

Report of the Board of Directors

Preliminary annual accounts 2015

(Consolidated figures. Figures in parentheses refer to 2014 unless otherwise stated).

Profit of NOK 1,406m after tax

- Profit before tax: NOK 1,776m (2,143m)
- Net profit: NOK 1,406m (1,782m)
- Return on equity: 10.7 per cent (15.1 per cent)
- CET1 ratio: 13.6 per cent (11.2 per cent)
- Growth in lending 5.8 per cent (7.3 per cent) and in deposits 5.6 per cent (8.5 per cent)
- Loan losses: NOK 169m (89m) of which NOK 82m (0m) reflects increased collectively assessed write-downs
- Earnings per equity certificate (EC): NOK 7.02 (8.82). Book value per EC, incl. recommended dividend for 2015: NOK 67.65 (62.04)
- Recommended dividend: NOK 2.25 per EC, and an allocation of NOK 40m to non-profit causes

Fourth quarter 2015

- Profit before tax: NOK 388m (434m)
- Net profit: NOK 287m (375m)
- Return on equity: 8.4 per cent (12.1 per cent)
- Loan losses: NOK 56m (34m) of which NOK 51m (0m) reflects increased collectively assessed write-downs
- Earnings per EC: NOK 1.45 (1.85)

Good profit performance in 2015, but marked by turbulent markets

Highlights

- Good result for core business
- Profit was down NOK 376m on the same period of 2014 due to capital loss on the bond portfolio in 2015 and high capital gains on the disposal of shares in Nets in 2014
- Low loan losses. Collectively assessed write-downs increased by NOK 82m
- Low cost growth in keeping with plan
- Substantially stronger CET1 ratio
- Good growth in lending and deposits

SpareBank 1 SMN achieved a pre-tax profit of NOK 1,776m (2,143m) in 2015. Net profit was NOK 1,406m (1,782m) and return on equity was 10.7 per cent (15.1 per cent).

Operating income totalled NOK 3,417m (3,302m) in 2015, an increase of NOK 115m.

Return on financial assets was NOK 459m (720m), of which the profit share on owner interests in affiliates was NOK 448m (527m).

Operating expenses came to NOK 1,931m (1,789m) in 2015. A considerable portion of the increase is caused by the consolidation of SpareBank 1 Markets as a subsidiary in the second quarter 2015. Costs in 2014 include NOK 30m set aside for reorganisation at the parent bank. SpareBank 1 SMN has a goal of zero growth in the parent bank's operating expenses. When corrected for the reorganisation cost and the effect of SpareBank 1 Markets, growth in parent bank costs was 1.6 per cent.

Net losses on loans and guarantees came to NOK 169m (89m) of which NOK 82m (0m) comprises collectively assessed write-downs.

In 2015 SpareBank 1 SMN achieved lending growth of 5.8 per cent (7.3 per cent) and deposit growth of 5.6 per cent (8.5 per cent).

The CET1 ratio at 31 December 2015 was 13.6 per cent (11.2 per cent).

The bank's capital plan has drawn considerable attention in recent years. Up to December 2015 the target was a CET1 ratio of 13.5 per cent by 30 June 2016. In December 2015 the board of directors adopted a new CET1 ratio target of 14.5 per cent, to be reached by 31 December 2016. SpareBank 1 SMN had CET1 ratio of 13.6 per cent at 31 December 2015. The capital plan is further described in the section on financial strength.

At year-end the bank's EC was priced at NOK 50.50 (58.50). A cash dividend of NOK 2.25 per EC was paid in 2015 for the year 2014, representing a payout ratio of 25 per cent of the Group profit.

Earnings per EC were NOK 7.02 (8.82). Book value was NOK 67.65 (62.04) per EC including a recommended dividend of NOK 2.25.

