

Report of the Board of Directors

First quarter 2017

(Consolidated figures. Figures in parenthesis refer to the same period of 2016 unless otherwise stated)

- Pre-tax profit: NOK 454m (383m)
- Net profit Q1: NOK 358m (311m)
- Return on equity: 9.4 per cent (8.9 per cent)
- Growth in lending: 8.1 per cent (5.4 per cent) in last 12 months
- Growth in deposits: 9.9 per cent (5.4 per cent) in last 12 months
- CET1 capital ratio: 14.8 per cent (13.6 per cent). Basis taken in 50 per cent payout ratio for 2017
- Earnings per equity certificate (EC): NOK 1.73 (1.49).
- Book value per EC: NOK 72.03 (67.37)

Good profit performance

Main points:

- Strong underlying operations
- Loan losses in keeping with the expected level and lower than last year
- Restructuring of two sizeable offshore exposures completed in Q1
- Good financial position
- Stable growth in customer base and high growth in all product areas
- SpareBank 1 SMN Regnskapshuset's acquisition of Økonomisenteret Kunderegnskap in Molde has expanded the Group's income and cost base ('Økonomisenteret Kunderegnskap' is termed 'Økonomisenteret' throughout this report)

In the first quarter of 2017 SpareBank 1 SMN achieved a net profit of NOK 358m (311m) and a return on equity of 9.4 per cent (8.9 per cent). The pre-tax profit was NOK 454m (383m).

First quarter operating revenues came to NOK 977m, up NOK 107m from the same period of 2016. SpareBank 1 SMN Regnskapshuset's acquisition of Økonomisenteret explains much of the increase.

Return on financial assets was NOK 138m (172m), of which the profit share from owner interests in joint ventures accounted for NOK 71m (119m).

Operating expenses came to NOK 571m in the first quarter of 2017 (489m), a growth of NOK 82m. The high growth is explained by SpareBank 1 SMN Regnskapshuset's acquisition of Økonomisenteret.

Loan losses were NOK 89m (170m) in the first quarter, in all essentials related to the bank's offshore exposure.

Growth in lending and deposits on a 12-month basis was 8.1 per cent (5.4 per cent) and 9.9 per cent (5.4 per cent) respectively in the first quarter.

As at 31 March 2016 the CET1 ratio was 14.8 per cent (13.6 per cent). The Group's CET1 target is 15.0 per cent.

Earnings per EC were NOK 1.73 (1.49). The book value per EC was NOK 73.34 at quarter-end (67.37). The EC's market price at the same point was NOK 66.50 (52.75). Dividend of NOK 3.00 per EC has been paid in 2017 for the year 2016.

Net interest income

Net interest income came to NOK 522m (469m) in the first quarter of 2017. The increase of NOK 53m compared with the first quarter of 2016 is in large measure ascribable to growth in residential mortgage lending. Net interest income is in addition influenced by the receipt and recognition of interest accrued in 2016 on offshore exposures undergoing restructuring.

In January 2017 a general interest rate increase of up to 20 basis points still effectuated on residential loans. After the rate increase the average lending rate on residential loans remained at a lower level than in the same period of last year. On corporate loans a differentiated repricing is being carried out with effect from the second quarter onwards.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first quarter of 2017 totalled NOK 76m (73m), and reflects reduced margins on residential lending.

Commission income and other operating income

Net commission and other income totalled NOK 455m (401m) in the first quarter of 2017, an increase of NOK 54m. Increased income from accounting services of NOK 49m is in large measure ascribable to the acquisition of Økonomisenteret with effect from January 2017. Real estate agency income has also shown strong growth of NOK 11m. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt has risen by NOK 3m.

Commission income (NOKm)	January-March		Change
	2017	2016	
Payment transfers	50	47	3
Creditcard	15	14	0
Saving products	21	19	2
Insurance	41	39	2
Guarantee commission	18	21	-3
Real estate agency	91	80	11
Accountancy services	99	50	49
Markets	32	40	-8
Other commissions	13	17	-5
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	379	328	51
Commissions SB1 Boligkreditt	72	71	1
Commissions SB1 Næringskreditt	4	2	2
Total commissions	455	401	54

Good return on financial investments

Overall return on financial investments (excluding the share of the profit/loss of affiliates and joint ventures) was NOK 67m (53m). The overall return breaks down as follows:

- Return on the group's equity portfolios totalled NOK 2m (3m).

