QUARTER 2
2017

SPAREBANKEN SØR

Content

Key figures Group

Income statement (NOK million)	Q2 2017	Q2 2016	30.06.2017	30.06.2016	31.12.2015
Net interest income	417	397	818	759	1 565
Net commission income	83	78	154	145	293
Net income from financial instruments	-5	85	9	64	224
Other operating income	3	11	7	16	28
Total net income	**498**	**571**	**988**	**984**	**2 110**
Total expenses	208	210	407	409	787
Profit before losses on loans	**290**	**361**	**581**	**575**	**1 323**
Losses on loans and guarantees	13	9	28	22	50
Profit before taxes	**277**	**352**	**553**	**553**	**1 273**
Tax expenses	62	75	128	126	284
Profit for the period	**215**	**277**	**425**	**427**	**989**
Income statement as % of average assets					
Net interest income	1,54 %	1,51 %	1,54 %	1,46 %	1,49 %
Net commission income	0,31 %	0,30 %	0,29 %	0,28 %	0,28 %
Net income from financial instruments	-0,02 %	0,32 %	0,02 %	0,12 %	0,21 %
Other operating income	0,01 %	0,04 %	0,01 %	0,03 %	0,03 %
Total net income	**1,84 %**	**2,17 %**	**1,86 %**	**1,90 %**	**2,01 %**
Total expenses	0,77 %	0,80 %	0,77 %	0,79 %	0,75 %
Profit before losses on loans	**1,07 %**	**1,37 %**	**1,09 %**	**1,11 %**	**1,26 %**
Losses on loans and guarantees	0,05 %	0,03 %	0,05 %	0,04 %	0,05 %
Profit before taxes	**1,02 %**	**1,34 %**	**1,04 %**	**1,07 %**	**1,21 %**
Tax expenses	0,23 %	0,29 %	0,24 %	0,24 %	0,27 %
Profit for the period	**0,80 %**	**1,05 %**	**0,80 %**	**0,82 %**	**0,94 %**
Average total assets	108 400	105 600	107 040	104 250	104 950
Balance sheet					
Total assets			110 907	106 617	105 455
Net loans to customers			94 649	90 175	90 928
Growth in loans as %, last 12 mths.			4,9 %	7,4 %	2,9 %
Customers deposits			55 695	51 227	51 562
Growth in deposits as %, last 12 mths.			8,7 %	3,0 %	6,6 %
Deposits as % of net loans			58,8 %	56,8 %	56,7 %
Equity			10 391	9 521	10 051
Losses on loans as % of net loans, annualised			0,06 %	0,05 %	0,05 %
Gross defaulted loans over 90 days as % of gross loans			0,29 %	0,42 %	0,30 %
Other key figures					
Cost as % of income	41,8 %	36,8 %	41,2 %	41,6 %	37,3 %
Cost as % of income, ex net income from financial instruments	41,4 %	43,2 %	41,6 %	44,5 %	41,7 %
Return on equity after tax	8,5 %	13,1 %	8,6 %	10,1 %	11,3 %
Liquidity reserve (LCR) (Group)			158 %	153 %	128 %
Common equity tier 1 capital ratio (added share of profit)			14,6 %	14,1 %	14,7 %
Tier 1 capital ratio			16,0 %	14,9 %	16,0 %
Total capital ratio			17,8 %	16,9 %	17,9 %
Common equity tier 1 capital			9 434	8 256	9 114
Tier 1 capital			10 309	9 081	9 939
Net total primary capital			11 490	10 259	11 121
Leverage ratio			9,0 %	7,5 %	8,6 %
Number of branches			34	36	34
Number of man-years in banking activity			430	432	439
Key figures, Equity certificates					
Equity certificate ratio, weighted average over the period	18,7 %	17,4 %	18,7 %	15,2 %	17,5 %
Number of equity certificates issued			15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2,1	2,5	4,0	3,2	8,5
Profit/diluted earnings per equity certificate (Group)	2,4	3,0	4,8	4,0	10,7
Dividend last year per equity certificate					6,0
Book equity per equity certificate			113,9	110,0	115,2
Price/Book value per equity certificate			0,9	0,6	0,8
Listed price on Oslo Stock Exchange at end of period *)			100,00	63,75	91,25

Unaudited

Report from the Board of Directors

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, Telemark and Rogaland.

Estate agency brokerage is carried out through the subsidiary Sørmegleren. 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 and car financing company.

Key features in Q2 2017

- Good results from ordinary operations
- Positive development in net interest income
- Increased commission income from the Group's real estate agency, Sørmegleren
- Negative net income from financial instruments because of a negative development in basis swaps and accounting expense after buyback of own debt
- Efficient operations and low costs
- Low loan losses
- Few defaults
- Loan growth of 4.9 percent during the last 12 months
- Deposit growth of 8.7 percent during the last 12 months
- Return on equity after tax of 8.5 percent
- Common equity tier 1 capital ratio of 14.6 percent and leverage ratio of 9.0 percent

Key features the 1st half of 2017

- Good results from ordinary operations
- Increased interest margins in the corporate market
- Increased commission income from the Group's real estate agency, Sørmegleren
- Lower net income from financial instruments
- Efficient operations and low costs
- Low loan losses
- Return on equity after tax of 8.6 percent

Financial framework conditions

Norges Bank has held the key interest rate at 0.50 percent in the first half of 2017, with no adjustments at the last meeting in June.

An extra financial tax of 5 percent on salaries was adopted in the national budget for 2017. The income tax of 25 percent remains unchanged.

The government has established a new mortgage regulation which sets guidelines for the customers' debt ratio and equity requirement, as well as a requirement for installments when a loan exceeds 60 percent of the collateral. Banks have the opportunity to exempt up to 10 percent of the bank's loan balance from these requirements.

The Ministry of Finance has decided to increase the requirement for a countercyclical capital buffer from 1.5 percent to 2.0 percent with effect from 31.12.2017. The intention is to make banks more robust. The increase is in line with the recommendation made by Norges Bank.

The Group has good access to funding, both domestic and abroad, through covered bonds and senior debt. Credit spreads have been reduced in Q2 2017.

The Annual growth in the general public's gross domestic debt (C2) was 5.7 percent at the end of June. Debt growth for households and businesses amounted to 6.6 percent and 4.0 percent respectively.

Income statement

Profit before tax was NOK 277 million in Q2 2017, compared with NOK 352 million in the same period in 2016. The Group has a solid profit before tax, a positive development in net interest income, low costs and low losses.

The decrease in profit from the same period in 2016 is primarily caused by a lower income from financial instruments.

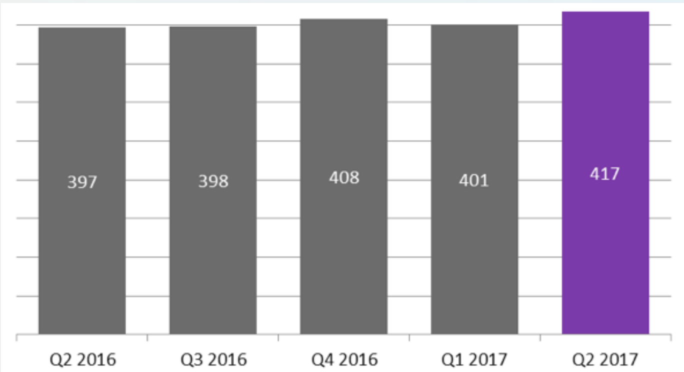
The return on equity after tax was 8.5 percent in Q2 2017, compared with 13.1 percent in Q2 2016. The Group is well-capitalized with a common equity tier 1 capital ratio of 14.6 percent and a leverage ratio of 9.0, when including 80 percent of accrued profit. There are good possibilities for future growth and the Group`s target is still a 9 percent return on equity. 80 percent of profit after tax has been included in common equity tier 1 capital.

Profit from ordinary operations (*) shows an increase of NOK 19 million in Q2 2017 compared with Q2 2016.

Profit before tax the first half of 2017 amounted to NOK 553 million, identical with the same period in 2016. The return on equity after tax was 8.6 percent in the first half of 2017, compared with 10.1 percent the same period last year. Profit from ordinary operations (*) in the first half of 2017 shows an increase of NOK 29 million, when compared with the first half of 2016.

Net interest income

Quarterly net interest in NOK million



Net interest income amounted to NOK 417 million in Q2 2017, compared with NOK 397 million in Q2 2016, which gave an increase of NOK 20 million.