Profit before tax in the fourth quarter in isolation was NOK 388m (434m). The quarter's figures reflect:

- Good net interest income
- Stable commission income
- Low individually assessed losses, but increased provision for collectively assessed write-downs
- Weak return on financial investments

Proposed distribution of profit

Distribution of the profit for the year is done on the basis of the parent bank's accounts. The parent bank's profit includes dividends from subsidiaries, affiliates and joint ventures.

Subsidiaries are fully consolidated in the group accounts, whereas profit shares from affiliates and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the group results.

Difference between Group - Parent Bank (NOKm)	2015
Profit for the year, Group	1,406
Profit, subsidiaries	-58
Dividend, subsidiaries	103
Profit, associated companies	-448
Dividend, associated companies	351
Elimination subsidiaries and associated companies	117
Profit for the year, Parent bank	1,471

Distribution of profit (NOKm)	2015
Profit for the year, Parent bank	1,471
Transferred to/from revaluation reserve	-66
Profit for distribution	1,405
Dividends	292
Equalisation fund	616
Saving Bank's fund	457
Gifts	40
Total distributed	1,405

The annual profit for distribution reflects changes of minus NOK 66m in the revaluation reserve, leaving the total amount for distribution at NOK 1,405m.

The profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.6 per cent of the distributed profit.

The board of directors recommends the supervisory board to set a cash dividend of NOK 2.25 per EC, altogether totalling NOK 292m. This gives a payout ratio of 32 per cent of the group profit. The board of directors further recommends the supervisory board to allocate NOK 40m as gifts to non-profit causes, representing a payout ratio of 8 per cent. NOK 616m and NOK 457m are added to the dividend equalisation fund and the ownerless capital respectively. The board of directors opts to dispense with the principle of equal payout between EC capital and ownerless capital in order to strengthen the financial position and in view of the fact that the price of the bank's EC is below the EC's book value. The proposed distribution reflects the need to increase the bank's core capital. Increasing the payout ratio to the EC holders to 32 per cent (25 per cent) is in keeping with the capital plan.

After distribution of the profit for 2015, the EC-holder ratio (EC holders' share of total equity) is 64.0 per cent.

Strengthened net interest income

Net interest income strengthened compared with 2014, reaching NOK 1,872m (1,790m). The change compared with 2014 is ascribable to:

- Increased lending to, and deposits from, retail and corporate customers alike contributed to higher net interest income
- Reduced margins on home loan mortgages as a result of general interest rate reductions and other price pressures reduced the contribution from lending
- Reprising of deposits, for both retail and corporate customers, largely compensates for the income shortfall resulting from lower margins on mortgages

Net interest income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are recorded as commission income. Commissions on loans sold to these two entities totalled NOK 334m in 2015 (427m).

Over the course of 2014 and 2015 five general interest rate reductions were carried out on loans to retail borrowers to adjust the mortgage rate to a falling interest rate level. Deposit rates to retail and corporate customers were also reduced over the same period.

Increased commission income

Commission income and other operating income totalled NOK 1,545m (1,512m) in 2015, an increase of NOK 33m or 2 per cent.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fell by NOK 93m due to reduced margins on retail lending. A uniformly positive trend is noted in other commission income, and overall growth came to NOK 126m or 11.7 per cent. The income increase of NOK 49m from Markets is a consequence of the consolidation of SpareBank 1 Markets.

Commission income (NOKm)	2015	2014	Change
Payment transfers	188	188	-1
Creditcard	56	50	6
Saving products	61	48	13
Insurance	156	138	18
Guarantee commission	72	57	15
Real estate agency	332	315	17
Accountancy services	183	172	10
Markets	64	14	49
Active management	21	20	1
Rent	50	45	5
Other commissions	28	36	-7
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,211	1,084	126
Commissions SB1 Boligkreditt	326	417	-91
Commissions SB1 Næringskreditt	8	10	-2
Total commissions	1,545	1,512	34

Financial investments

Overall return on financial investments (excluding the bank's share of the profit of affiliates and joint ventures) was NOK 11m (193m) in 2015. Overall return breaks down as follows:

