since the yearly fee stays the same.

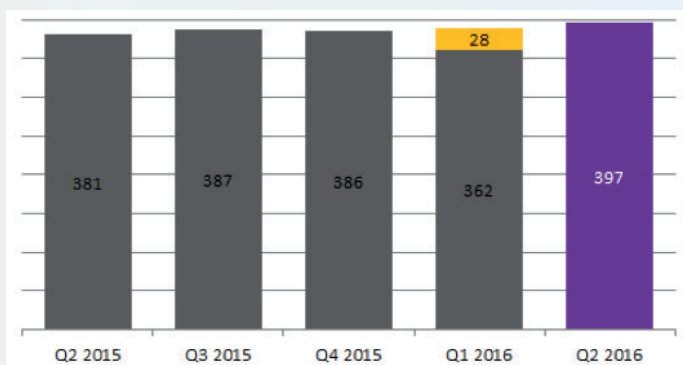
The development in profit before tax, excl. net income from financial instruments and losses, shows an underlying improvement of NOK 4 million in Q2 2016 compared with Q2 2015.

In Q2 2016 return on equity after tax was 12.5 percent, compared with 9.7 percent in 2015. Return on equity after tax excl. changes in financial instruments amount to 8.7 percent in Q2 2016.

Profit before tax the first half of 2016 amounted to NOK 553 million, compared with NOK 500 million in the same period in 2015. The return on equity after tax was 10 percent in the first half of 2016, equal to the same period last year. Profit before tax, excluded net income from financial instruments, losses and effects due to the changes in accounting principles, show an increase of NOK 23 million in the first half of 2016 compared with the same period in 2015.

Net interest income

Quarterly net interest in NOK million



Net interest income amounted to NOK 397 million in Q2 2016, compared with NOK 381 million in Q2 2015, which gave an increase of NOK 16 million.

The fee to the Norwegian Banks' Guarantee Fund amounted to NOK 37 million in 2016, and as a result of the changes in the accounting principles the fee has been deducted from net interest in its entirety in Q1 2016. While NOK 9 million was expensed in Q2 2015, there has been no fee expense in Q2 2016.

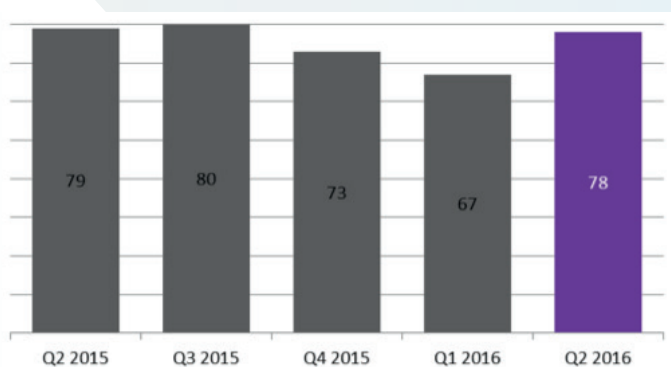
Hybrid capital was reclassified as equity with effect from 1 January 2016, and the related interest has therefore been reclassified from interest expense to surplus disposal.

Adjusted for these two factors the net interest shows a flat trend compared with Q2 2015. The margin on loans in the corporate market has strengthened in 2016 as a result of interest and margin adjustments. For the retail market margins remain under pressure, while funding costs are stable. Overall this has resulted in pressure on net interest in percent of total assets, while the growth in loans has contributed positively.

Net interest income amounted to NOK 759 million in the first half of 2016, compared with NOK 748 million in the first half of 2015. Adjusted for the changes in accounting principles as commented above, net interest was NOK 18 million higher in 2016.

Commission Income

Quarterly net commission income in NOK million



NOK million	Q2 2016	Q2 2015	Change	1st half 2016	1st half 2015	Change
Payment transfers	40	39	1	79	76	3
Real estate	30	28	2	48	52	-4
Others	21	22	-1	42	41	1
Total	91	89	2	169	169	0

Net commission income amounted to NOK 78 million in Q2 2016, compared with NOK 79 million in in Q2 2015.

Gross commission income amounted to NOK 91 million in Q2 2016, compared with NOK 89 million in in Q2 2015.

Commission income in the first half of 2016 amounted to NOK 169 million, compared with NOK 169 million in the first half of 2015. There has been an increase in commission income related to payment services and a decrease in commission income from the real estate business.

Financial instruments

Net income from financial instruments amounted to NOK 85 million in Q2 2016, compared to NOK 8 million in the same period last year. The main reasons were changes in the value of stocks, a positive development in fixed interest loans and a positive development in the value of the banks liquidity portfolio.

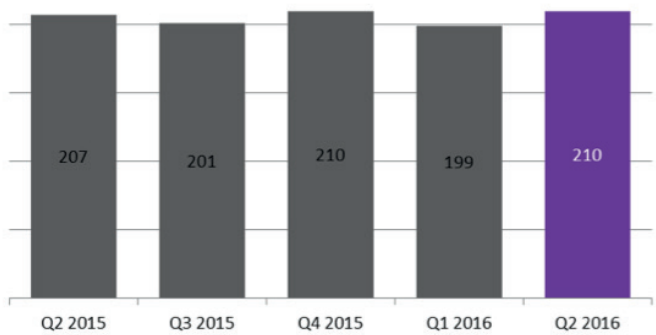
The bank adjusted in Q2 2016 the value of its shareholding in Visa Norge FLI with NOK 34 million. The reason for the adjustment is that the proportion of the payment Visa Norge received from Visa Inc. for the sale of Visa Europe was higher than what was assumed in the financial statement of Q1 2016.

Net income from financial instruments amounted to NOK 64 million in the first half of 2016, compared with NOK 37 million in the same period in 2015. The main reasons were changes in the value of stocks and a positive development in the value of the banks liquidity portfolio. In addition the group has had negative effects related to basis swaps (interest/currency swaps) the first half of the year.

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

Operating expenses

Operating expenses quarterly in NOK million



Total operating expenses amounted to NOK 210 million in Q2 2016, compared with NOK 207 million in the same period last year.

For the banking operations alone, expenses amounted to NOK 183 million, compared with NOK 183 million in Q2 2015.

Personnel costs decreased due to fewer employees and lower pension costs. Other operating costs increased slightly and partly due to higher IT costs. Adaptations in the bank’s IT platform are conducted continuously to meet changes in customer behaviour. This will ensure cost effectivity in the future, although it contributes to higher costs in the current period.