The bank has changed its accounting principles from annual to periodic contributions to the Banks' Guarantee Fund. The cost amounted to NOK 10.7 million in Q2 2017, while NOK 37 million was posted in Q1 2016 for the whole of 2016.

Hybrid capital is reclassified as equity, and the related interest is therefore classified as surplus disposal. This amounted to NOK 15.2 in Q2 2017 and NOK 7.1 million in Q2 2016.

Adjusted for these two factors, net interest shows an increase of NOK 21 million in Q2 2017 when compared with Q2 2016. One important reason for this was increased deposit margins.

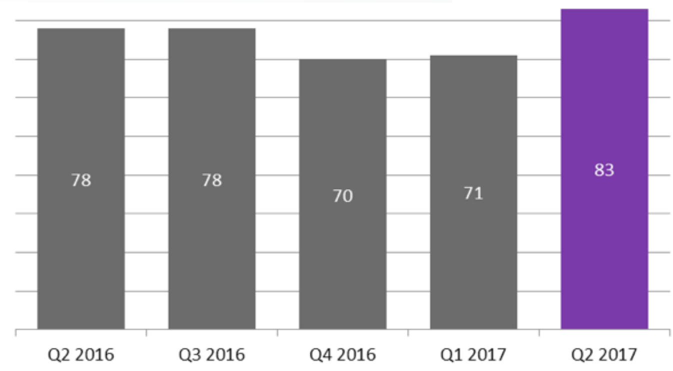
Net interest income amounted to NOK 818 million in the first half of 2017, compared with NOK 759 million in the first half of 2016. The bank has paid a total of NOK 25 million in interest on hybrid capital so far in 2017, compared with NOK 12 million in the same period in 2016. In addition, the fee to the Norwegian Banks' Guarantee Fund was posted as a whole in Q1 2016. Adjusted for the changes in accounting principles as commented above, net interest was NOK 27 million higher in the first half of 2017.

*) Net interest income (adjusted for accounting changes), net commission income, other income and costs (adjusted for the conversion of the pension scheme).
See appendix for calculations.

Report from the Board of Directors

Commission income

Quarterly net commission income in NOK million



Net commission income amounted to NOK 83 million in Q2 2017, compared with NOK 78 million in Q2 2016.

Gross commission income amounted to NOK 95 million in Q2 2017, compared with NOK 91 million in in Q2 2016. The increase is mainly due to increased commissions earned by Sørmegleren.

Commission income in the first half of 2017 amounted to NOK 179 million, compared with NOK 169 million in the first half of 2016.

NOK Million	Q2 2017	Q2 2016	Change	First half 2017	First half 2016	Change
Payment services	40	40	0	79	79	-
Real estate brokerage	34	30	4	58	48	10
Others	21	21	0	42	42	-
Total	**95**	**91**	**4**	**179**	**169**	**10**

Financial instruments

Net income from financial instruments amounted to NOK -5 million in Q2 2017, compared with NOK 85 million in the same period last year. The main reasons for the negative result in Q2 2017, were the development in basis swaps and the accounting losses after buyback of own debt.

The income is related to gains in the bond portfolio of NOK 6 million, gains and dividend on shares of NOK 16 million and gains on interest rate and currency derivatives of NOK 7 million in Q2 2017. Fixed-rate loans had a negative development in value of NOK 1 million, negative accounting effects linked to basis swaps amounted to NOK 13 million, and accounting losses after buy-back of own debt amounted to NOK 20 million.

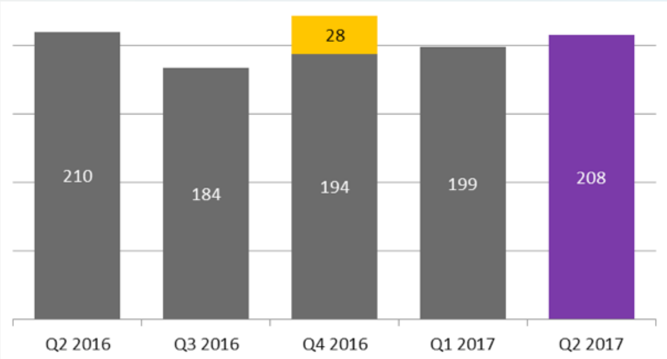
In the first half of 2017 net income from financial instruments amounted to NOK 9 million, compared with NOK 64 million in the same period in 2016.

Basis swaps are used to hedge fixed rate debt issued in Euro. The value of 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.

The Bank has made no value adjustments related to its ownership interests in Frende, Brage or Norne in Q2 2017, but has accounted for NOK 12 million in dividend from Frende.

Operating expenses

Quarterly operating expenses in NOK million



Total operating expenses amounted to NOK 208 million in Q2 2017, compared with NOK 210 million in the same period last year. The lower operating expense is mainly caused by a lower number of employees in the banking business. The new financial tax increased cost by NOK 3.8 million in Q2 2017. Operating expenses in Q4 2016 were significantly lower (NOK 28 million) as a result of conversion of the bank's collective defined benefit scheme.

Total operating expenses as a percentage of average assets amounted to 0.77 percent (0.80 percent) in Q2 2017. The cost-income ratio was 41.8 (36.8 percent) in the Group. The cost-income ratio, excl. financial instruments, was 41.4 percent (43.2 percent).

Operating expenses amounted to NOK 407 million in the first half of 2017, compared with NOK 409 million in the same period in 2016. The cost-income ratio was 41.2 percent (41.6 percent). When excluding financial instruments, the cost-income ratio was 41.6 percent (44.5 percent).

Losses and defaulted loans

Net losses on loans amount to NOK 13 million in Q2 2017, equivalent to 0.05 percent of net loans. The corresponding figures in 2016 were NOK 9 million and 0.04 percent of net loans.

The Group's individual write-downs as at 30 June 2017 amounted to NOK 400 million, equivalent to 0.42 percent of gross loans. The Group's collective write-downs as at 30 June 2017 amounted to NOK 210 million, equivalent to 0.22 percent of gross loans.

Gross non-performing loans amounted to NOK 281 million, which is 0.29 percent of gross loans. Gross non-performing loans are significantly lower than the first half of 2016, where as gross non-performing loans amounted to NOK 382 million, or 0.42 percent of gross loans.

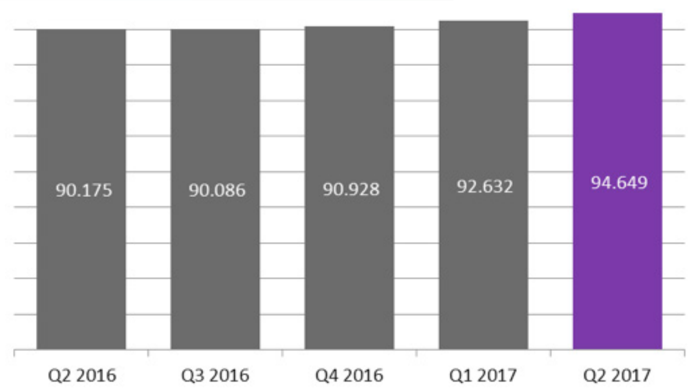
Other doubtful loans amounted to NOK 627 million. The corresponding figure in 2016 was NOK 595 million.

Net losses on loans amounted to NOK 28 million in the first half of 2017, amounting to 0.06 percent of net loans. The corresponding numbers for 2016 were NOK 22 million and 0.05 percent of net loans.

IFRS 9 – Financial instruments will replace IAS 39 – Financial instruments, recognition and measurement from 2018. There are significant changes in the impairment regulations in the new standard. Today's IAS 39 is based on an incurred loss model, while the upcoming IFRS 9 is based on an expected loss model. The bank has through 2016 and the first half of 2017 developed models to meet the new requirements. So far the banks calculations suggest no significant change in loss provisions under IFRS 9.

Loans

Loans in NOK million



During the past 12 months, net loans have increased by NOK 4.5 billion to a total of NOK 94.6 billion, a growth of 4.9 percent.

Gross loans to retail customers have increased by NOK 2.4 billion to NOK 61.9 billion, a growth of 4.1 percent.