- Return on the group's equity portfolios: NOK 62m (202m)
- Net capital loss on bonds and derivatives in 2015: NOK 90m (66m). This is largely describable to increased credit margins on the liquidity portfolio
- Effect of changed valuation model for fixed rate loans: minus NOK 64m (0m)
- Net gain on forex, trading and derivatives Markets: NOK 102m (57m)

Capital gains/dividends, shares (NOKm)	2015	2014	Change
Capital gains/dividends, shares	62	202	-139
Bonds and derivatives	-90	-66	-24
Change in discount factor in fair value model for fixed interest loans	-64	-	-64
Net gain on forex, trading and derivatives Markets	102	57	45
Net return on financial investments	11	193	-182
SpareBank 1 Gruppen	251	358	-107
SpareBank 1 Boligkreditt	80	38	42
SpareBank 1 Næringskreditt	30	41	-11
SpareBank 1 Kredittkort	21	2	18
BN Bank	41	93	-51
Companies owned by SpareBank 1 SMN Invest	27	31	-3
Other companies	-2	-34	32
Income from investment in related companies	448	527	-80
Total	458	720	-262

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2015 was NOK 1,287m (1,849m). The insurance business was the main contributor to the profit performance, but the other product companies also showed satisfactory profit growth. SpareBank 1 Gruppen's profit was lower than in 2014 due to that year's excellent results after recognition of run-off gains in the insurance business. SpareBank 1 SMN's share of the profit for 2015 was NOK 251m (358m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS was established by the banks participating in the SpareBank 1-alliance to take advantage of the market for covered bonds. The banks sell their best secured home mortgage loans to the company, giving them reduced funding costs. As of 31 December 2015 the bank had sold loans worth a total of NOK 31.9bn (28.3bn) to SpareBank 1 Boligkreditt, corresponding to 39.6 per cent (38.3 per cent) of overall lending to the retail segment.

The bank's stake in SpareBank 1 Boligkreditt in 2015 was 17.7 per cent, and the bank's share of that company's profit in 2015 was NOK 80m (38m). The bank's stake reflects its relative share of home mortgage loans sold. The new stake as of 31 December 2015 is 19.0 per cent.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of 31 December 2015, loans worth NOK 1.5bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN owns 33.6 per cent of the company, and the bank's share of the company's profit in 2015 was NOK 30m (41m). The bank's stake reflects its relative share of commercial property loans sold and its stake in BN Bank. 79.9 per cent of the loans residing in SpareBank 1 Næringskreditt have been transferred from BN Bank.

BN Bank

SpareBank 1 SMN had a 33.0 per cent stake in BN Bank as of 31 December 2015.

The board of directors of BN Bank resolved in 2015 to cultivate the bank as a retail bank and to wind down the corporate business consisting of lending to commercial property. The backcloth to the resolution is capital adequacy rules specific to Norway under which return on equity on this activity is low. This reason is

that BN Bank's competitors in this low risk segment were largely foreign actors who set their prices under a more liberal regulatory regime and less stringent requirements on core capital. There is no prospect of any change in Norway's capital adequacy regime.

BN Bank's new strategy is to cultivate a retail market business and to be a bank for customers who prefer a self-service concept and hence favourable borrowing rates over time.

SpareBank 1 SMN's share of the profit of BN Bank in 2015 was NOK 41m (93m), yielding a return on equity of 3.5 per cent. The profit is affected by one-time effects related to the scaling back of the corporate portfolio and increased credit margins on the liquidity portfolio.

The bank has in recent years built up a substantial retail market business with satisfactory profits. The board of directors of BN Bank sees a major development potential in this business, and will channel all efforts to the retail market. The bank aspires to increased growth and increased profitability.

BN Bank will remain a part of the SpareBank 1-alliance. SpareBank 1 SMN will maintain its owner stake in BN Bank and will play its part in ensuring that the business change is carried through in a manner that safeguards creditors' interests.