Total operating expenses as a percentage of average assets amounted to 0.80 per cent (0.85 percent) in Q2 2016. Cost as percent of income in the Group was 36.8 (43.9 percent). Cost as percent of income, excl. financial instruments, was 43.2 percent (44.7 percent).

Operating expenses amounted to NOK 409 million in the first half of 2016, compared with NOK 406 million in the same period in 2015. The cost-income ratio was 41.6 percent (43.3 percent). Excluding the financial instruments gives a cost-income ratio of 44.5 percent (45.1 percent).

Losses and defaulted loans

Net losses on loans amount to NOK 9 million in Q2 2016, equivalent to 0.04 per cent of net loans. The corresponding figures in 2015 were NOK 18 million and 0.09 per cent of net loans.

The Group's individual write-downs as at 30 June 2016 amounted to NOK 412 million, equivalent to 0.45 per cent of gross loans. The Group's collective write-downs as at 30 June 2016 amounted to NOK 210 million, equivalent to 0.23 per cent of gross loans.

Gross non-performing loans amounted to NOK 382 million, which is 0.42 per cent of gross loans. The corresponding figures in 2015 were NOK 479 million, 0.57 per cent of gross loans.

Other doubtful loans amounted to NOK 595 million. The corresponding figure in 2015 was NOK 836 million.

Net losses on loans amounted to NOK 22 million in the first half of 2016, included an increase in collective write downs of NOK 4 million, amounting to 0.05 per cent of net loans. The corresponding numbers for 2015 were NOK 32 million and 0.08 per cent of net loans.

Loans

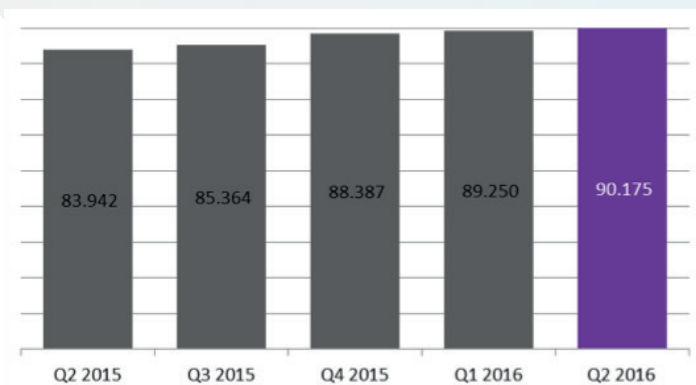
During the past 12 months, net loans have increased by NOK 6.2 billion to a total of NOK 90.2 billion, a growth of 7.4 per cent. The growth in the first half of 2016 was NOK 1.8 billion, equivalent to a 4 per cent annual growth.

Gross loans to retail customers have increased by NOK 3.2 billion to NOK 59.5 billion, a growth of 5.7 per cent. The growth in the first half of 2016 was NOK 1.2 billion, corresponding to an annual growth of 4.3 per cent.

Gross loan to corporate customers has increased by NOK 3.2 billion to NOK 31.2 billion, a growth of 10.6 per cent. The growth in loans the last 12 months has been high mainly due to the high growth in Q4 2015. Growth in the first half of 2016 was, however, only NOK 443 million, or 2.9 per cent in annual growth. The growth is reduced in 2016 as a consequence of the bank's ambition to achieve a common equity tier 1 capital ratio of 14.5 per cent at the end of 2016.

Loans to retail customers amounted to 66 per cent (67 per cent) of total loans at the end of Q2 2016.

Loans in NOK million



Deposits

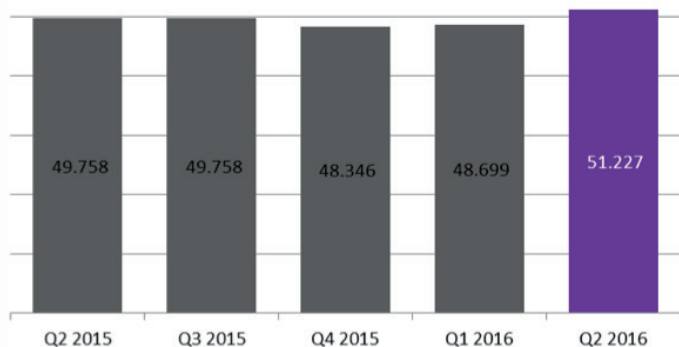
During the past 12 months, customer deposits increased by NOK 1.5 billion to NOK 51.2 billion. This corresponds to a growth of 3 per cent. The growth in the first half of 2016 was NOK 2.9 billion, or 11.9 per cent in annual growth.

Deposits from retail customers have increased by NOK 1 billion to NOK 25.2 billion, a growth of 4 per cent.

Deposits from corporate customers have increased by NOK 0.6 billion to NOK 25.8 billion, a growth of 2.5 per cent.

Sparebanken Sør's deposit as a percentage of net loans were 56.8 per cent at 30 June 2016, down from 59.3 per cent the same date last year. The deposit-to-loan ratio has declined during the last 12 months, caused by a strong lending growth in Q4 2015 and low deposit growth in 2015. Compared with year-end, however, the deposit-to-loan ratio has increased from 54.7 per cent.

Deposits in NOK million



Financing and securities

The bank's liquidity situation is satisfactory. The liquidity buffers are adequate and the maturity structure for the funding is well-adjusted to the needs of the business. New long-term funding is established through the issuing of covered bonds and senior debt. The Group has also arranged for long term financing from the international market through an established EMTCN program. This was utilized in Q1 2016, when Sparebanken Sør Boligkreditt AS issued covered bonds in Euro with 5 years maturity.

As at 30 June 2016, the portfolio of interest-bearing securities in the Group totalled NOK 12.9 billion, and the liquidity indicator for long-term financing was 109 percent.

The Group's liquidity reserves (LCR) were 153 percent as at 30 June 2016 (137 percent in the parent bank).

Primary capital and capital adequacy

Net primary capital amounted to NOK 10.3 billion. Hybrid capital amounted to NOK 0.8 billion and subordinated loans to NOK 1.2 billion. At the end of Q2 2016, the common equity tier 1 (CET1) capital ratio was 13.6 percent. The tier 1 capital ratio was 14.9 percent and the (total) capital ratio 16.9 percent, based on the Basel II regulations. The Group has consequently fulfilled the new capital requirements for financial institutions with effect from 30 June 2015 of 11.5 percent for common equity tier 1 capital and 15 percent for (total) capital. Including an 80 percent share of the profit for Q2, the Group has a common equity tier 1 capital ratio of 14.1 percent.

For the Parent Bank, the respective figures are a common equity tier 1 capital ratio of 14,2 percent, a tier 1 capital ratio of 15,8 percent and a (total) capital ratio of 18 percent at the end of Q2 2016.