- Net capital gains on bonds and derivatives came to NOK 34m (25m).
- Income on forex and fixed income business was NOK 31m (26m), in all essentials from SpareBank 1 Markets.

Capital gains/dividends, shares (NOKm)	January-March		Change
	2017	2016	
Capital gains/dividends, shares	2	3	-1
Bonds and derivatives	34	25	9
Income on forex and fixed income	31	26	5
Net return on financial investments	67	53	14
SpareBank 1 Gruppen	66	61	5
SpareBank 1 Boligkreditt	-24	24	-48
SpareBank 1 Næringskreditt	8	8	-0
SpareBank 1 Kredittkort	2	6	-4
BN Bank	29	20	10
SpareBank 1 Mobilbetaling	-13	-	-13
Other companies	3	0	3
Income from investment in associated companies	71	119	-48
Total	138	172	-34

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning, SpareBank 1 Medlemskort, SpareBank 1 Gruppen Finans and Conecto. SpareBank 1 SMN's stake in SpareBank 1 Gruppen at the end of the first quarter of 2017 was unchanged at 19.5%.

SpareBank 1 Gruppen recorded a profit of NOK 385m in the first quarter of 2017. The fine result was primarily down to non-life insurance which both improved its underwriting profit and its net financial income. Underlying operations at the other companies in SpareBank 1 Gruppen were good.

SpareBank 1 SMN's share of the profit was NOK 66m (61m), down NOK 4m due to revisions between the preliminary and final accounts for 2016.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to draw benefit from the market for covered bonds. By selling their best secured home mortgage loans to the company, the banks achieve reduced funding costs. As of 31 March 2017 the bank had sold loans totalling NOK 34bn (33bn) to SpareBank 1 Boligkreditt, corresponding to 37 per cent (40 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.1 per cent, and the bank's share of that company's profit in the first quarter of 2017 was minus NOK 24m (plus 24m). The share of profit in the first quarter of 2017 is weakened by unrealised losses of NOK 48m on the company's basis swaps. The portfolio of basis swaps is valued quarterly, and may produce wide profit/loss fluctuations from quarter to quarter. Key drivers are the currencies traded in, changes in exchange rates and issue maturities.

In the first quarter of 2016 the share of profit was lifted by unrealised gains on basis swaps by NOK 7m.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 March 2017, loans worth NOK 2.2bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 36.47 per cent, and the bank's share of the company's profit for the first quarter of 2017 was NOK 8m (8m). The holding reflects the bank's relative share of transferred loans to commercial property and the bank's stake in BN Bank. Of aggregate loans at SpareBank 1 Næringskreditt, 78 per cent have been transferred from BN Bank.

SpareBank 1 Kredittkort

Profit for the first quarter was NOK 9m (34m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.91 per cent. SpareBank 1 SMN's share of the profit for the first quarter of 2017 was NOK 2m (6m), and the bank's share of the portfolio is NOK 840m (815m).

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as of 31 March 2017.

BN Bank recorded a profit of NOK 89m (60m) in the first quarter, providing a return on equity of about 10.2 per cent (6.8 per cent). SpareBank 1 SMN's share of the profit of BN Bank in the first quarter of 2017 was NOK 29m (20m). The profit growth is a result of sound operations, losses taken to income and good return on financial investments.