The process of winding down the corporate banking business will be carried out in a controlled manner over time. For SpareBank 1 SMN this will in isolation reduce consolidated risk weighted assets, thereby improving capital adequacy. Of SpareBank 1 SMN's risk weighted balance sheet assets of NOK 89.5bn, about NOK 7.5bn relates to corporate exposures at BN Bank along with BN Bank's exposures sold to SpareBank 1 Næringskreditt. For SpareBank 1 SMN this amounts to about 1.1 percentage points of CET1 capital adequacy once the scaling back is completed. The process of winding down the corporate portfolio is well under way, and in the period September to December 2015 the portfolio was reduced by NOK 5.5bn or 17 per cent. The board of directors of BN Bank aims to have wound down 50 per cent of the corporate banking business by 31 December 2016.

SpareBank 1 Kredittkort

The profit for 2015 was NOK 112m. SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN's stake is 18.4 per cent. SpareBank 1 SMN's share of the profit for 2015 was NOK 21m with a portfolio share of NOK 792m (715m). The company was in ordinary operation from 1 July 2014 onwards, entailing that no comparable financial results are available for earlier periods.

Limited cost growth

Overall costs came to NOK 1,931m (1,789m) in 2015 and Group expenses rose by NOK 142m compared with 2014. Of the increase in Group expenses, NOK 122m relates to the consolidation of SpareBank 1 Markets as a subsidiary as from the second quarter of 2015. Excluding the effect of SpareBank 1 Markets and subtracting the reorganisation outlay in 2014 of NOK 30m, Group cost growth came to NOK 50m or 2.8 per cent.

The parent bank has reduced costs by NOK 18m over the past 12 months less the above-mentioned cost of reorganisation. With effect from the second quarter of 2015, SpareBank 1 SMN transferred its capital market activities to SpareBank 1 Markets. This represents a cost reduction of NOK 38m for the parent bank, and, taking this into account, parent bank costs rose by NOK 20m or 1.6 per cent compared with 2014. The reason for the increase is chiefly increased capital tax, write-down of intangible assets in the SpareBank 1 Banksamarbeidet, increased sponsor costs and a get-together for staff in Berlin which in aggregate

accounted for a cost increase of NOK 25m. Taking one-off costs and reorganisation costs into account, parent bank costs rose by 0.8 per cent.

Wide-ranging efficiency improvement measures have been set in train in the bank, with the aim of ensuring zero growth in costs. At the parent bank the number of permanent FTEs was reduced by 75 to 645 in 2015 (plus an additional reduction of 32 FTEs as a result of the transfer of capital market business to SpareBank 1 Markets).

Operating expenses measured 1.50 per cent (1.52 per cent) of average total assets. The Group's cost-income ratio was 50 per cent (44 per cent).

Low losses and low defaults, higher provision for collectively assessed write-downs

Net loan losses came to NOK 169m (89m) for 2015, of which NOK 82m (0m) refers to increased provision for collectively assessed write-downs. This represents 0.14 per cent of total loans (0.08 per cent). Net losses in the fourth quarter in isolation were NOK 56m (34m) of which NOK 51m (0m) refers to increased collectively assessed write-downs.

Net losses of NOK 151m (81m) were recorded on loans to the group's corporate customers in 2015, including an increase of NOK 82m (0m) in collectively assessed impairment write-downs.

On the retail portfolio a net loss of NOK 18m (8m) was recorded in 2015.

Total individually assessed loan impairment write-downs came to NOK 183m (172m) as of 31 December 2015.

Total problem loans (defaulted and doubtful) came to NOK 604m (486m), or 0.47 per cent (0.40 per cent) of gross loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 205m (270m), measuring 0.16 per cent (0.22 per cent) of gross lending. Of total defaults, NOK 26m (67m) are loss provisioned, corresponding to 13 per cent (25 per cent).

Defaults break down to NOK 50m (114m) on corporate customers and NOK 155m (156m) on retail customers.