The Groups leverage ratio was 7.5 percent at the end of Q2 2016. Including the share (80 percent) of the Q2 profit the leverage is a solid 7.8 percent.

Sparebanken Sør has a target at any given time to be well-capitalised. The common equity tier 1 ratio shall be above the regulatory minimum requirements and be at level with comparable banks. The Financial Supervisory Authority of Norway has expressed expectation that the bank should have a common equity tier 1 capital ratio of 14.5 per cent by the end of 2016. The bank will strengthen the common equity tier 1 capital ratio through continued improvement of the financial results from ordinary operations and reduced growth in the risk weighted balance.

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

The bank's equity certificates

As at 30 June 2016, 15 663 944 equity certificates have been issued. The profit (Group) per equity certificate was in Q2 2016 NOK 3, and NOK 4 for the first half of 2016. Sparebanken Sør decided the 30th of March 2016 for a rights issue, and the rights issue has been carried out in Q2 2016. At the date of the rights issue, the 5th of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The average ownership ratio was 17.4 percent in Q2 2016, and 15.2 percent the first half of 2016. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Dividend

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

Subsidiaries and collaborating companies

Sparebanken Sør Boligkreditt AS, the Bank's wholly owned subsidiary, is licensed to issue covered bonds and is used as an instrument in the bank's long-term funding strategy. As at 30 June 2016, the bank had transferred NOK 28.6 billion to Sparebanken Sør Boligkreditt AS, equivalent to 48.2 percent of all loans to the retail market.

Sørmegleren, the bank's own estate agency, has since its establishment on 1 January 2014, become the leading estate agency business in the Agder counties. The company has had a positive development, even though the Q1 profit is slightly behind compared with the same period last year.

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

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

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

Rating

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

Outlook

The Board of Directors is satisfied with the financial performance after Q2, 2016. The bank delivered an improved profit from ordinary operations through customized growth, positive underlying development in net interest, stable commission income, good cost control and low losses on loans.

The Financial Supervisory Authority of Norway has expressed expectation that the bank should have a common equity tier 1 ratio of 14.5 per cent by the end of 2016. The development in risk-weighted assets and income, as well as the issuance of equity share capital of NOK 600 million is consistent with the plans made to meet the expectations of the Financial Supervisory Authority.

The group aims at a return on equity of 9 percent in 2016, and the growth in loans is expected to be around 2-4 percent.

Based on the Bank's low direct exposure to oil service industry, economic conditions, historical figures, local market conditions and portfolio composition, the net losses in 2016 is expected to be moderate.

The Bank will in line with its recently adopted strategy focus on cost and long-term value. The bank's investments in technology will continue, and this will contribute to cost-efficient operations and enable streamlining of the office structure. This, together with good quality credit work, will contribute to continued profitable growth and development of Sparebanken Sør.

The negative economic trend involves the risk of increased defaults and write-downs. The oil price is still at a low level, and due to continued downsizing in the oil service sector there is uncertainty considering the development in the unemployment rate. There is also a tendency that the housing price trend is flattening in the Bank's primary market. On the other hand, the low exchange rate helps the competitiveness of the export industry, which is also important for the region. Sparebanken Sør has a very low direct exposure to oil and the oil sector, but is as the largest regional bank affected by the economic development of the region.

Events since the end of the quarter

There have been no recorded incidents since 30 June 2016 that affect the quarterly accounts.

Arendal, 15 August 2016

Stein A. Hannevik
Chairman

Torstein Moland
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen
Employee representative

Sigrid Evenstad Moe
Employee representative

Geir Bergskaug
CEO

PARENT BANK					NOK million	GROUP				
31.12.	30.06.	30.06.	Q2	Q2		Q2	Q2	30.06.	30.06.	31.12.
2015	2015	2016	2015	2016	Noter	2016	2015	2016	2015	2015
2 390	1 234	1 099	608	541	Interest income	732	795	1 466	1 606	3 119
1 252	683	513	325	232	Interest expenses	335	414	707	858	1 598
1 138	551	586	283	309	Net interest income	397	381	759	748	1 521
297	140	150	72	77	Commission income	91	89	169	169	347
47	22	24	10	13	Commission expenses	13	10	24	22	47
250	118	126	62	64	Net commission income	78	79	145	147	300
9	9	21	9	21	Dividend	9	3	9	3	3
-74	42	74	8	81	Net income from other financial instruments	76	5	55	34	-69
-65	51	95	17	102	Net income from financial instruments	85	8	64	37	-66
15	6	16	3	11	Other operating income	11	3	16	6	14
1 338	726	823	365	486	Total net income	571	471	984	938	1 769
389	190	186	98	96	Wages and other personal expenses	116	116	222	226	458
36	16	14	8	7	Depreciation and write-down of fixed assets and intangible assets	7	8	14	16	37
307	153	162	77	80	Other operating expenses	87	83	173	164	322
732	359	362	183	183	Total operating expenses	210	207	409	406	817
606	367	461	182	303	Profit before losses on loans	361	264	575	532	952
97	32	22	18	10	Losses on loans and guarantees	2	9	18	22	97
509	335	439	164	293	Profit before taxes	7	352	246	553	855
136	90	95	42	58	Tax expenses	12	75	67	126	231
373	245	344	122	235	Profit for the period	277	179	427	364	624
					Minority interests					2
373	245	344	122	235	Majority interests	277	179	427	364	622
10.6	6.9	3.2	3.5	2.5	Profit/diluted earnings per equity certificate (in whole NOK)	3.0	5.1	4.0	10.3	17.6
					Other comprehensive income					
373	245	344	122	235	Profit for the period	277	179	427	364	624
					<i>Items that will not be reclassified to profit and loss account</i>					
59					Recognised estimate deviation, pensions					59
-15					Tax effect of recognised estimate deviation, pensions					-15
417	245	344	122	235	Sum totalresultat for perioden	277	179	427	364	668