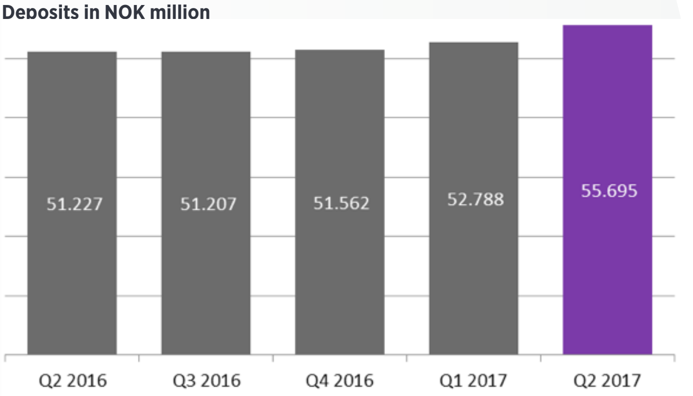
Gross loans to corporate customers have increased by NOK 2.0 billion over the last 12 months to NOK 33.2 billion, a growth of 6.6 percent.

The common equity tier 1 capital ratio at 2016 year end was 14.7 percent. The bank aims to achieve a growth in 2017 in excess of the credit growth in markets, in which the bank is represented.

Loans to retail customers amounted to 65 percent (66 percent) of total loans at the end of the first half of 2017.

Deposits

Deposits in NOK million



During the past 12 months, customer deposits have increased by NOK 4.5 billion to NOK 55.7 billion, a growth of 8.7 percent.

Deposits from retail customers have increased by NOK 0.7 billion to NOK 25.9 billion, a growth of 2.7 percent.

Deposits from corporate customers have increased by NOK 3.8 billion to NOK 29.6 billion, a growth of 14.8 percent.

Sparebanken Sør's deposits as a percentage of net loans was 58.8 percent as at 30 June 2017, up from 56.8 percent the same time last year.

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 issuance of covered bonds and senior debt. The Group has also arranged for long term financing from the international market through an established EMTN program.

Wholesale funding amounted to NOK 42.5 million at the end of Q2 2017, with 62 percent of the funding through covered bonds. Long-term financing amounted to 91 percent at the end of Q2 2017.

As at 30 June 2017, the portfolio of interest-bearing securities in the Group totalled NOK 13.3 billion, and the liquidity indicator for long-term financing was 110 percent.

The Group's liquidity coverage ratio (LCR) was 158 percent as at 30 June 2017 (146 percent in the parent bank).

Rating

Sparebanken Sør has an A1 rating from Moody's with negative outlook. The latest adjustment in rating outlook from "stable" to "negative" is a reaction to the introduction of the EU Bank Recovery and Resolution Directive (BRRD) for Norwegian banks and has been applied to five regional banks. All covered bonds issued by Sparebanken Sør Boligkreditt AS are rated by Moody's, and have a Aaa rating.

Primary capital and capital adequacy

Net primary capital amounted to NOK 11.5 billion. Hybrid capital amounted to NOK 0.9 billion and subordinated loans to NOK 1.2 billion. At the end of Q2 2017, the common equity tier 1(CET1) capital ratio was 14.6 percent (share of half-year profit included). The tier 1 capital ratio was 16.0 percent and the (total) capital ratio 17.8 percent, based on the Basel II regulations. Hence the Group has 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 percent for (total) capital.

As of Q1 2017 the Group has consolidated a proportion of its cooperative companies when calculating the capital ratio. For Sparebanken Sør, this applies for Brage Finance, where the bank has an ownership interest of more than 10 percent. The common equity tier 1 capital ratio, when including the Group's cooperative companies, amounts to 14.5 percent. The tier 1 capital ratio amounts to 15.8 percent and the (total) capital ratio amounts to 17.6 percent.

For the Parent Bank, the respective figures are a CET1 capital ratio of 15.2 percent, a tier 1 capital ratio of 16.7 percent and a (total) capital ratio of 18.8 percent at the end of Q2 2017.

The Groups leverage ratio was 9.0 percent at the end of Q2 2017, compared with 7.5 percent at the end of Q2 2016. With respect to the Leverage Ratio, the Group's capital is considered very satisfactory.

An important part of the bank's ambition is to achieve a CET1 capital ratio at least level with comparable banks. Of the largest regional banks, Sparebanken Sør is the only bank using the standard method in the capital adequacy calculations. If the bank had made its calculations based on the IRB-method this would have given a significantly higher CET1 capital ratio.

The Ministry of Finance decided in December 2016 to increase the countercyclical capital buffer from 1.5 to 2.0 percent with effect from 31.12.2017. This implies that the requirement for common equity tier 1 capital, including the pillar 2 addition of 2.1 percent, increases to 14.1 percent. Further adaptation of the buffer beyond this level will depend on market expectations and the Financial Supervisory Authority's response to the banks Internal Capital Adequacy Assessment Process (ICAAP).

The bank's equity certificates

As at 30 June 2017, 15 663 944 equity certificates have been issued. The profit (Group) per equity certificate was NOK 2.4 in Q2 2017. The ownership ratio in Q2 2017 was 18.7 percent. Hybrid capital classified as equity has been excluded when calculating the ownership ratio.

Report from the Board of Directors

Dividend

Sparebanken Sør will 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.

Subsidiaries and cooperative 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 2017, the bank had transferred NOK 29.7 billion to Sparebanken Sør Boligkreditt AS, equivalent to 47.6 percent of all loans to the retail market.

Sørmegleren is the bank's own real estate agency and the leading estate agency business in the Agder counties. The company has a positive profit development and has also established new offices in Skien and Porsgrunn in 2017.

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 and corporate customers. The company has had strong growth in the customer base and premiums within both general and life insurance, together with positive profit-development.

Brage Finans (15% 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 its trend to develop and deliver profitable growth.

Norne Securities (17.6% ownership interest) is an brokerage firm that provides online trading, traditional brokerage and corporate finance services. The company has had a positive development in profit.

Balder Betaling (22. % ownership interest) is a newly established company and is owned by Sparebanken Sør together with 14 other banks in the Frende collaboration. The company has a 12 percent ownership interest in Vipps AS, and the company's task is to further develop Vipps (Norwegian mobile wallet) together with the other shareholders.

Outlook

The Board of Directors is satisfied with the financial performance after Q2 2017. The bank has had a good development in profit from ordinary operations through increased net interest income, increased commission income, good cost control and low losses.

After a weak growth in GDP over recent years, growth in the Norwegian economy has picked up. The weak NOK exchange rate, low interest rates and an expansionary fiscal policy have generated positive growth impulses and contributed to a higher export growth, a reduced fall in oil investments, a lower unemployment and increased private consumption.

House prices in the bank's main market experienced moderate growth over several years. Statistics for the first half of 2017 show flatter growth in house prices, with a negative development in some regions. Particularly in Oslo there has been a shift in the market, with falling house prices in May and June.

Norges Bank kept its key interest rate unchanged at the last interest rate meeting and their analysis implies a key interest rate that will remain close to current levels for a longer period of time.

The capital requirement on Group level for common equity tier 1 capital, including a pillar 2 addition of 2.1 percent, is 13.6 percent. The Financial Supervisory expects the Group to have a total common equity tier 1 capital ratio of 14.5 percent. The Ministry of Finance decided in December 2016 to increase the requirement for countercyclical capital buffers from 1.5 percent to 2.0 percent with effect from 31 December 2017. The Group aims to achieve a common equity tier 1 capital ratio of 14.5 percent and adjustments of the buffer beyond this level will depend on market expectations and the Financial Supervisory Authoritys' response to the banks ICAAP.

The Group expects a growth higher than the credit growth in 2017. The Group has a goal of a return on equity of 9 percent.

Based on the bank's loan portfolio composition, economic trends, historical figures and local market conditions, the net losses in 2017 is expected to be low.

In February 2017, the Group collaborated with more than 100 other savings banks and DNB to establish a common mobile wallet under the brand Vipps. This is a collaboration we believe that this colaboration will provide the best and easiest payment solution for our customers, and strengthens the bank's competitiveness on mobile solutions in the future.

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

Events since the end of the quarter

There have been no recorded incidents since 30 June 2017 that affect the quarterly accounts.