Other doubtful exposures totalled NOK 399m (216m), i.e. 0.31 per cent (0.18 per cent) of gross outstanding loans. NOK 157m (105m) or 39 per cent (49 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 350m (201m) to corporate customers and NOK 49m (16m) to retail customers.

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 do not capture the effects rapidly enough (e.g. macroeconomic factors)

In the third and fourth quarters of 2015 a basis was found for an increase in collectively assessed impairment write-downs by NOK 31m and NOK 51m respectively. The reason was an increased likelihood of loss in oil-related activity owing to a more challenging market situation. The aggregate volume of such

write-downs is now NOK 376m (295m), measuring 0.30 per cent (0.24 per cent) of total lending. Collectively assessed impairment write-downs break down to NOK 96m on retail customers and NOK 281m on corporate customers.

Total assets of NOK 132bn

The bank's assets totalled NOK 132bn (126bn) at 31 December 2015, having risen by NOK 6bn or 4.7 per cent over the year. The rise in total assets is a consequence of increased lending and larger liquidity reserves.

As of 31 December 2015 loans worth a total of 33bn (30bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans transferred to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good growth in lending to retail segment, reduced growth in lending to corporates

Total outstanding loans rose by NOK 6.9bn (8.1bn) or 5.8 per cent (7.3 per cent) in 2015 to reach NOK 127.4bn (120.4m) as of 31 December 2015.

Lending to retail customers rose in 2015 by NOK 6.6bn (5.5bn) or 9.0 per cent (8.0 per cent) to reach NOK 80.7bn (74.1bn).

Growth in lending to corporates in 2015 was NOK 0.3bn (2.7bn) or 0.7 per cent (6.1 per cent). Overall loans to corporates totalled NOK 46.7bn (46.3bn) as of 31 December 2015. Loans to retail customers accounted for 63 per cent (62 per cent) of ordinary loans to customers at the end of 2015.

(For distribution by sector, see Note 5).

Deposits

Customer deposits rose in 2015 by NOK 3.4bn (4.8bn) to reach NOK 64.1bn (60.7m) at 31 December 2015. This represents a growth of 5.6 per cent (8.5 per cent).

Retail customer deposits rose by NOK 1.8bn (2.6bn) or 6.9 per cent (10.9 per cent) to reach NOK 28.3bn, while deposits from corporates rose by NOK 1.6bn (2.1bn) or 4.6 per cent (6.7 per cent) to NOK 35.8bn.

The deposit-to-loan ratio at SpareBank 1 SMN was 68 per cent as of 31 December 2015 (67 per cent).

(For distribution by sector, see Note 10).

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled NOK 6.6bn (6.2bn) at 31 December 2015. Compared with the previous year, values on equity funds are reduced, while active management has increased substantially.

Saving products, customer portfolio (NOKm)	2015	2014	Change
Equity funds	3,680	4,002	-322
Pension products	683	597	86
Active management	2,197	1,611	586
Total	6,560	6,210	350

Insurance

The bank's insurance portfolio showed growth of 5.6 per cent in the last 12 months. Non-life insurance delivered 2.5 per cent per cent growth, personal insurance 9.8 per cent while growth in the occupational pensions portfolio came to 12.1 per cent.

Insurance, premium volume (NOKm)	2015	2014	Change
Non-life insurance	724	706	18
Personal insurance	269	245	24
Occupational pensions	195	174	21
Total	1,188	1,125	63

Retail Banking

Operating income for 2015 was at about the same level as in 2014, totalling in aggregate NOK 1,663m with net interest income at NOK 948m and commission income at NOK 715m. Return on capital employed in the private banking segment was 15.8 per cent. Economic capital of 13.5 per cent is used as capital employed, corresponding to the CET1 target the group intends to reach by 30 June 2016.

The lending margin in 2015 was 2.07 per cent (2.39 per cent), while the deposit margin was minus 0.14 per cent (minus 0.42 per cent) measured against three-month NIBOR. Average three-month NIBOR was reduced by about 30 basis points over the course of 2015.