Balance sheet

PARENT BANK			NOK million	GROUP			
31.12. 2015	30.06. 2015	30.06. 2016		Notes	30.06. 2016	30.06. 2015	31.12. 2015
			Assets				
332	894	1 307	Cash and receivables from central banks		1 307	894	332
2 017	1 782	1 835	Loans to credit institutions		197	134	157
62 744	61 760	61 614	Net loans to customers	2, 3, 5, 7, 8	90 175	83 942	88 387
10 456	11 667	12 747	Bonds and certificates	8	12 897	11 968	10 557
487	423	470	Shares	8	470	423	487
659	575	738	Financial derivatives	8, 9	921	671	813
1 259	1 258	1 259	Shareholdings in group companies				
13	12	13	Shareholdings in associated companies		13	12	13
10	19	16	Intangible assets		19	22	13
3			Deferred tax assets			3	8
438	527	444	Fixed assets		471	555	479
61	37	77	Other assets		147	91	88
78 479	78 954	80 520	TOTAL ASSETS	7, 8	106 617	98 715	101 334
			LIABILITIES AND EQUITY CAPITAL				
626	642	648	Debts to credit institutions		596	597	576
48 377	49 782	51 243	Deposits from customers	4, 7, 8	51 227	49 758	48 349
19 865	19 272	17 759	Debt incurred due to issue of securities	8, 10	42 920	38 325	41 899
411	433	434	Financial derivatives	8, 9	515	436	413
151	88	154	Payable taxes		187	179	245
188	282	252	Other liabilities		306	340	229
160	219	142	Provisions for commitments		142	219	160
	5	9	Deferred tax				
1 710	1 400	1 203	Subordinated loan capital	8, 10	1 203	1 400	1 710
71 488	72 123	71 844	Total liabilities		97 096	91 254	93 581
905	891	1 491	Equity certificate capital	11	1 491	891	905
		825	Hybrid capital		825		
6 086	5 940	6 360	Other equity		7 205	6 570	6 848
6 991	6 831	8 676	Total equity capital	6	9 521	7 461	7 753
78 479	78 954	80 520	TOTAL LIABILITIES AND EQUITY CAPITAL	7, 8	106 617	98 715	101 334

PARENT BANK			NOK million	GROUP		
31.12. 2015	30.06. 2015	30.06. 2016		30.06. 2016	30.06. 2015	31.12. 2015
2 414	1 306	1 203	Interest payment received	1 585	1 695	3 142
-1 319	-788	-637	Interest payment made	-840	-985	-1 669
285	143	227	Other payments received	233	166	341
-722	-335	-367	Operating payments	-434	-383	-800
6	3	3	Established on confirmed losses	3	3	6
-69	-70	-80	Period tax paid	-174	-118	-164
-20	-12	-12	Gifts paid	-12	-12	-20
113	1 513	2 866	Change in customers deposits	2 878	1 508	104
-1 988	-964	1 109	Change in loans to customers	-1 811	-3 114	-7 598
-1 300	796	4 312	Net cash flow from operational activities	1 428	-1 240	-6 658
13 401	4 222	3 635	Payments received regarding securities	3 735	2 473	6 649
-13 927	-5 854	-5 887	Payments made regarding securities	-6 036	-4 106	-6 977
24	9		Payments received regarding sale of fixed assets	14	9	24
-12	-9	-12	Payments made regarding purchase of fixed assets	-12	-9	-26
139	243	-207	Change in other assets	-276	260	155
-375	-1 389	-2 471	Net cash flow from investment activities	-2 575	-1 373	-175
-507	-272	182	Change in loans to credit institutions	-39	46	23
-1	12	22	Change in deposits from credit institutions	20	-20	-38
8 720	3 500		Payments received, bond debt	4 760	7 500	20 220
-7 093	-2 351	-2 014	Payments made, bond debt	-3 607	-4 590	-13 832
1 510	500		Payments received, subordinated loan capital		500	1 510
-900	-200		Payments made, subordinated loan capital		-200	-900
-47	-47	-55	Dividend payment	-55	-47	-47
		314	Issuance of hybrid capital	314		
		584	Issuance of ECs	584		
-270	-250	101	Change in other liabilities	145	-277	-366
1 412	892	-866	Net cash flow from financing activities	2 122	2 912	6 570
-263	299	975	Net change in liquid assets	975	299	-263
595	595	332	Cash and cash equivalents as at 01.01	332	595	595
332	894	1 307	Cash and cash equivalents at end of period	1 307	894	332

Equity statement

GROUP NOK million	Dividene								TOTAL
	Equity certificates	Premium fund	equalization- fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	
Balance 31.12.2014	474	175	242		5 667	41	558		7157
Dividend distributed for 2014							-47		-47
Profit per 30.06.2015							364		364
Distributed by gift fund						-13			-13
Balance 30.06.2015	474	175	242		5 667	28	875	0	7461
Profit 01.07 - 31.12.2015			8		297	25	-72	2	260
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Distributed by gift fund						-12			-12
Balance 31.12.2015	474	175	256		6 002	41	803	2	7 753
Reclassification of hybrid capital 01.01.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of hybrid capital	545	39							584
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-12					-12
Profit per 30.06.2016				12			415		427
Distributed by gift fund						-13			-13
Balance 30.06.2016	783	453	255	825	6 000	28	1 175	2	9 521
PARENT BANK									
Balance 31.12.2014	474	175	242		5 667	41	47		6 646
Dividend distributed for 2014							-47		-47
Profit per 30.06.2015							245		245
Distributed by gift fund						-13			-13
Balance 30.06.2015	474	175	242		5 667	28	245	0	6 831
Profit 01.07 - 31.12.2015			8		297	25	-202		128
Recognised estimate deviations, pension			8		51				59
Tax effect estimate deviations, pension			-2		-13				-15
Distributed by gift fund						-12			-12
Balance 31.12.2015	474	175	256		6 002	41	43	0	6 991
Reclassification of hybrid capital 01.01.				510					510
Dividends distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of hybrid capital	545	39							584
Sale of own ECs	3		-1		-1				1
Issuance of hybrid capital				315	-1				314
Interest on hybrid capital				-12					-12
Profit per 30.06.2016				12			332		344
Distributed by gift fund						-13			-13
Balance 30.06.2016	783	453	255	825	6 000	28	332	0	8 676

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with International Standards for Financial Reporting (IFRS), including IAS 34. The applied accounting principles are the same as used in the 2015 annual financial statements.

Due to clarifications in the interpretation of IFRIC 21 Fees, there has been a change in the accounting principles regarding the accounting of contributions to the Norwegian Banks' Guarantee Fund. The expense is determined by separate regulations as an average calculation of previous quarters. Sparebanken Sør has in Q1 changed its earlier practice of monthly cost accrual, and expensed the fee in its entirety in Q1. This has caused an interest expense NOK 27 million higher in Q1 compared with using the previous accounting principles. Similarly, the interest expense for Q2 would have been 9 million lower in 2016.

In accordance with IAS 32, hybrid capital not meeting the definition of financial obligations was reclassified from debt to equity per January 1, 2016.

There are no new standards applicable for 2016 that have significant effects on the financial statements.