Arendal, 15 August 2017

Stein A. Hannevik
Chairman

Torstein Moland
Deputy chairman

Inger Johansen

Erling Holm

Marit Kittilsen

Tone Thorvaldsen Vareberg

Jan Erling Tobiassen
Employee representative

Gunnhild T. Golid
Employee representative

Geir Bergskaug
CEO

Income statement

PARENT BANK					NOK million		GROUP				
31.12.	**30.06.**	**30.06.**	**Q2**	**Q2**			**Q2**	**Q2**	**30.06.**	**30.06.**	**31.12.**
2016	**2016**	**2017**	**2016**	**2017**		**Notes**	**2017**	**2016**	**2017**	**2016**	**2016**
2 194	1 099	1 104	541	555	Interest income		742	732	1 472	1 466	2 928
963	513	446	232	224	Interest expenses		325	335	654	707	1 363
1 231	**586**	**658**	**309**	**331**	**Net interest income**		**417**	**397**	**818**	**759**	**1 565**
309	150	152	77	78	Commission income		95	91	179	169	345
52	24	24	13	12	Commission expenses		12	13	25	24	52
257	**126**	**128**	**64**	**66**	**Net commission income**		**83**	**78**	**154**	**145**	**293**
22	21	23	21	22	Dividend		14	9	15	9	10
228	74	36	81	14	Net income from other financial instruments		-19	76	-6	55	214
250	**95**	**59**	**102**	**36**	**Net income from financial instruments**		**-5**	**85**	**9**	**64**	**224**
29	16	7	11	3	Other operating income		3	11	7	16	28
1 767	**823**	**852**	**486**	**436**	**Total net income**		**498**	**571**	**988**	**984**	**2 110**
359	186	179	96	94	Wages and other personal expenses		116	116	221	222	425
34	14	14	7	7	Depreciation and write-down of fixed and intangible assets		7	7	14	14	36
310	162	161	80	79	Other operating expenses		85	87	172	173	326
703	**362**	**354**	**183**	**180**	**Total operating expenses**		**208**	**210**	**407**	**409**	**787**
1 064	**461**	**498**	**303**	**256**	**Profit before losses on loans**		**290**	**361**	**581**	**575**	**1 323**
50	22	28	10	13	Losses on loans and guarantees	2	13	9	28	22	50
1 014	**439**	**470**	**293**	**243**	**Profit before taxes**	**7**	**277**	**352**	**553**	**553**	**1 273**
216	95	106	58	52	Tax expenses	12	62	75	128	126	284
798	**344**	**364**	**235**	**191**	**Profit for the period**		**215**	**277**	**425**	**427**	**989**
					Minority interests						1
798	**344**	**364**	**235**	**191**	**Majority interests**		**215**	**277**	**425**	**427**	**988**
8,5	3,2	4,0	2,5	2,1	Profit/diluted earnings per equity certificate (in whole NOK)		2,4	3,0	4,8	4,0	10,7
					Other comprehensive income						
798	**344**	**364**	**235**	**191**	**Profit for the period**		**215**	**277**	**425**	**427**	**989**
					Items that will not be reclassified to profit and loss account						
15					Recognised estimate deviation, pensions						15
-3					Tax effect of recognised estimate deviation, pensions						-3
810	**344**	**364**	**235**	**191**	**Sum totalresultat for perioden**		**215**	**277**	**425**	**427**	**1 001**

PARENT BANK			NOK million		GROUP		
31.12.	**30.06.**	**30.06.**			**30.06.**	**30.06.**	**31.12.**
2016	**2016**	**2017**	**ASSETS**	**Notes**	**2017**	**2016**	**2016**
797	1 307	1 011	Cash and receivables from central banks		1 011	1 307	797
2 211	1 835	2 170	Loans to credit institutions		164	197	156
62 869	61 614	64 988	Net loans to customers	2,3,5,7,8	94 649	90 175	90 928
10 957	12 747	12 480	Bonds and certificates	8	13 290	12 897	11 815
542	470	554	Shares	8	554	470	542
453	738	368	Financial derivatives	8,9	549	921	604
1 259	1 259	1 258	Shareholdings in group companies				
9	13	11	Shareholdings in associated companies		11	13	9
18	16	21	Intangible assets		24	19	21
			Deferred tax assets				
417	444	420	Fixed assets		466	471	472
58	77	98	Other assets		189	147	111
79 590	**80 520**	**83 379**	**TOTAL ASSETS**	**7,8**	**110 907**	**106 617**	**105 455**
			LIABILITIES AND EQUITY CAPITAL				
232	648	231	Debts to credit institutions		145	596	178
51 577	51 243	55 697	Deposits from customers	4,7,8	55 695	51 227	51 562
16 584	17 759	16 018	Debt incurred due to issue of securities	8,10	42 519	42 920	41 217
366	434	305	Financial derivatives	8,9	350	515	616
195	154	151	Payable taxes		166	187	269
222	252	274	Other liabilities		334	306	258
77	142	74	Provisions for commitments		74	142	77
36	9	47	Deferred tax		30		24
1 203	1 203	1 203	Subordinated loan capital	8,10	1 203	1 203	1 203
70 492	**71 844**	**74 000**	**Total liabilities**		**100 516**	**97 096**	**95 404**
1 531	1 491	1 531	Equity certificate capital	11	1 531	1 491	1 531
825	825	875	Hybrid capital		875	825	825
6 742	6 360	6 973	Other equity		7 985	7 205	7 695
9 098	**8 676**	**9 379**	**Total equity capital**	**6**	**10 391**	**9 521**	**10 051**
79 590	**80 520**	**83 379**	**TOTAL LIABILITIES AND EQUITY CAPITAL**	**7,8**	**110 907**	**106 617**	**105 455**

Cash flow statement

PARENT BANK			NOK million	GROUP		
31.12. 2016	**30.06. 2016**	**30.06. 2017**		**30.06. 2017**	**30.06. 2016**	**31.12. 2016**
2 249	1 203	1 210	Interest payment received	1 600	1 585	2 972
-1 005	-637	-578	Interest payment made	-810	-840	-1 417
330	227	156	Other payments received	153	233	371
-719	-367	-352	Operating payments	-403	-434	-800
14	3	4	Established on confirmed losses	4	3	14
-138	-80	-139	Period tax paid	-225	-174	-237
-33	-12	-14	Gifts paid	-14	-12	-33
3 201	2 866	4 120	Change in customers deposits	4 133	2 878	3 214
-304	1 109	-2 185	Change in loans to customers	-3 788	-1 811	-2 719
3 595	**4 312**	**2 222**	**Net cash flow from operational activities**	**650**	**1 428**	**1 365**
10 155	3 635	4 572	Payments made regarding securities	4 671	3 735	10 519
-10 567	-5 887	-6 070	Payments received regarding sale of fixed assets	-6 120	-6 036	-11 688
13		14	Payments made regarding purchase of fixed assets	23	14	27
-30	-12	-19	Change in other assets	-19	-12	-59
337	-207	-1	Net income from investing activites	-81	-276	337
-92	**-2 471**	**-1 504**	**Net income from investing activites**	**-1 526**	**-2 575**	**-864**
-194	182	41	Change in loans to credit institutions	-8	-39	1
-393	22	-1	Change in deposits from credit institutions	-33	20	-397
300		1 550	Payments received, bond debt	7 728	4 760	9 560
-3 311	-2 014	-2 005	Payments made, bond debt	-6 603	-3 607	-9 774
-76	-55	-119	Payments made, dividend and interest hybrid capital	-119	-55	-76
314	314	250	Issuance of hybrid capital	250	314	314
		-200	Buy back of hybrid capital	-200		
582	584		Issuance of ECs		584	582
-260	101	-20	Change in other liabilities	75	145	-246
-3 038	**-866**	**-504**	**Net cash flow from financing activities**	**1 090**	**2 122**	**-36**
465	**975**	**214**	**Net change in liqiud assets**	**214**	**975**	**465**
332	332	797	Cash and cash equivalents as at 01.01	797	332	332
797	**1 307**	**1 011**	**Cash and cash equivalents at end of period**	**1 011**	**1 307**	**797**