In the last 12 months, lending to retail customers rose by 8.4 per cent and deposits from the same segment by 6.2 per cent.

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

Corporate Banking

Operating income totalled NOK 1,164m in 2015, having increased by 6 per cent from 2014. Net interest income was NOK 971m, while other income totalled NOK 193m.

Return on capital employed for the corporate banking segment was 12.4 per cent for 2105. Economic capital of 13.5 per cent is used as capital employed, corresponding to the CET1 target the group intends to reach by 30 June 2016.

The lending margin was 2.68 per cent (2.90 per cent) and the deposit margin was minus 0.34 per cent (minus 0.60 per cent) in 2015.

Growth in loans and deposits respectively in 2015 was 0.9 per cent and 6.9 per cent.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 130.7m (124.6m) in 2015. The results are from the companies' financial statements.

Pre-tax profit (NOKm)	2015	2014	Change
EiendomsMegler 1 Midt-Norge	47.0	50.9	-3.9
SpareBank 1 Finans Midt-Norge	83.1	67.9	15.1
SpareBank 1 Regnskapshuset SMN	34.8	40.5	-5.7
Allegro Kapitalforvaltning	1.4	2.6	-1.2
SpareBank 1 SMN Invest	38.6	1.7	36.9
SpareBank 1 Markets (from second quarter 2015)	-84.1	-	-84.1
Other companies	9.8	-39.0	48.8
Total	130.7	124.6	6.1

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre og Romsdal with a market share of 40 per cent, and about 50 per cent in Trondheim. The company's pre-tax profit of NOK 47.0m (50.9m) for 2015 is satisfactory. The company brokered the sale of 6,615 dwellings in 2015 compared with 6,381 the previous year.

SpareBank 1 Finans Midt-Norge posted a pre-tax profit of NOK 83.1m (67.9m) in 2015 and shows positive profit growth due to increased incomes both from car loans and leasing. At year-end the company managed leases and car loan agreements worth a total of NOK 4.3bn of which leases accounted for NOK 2.1bn and car loans for NOK 2.2bn. In the first half-year the SpareBank 1 banks in Møre og Romsdal held a 9.1 per cent stake in SpareBank 1 Finans Midt-Norge. The other SamSpar banks became co-owners in June 2015. The SamSpar banks now hold a stake of 27.9 per cent in SpareBank 1 Finans Midt-Norge. This brings a substantial increase in the company's distributive power.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 34.8m (40.5m) in 2015. The 2014 profit contains gains on share disposals, such that the underlying profit growth is positive.

SpareBank 1 SMN Regnskapshuset SMN has a growth strategy based on the acquisition of small accounting firms. The company caters to the SMB segment with its modern distribution model and a broad range of services.

Allegro Kapitalforvaltning is an active management company that manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are Allegro's distribution channel. The company posted a pre-tax profit of NOK 1.4m in 2015 (2.6m). The company manages a portfolio of NOK 5.4bn including management of the bank's pension fund worth NOK 0.7bn.

SpareBank 1 SMN Invest mission is to invest in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 38.6m in 2015 (1.7m). This figure is a consequence of value changes and realisation of losses or gains on the company's overall shareholding and accounts for NOK 11.5m of the profit. The company held owner interests in the property companies Grilstad Marina and Hommelvik Sjøside in 2015 which yielded a profit share of NOK 27.1m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015 and is consolidated into the Group accounts in line with other subsidiaries as from the same date. SpareBank 1 SMN's capital market activities at the parent bank were transferred to SpareBank 1 Markets as part of the transaction. SpareBank 1 SMN's share is 73.4 per cent. SpareBank 1 Markets has its head office in Oslo and divisions in Trondheim and Ålesund. It has 109 employees.