2. LOSSES ON LOANS AND GUARANTEES

PARENT BANK			NOK million	GROUP		
31.12.15	30.06.15	30.06.16	Individual write-downs	30.06.16	30.06.15	31.12.15
521	521	517	Individual write-downs at start of period	517	521	521
76	48	109	- Period's confirmed loss where individual write-down has been performed previously	109	48	76
43	25	65	+ Increased individual write-downs during the period	65	25	43
77	32	24	+ New individual write-downs during the period	24	32	77
48	31	85	- Reversal of individual write-downs during the period	85	31	48
517	499	412	= Individual write-downs at end of period	412	499	517

PARENT BANK				GROUP		
31.12.15	30.06.15	30.06.16	Collective write-downs on loans	30.06.16	30.06.15	31.12.15
188	188	200	Collective write-downs of loans at start of period	206	194	194
12	0	4	+ Change in collective write-downs during the period	4	0	12
200	188	204	= Collective write-downs of loans at end of period	210	194	206

PARENT BANK				GROUP		
31.12.15	30.06.15	30.06.16	Loss expense on loans during the period	30.06.16	30.06.15	31.12.15
-4	-19	-105	Change in individual write downs during the period	-105	-19	-4
12	0	4	+ Change in collective write-downs during the period	4	0	12
76	48	109	+ Period's confirmed loss where individual write-downs has been performed previously	109	48	76
17	3	10	+ Period's confirmed loss where no individual write-downs has been performed previously	10	3	17
5	2	4	+ Recognised as interest income	4	2	5
6	3	3	- Period's recoveries relating to previous losses	3	3	6
-3	0	3	+Change in write downs on guaranties	3	0	-3
97	32	22	= Loss expenses during the period	22	32	97

3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK			NOK million	GROUP		
31.12.15	30.06.15	30.06.16		30.06.16	30.06.15	31.12.15
419	479	382	Gross non-performing loans	382	479	419
134	155	129	Individual write-downs	129	155	134
285	324	253	Net non-performing loans	253	324	285
0.66 %	0.77 %	0.61 %	Gross non-performing loans in % of gross loans	0.42 %	0.57 %	0.47 %
794	836	595	Other doubtful loans	595	836	794
384	344	275	Individual write-downs	275	344	384
410	492	320	Net doubtful loans	320	492	410

A non-performing loan is the sum of a customer's total loan amount if part of the loan has been overdrawn or has arrears exceeding NOK 1,000 for more than 90 days.

4. CUSTOMERS DEPOSITS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.15	30.06.15	30.06.16		30.06.16	30.06.15	31.12.15
23 864	24 264	25 237	Retail customers	25 237	24 264	23 864
4 428	4 761	5 558	Public administration	5 558	4 761	4 428
680	325	581	Primary industry	581	325	680
2 219	1 669	2 122	Manufacturing industry	2 122	1 669	2 219
1 520	1 305	1 181	Real estate development	1 181	1 305	1 520
927	863	858	Building and construction industry	858	863	927
1 326	866	1 191	Transport and communication	1 191	866	1 326
865	803	800	Retail trade	800	803	865
154	141	145	Hotel and restaurant	145	141	154
3 085	3 576	2 717	Property management	2 700	3 553	3 056
2 740	3 171	2 865	Financial/commercial services	2 866	3 170	2 739
5 122	4 958	5 478	Social services	5 478	4 958	5 122
1 439	2 708	2 283	Other industries	2 283	2 708	1 441
8	372	227	Accrued interests	227	372	8
48 377	49 782	51 243	Total deposits from customers	51 227	49 758	48 349

5. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.15	30.06.15	30.06.16		30.06.16	30.06.15	31.12.15
32 719	34 231	31 078	Retail customers	59 497	56 288	58 230
26	30	26	Public administration	26	30	26
716	686	731	Primary industry	744	693	725
842	846	897	Manufacturing industry	900	853	848
3 491	3 183	3 310	Real estate development	3 311	3 185	3 491
1 201	1 154	1 296	Building and construction industry	1 337	1 198	1 244
567	550	629	Transport and communication	642	562	575
1 083	1 038	1 004	Retail trade	1 016	1 050	1 093
390	373	378	Hotel and restaurant	381	378	392
16 709	14 638	17 343	Property management	17 310	14 593	16 676
1 627	1 643	1 343	Financial/commercial services	1 377	1 678	1 656
3 659	3 638	3 734	Social services	3 771	3 667	3 698
310	307	339	Other industries	339	306	310
122	130	124	Accrued interests	148	154	147
63 462	62 447	62 230	Total gross loans	90 798	84 635	89 111
718	687	616	Write-downs on lending	622	693	724
62 744	61 760	61 614	Total net loans	90 175	83 942	88 387

6. PRIMARY CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12.15	30.06.15	30.06.16		30.06.16	30.06.15	31.12.15
474	474	783	Equity certificates	783	474	474
175	175	453	Premium fund	453	175	175
6 002	5 667	6 000	Primary capital	6 000	5 667	6 002
41	28	28	Gift fund	28	28	41
256	242	255	Equalisation fund	255	242	256
43			Other equity	753	511	805
-43			- Deduction for dividends included under other equity			-43
-10	-19	-16	- Deduction for intangible assets and deferred tax assets	-16	-19	-10
6 938	6 567	7 503	Total common equity tier 1 capital	8 256	7 078	7 700
510	500	825	Hybrid capital	825	500	510
0	0	0	- Deduction for intangible assets and deferred tax assets			
7 448	7 067	8 328	Total tier 1 capital	9 081	7 578	8 210
			Additional capital over core capital:			
1 200	900	1 200	Subordinated loan capital	1 200	900	1 200
1 200	900	1 200	Total additional tier 1 capital	1 200	900	1 200
-22	-22	-22	- Deduction from core and additional capital	-22	-22	-22
8 626	7 945	9 506	Net primary capital	10 259	8 456	9 388
			Minimum requirement for subordinated capital Basel II calculated according to the standard method:			
7	19	14	Engagements with local and regional authorities	14	19	7
66	82	61	Engagements with institutions	43	59	40
251	1 334	188	Engagements with enterprises	189	1 334	251
505	857	419	Engagement with mass market	419	1 038	530
2 744	1 077	2 792	Engagement secured in property	3 660	1 655	3 501
71	81	53	Engagement which have fallen due	53	80	72
0	0	0	Engagement which are high risk	0	0	0
237	217	272	Engagement in covered bonds	70	66	62
137	133	138	Engagement in collective investment funds	38	34	37
51	68	62	Engagement, other	62	68	51
4 069	3 868	3 999	Capital requirements for credit- and counterparty risk	4 548	4 353	4 551
4	4	4	Capital requirements for position-, currency- and product risk	4	4	4
196	196	197	Capital requirements for operational risk	259	272	252
29	24	27	CVA addition	50	30	47
0	0	0	Deduction from the capital requirement	0	0	0
4 299	4 093	4 227	Total minimum requirement for primary capital	4 861	4 659	4 854
53 735	51 160	52 835	Risk-weighted balance (calculation basis)	60 763	58 238	60 679
12.9 %	12.8 %	14.2 %	Common equity tier 1 capital ratio, %	13.6 %	12.2 %	12.7 %
13.9 %	13.8 %	15.8 %	Tier 1 capital ratio, %	14.9 %	13.0 %	13.5 %
16.1 %	15.5 %	18.0 %	Total capital ratio, %	16.9 %	14.5 %	15.5 %