Unaudited

GROUP NOK million	Equity certificates	Premium fund	Dividend equalization-fund	Hybrid capital	Primary capital	Gift fund	Other equity	Minority interests	TOTAL
Balance 31.12.2015	**474**	**175**	**256**	**510**	**6 002**	**41**	**803**	**2**	**8263**
Dividend distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	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 as at 30 June 2016				12			415		427
Allocated gift fund						-13			-13
Balance 30.06.2016	**783**	**453**	**255**	**825**	**6 000**	**28**	**1 175**	**2**	**9 521**
Interest on hybrid capital				-21					-21
Cost related to EC issuance		-2							-2
Profit 1 July -31 Dec. 2016			40	21	596	35	-131	1	562
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-21			-21
Balance 31.12.2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**1 044**	**3**	**10 051**
Dividend distributed for 2016							-94	-2	-96
Issuance of ECs				250	-1				249
Buyback of hybrid capital				-200					-200
Interest on hybrid capital				-25					-25
Profit as at 30 June 2017				25			400		425
Allocated gift fund						-13			-13
Balanse 30.06.2017	**783**	**451**	**297**	**875**	**6 605**	**29**	**1 350**	**1**	**10 391**
PARENT BANK									
Balance 31.12.2015	**474**	**175**	**256**	**510**	**6 002**	**41**	**43**		**7 501**
Dividend distributed for 2015							-43		-43
Capital reduction	-239	239							0
Issuance of ECs	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 as at 30 June 2016				12			332		344
Allocated gift fund						-13			-13
Balance 30.06.2016	**783**	**453**	**255**	**825**	**6 000**	**28**	**332**	**0**	**8 676**
Interest on hybrid capital				-21					-21
Cost related to EC issuance		-2							-2
Profit 1 July -31 Dec. 2016			40	21	596	35	-238		454
Recognised estimate deviations, pension			3		12				15
Tax effect estimate deviations, pension			-1		-2				-3
Allocated gift fund						-21			-21
Balance 31.12.2016	**783**	**451**	**297**	**825**	**6 606**	**42**	**94**	**0**	**9 098**
Dividend distributed for 2016							-94		-94
Issuance of ECs				250	-1				249
Buyback of hybrid capital				-200					-200
Interest on hybrid capital				-25					-25
Profit as at 30 June 2017				25			339		364
Allocated gift fund						-13			-13
Balance 30.06.2017	**783**	**451**	**297**	**875**	**6 605**	**29**	**339**	**0**	**9 379**

Notes

1. ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with the International Standards for Financial Reporting (IFRS), including IAS 34. The applied accounting principles are the same as used in the 2016 annual financial statements.

The bank has changed its accounting principles regarding the fee to the Banks' Guarantee Fund in 2017. According to its own regulations, the determination of the fee is based on the average calculation basis for previous quarters. The new principle has been adopted as a result of the implementation of a new regulation for withdrawal from the Banks' Guarantee Fund. The regulatory amendment gives the right to a proportionate deduction in the fee on exit and the banks will therefore accrue the tax under IFRIC 21. Comparative figures have not been restated, and in the first quarter of 2016 the tax was expensed as a whole by NOK 37 million.

There are no new standards applicable for 2017 that have significant effects on the financial statements.

2. LOSSES ON LOANS AND GUARANTEES

PARENT BANK			NOK million	GROUP		
31.12.16	**30.06.16**	**30.06.17**	**Individual write-downs**	**30.06.17**	**30.06.16**	**31.12.16**
517	517	385	Individual write-downs at start of period	385	517	517
159	109	14	- Period's confirmed loss where individual write-down has been performed previously	14	109	159
74	65	15	+ Increased individual write-downs during the period	15	65	74
85	24	24	+ New individual write-downs during the period	24	24	85
132	85	10	- Reversal of individual write-downs during the period	10	85	132
385	**412**	**400**	**= Individual write-downs at end of period**	**400**	**412**	**385**

PARENT BANK				GROUP		
31.12.16	**30.06.16**	**30.06.17**	**Collective write-downs on loans**	**30.06.17**	**30.06.16**	**31.12.16**
200	200	204	Collective write-downs of loans at start of period	210	206	206
4	4	0	+ Change in collective write-downs during the period	0	4	4
204	**204**	**204**	**= Collective write-downs of loans at end of period**	**210**	**210**	**210**

PARENT BANK				GROUP		
31.12.16	**30.06.16**	**30.06.17**	**Loss expense on loans during the period**	**30.06.17**	**30.06.16**	**31.12.16**
-132	-105	15	Change in individual write downs during the period	15	-105	-132
4	4	0	+ Change in collective write-downs during the period	0	4	4
159	109	14	+ Period's confirmed loss where individual write-downs has been performed previously	14	109	159
43	10	2	+ Period's confirmed loss where no individual write-downs has been performed previously	2	10	43
-11	4	2	+ Recognised as interest income	2	4	-11
14	3	4	- Period's recoveries relating to previous losses	4	3	14
1	3	-1	+Change in write downs on guaranties	-1	3	1
50	**22**	**28**	**= Loss expenses during the period**	**28**	**22**	**50**

3. DEFAULTED AND DOUBTFUL LOANS

PARENT BANK			NOK million	GROUP		
31.12.16	**30.06.16**	**30.06.17**		**30.06.17**	**30.06.16**	**31.12.16**
275	382	281	Gross non-performing loans	281	382	276
89	129	78	Individual write-downs	78	129	89
186	**253**	**203**	**Net non-performing loans**	**203**	**253**	**187**
0,43 %	**0,61 %**	**0,43 %**	**Gross non-performing loans in % of gross loans**	**0,29 %**	**0,42 %**	**0,30 %**
634	595	627	Other doubtful loans	627	595	634
296	275	322	Individual loss-provisions	322	275	296
338	**320**	**305**	**Net doubtful loans**	**305**	**320**	**338**

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		
31.12.16	**30.06.16**	**30.06.17**		**30.06.17**	**30.06.16**	**31.12.16**
24 984	25 237	25 912	Retail customers	25 913	25 237	24 983
7 597	7 389	9 283	Public administration	9 283	7 384	7 597
495	584	871	Primary industry	871	584	495
1 523	1 503	1 336	Manufacturing industry	1 336	1 502	1 523
462	432	435	Real estate development	430	432	462
1 043	870	897	Building and construction industry	897	870	1 043
2 394	2 436	2 513	Property management	2 514	2 435	2 394
875	836	720	Transport	720	835	875
953	803	840	Retail trade	840	803	940
161	145	128	Hotel and restaurant	128	145	161
260	237	268	Housing cooperatives	268	236	260
5 346	4 922	5 321	Financial/commercial services	5 321	4 919	5 346
5 477	5 622	6 968	Social services	6 969	5 618	5 477
7	227	204	Accrued interests	204	227	7
51 577	**51 243**	**55 697**	**Total deposits from customers**	**55 695**	**51 227**	**51 562**

The Group changed the industry classification for deposits and loans in Q3 2016. The new classification corresponds with what the Group uses internally. Comparable numbers are updated with the new classification.

5. LOANS TO CUSTOMERS BROKEN DOWN PER SECTOR AND INDUSTRY

PARENT BANK			NOK million	GROUP		
31.12.16	**30.06.16**	**30.06.17**		**30.06.17**	**30.06.16**	**31.12.16**
31 789	31 078	32 204	Retail customers	61 910	59 497	59 861
334	624	388	Public administration	388	624	334
798	729	833	Primary industry	833	741	801
899	984	839	Manufacturing industry	839	986	899
3 399	3 129	3 538	Real estate development	3 477	3 125	3 396
1 421	1 299	1 393	Building and construction industry	1 393	1 338	1 427
15 645	16 062	16 747	Property management	16 744	16 051	15 629
565	533	613	Transport	612	541	570
1 023	1 046	1 009	Retail trade	1 009	1 056	985
371	378	336	Hotel and restaurant	336	381	372
898	850	1 062	Housing cooperatives	1 061	849	897
2 217	1 695	2 283	Financial/commercial services	2 282	1 730	2 221
3 970	3 700	4 223	Social services	4 222	3 731	3 977
129	124	125	Accrued interests	151	148	155
63 458	**62 230**	**65 592**	**Total gross loans**	**95 258**	**90 798**	**91 523**
589	616	604	Write-downs on lending	610	622	595
62 869	**61 614**	**64 988**	**Total net loans**	**94 649**	**90 175**	**90 928**

The Group changed the industry classification for deposits and loans in Q3 2016. The new classification corresponds with what the Group uses internally. Comparable numbers are updated with the new classification.