SpareBank 1 Markets is an investment firm offering a complete range of products. The company aspires to be a profitable capital market operation which in collaboration with its owner banks can deliver all capital

market services. Both customer trading and own account trading are carried out in fixed income and forex instruments, bonds, equities and equity derivatives. Advisory services and facilitating internal and external equity finance for clients are also important product areas.

The company's post-tax profit in 2015 was minus NOK 102m (including the result for the first quarter). The substantial deficit in 2015 is mainly due to capital losses of NOK 76m related to increased credit margins on the bond portfolio. After profitability enhancement measures undertaken in 2015, SpareBank 1 Markets has strengthened its customer base and the basis for earnings on customer trading and own account trading alike. The company's income trend from underlying operations improved over the course of 2015.

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

Other companies show an overall profit of NOK 9.8m (deficit of 39.0m). These are mainly property companies that lease premises to SpareBank 1 SMN and other tenants.

mCASH

The SpareBank 1 banks announced on 15 October the acquisition of the Norwegian arm of mCASH. The intention is to strengthen the bank's position on new mobile interfaces such as friend-to-friend payment and mobile payments in stores.

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 21bn and thus has the funding needed for 24 months of ordinary operation without fresh external finance.

The bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 86 per cent (87 per cent). The supply of market funding is satisfactory. However, the marginal cost of senior financing in the market was rising towards year-end.

SpareBank 1 Boligkreditt is the bank's chief source of funding, and as of 31 December 2015 loans totalling NOK 32bn had been sold to SpareBank 1 Boligkreditt.

Rating

SpareBank 1 SMN has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings. The bank was upgraded by Moody's in May 2015, as were a number of other Norwegian banks.

Financial position

The CET1 capital ratio was 13.6 per cent (11.2 per cent) at 31 December 2015. Since the third quarter of 2015 the CET1 ratio has risen by 0.4 percentage points. The change in the fourth quarter is due to:

- Increased equity capital as a result of profit retention. The effect strengthened in the fourth quarter as a result of a lower payout ratio than the ratio underlying the capital adequacy calculation in the first three quarters of 2015
- An unrealised gain at Visa Norge FLI as a result of the sale of Visa Europa to Visa Inc. strengthens the core capital position. SpareBank 1 SMN recognised NOK 74.1m as an unrealised value change for Visa Norge FLI against other comprehensive income (OCI) in the fourth quarter of 2015 (see note 2)
- Growth in risk weighted assets related to the transitional rules in the capital requirements regulations (the 'floor') weakens the core capital position somewhat

The regulatory requirement on CET1 capital as of 31 December 2015 was 11 per cent, including combined buffer requirements. The requirement will increase to 11.5 per cent as from 30 June 2016 due to the foreshadowed increase in the countercyclical buffer to 1.5 per cent.

The board of directors of SpareBank 1 SMN reviews the capital situation and future capital requirements on an ongoing basis.

SpareBank 1 SMN is engaged in a regular dialogue with Finanstilsynet (Norway's FSA) regarding its capital level. Finanstilsynet has communicated to the bank a capital expectation of 14.5 per cent CET1 capital by 31 December 2016. This was considered by the board in December and a new target of at least 14.5 per cent by 31 December 2016 was set. Finanstilsynet will not establish individual Pillar 2 add-ons for SpareBank 1 SMN prior to implementing the SREP (Supervisory Review and Evaluation Process) in 2016.

The assumption and expectation of SpareBank 1 SMN's board of directors is that implementing the bank's capital plan will ensure that the bank attains the capital requirements expected of it by the market and set by the authorities without carrying out a stock issue.

The board is accordingly planning for a CET1 capital ratio of 13.5 per cent by 30 June 2016 (including a countercyclical buffer of 1.5 per cent) and a further increase to at least 14.5 per cent by end-2016.

As of 31 December 2015 BN Bank's commercial property portfolio represents about NOK 7.5bn of SpareBank 1 SMN's risk weighted assets. Further winding down this portfolio will boost SMN's CET1 ratio by about 1.1 percentage point. As of 31 December 2015 SpareBank 1 SMN's share of BN Bank's risk weighted assets had been reduced by NOK 1.5bn since August 2015.