After the decision to wind down the focus on lending to commercial property, the commercial portfolio has been reduced by NOK 17bn or 55 per cent since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial position and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank's main focus is on the retail market, as reflected in the strong growth of 13.4 per cent in residential lending.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer loans. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig, in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is aimed at strengthening residential lending for BN Bank in this market. To support the focus on estate agency, the bank's board of directors have also decided to embark on funding of housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Mobilbetaling (mCASH)

SpareBank 1 Mobilbetaling is behind the mobile payment solution mCASH. By the end of the first quarter 2017 more than 6,000 organisations and 9,300 points of sale had taken mCASH into use. The total number of registered users of mCASH approached 550,000. The company recorded a deficit of NOK 27m in the first quarter of 2017 of which SpareBank 1 SMN's share is NOK 5m. SpareBank 1 SMN has in addition recognised minus NOK 7m as a correction to the 2016 result. The company is owned by the SpareBank 1 banks, in which SpareBank 1 SMN holds a stake of 19.7 per cent.

On 13 February 2017 it was announced that SpareBank 1 SMN was to join 105 other banks in selecting Vipps as their mobile payment solution.

Vipps is a part of the DNB Group, but is now assigned to a stand-alone company in which DNB is the largest owner with about 50 per cent of the shares. The SpareBank 1 Alliance is the second largest owner with 25 per cent, the independent savings banks with 12 per cent, Eika Alliansen with 10 per cent and Sparebanken Møre with 1 per cent. The mCASH brand will accordingly be taken off the market in the course of 2017. The new company will build further on SpareBank 1 Mobilbetaling, with new owners in keeping with the ownership structure outlined above.

The new Vipps will be a strong Norwegian company, well equipped to compete against large Nordic and international actors in the mobile payments area. The company will develop and deliver simple, secure services at the lowest possible cost. Uniting competence with technology in one strong Norwegian company will benefit the customers.

SpareBank 1's 550,000 mCASH customers will be invited to join the new company which will include payment solutions developed by the respective banks. The customers will have the same options available as they had as mCASH users. The mCASH technology is being transferred to the new company which will itself consider how that technology can be utilised ahead.

Operating expenses

Overall operating expenses came to NOK 571m (489m) in the first quarter of 2017. Of the increase of NOK 82m, NOK 40m is ascribable to SpareBank 1 SMN's acquisition of Økonomisenteret. In other subsidiaries costs have risen by NOK 24m, mainly at SpareBank 1 Markets (13m) and EiendomsMegler 1 Midt-Norge (7m), of which some non-recurring. In addition, the commitment to BN Bolig involves a cost of NOK 8m in the first quarter of 2017. BN Bolig is consolidated as a subsidiary of EiendomsMegler 1 Midt-Norge.

Parent bank costs rose by NOK 16m to NOK 306m. Of this, a new tax on financial institutions in Norway, introduced with effect from 2017, will account for NOK 6m. Other growth in costs compared with the first quarter of 2016 relates to changes in the pension scheme and to technological developments. All Group employees are members of a defined contribution scheme as from 2017.

The number of FTEs has been reduced from 630 to 623 so far in 2017 and will be further reduced to 590 over the course of the year. This reduces staffing at the parent bank by 130 FTEs since 2014. Changing customer behaviour and new technology will set the stage for increased efficiency in the period ahead, and the target of zero growth is retained for 2017.

The Group cost-income ratio was 51 per cent (47 per cent).

Losses and defaults

Losses on loans and guarantees totalled NOK 89m (170m) in the first quarter of 2017.

A net loss of NOK 87m (159m) was recorded on loans to corporates in the first quarter of 2017. As in 2016, losses in the first quarter of 2017 relate in all essentials to a small number of exposures in the offshore segment. Most offshore exposures in need of restructuring have now been restructured or are in the final phase of restructuring, and it is against that background that this year's offshore-related losses are expected to prove lower than in 2016. Future developments in this industry remain a matter of great uncertainty, and there is a possibility that actors in the industry will need further restructuring in a number of years' time.

A net loss of NOK 3m (11m) was recorded on the retail banking portfolio in the first quarter of 2017.

Individually assessed write-downs on loans and guarantees totalled NOK 570m (200m) at 31 March 2017, an increase of NOK 370m over the last 12 months.

Total problem loans (defaulted and doubtful) come to NOK 1,289m (616m), or 0.92 per cent (0.48 per cent) of gross outstanding loans, at 31 March 2017.