6. PRIMARY CAPITAL AND CAPITAL ADEQUACY

PARENT BANK			NOK million	GROUP		
31.12.16	**30.06.16**	**30.06.17**		**30.06.17**	**30.06.16**	**31.12.16**
783	783	783	Equity certificates	783	783	783
451	452	451	Premium fund	451	452	451
297	255	297	Dividend equalization fund	297	255	297
6 606	6 001	6 605	Primary capital	6 605	6 001	6 606
42	28	29	Gift fund	29	28	42
94			Other equity	950	753	1 047
		469	Half-year profit before tax	553		
-94		-191	- Deduction of dividends uncluded under other equity	-213		-94
-18	-16	-21	- Deduction for intangible assets and deferred tax assets	-21	-16	-18
8 160	**7 503**	**8 422**	**Total common equity tier 1 capital**	**9 434**	**8 256**	**9 114**
825	825	875	Hybrid capital	875	825	825
			- Deduction for intangible assets and deferred tax assets			
8 985	**8 328**	**9 297**	**Total tier 1 capital**	**10 309**	**9 081**	**9 939**
			Additional capital over core capital:			
1 204	1 200	1 203	Subordinated loan capital	1 203	1 200	1 204
1 204	**1 200**	**1 203**	**Total additional tier 1 capital**	**1 203**	**1 200**	**1 204**
-22	-22	-22	- Deduction from core and additional capital	-22	-22	-22
10 167	**9 506**	**10 478**	**Net primary capital**	**11 490**	**10 259**	**11 121**
			Minimum requirement for subordinated capital Basel II calculated according to the standard method:			
7	14	5	Engagements with local and regional authorities	5	14	7
59	61	40	Engagements with institutions	19	43	36
197	188	162	Engagements with enterprises	164	189	198
455	419	475	Engagement with mass market	475	419	473
2 881	2 792	2 993	Engagement secured in property	3 946	3 660	3 728
50	53	51	Engagement which have fallen due	51	53	50
0	0	0	Engagement which are high risk	0	0	0
260	272	282	Engagement in covered bonds	76	70	67
144	138	144	Engagement in collective investment funds	45	38	44
48	62	48	Engagement, other	48	62	48
4 101	**3 999**	**4 200**	**Capital requirements for credit- and counterparty risk**	**4 829**	**4 548**	**4 651**
5	**4**	**6**	**Capital requirements for position-, currency- and product risk**	**6**	**4**	**5**
198	**197**	**219**	**Capital requirements for operational risk**	**280**	**259**	**259**
26	**27**	**22**	**CVA addition**	**55**	**50**	**45**
0	**0**	**0**	**Deduction from the capital requirement**	**0**	**0**	**0**
4 330	**4 227**	**4 447**	**Total minimum requirement for primary capital**	**5 170**	**4 861**	**4 960**
54 125	52 835	55 588	Risk-weighted balance (calculation basis)	64 625	60 763	62 000
15,1 %	14,2 %	15,2 %	Common equity tier 1 capital ratio, %	14,6 %	13,6 %	14,7 %
16,6 %	15,8 %	16,7 %	Tier 1 capital ratio, %	16,0 %	14,9 %	16,0 %
18,8 %	18,0 %	18,8 %	Total capital ratio, %	17,8 %	16,9 %	17,9 %
8,00 %	7,05 %	8,2 %	Leverage ratio	9,0 %	7,54 %	8,61 %

7. SEGMENT REPORTING

Report per segment Income statement (NOK millon)	Group 30.06.2017 RM	CM	Undistrib. and elimin.	Total	Group 30.06.2016 RM	CM	Undistrib. and elimin.	Total
Net interest and commision income	492	325	0	818	489	306	-36	759
Net other operating income	85	33	52	170	86	31	108	225
Operating expenses	183	44	180	407	185	44	180	409
Profit before losses per segment	**395**	**314**	**-128**	**581**	**390**	**293**	**-108**	**575**
Losses on loans and guarantees	1	27	0	28	3	16	4	22
Profit before tax per segment	**393**	**287**	**-128**	**553**	**387**	**277**	**-111**	**553**
Net loans to customers	62 410	32 306	-67	94 649	59 514	30 575	86	90 175
Other assets			16 258	16 258			16 442	16 442
Total assets per segment	**62 410**	**32 306**	**16 191**	**110 907**	**59 514**	**30 575**	**16 528**	**106 617**
Deposits from customers	27 746	22 396	5 553	55 695	26 957	20 220	4 050	51 227
Other liabilities	34 665	9 909	247	44 821	32 557	10 355	2 957	45 869
Total liabilities per segment	**62 410**	**32 306**	**5 800**	**100 516**	**59 514**	**30 575**	**7 007**	**97 096**
Equity			10 391	10 391			9 521	9 521
Total liabilities and equity per segment	**62 410**	**32 306**	**16 191**	**110 907**	**59 514**	**30 575**	**16 528**	**106 617**

8. FAIR VALUES OF FINANCIAL INSTRUMENTS

Classification of financial instruments
Financial instruments are classified at different levels.

Level 1:
Level 1 is composed of 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:
Level 2 is composed of 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:
Level 3 is composed of Instruments that 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 2016 annual financial statements.

Notes

PARENT BANK				NOK million	GROUP			
Recognized		**Fair value**		**30.06.2017**	**Recognized**		**Fair value**	
value	**Level 1**	**Level 2**	**Level 3**		**value**	**Level 1**	**Level 2**	**Level 3**
				Assets recognized at amortised cost				
1 011		1 011		Cash and receivables from central banks	1 011		1 011	
2 170		2 170		Loans to credit institutions	164		164	
57 943			57 943	Net loans to customers (floating interest rate)	87 604			87 604
				Assets recognized at fair value				
7 045			7 045	Net loans to customers (fixed interest rate)	7 045			7 045
12 480		12 480		Bonds and certificates	13 290		13 290	
554	37		517	Shares	554	37		517
368		368		Financial derivatives	549		549	
81 571	**37**	**16 029**	**65 505**	**Total financial assets**	**110 217**	**37**	**15 014**	**95 166**
				Liabilities recognized at amortised cost				
231		231		Debt to credit institutions	145		145	
54 697			54 697	Deposit from customers	55 695			55 695
16 018		16 130		Debt incurred due to issue of securities	42 519		42 802	
1 203		1 214		Subordinated loan capital	1 203		1 214	
				Liabilities recognized at fair value				
305		305		Financial derivatives	350		350	
72 454	**0**	**17 880**	**54 697**	**Total financial liabilities**	**99 912**	**0**	**44 511**	**55 695**

PARENT BANK				NOK million	GROUP			
Recognized		**Fair value**		**31.12.2016**	**Recognized**		**Fair value**	
value	**Level 1**	**Level 2**	**Level 3**		**value**	**Level 1**	**Level 2**	**Level 3**
				Assets recognized at amortized cost				
797		797		Cash and receivables from central banks	797		797	
2 211		2 211		Loans to credit institutions	156		156	
55 355			55 355	Net loans to customers (floating interest rate)	83 414			83 414
				Assets recognized at fair value				
7 514			7 514	Net loans to customers (fixed 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 recognized 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 recognized 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				NOK million	GROUP			
Recognized		**Fair value**		**30.06.2016**	**Recognized**		**Fair value**	
value	**Level 1**	**Level 2**	**Level 3**		**value**	**Level 1**	**Level 2**	**Level 3**
				Assets recognized at amortized 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		43 182	
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**	**45 457**	**51 227**

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 01.01.2016	**8 290**	**-62**	**464**	**0**
Acquisitions Q1 and Q2 2016	244			
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	2	5	10	0
Disposals Q1 and Q2 2016	-528		-27	
Recognized value as at 30.06.2016	**8 008**	**-57**	**447**	**0**
Acquisitions Q3 and Q4 2016	400		16	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-124	43	45	0
Disposals Q3 and Q4 2016	-770		0	
Recognized value as at 31.12.2016	**7 514**	**-14**	**509**	**0**
Acquisitions Q1 and Q2 2017	176		22	
Of which, transferred from level 1 or 2	0			
Change in value recognized during the period	-9	-6	1	0
Disposals Q1 and Q2 2017	-636		-15	
Recognized value as at 30.06.2017	**7 045**	**-20**	**517**	**0**

Sensitivity analysis

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

GROUP / PARENT BANK

NOK million	30.06.2017	30.06.2016	31.12.2016
Loan o customers	19	24	22
- of which, loans to corporate market (CM)	5	7	6
- of which, loans to retail market (RM)	14	17	16

9. OFFSETTING

GROUP

NOK million	30.06.2017	30.06.2017 (1) Net presented	30.06.2016	30.06.2016 (1) Net presented	31.12.2016	31.12.2016 (1) Net presented
Assets						
Financial derivaties	549	282	921	758	604	297
Liabilities						
Financial derivaties	350	83	515	353	616	309