The following are the most important measures in the Group's capital plan:

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments
- The dividend policy to entail an effective payout ratio of 25–35 per cent of the group profit
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to households

The bank's equity certificate (MING)

The book value of the bank's EC as of 31 December 2015 including a recommended dividend of NOK 2.25 was NOK 67.65 (62.04), and earnings per EC were NOK 7.02 (8.82).

The Price / Income ratio was 7.19 (6.63), and the Price / Book ratio was 0.74 (0.94).

At year-end the EC was priced at NOK 50.50, and dividend of NOK 2.25 per EC was paid in 2015 for the year 2014.

Risk factors

The credit quality of the bank's loan portfolio is satisfactory, loss and default levels are low, and there are no concentrations in defaulted and problem exposures.

The bank anticipates a falling GDP growth rate as a result of reduced oil investment. A weaker Norwegian krone has had a beneficial effect on Norwegian export industry, and will partially offset some of these effects. The bank expects low growth in lending to mid-Norwegian business and industry ahead due to a limited level of investment.

Real wage growth will be low but, assuming persistent low interest rates, the bank considers that the risk of loss in the bank's retail market portfolio will be low. The main uncertainty is unemployment. The bank expects a slight increase in unemployment, but that unemployment will be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households has declined somewhat, but remains higher than wage growth and will to a large extent be affected by the development in house prices. The bank expects losses on mortgage lending to remain low. Should house prices stagnate, or fall, there will be a risk of an increase in the household saving rate, bringing reduced turnover and sales for parts of Norwegian business and industry.

The bank's results are affected directly and indirectly by the fluctuations in the securities markets. The indirect effect relates 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).

Prospects

The directors are well satisfied with the performance for 2015. This is despite the decline in profit from 2014 which is mainly due to substantial extraordinary revenues in 2014. The bank has achieved good growth in a highly competitive retail market and has strengthened its market position. Reduced loan demand from corporate borrowers in combination with a stronger focus on risk has prompted the bank to reduce lending growth in keeping with the assumptions underlying the capital plan. The bank's subsidiaries and affiliates are on satisfactory trend at the start of 2016.

Economic conditions at the start of 2016 are marked by a low oil price and challenging market conditions for oil-price-dependent manufacturing. At the end of 2015 the problems in the oil/offshore segment have however not brought signs of increased non-performance in the bank's loan portfolios. Unemployment in the bank's market areas as a whole has not risen significantly. Continued low oil prices mean that uncertainty regarding the bank's exposure to oil-related activity in Sunnmøre in particular is greater at the start of 2016 than one year ago. Defaults noted by the bank are at a very low level, which is the main explanation for very low individually assessed impairment write-downs. The uncertainty caused the bank to increase its collectively assessed impairment write-downs in the in the fourth quarter by NOK 51m earmarked for this sector. A similar provision of NOK 31m was made in the third quarter.

The target of a CET11 ratio of 13.5 per cent by 30 June 2016 was attained as of 31 December 2015. The board of directors has adopted a new target of 14.5 per cent to be attained by 31 December 2016. The

directors expect the target to be met with the instruments in the bank's capital plan. Chief among these are good current earnings, reduced growth in the corporate segment in particular, along with scaling back the loan portfolio at BN Bank. The bank has the space for action to meet government requirements without carrying out a stock issue. The board anticipates a gradual increase in dividends ahead.

With a view to strengthening the bank's competitive power, major change projects are under way in the areas of digitalisation, distribution and work processes. This will increase the efficiency of banking operations and enhance the quality of the bank's customer experience.

Even with the weaker prospects for the Norwegian economy, the board of directors expects 2016 to bring satisfactory earnings for SpareBank 1 SMN.

Trondheim, 2 February
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

Venche Johnsen
(Employee rep.)

Finn Haugan
(Group CEO)