Defaults in excess of 90 days totalled NOK 211m (205m), measuring 0.15 per cent (0.16 per cent) of gross lending when loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are included. Of the overall default volume, NOK 34m (31m) is loss provisioned, corresponding to 16 per cent (15 per cent).

Defaults break down to NOK 38m on corporates and NOK 173m on retail borrowers.

Other doubtful exposures totalled NOK 1,078m (411m), i.e. 0.77 per cent (0.32 per cent) of gross outstanding loans. NOK 536m (169m) or 50 per cent (41 per cent) is loss provisioned.

Other doubtful exposures break down to NOK 1,045m on corporates and NOK 33m on retail borrowers.

Increase in collectively assessed impairment write-downs

Collective assessment of impairment write-downs is based on two factors:

- Events that have affected the bank's portfolio (causing migration between risk categories)
- Events that have not yet affected the portfolio since the bank's credit risk models fail to capture the effects rapidly enough (e.g. macroeconomic factors).

Collectively assessed impairment write-downs connected to the offshore segment increased by NOK 10m in the first quarter of 2017 based on updated risk assessments of companies without individually assessed write-downs. Overall collectively assessed loss write-downs thus total NOK 349m (527m), measuring 0.25 per cent (0.41 per cent) of total loans. Collectively assessed write-downs break down to NOK 100m on retail exposures and NOK 249m on corporates. Of the overall provision of NOK 249m on the corporate portfolio, the provision for oil-related activity accounts for NOK 70m. The remaining collectively assessed write-downs of NOK 179m on the corporate portfolio are fairly evenly spread across other sectors.

A substantial decline in collectively assessed write-downs in the last 12 months is related to individually assessed write-downs carried out on a number of offshore exposures. This reduced the basis for collective write-downs.

Total assets of NOK 142bn

The Group's assets totalled NOK 142bn at 31 March 2017 compared with NOK 134bn at end-March 2016.

As at 31 March 2017 loans worth a total of NOK 35.9bn (34.2bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans have risen by NOK 10.5bn (6.6bn) or 8.1 per cent (5.4 per cent) in the last 12 months to reach NOK 140.0bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) at the end of the first quarter of 2017. Lending rose by NOK 2.5bn or 1.8 per cent in the first quarter.

Lending to corporates rose by NOK 1.5bn (decline of 0.5bn) or 3.1 per cent (reduction of 1.2 per cent) in the last 12 months. Overall lending to corporates came to NOK 48.7bn as at 31 March 2017. Lending to corporates increased by NOK 0.6bn or 1.2 per cent in the first quarter.

Loans to retail borrowers rose by NOK 9.0bn (7.2bn) to reach NOK 91.3bn in the last 12 months, equivalent to an increase of 11.0 per cent (9.5 per cent). In the first quarter lending to retail customers rose by NOK 1.9bn or 2.2 per cent.

Loans to retail borrowers accounted for 65 per cent (64 per cent) of gross loans (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers as at end-March 2017. (For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 6.3bn (3.3bn) in the last 12 months to reach NOK 70.2bn as at 31 March 2017. This represents a growth of 9.9 per cent (5.4 per cent). In the first quarter overall deposits rose by NOK 3.0bn or 4.5 per cent.

Retail deposits rose by NOK 1.4bn (1.8bn) or 5.0 per cent (6.9 per cent) in the last 12 months to reach NOK 29.8bn at end-March 2017. At the end of the first quarter customer deposits showed no change from year-end.

Corporate deposits rose by NOK 4.9bn (1.4bn) or 13.8 per cent (4.2 per cent) to reach NOK 40.4bn. In the first quarter of 2017 corporate deposits rose by NOK 3.0bn or 8.1 per cent.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.0bn (7.8bn) at 31 March 2017, an increase of 16 per cent since the first quarter of 2016. Both equity funds and active asset management have achieved strong growth. The growth is driven by both new sales and value increases.