7. SEGMENT REPORTING

Income statement (NOK million)	Group 30.06.2016				Group 30.06.2015			
	RM	CM	Undistrib. and elimin.	Total	RM	CM	Undistrib. and elimin.	Total
Net interest	489	306	-36	759	475	258	15	748
Net other operating income	86	31	108	225	69	29	92	190
Operating expenses	185	44	180	409	173	43	190	406
Profit before losses per segment	390	293	-108	575	370	244	-82	532
Losses on loans and guarantees	3	16	4	22	0	32	1	32
Profit before tax per segment	387	277	-111	553	370	213	-83	500
Net loans to customers	59 514	30 575	86	90 175	56 136	27 698	108	83 942
Other assets			16 442	16 442			14 773	14 773
Total assets per segment	59 514	30 575	16 528	106 617	56 136	27 698	14 881	98 715
Deposits from customers	26 957	20 220	4 050	51 227	26 136	18 979	4 643	49 758
Other liabilities	32 557	10 355	2 957	45 869	30 000	8 719	2 777	41 496
Total liabilities per segment	59 514	30 575	7 007	97 096	56 136	27 698	7 420	91 254
Equity			9 521	9 521			7 461	7 461
Total liabilities and equity per segment	59 514	30 575	16 528	106 617	56 136	27 698	14 881	98 715

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial instruments are classified at different levels.

Level 1:

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

Level 2:

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

Level 3:

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

For a more detailed description, see Note 21 Fair value of financial instruments in the 2015 annual financial statements.

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			30.06.2016	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortised cost								
1 307		1 307		Cash and receivables from central banks	1 307		1 307	
1 835		1 835		Loans to credit institutions	197		197	
53 606			53 606	Net loans to customers (floating interest rate)	82 167			82 167
Assets recognized at fair value								
8 008			8 008	Net loans to customers (fixed interest rate)	8 008			8 008
12 747		12 747		Bonds and certificates	12 897		12 897	
470	23		447	Shares	470	23		447
738		738		Financial derivatives	921		921	
78 711	23	16 627	62 061	Total financial assets	105 967	23	15 322	90 622
Liabilities recognized at amortised cost								
648		648		Debt to credit institutions	596		596	
51 243			51 243	Deposit from customers	51 227			51 227
17 759		17 990		Debt incurred due to issue of securities	42 920		43 161	
1 203		1 164		Subordinated loan capital	1 203		1 164	
Liabilities recognized at fair value								
434		434		Financial derivatives	515		515	
71 287	0	20 236	51 243	Total financial liabilities	96 461	0	45 436	51 227

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			31.12.2015	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortized cost								
332		332		Cash and receivables from central banks	332		332	
2 017		2 017		Loans to credit institutions	157		157	
54 454			54 454	Net loans to customers (floating interest rate)	80 097			80 097
Assets recognized at fair value								
8 290			8 290	Net loans to customers (fixed interest rate)	8 290			8 290
10 456		10 456		Bonds and certificates	10 557		10 557	
487	23		464	Shares	487	23		464
659		659		Financial derivatives	813		813	
76 696	23	13 464	63 208	Total financial assets	100 732	23	11 858	88 851
Liabilities recognized at amortised cost								
626		626		Debt to credit institutions	576		576	
48 377			48 377	Deposit from customers	48 349			48 349
19 865		20 033		Debt incurred due to issue of securities	41 899		41 922	
1 710		1 708		Subordinated loan capital	1 710		1 708	
Liabilities recognized at fair value								
411		411		Financial derivatives	413		413	
70 989	0	22 778	48 377	Total financial liabilities	92 947	0	44 619	48 349

PARENT BANK				NOK million	GROUP			
Recognised value	Fair value			30.06.2015	Recognised value	Fair value		
	Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
Assets recognized at amortized cost								
894		894		Cash and receivables from central banks	894		894	
1 782		1 782		Loans to credit institutions	134		134	
53 242			53 242	Net loans to customers (floating interest rate)	75 424			75 424
Assets recognized at fair value								
8 518			8 518	Net loans to customers (fixed interest rate)	8 518			8 518
11 667		11 667		Bonds and certificates	11 968		11 968	
423	28		395	Shares	423	28		395
575		575		Financial derivatives	671		671	
77 101	28	14 918	62 155	Total financial assets	98 032	28	13 667	84 337
Liabilities recognized at amortised cost								
642		642		Debt to credit institutions	597		597	
49 782			49 782	Deposit from customers	49 758			49 758
19 272		19 571		Debt incurred due to issue of securities	38 325		38 708	
1 400		1 412		Subordinated loan capital	1 400		1 412	
Liabilities recognized at fair value								
433		433		Financial derivatives	436		436	
71 529	0	22 058	49 782	Total financial liabilities	90 516	0	41 153	49 758

Movement level 3

GROUP / PARENT BANK

NOK million	Net loans to customers	Of which credit risk	Shares	Of which credit risk
Recognized value as at 01.01.2015	6 769	-110	394	0
Acquisitions Q1 and Q2 2015	2 650			
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	87	99	1	0
Disposals Q1 and Q2 2015	-988			
Recognized value as at 30.06.2015	8 518	-11	395	0
Acquisitions Q3 and Q4 2015	380		9	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-62	-51	66	0
Disposals Q3 and Q4 2015	-546		-6	
Recognized value as at 31.12.2015	8 290	-62	464	0
Acquisitions Q1 2016	244		0	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	2	5	38	0
Disposals Q1 2016	-528		-55	
Recognized value as at 30.06.2016	8 008	-57	447	0

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	30.06.2016	30.06.2015	31.12.2015
Loan to customers	24	29	27
- of which, loans to corporate market (CM)	7	9	8
- of which, loans to retail market (RM)	17	20	19