PARENT BANK

NOK million	30.06.2017	30.06.2017 (1) Net presented	30.06.2016	30.06.2016 (1) Net presented	31.12.2016	31.12.2016 (1) Net presented
Liabilities						
Financial derivaties	368	165	738	575	453	159
Liabilities						
Financial derivaties	305	102	434	271	366	73

(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	30.06.2017	30.06.2016	31.12.2016
Bonds, nominal value	15 749	17 201	16 204
Value adjustments	165	402	192
Accrued interest	104	156	188
Debt incurred due to issue of securities	**16 018**	**17 759**	**16 584**

Change in debt securities – Parent bank

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	30.06.2017
Bonds, nominal value	16 204	1 550	-2 005		15 749
Value adjustments	192			-27	165
Accrued interest	188			-84	104
Debt incurred due to issue of securities	**16 584**	**1 550**	**-2 005**	**-111**	**16 018**

Debt securities - Group

NOK million	30.06.2017	30.06.2016	31.12.2016
Bonds, nominal value	42 179	42 276	40 922
Value adjustments	201	456	42
Accrued interest	139	188	253
Debt incurred due to issue of securities	**42 519**	**42 920**	**41 217**

Change in debt securities - Group

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	30.06.2017
Bonds, nominal value	40 922	7 728	-6 603	132	42 179
Value adjustments	42			159	201
Accrued interest	253			-114	139
Debt incurred due to issue of securities	**41 217**	**7 728**	**-6 603**	**177**	**42 519**

Change in subordinated loan capital and hybrid capital – Parent bank and Group

NOK million	31.12.2016	Issued	Matured/ Redeemed	Other changes during the period	30.06.2017
Subordinated loans	1 200				1 200
Accrued interest	3				3
Total subordinated loan capital	**1 203**	**0**	**0**	**0**	**1 203**

11. EQUITY CERTIFICATE OWNERS

The twenty largest equity certificate owners as at 30 June 2017.

	NAME	NUMBER OF EC	SHARE OF EC-CAP. %		NAME	NUMBER OF EC	SHARE OF EC-CAP. %
1.	Sparebankstiftelsen Sparebanken Sør	8 090 325	51,65	11.	Allumgården AS	151 092	0,96
2.	Bergen Kom. Pensjonskasse	500 000	3,19	12.	Otterlei Group AS	140 000	0,89
3.	Arendal Kom. pensjonskasse	450 000	2,87	13.	Ottersland AS	100 000	0,64
4.	Holta Invest AS	444 410	2,84	14.	Wenaas Kapital AS	100 000	0,64
5.	Pareto AS	417 309	2,66	15.	Landkreditt Utbytte	100 000	0,64
6.	Glastad Invest AS	387 467	2,47	16.	MP Pensjon PK	85 523	0,55
7.	Merrill Lynch	329 080	2,10	17.	Artel Holding A/S	82 131	0,52
8.	EIKA utbytte VPF c/o Eika kapitalforv.	317 808	2,03	18.	Profond AS	77 115	0,49
9.	Wenaasgruppen AS	186 000	1,19	19.	Apriori Holding AS	72 575	0,46
10.	Gumpen Bileiendom AS	154 209	0,98	20.	Varodd AS	70 520	0,45
Total - 10 largest owners		**11 276 608**	**71,98**	**Total - 20 largest owners**		**12 255 564**	**78,22**

The weighted average ownership ratio as at 1 January 2017 was 18.7 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 2017, 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 and Capital management

Risk management ensures that the Group's risk exposure is known at any time and is instrumental in helping the Group to achieve its strategic objectives, and also compliance with legal 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

One of the key risk factors linked to Sparebanken Sør's operations is credit risk. Credit risk is defined as the risk of loss due to customers or counterparties failing to meet their obligations. 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. It 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.

NOK million	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Net interest income	417	401	408	398	397
Net commission income	83	71	70	78	78
Net income from financial instruments	-5	14	67	93	85
Other operating income	3	4	8	4	11
Total net income	**498**	**490**	**553**	**573**	**571**
Total operating expenses	208	199	194	184	210
Profit before losses	**290**	**291**	**359**	**389**	**361**
Losses on loans and guarantees	13	15	15	13	9
Profit before taxes	**277**	**276**	**344**	**376**	**352**
Tax expenses	62	66	73	85	75
Profit for the period	**215**	**210**	**271**	**291**	**277**

% of average assets					
Net interest income	1,54	1,54	1,54	1,50	1,51
Net commission income	0,31	0,27	0,26	0,29	0,30
Net income from financial instruments	-0,02	0,05	0,25	0,35	0,32
Other operating income	0,01	0,02	0,03	0,02	0,04
Total net income	**1,84**	**1,88**	**2,08**	**2,15**	**2,17**
Total operating expenses	0,77	0,76	0,73	0,69	0,80
Profit before losses	**1,07**	**1,12**	**1,35**	**1,46**	**1,37**
Losses on loans and guarantees	0,05	0,06	0,06	0,05	0,03
Profit before taxes	**1,02**	**1,06**	**1,29**	**1,41**	**1,34**
Tax expenses	0,23	0,25	0,27	0,32	0,28
Profit for the period	**0,80**	**0,81**	**1,02**	**1,09**	**1,05**
Average total assets	108 400	105 680	105 400	105 900	105 600
Balance sheet					
Total assets	110 907	105 895	105 455	105 248	106 617
Net loans to customers	94 649	92 632	90 928	90 086	90 175
Growth in loans as %, last 12 mths.	4,9 %	3,8 %	2,9 %	5,5 %	7,4 %
Customers deposits	55 695	52 788	51 562	51 207	51 227
Growth in deposits as %, last 12 mths.	8,7 %	8,4 %	6,6 %	4,7 %	3,0 %
Deposits as % of net loans	58,8 %	57,0 %	56,7 %	56,8 %	56,8 %
Equity	10 391	9 947	10 051	9 800	9 521
Losses on loans as % of net loans, annualised	0,06 %	0,06 %	0,05 %	0,06 %	0,04 %
Gross defaulted loans over 90 days as % of gross loans	0,29 %	0,26 %	0,30 %	0,45 %	0,42 %
Other key figures					
(As of Q2 2017 profit will be included in the capital ratio)					
Cost as % of income	41,8 %	40,6 %	35,1 %	32,1 %	36,8 %
Cost as % of income, ex net income from financial instruments	41,4 %	41,8 %	39,9 %	38,3 %	43,2 %
Return on equity after tax	8,5 %	8,7 %	11,4 %	12,7 %	13,1 %
Liquidity reserve (LCR) (Group)	158 %	114 %	128 %	117 %	153 %
Common equity tier 1 capital ratio (added share of profit)	14,6 %	14,6 %	14,7 %	14,5 %	14,1 %
Tier 1 capital ratio	16,0 %	15,3 %	16,3 %	14,9 %	14,9 %
Total capital ratio	17,8 %	17,2 %	17,9 %	16,9 %	16,9 %
Common equity tier 1 capital	9 434	9 101	9 114	8 250	8 256
Tier 1 capital	10 309	9 726	9 939	9 075	9 081
Net total primary capital	11 490	10 904	11 121	10 256	10 259
Leverage ratio	9,0 %	8,8 %	8,6 %	7,8 %	7,5 %
Number of branches	34	33	34	36	36
Number of man-years in banking activity	430	431	439	435	432
Key figures, Equity certificates					
Equity certificate ratio	18,7 %	18,7 %	19,8 %	19,8 %	17,4 %
Number of equity certificates issued	15 663 944	15 663 944	15 663 944	15 663 944	15 663 944
Profit/diluted earnings per equity certificate (Parent bank)	2,1	1,9	2,6	2,9	2,5
Profit/diluted earnings per equity certificate (Group)	2,4	2,4	3,3	3,6	3,0
Dividend last year per equity certificate	6,0	6,0	6,0	9,0	9,0
Book equity per equity certificate	113,9	111,60	115,20	113,40	110,00
Price/Book value per equity certificate	0,88	0,86	0,79	0,72	0,58
Listed price on Oslo Stock Exchange at end of period	100	96,5	91,25	81,75	63,75