Saving products, customer portfolio (NOKm)	January-March		Change
	2017	2016	
Equity funds	5,405	4,818	587
Pension products	777	669	108
Active management	2,853	2,279	574
Total	9,035	7,766	1,269

Insurance products

The bank's insurance portfolio showed premium volume growth of NOK 65m or 5 per cent in the last 12 months. Growth has been strongest for personal insurance at NOK 34bn corresponding to 12 per cent.

Insurance, premium volume (NOKm)	January-March		Change
	2017	2016	
Non-life insurance	742	725	17
Personal insurance	310	276	34
Occupational pensions	213	199	14
Total	1,265	1,200	65

Retail Banking

Operating income in the first quarter of 2017 rose compared with the first quarter of 2016, and totalled NOK 432m (402m) of which net interest income accounted for NOK 259m (236m) and commission income for NOK 173m (166m). The income growth is a result of high growth in residential mortgage lending and good sales of other financial products. Return on capital employed in the retail banking segment was 14.9 per cent (12.9 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin in the first quarter of 2017 was 1.71 per cent (1.78 per cent), while the deposit margin was 0.26 per cent (0.24 per cent) measured against three-month NIBOR. The average three-month NIBOR has fallen since year-end, but is at the same level as one ago.

In the last 12 months retail lending and retail deposits grew by 10.5 per cent (9.2 per cent) and 3.8 per cent (5.9 per cent) respectively.

Lending to retail borrowers consistently carries low risk, as reflected in continued very low losses. There are no indications of increased loss and default levels in the bank's residential mortgage portfolio. The portfolio is secured on residential property, and the trend in house prices has been satisfactory across the bank's market area as a whole.

Corporate Banking

Operating income totalled NOK 325m (294m) in the first quarter of 2017. Net interest income was NOK 276m (243m), while other income totalled NOK 49m (51m).

Return on capital employed for the corporate banking segment in the first quarter of 2017 was 9.6 per cent (3.1 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.62 per cent (2.57 per cent) and the deposit margin was minus 0.22 per cent (minus 0.15 per cent) at end-March 2017.

Lending grew by 0.7 per cent (decline of 2.9 per cent) while deposits rose by 17.9 per cent (5.1 per cent) in the last 12 months.

Subsidiaries

The subsidiaries posted an overall profit of NOK 57.4m (51.4m) before tax.

Pre-tax profit (NOKm)	January-March		Change
	2017	2016	
EiendomsMegler 1 Midt-Norge	4.0	10.0	-6.0
SpareBank 1 Finans Midt-Norge	28.1	23.4	4.7
SpareBank 1 Regnskapshuset SMN	15.5	4.3	11.2
Allegro Kapitalforvaltning	1.0	0.6	0.4
SpareBank 1 SMN Invest	0.9	9.9	-9.0
Sparebank 1 Markets (from second quarter)	2.5	3.2	-0.7
Other companies	5.4	0.1	5.3
Total	57.4	51.4	6.0

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market share throughout the market area, in particular in Trondheim. In addition, the company, in

cooperation with BN Bank, has established BN Bolig in which EiendomsMegler 1 Midt-Norge and BN Bank each hold a 50 per cent stake. BN Bolig targets the estate agency market in Oslo and is designed to enhance income from estate agency and to contribute to stronger growth in residential lending for BN Bolig in this market.

EiendomsMegler 1 Midt-Norge's pre-tax profit in the first quarter of 2017 was NOK 4.0m (10.0m). The profit performance is weakened by start-up costs of NOK 8m at BN Bolig inasmuch as EiendomsMegler 1 Midt-Norge fully consolidates BN Bolig's results as a subsidiary.

Dwellings sold in the first quarter of 2017 totalled 1,719 compared with 1,602 in the same period last year.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 28.1m in the first quarter of 2017 (23.4m), and shows positive profit growth thanks to increased income and low losses. At quarter-end the company managed leases and car loan agreements worth a total of NOK 5.4bn, of which leases account for NOK 2.5bn and car loans for NOK 2.9bn. Sound growth is noted, particularly in car loans.

At quarter-end the Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge and Sparebanken Sogn og Fjordane a stake of 7.5 per cent. SpareBank 1 SMN owns 64.6 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 15.5m (4.3m) in the first quarter of 2017. The profit growth is related to effects of acquisitions and to good operations.