9. OFFSETTING

GROUP

NOK million	30.06.16	30.06.2016 (1) presented net	30.06.15	30.06.2015 (1) presented net	31.12.15	31.12.2015 (1) presented net
Assets						
Financial derivatives	921	758	671	299	813	485
Liabilities						
Financial derivatives	515	353	436	64	413	85

PARENT BANK

NOK million	30.06.16	30.06.2016 (1) presented net	30.06.15	30.06.2015 (1) presented net	31.12.15	31.12.2015 (1) presented net
Liabilities						
Financial derivatives	738	575	575	206	659	333
Liabilities						
Financial derivatives	434	271	433	64	411	85

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

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

10. DEBT SECURITIES AND SUBORDINATED LOAN CAPITAL

Debt securities – Parent bank

NOK million	30.06.2016	30.06.2015	31.12.2015
Bonds, nominal value	17 201	18 736	19 215
Value adjustments	402	332	381
Accrued interest	156	205	269
Debt incurred due to issue of securities	17 759	19 272	19 865

Change in debt securities – Parent bank

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	30.06.2016
Bonds, nominal value	19 215	0	-2 014		17 201
Value adjustments	381			21	402
Accrued interest	269			-113	156
Debt incurred due to issue of securities	19 865	0	-2 014	-92	17 759

Debt securities – Group

NOK million	30.06.2016	30.06.2015	31.12.2015
Bonds, nominal value	42 289	37 658	41 136
Value adjustments	443	432	447
Accrued interest	188	235	316
Debt incurred due to issue of securities	42 920	38 325	41 899

Change in debt securities - Group

NOK million	31.12.2015	Issued	Matured/ Redeemed	Other changes during the period	30.06.2016
Bonds, nominal value	41 136	4 760	-3 607		42 289
Value adjustments	447			-4	443
Accrued interest	316			-128	188
Debt incurred due to issue of securities	41 899	4 760	-3 607	-132	42 920

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	30.06.2016
Subordinated loans	1 200	0			1 200
Hybrid capital	510			-510	0
Accrued interest	0				3
Total subordinated loan capital	1 710				1 203

- (1) In accordance to IAS 32, hybrid capital not meeting the definition of financial obligations was reclassified from debt to equity January 2016.

11. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as at 30.06.2016.

NAME	NUMBER OF EC	SHARE OF EC-CAP. %	NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1. Sparebankstiftelsen	8 125 679	51.88	11. Allumgården AS	151 861	0.97
2. Arendal kom. pensjonskasse	450 000	2.87	12. Sparebanken Vest Aksjer	145 634	0.93
3. Holta invest AS	444 410	2.84	13. MP Pensjon PK	112 733	0.72
4. Pareto AS	417 309	2.66	14. Profond AS c/o A. G. Regnskap A	101 331	0.65
5. Glastad invest AS	387 467	2.47	15. NorgesInvestor Proto AS	101 252	0.65
6. EIKA utbytte VPF c/o Eika kapitalforv.	329 988	2.11	16. Ottersland AS	100 000	0.64
7. Merrill Lynch	329 080	2.10	17. Wenaas Kapital AS	90 350	0.58
8. Bergen Kom. Pensjonskasse	250 000	1.60	18. Spareskillingsbanken	87 780	0.56
9. Wenaasgruppen AS	186 206	1.19	19. Artel holding A/S	82 131	0.52
10. Gumpen Bileiendom AS	154 209	0.98	20. Skandinaviska Enskilda Banken	80 650	0.51
Total - 10 largest owners	11 074 348	70.70	Total - 20 largest owners	12 128 070	77.43

Sparebanken Sør decided the 30th of March 2016 for a rights issue, and the rights issue has been carried out in Q2 2016. At the date of the rights issue, the 5th of May, there was an increase in the ownership ratio from 13 percent to 19.8 percent. The weighted average ownership ratio in the first half of 2016 was 15.2 percent, while the weighted average ownership ratio in Q2 2016 was 17.4 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Sparebanken Sør owns 5 168 of its own equity certificates. As at 30 June 2016, the equity certificate capital was NOK 783 197 200 NOK distributed over 15 663 944 equity certificates with a nominal value of NOK 50.

12. TAX EXPENSES

The ordinary tax rate of 25 % is used for calculation of payable tax.

Risk management ensures that the Group's risk exposure is known at any time and is instrumental in helping the Group to achieve its strategic objectives, and also compliance with laws, regulations and regulatory requirements. Governing targets have been established for the Group's overall risk level, while specific governing targets have been established for each risk area. Systems have been established to calculate, manage and control risk. The aim of capital management is to ensure that the Group has an acceptable tier 1 capital ratio, is financially stable and achieves a satisfactory return in relation to its risk profile. The Group's total capital ratio and risk exposure are monitored through periodic reports.

Credit risk

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

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

Market risk

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

Liquidity risk

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

Operational risk

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

Business risk

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

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

Quarterly profit trend

GROUP	2. kvartal	1. kvartal	4. kvartal	3. kvartal	2. kvartal
NOK million	2016	2016	2015	2015	2015
Net interest income	397	362	386	387	381
Net commission income	78	67	73	80	79
Net income from financial instruments	85	-21	1	-104	8
Other operating income	11	5		8	3
Total net income	571	413	460	371	471
Total operating expenses	210	199	210	201	207
Profit before losses	361	214	250	170	264
Losses on loans and guarantees	9	13	48	17	18
Profit before taxes	352	201	202	153	246
Tax expenses	75	51	53	42	67
Profit for the period	277	150	149	111	179

% of average assets

Net interest income	1.51	1.41	1.53	1.55	1.57
Net commission income	0.30	0.26	0.29	0.32	0.33
Net income from financial instruments	0.32	-0.08		-0.42	0.03
Other operating income	0.04	0.02		0.03	0.01
Total net income	2.17	1.61	1.82	1.48	1.94
Total operating expenses	0.80	0.78	0.83	0.80	0.85
Profit before losses	1.37	0.84	0.99	0.68	1.09
Losses on loans and guarantees	0.03	0.05	0.19	0.07	0.07
Profit before taxes	1.34	0.79	0.80	0.61	1.02
Tax expenses	0.28	0.20	0.21	0.17	0.28
Profit for the period	1.05	0.59	0.59	0.44	0.74
Average total assets	105 600	102 900	100 400	99 100	97 400