Key figures Group

	31.12.2016	31.12.2015	31.12.2014*	31.12.2013*
Income statement (NOK million)				**Proforma**
Net interest income	1 565	1 521	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**	**1 769**	**2 002**	**1 918**
Total expenses	787	817	834	800
Profit before losses on loans	**1 323**	**952**	**1 168**	**1 118**
Losses on loans and guarantees	50	97	268	126
Profit before taxes	**1 273**	**855**	**900**	**992**
Tax expenses	284	231	215	219
Profit for the period	**989**	**624**	**685**	**773**
Income statement as percentage of average assets				
Net interest income	1,49 %	1,55 %	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 %**	**1,81 %**	**2,12 %**	**2,13 %**
Total expenses	0,75 %	0,83 %	0,88 %	0,89 %
Profit before losses on loans	**1,26 %**	**0,97 %**	**1,24 %**	**1,24 %**
Losses on loans and guarantees	0,05 %	0,10 %	0,28 %	0,14 %
Profit before taxes	**1,21 %**	**0,87 %**	**0,96 %**	**1,10 %**
Tax expenses	0,27 %	0,24 %	0,23 %	0,24 %
Profit for the period	**0,94 %**	**0,64 %**	**0,73 %**	**0,86 %**
Average total assets	104 950	98 000	94 300	90 200
Balance				
Total assets	105 455	101 334	94 062	93 758
Net loans to customers	90 928	88 387	80 913	77 450
Grows 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	10 051	7 753	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 %	46,2 %	41,7 %	41,7 %
Cost as % of income, ex net income from financial instruments	41,7 %	44,5 %	45,9 %	46,6 %
Return on equity after tax	11,6 %	8,4 %	10,1 %	12,3 %
Liquidity reserve (LCR) (Group)	128 %	108,0 %		
Common equity tier 1 capital ratio (added share of profit)	14,7 %	12,7 %	13,1 %	12,8 %
Tier 1 capital ratio	16,3 %	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 before profit distribution	19,8 %	13,5 %	14,1 %	7,1 %
Number of equity certificates issued	15 663 944	4 768 674	4 768 674	1 250 000
Profit per equity certificate (Parent bank)	8,5	10,8	12,2	10,3
Profit per equity certificate (Group)	10,7	17,6	20,3	18,1
Dividend last year per equity certificate (Parent bank - proposed dividend 2014)	6,0	9,0	10,0	10,0
Book equity per equity certificate	116,6	219	212	187
Price/Book value per equity certificate	0,8	0,6	0,9	0,8
Listed price on Oslo Stock Exchange at end of period	91,25	139	196	150

* Excluding negative goodwill.

Unaudited

NOK million	2. kv. 2017	1. kv. 2017	4. kv. 2016	3. kv. 2016	2. kv. 2016	1. halvår 2017	1. halvår 2016	31.12. 2016
Return on equity adjusted for hybrid capital								
Profit after tax	215	210	271	291	277	425	427	989
Interest on hybrid capital	-15	-10	-10	-10	-7	-25	-12	-33
Profit after tax, incl. interest on hybrid capital	**200**	**200**	**261**	**281**	**270**	**400**	**415**	**956**
IB Equity	9 947	10 051	9 800	9 521	8 363	10 051	8 263	8 263
IB Hybrid capital	-625	-825	-825	-825	-510	-825	-510	-510
IB Equity excl. hybrid capital	**9 322**	**9 226**	**8 975**	**8 696**	**7 853**	**9 226**	**7 753**	**7 753**
UB Equity	10 391	9 947	10 051	9 800	9 521	10 391	9 521	10 051
UB Hybrid capital	-875	-625	-825	-825	-825	-875	-825	-825
UB Equity excl. hybrid capital	**9 516**	**9 322**	**9 226**	**8 975**	**8 696**	**9 516**	**8 696**	**9 226**
Average equity	10 169	9 999	9 926	9 661	8 942	10 221	8 892	9 157
Average equity excl. hybrid capital	**9 419**	**9 274**	**9 101**	**8 836**	**8 275**	**9 371**	**8 225**	**8 490**
Return on equity	8,5 %	8,5 %	10,9 %	12,0 %	12,5 %	8,4 %	9,7 %	10,8 %
Return on equity excl. hybrid capital	**8,5 %**	**8,7 %**	**11,4 %**	**12,7 %**	**13,1 %**	**8,6 %**	**10,1 %**	**11,3 %**
Net interest income, adjusted for accoutning changes								
Net interest income	417	401	408	398	397	818	759	1 565
Fee to the Norwegian Banks` Guarantee Fund			-9	-9	-9		19	
Interest on hybrid capital	-15	-10	-10	-10	-7	-26	-12	-33
Net interst income, adjusted for accounting changes	**402**	**391**	**389**	**379**	**381**	**793**	**766**	**1 532**
Average total assets	108 400	105 680	105 400	105 900	105 600	105 603	105 604	104 950
As a percentage of total assets	**1,49 %**	**1,50 %**	**1,47 %**	**1,42 %**	**1,45 %**	**1,51 %**	**1,46 %**	**1,46 %**
Operating costs, adjusted for conversion of the pension scheme								
Operating costs	208	199	194	184	210	407	409	787
Conversion of pension scheme			28					28
Operating costs, adjusted for conversion of the pension scheme	**208**	**199**	**222**	**184**	**210**	**407**	**409**	**815**
Profit from ordinary operations								
Net interest income, adjusted for accounting changes	402	391	389	379	381	793	766	1 532
Nett commission income	83	71	70	78	78	154	145	293
Other operational income	3	4	8	4	11	7	16	28
Operating income, adjusted for conversion of pension scheme	208	199	222	184	210	407	409	815
Profit from ordinary operatins, before tax	**279**	**267**	**245**	**277**	**260**	**547**	**518**	**1 038**
Profit excl. finance and adjusted for accounting changes								
Net interest income, adjusted for accounting changes	402	391	389	379	381	793	766	1 532
Net commission income	83	71	70	78	78	154	145	293
Other operational income	3	4	8	4	11	7	16	28
Operating income, adjusted for conversion of pension scheme	208	199	222	184	210	407	409	815
Losses on loans and guarantees	13	15	15	13	9	28	22	50
Profit excl. finance and adjusted for accounting changes	**266**	**252**	**230**	**264**	**251**	**519**	**496**	**988**
Tax (25 %)	67	63	58	66	63	130	124	247
Ordinary operations / adjusted profit after losses and tax	**200**	**189**	**173**	**198**	**188**	**389**	**372**	**741**
Average equity, excl. Hybrid capital	9 419	9 274	9 101	8 836	8 275	9 371	8 225	8 490
Return on equity, profit excl. Finance and adjusted for accounting events	**8,5 %**	**8,3 %**	**7,5 %**	**8,9 %**	**9,2 %**	**8,4 %**	**9,1 %**	**8,7 %**
Ordinary operations / adjusted profit after losses and tax								
Average interst / interest margins								
Average lending rate RM (Return)	2,77 %	2,83 %	2,78 %	2,82 %	2,88 %			2,86 %
Average lending rate CM (Return)	3,35 %	3,44 %	3,53 %	3,49 %	3,53 %			3,55 %
Average deposit rate RM	0,82 %	0,82 %	0,87 %	0,92 %	0,99 %			0,93 %
Average deposit rate CM	1,06 %	1,10 %	1,16 %	1,22 %	1,26 %			1,19 %
Average 3 month NIBOR	0,92 %	1,02 %	1,13 %	1,07 %	1,00 %			1,07 %
Lending margin RM (lending rate - 3 month NIBOR)	1,85 %	1,81 %	1,65 %	1,75 %	1,88 %			1,79 %
Lending margin CM (lending rate - 3 month NIBOR)	2,43 %	2,42 %	2,40 %	2,42 %	2,53 %			2,48 %
Deposit margin RM (3 month NIBOR - deposit rate)	0,10 %	0,20 %	0,26 %	0,15 %	0,01 %			0,14 %
Deposit margin CM (3 month NIBOR - deposit rate)	-0,14 %	-0,08 %	-0,03 %	-0,15 %	-0,26 %			-0,12 %

The report and accounting presentation from the Board of directors refer to certain adjusted numbers which are not defined by IFRS (Alternative Perfomance Measured (APM)). This is done to give a better picture of the banks underlying operations, and is not meant to replace the ordinary financial report. The table above shows the relation between the adjusted and the unadjusted numbers.

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 statementsfor 2017 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 2017

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

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