The company caters to the SMB segment with its technologically modern distribution model and broad range of services.

SpareBank 1 Regnskapshuset SMN acquired all shares of Økonomisenteret and about 110 employees with effect from 1 January 2017. This brings the company's workforce to 360 and annual turnover to NOK 360m. Profit growth was recorded in the first quarter along with a substantial increase in both income and costs.

Allegro Kapitalforvaltning manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are the company's distribution channel. The company posted a pre-tax profit of NOK 1.0m in the first quarter of 2017 (0.6m). The company manages a portfolio worth NOK 6.7bn (5.6m).

SpareBank1 SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 0.9m (9.9m) in the first quarter of 2017. Value changes and realisation of losses or gains on the company's overall holding of shares represent minus NOK 1.8m of the company's result. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in the first quarter of 2017 was NOK 2.7m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 73.5 per cent. The company is headquartered in Oslo and has offices in Trondheim and Ålesund. It has a staff of 105.

SpareBank 1 Markets AS is an investment firm offering a complete product range. The company's aspires to being a profitable capital market unit able to deliver all capital market services in collaboration with its parent banks.

The company's pre-tax profit for the first quarter of 2017 was NOK 2.5m compared with NOK 3.2m in 2015 in the first quarter of 2016. The company has recorded positive profit growth in recent quarters.

SpareBank 1 Markets has made a number of new appointments in the first quarter of 2017 which are expected to strengthen the company's earnings once the appointments attain normalised earning power.

An agreement has been signed whereby SpareBank 1 Markets is to acquire Allegro Kapitalforvaltning in Trondheim and SpareBank 1 Nord-Norge Forvaltning in Tromsø from, respectively, SpareBank 1 SMN and Sparebank 1 Nord-Norge. The two companies are to be merged and will be central in SpareBank 1 Markets' new asset management operation with assets totalling NOK 10bn.

The company is the leading capital market unit in SpareBank 1 SMN's market area. SpareBank 1 Markets' main focus is on clients where the company is in a strong competitive position alone or in collaboration with its parent banks.

Other companies

Other companies comprise mainly property companies in which SpareBank 1 SMN and its subsidiaries are the principal tenant.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 20bn and thus has the funding needed for 23 months of ordinary operation without fresh external finance.

The Ministry of Finance requires all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead in time given a stressed situation.

The LCR is calculated at 136 per cent as at 31 March 2017.

The bank's funding sources and products are amply diversified. At year-end the proportion of the bank's overall money market funding in excess of 1 year was 85 per cent (84 per cent). The supply of funding in the market is satisfactory.

SpareBank 1 Boligkreditt is the bank's most important funding source, and at 31 March 2017 loans worth a total of NOK 34bn had been sold to SpareBank 1 Boligkreditt.

Rating

SpareBank 1 SMN has a rating of A1 (outlook stable) with Moody's and a rating of A- (outlook stable) with Fitch Ratings.

Financial position

The CET1 capital ratio at 31 March 2017 was 14.8 per cent (13.6 per cent). The change over the last 12 months is ascribable to:

- An increase of NOK 1.0bn, or 9 per cent, in CET1 capital. This is in all essentials retained profit.
- There has been no change in overall capital needs in the last 12 months. Lending to commercial property has been reduced at BN Bank along with a reduction in the need for capital related to

transitional arrangements. At the parent bank residential lending growth has been relatively high while growth in lending to corporates has been relatively low.

As at 31 March 2017 the regulatory requirement on CET1 capital is 11.5 per cent, including combined buffer requirements.

Finanstilsynet's (Norway's FSA) final assessment of the add-on for risks not adequately covered under Pillar 1 was set at 2.1 per cent. The add-on is mainly related to owner risk, market risk and credit concentration risk. On 15 December the Ministry of Finance decided that the countercyclical buffer should be increased by a further 0.5 per cent, to 2.0 per cent with effect from 31 December 2017. The board of directors has therefore decided to raise the capital target to 15 per cent to ensure a sufficient management buffer. The capital build-up will take place without a stock issue.