Balance sheet

Total assets	106 617	104 521	101 334	99 429	98 715
Net loans to customers	90 175	89 250	88 387	85 364	83 942
Growth in loans as %, last 12 mths.	7.4 %	8.4 %	9.2 %	7.2 %	5.5 %
Customers deposits	51 227	48 699	48 349	48 931	49 758
Growth in deposits as %, last 12 mths.	3.0 %	2.0 %	0.2 %	2.7 %	5.1 %
Deposits as % of net loans	56.8 %	54.6 %	54.7 %	57.3 %	59.3 %
Equity	9 521	8 363	7 753	7 569	7 461
Losses on loans as % of net loans, annualized	0.04 %	0.06 %	0.22 %	0.08 %	0.09 %
Gross defaulted loans over 90 days as % of gross loans	0.42 %	0.42 %	0.47 %	0.57 %	0.57 %

Other key figures

Cost as % of income	36.8 %	48.2 %	45.7 %	54.2 %	43.9 %
Cost as % of income, ex net income from financial instruments	43.2 %	45.9 %	45.8 %	42.3 %	44.7 %
Return on equity after tax	12.5 %	7.5 %	7.7 %	5.9 %	9.7 %
Liquidity reserve (LCR) (Group)	153 %	137 %	108 %		
Common equity tier 1 capital ratio (added share of profit)	14.1 %	12.9 %	12.7 %	12.6 %	12.7 %
Tier 1 capital ratio	14.9 %	13.6 %	13.5 %	12.8 %	13.0 %
Total capital ratio	16.9 %	15.5 %	15.5 %	14.8 %	14.5 %
Common equity tier 1 capital	8 256	7 692	7 700	7 074	7 078
Tier 1 capital	9 081	8 202	8 210	7 574	7 578
Net total primary capital	10 259	9 380	9 388	8 752	8 456
Leverage ratio	7.5 %	7.0 %	7.0 %		
Number of branches	36	36	40	40	40
Number of man-years in banking activity	432	445	449	446	444

Key figures, Equity certificates

Equity certificate ratio	19.8 %	13.0 %	13.5 %	13.5 %	13.5 %
Number of equity certificates issued	15 663 944	4 768 674	4 768 674	4 768 674	4 768 674
Profit/diluted earnings per equity certificate (Parent bank)	2.5	3.0	2.3	1.4	3.5
Profit/diluted earnings per equity certificate (Group)	3.0	4.1	4.2	3.1	5.1
Dividend last year per equity certificate	9.0	9.0	9.0	10.0	10.0
Book equity per equity certificate	110	214	219	214	211
Price/Book value per equity certificate	0.58	0.57	0.63	0.88	0.90
Listed price on Oslo Stock Exchange at end of period *)	63.75	123.00	139.00	188.00	190.00

	31.12.2015	31.12.2014*	31.12.2013*
Income statement (NOK million)			Proforma
Net interest income	1 521	1 511	1 443
Net commission income	300	284	252
Net income from financial instruments	-66	184	201
Other operating income	14	23	22
Total net income	1 769	2 002	1 918
Total expenses	817	834	800
Profit before losses on loans	952	1 168	1 118
Losses on loans and guarantees	97	268	126
Profit before taxes	855	900	992
Tax expenses	231	215	219
Profit for the period	624	685	773
Income statement as percentage of average assets			
Net interest income	1.55 %	1.60 %	1.60 %
Net commission income	0.31 %	0.30 %	0.28 %
Net income from financial instruments	-0.07 %	0.20 %	0.22 %
Other operating income	0.01 %	0.02 %	0.03 %
Total net income	1.81 %	2.12 %	2.13 %
Total expenses	0.83 %	0.88 %	0.89 %
Profit before losses on loans	0.97 %	1.24 %	1.24 %
Losses on loans and guarantees	0.10 %	0.28 %	0.14 %
Profit before taxes	0.87 %	0.96 %	1.10 %
Tax expenses	0.24 %	0.23 %	0.24 %
Profit for the period	0.64 %	0.73 %	0.86 %
Average total assets	98 000	94 300	90 200
Balance			
Total assets	101 334	94 062	93 758
Net loans to customers	88 387	80 913	77 450
Grows in loans as %, last 12 mths.	9.2 %	4.5 %	6.8 %
Customers deposits	48 349	48 250	43 740
Growth in deposits as %, last 12 mths.	0.2 %	10.3 %	8.3 %
Deposits as % of net loans	54.7 %	59.6 %	56.5 %
Equity	7 753	7 157	6 658
Losses on loans as % of net loans, annualized	0.11 %	0.33 %	0.16 %
Gross defaulted loans over 90 days as % of gross loans	0.47 %	0.71 %	0.60 %
Other key figures			
Cost as % of income	46.2 %	41.7 %	41.7 %
Cost as % of income, ex net income from financial instruments	44.5 %	45.9 %	46.6 %
Return on equity after tax	8.4 %	10.1 %	12.3 %
Liquidity reserve (LCR) (Group)	108 %		
Core tier 1 capital ratio (added share of profit)	12.7 %	13.1 %	12.8 %
Core capital ratio	13.5 %	14.4 %	14.2 %
Total capital ratio	15.5 %	15.1 %	15.1 %
Core tier 1 capital	7 700	7 092	6 376
Core capital	8 210	7 792	7 076
Net total primary capital	9 388	8 170	7 522
Leverage ratio	7.0 %	7.0 %	
Number of branches	40	40	44
Number of man-years in banking activity	449	454	489
Key figures, Equity certificates			
Equity certificate ratio before profit distribution	13.5 %	14.1 %	7.1 %
Number of equity certificates issued	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent bank)	10.6	12.2	10.3
Profit per equity certificate (Group)	17.6	20.3	18.1
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	9.0	10.0	10.0
Book equity per equity certificate	219	212	187
Price/Book value per equity certificate	0.63	0.92	0.80
Listed price on Oslo Stock Exchange at end of period	139.00	196.00	150.00

*) Excluding negative goodwill.

Declaration in accordance with section 5-6 of the Norwegian Securities Trading Act

The Board of Directors and CEO of Sparebaken Sør hereby confirm that the bank and the group's half-yearly financial statements for 2015 have been prepared in accordance with applicable accounting standards, and that the information provided in the financial statements provides a true and fair view of the company's assets, liabilities, financial position and overall result.

In addition, we confirm that the half-year report provides a true and fair view of the company's development, result and position, together with a description of the most significant risk and uncertainty factors facing the company.

Arendal, 15. August 2016

Stein A. Hannevik
Chairman

Torstein Moland
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen
Employee representative

Sigrid Evenstad Moe
Employee representative

Geir Bergskaug
CEO

SPAREBANKEN SØR