The board of directors of SpareBank 1 SMN continually assesses the capital situation and future capital requirements.

The bank's equity certificate (MING)

The book value of the bank's EC as at 31 March 2017 was NOK 72.03 (67.37), and earnings per EC were NOK 1.73 (1.49).

As at 31 March 2017 the EC was priced at NOK 66.50 (52.75) and dividend of NOK 3.00 (2.25) per EC has been paid in 2017 for the year 2016.

The Price / Income ratio was 9.59 and the Price / Book ratio was 0.92 at end-March 2017.

The supervisory board has adopted an adjustment to the bank's dividend policy. The following wording applied prior to the adjustment: "SpareBank 1 SMN assumes and expects up to one-half of the owner capital's share of the net profit to be paid out as dividend and the same proportion of the ownerless capital's share of the net profit to be paid out as gifts or transferred to a foundation". The new wording is as follows: "SpareBank 1 SMN assumes and expects about one-half of the owner capital's share of the net profit to be paid out as dividend and the same proportion of the ownerless capital's share of the net profit to be paid out as gifts or transferred to a foundation". The resolution entails removal of a cap on the dividend payout ratio.

The supervisory board has also resolved to reduce the number of members from 43 to 32. The composition of representatives is changed such that representation from the public sector is reduced whereas employees and depositors have acquired increased representation. The equity certificate owners' relative share is unchanged. A resolution has also been passed giving equity certificate owners greater influence over decisions affecting the owners' capital.

Risk factors

Problem loans related to the offshore industry remain at a high level at the end of the first quarter of 2017, but losses have shown a falling trend. The increase in individually assessed write-downs and collectively assessed write-downs is in all essentials ascribable to customers in this market segment, as confirmed by reporting from Norges Bank's (Norway's central bank) Regional Network. The bank sees little evidence of contagion effects to the remainder of the loan portfolio. Credit quality in the rest of the portfolio is satisfactory, and loss and default levels in other portfolios are low.

The bank expects a continued low but rising rate of GDP growth. The Norwegian krone has appreciated, thereby reducing some of the positive impact enjoyed by Norwegian export industries, and will partially offset some of these effects. The bank also expects moderate growth in credit demand from mid-Norway's business sector ahead as a result of the continued low level of investment.

The bank expects unemployment to remain relatively low, and, given continued low interest rates, the bank considers that the risk of loss in the bank's retail banking portfolio will remain low.

Growth in credit demand from Norwegian households remains higher than wage growth and will in large measure be affected by the trend in house prices. The Ministry of Finance has decided to increase the countercyclical buffer from 1.5 per cent to 2.0 per cent, with effect from 31 December 2017. In the bank's assessment, this increase will have only a marginal effect on households' credit demand and on the trend in house prices. If house prices stagnate, or fall, there is a risk that households' saving rate will quicken, which will result in reduced turnover for parts of Norwegian business and industry.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect is due above all to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and fund management activities are affected by the fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

Outlook

SpareBank 1 SMN has in the first quarter of 2017 posted a profit performance that is considered lower than targeted, but satisfactory in the challenging market.

The losses in the first quarter of 2017 are mainly in the offshore segment, and losses in other segments are few in number and small. Expectations from the regional network (survey conducted by Norges Bank) suggest that losses ahead will also be within the offshore segment. The board of directors expects losses in this segment to be lower in 2017 than in 2016. Developments in the offshore industry remain a matter of much uncertainty, and there is a risk that the industry will need to undergo further restructuring in a few years. The bank continue to follow this industry carefully.

A project to enhance the Group's profitability has been launched. It will promote more efficient use of equity capital, improve risk pricing and increase the number of multi-product customers with a view to strengthening commission income. The bank intends to achieve cost-effective operation by streamlining distribution and work processes. Use of new technology will contribute to increased selling power and to greater efficiency and effectiveness of processes. SpareBank 1 SMN sets a target of zero growth in parent bank costs in 2017.

The board is well pleased with the Group's achievements and results thus far in 2017.

Trondheim, 3. May 2017
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)