

Fourth Quarter Report 2016



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Main figures (Group)

	January-December 2016		January-December 2015	
	NOKm	% 1)	NOKm	% 1)
From the income statement				
Net interest	1,883	1.37	1,872	1.46
Net commission income and other income	1,674	1.22	1,545	1.20
Net return on financial investments	944	0.69	459	0.36
Total income	4,502	3.28	3,876	3.02
Total operating expenses	2,003	1.46	1,931	1.50
Results before losses	2,499	1.82	1,945	1.52
Loss on loans, guarantees etc	516	0.38	169	0.13
Results before tax	1,983	1.45	1,776	1.38
Tax charge	341	0.25	370	0.29
Result investment held for sale, after tax	4	0.00	-1	0.00
Net profit	1,647	1.20	1,406	1.10

Key figures	31 Dec 2016	31 Dec 2015
Profitability		
Return on equity ²⁾	11.3 %	10.7 %
Cost-income ratio ³⁾	44 %	50 %
Balance sheet figures		
Gross loans to customers	102,325	93,974
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	137,535	127,378
Deposits from customers	67,168	64,090
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	66 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt	49 %	50 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt)	8.0 %	5.8 %
Growth in deposits last 12 months	4.8 %	5.6 %
Average total assets	137,060	128,355
Total assets	138,080	131,914
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt		
Impairment losses ratio	0.39 %	0.14 %
Non-performing commitm. as a percentage of gross loans ⁴⁾	0.16 %	0.16 %
Other doubtful commitm. as a percentage of gross loans ⁴⁾	1.07 %	0.31 %
Solidity		
Capital adequacy ratio	19.4 %	18.3 %
Core capital ratio	17.0 %	15.6 %
Common equity tier 1 ratio	14.9 %	13.6 %
Core capital	15,069	13,988
Net equity and related capital	17,185	16,378
Liquidity Coverage Ratio (LCR)	129 %	118 %
Branches and staff		
Number of branches	48	49
No. Of full-time positions	1,254	1,208

Key figures ECC ⁵⁾	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
ECC ratio	64.0 %	64.0 %	64.6 %	64.6 %	64.6 %
Number of certificates issued, millions	129.83	129.83	129.83	129.83	129.83
ECC share price at end of period (NOK)	64.75	50.50	58.50	55.00	34.80
Stock value (NOKM)	8,407	6,556	7,595	7,141	4,518
Booked equity capital per ECC (including dividend)	73.26	67.65	62.04	55.69	50.09
Profit per ECC, majority	7.91	7.02	8.82	6.92	5.21
Dividend per ECC	3.00	2.25	2.25	1.75	1.50
Price-Earnings Ratio	8.19	7.19	6.63	7.95	6.68
Price-Book Value Ratio	0.88	0.75	0.94	0.99	0.69

1) Calculated as a percentage of average total assets

2) Net profit as a percentage of average equity

3) Total operating expenses as a percentage of total operating income

4) Defaults and doubtful loans are reported on the basis of gross lending, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, and guarantees drawn

5) The key figures are corrected for issues

Report of the Board of Directors

Preliminary annual accounts 2016

(Consolidated figures. Figures in parenthesis refer to the same period of 2015 unless otherwise stated)

Post-tax profit of NOK 1,647m

- Pre-tax profit: NOK 1,983m (1,776m)
- Post-tax profit: NOK 1,647m (1,406m)
- Return on equity: 11.3 per cent (10.7 per cent)
- CET1 capital ratio: 14.9 per cent (13.6 per cent)
- Growth in lending: 8.0 per cent (5.8 per cent) and in deposits: 4.8 per cent (5.6 per cent)
- Loan losses: NOK 516m (169m)
- Earnings per equity certificate (EC): NOK 7.91 (7.02). Book value per EC, incl. dividend proposed for 2016: NOK 73.26 (67.65)
- Proposed dividend: NOK 3.00 per EC and NOK 220m to be allocated to non-profit causes

Fourth quarter 2016

- Pre-tax profit: NOK 553m (388m)
- Post-tax profit: NOK 462m (287m)
- Return on equity: 12.2 per cent (8.4 per cent)
- Loan losses: NOK 99m (56m)
- Earnings per equity certificate (EC): NOK 2.21 (1.45)

Good profit performance in 2016

Main points:

- Good profits from banking operations, subsidiaries and product companies alike
- Profit of NOK 241m better than in 2015 as a result of increased operating revenues and very good return on financial investments
- Good cost control. Costs reduced from 2015 to 2016 in real terms thanks to planned zero growth in costs at the parent bank
- Loan losses in keeping with forecast for the year
- Strengthened financial position
- High customer influx and high growth in all product areas

In 2016 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,983m (1,776m). Net profit was NOK 1,647m (1,406m) and return on equity was 11.3 per cent (10.7 per cent).

Overall operating revenues in 2016 come to NOK 3,558m (3,417m), an increase of NOK 140m.

Return on financial assets was NOK 944m (459m), of which the profit share from owner interests in affiliates and joint ventures accounted for NOK 423m (448m).

Operating expenses came to NOK 2,003m (1,931m) in 2016. The increase refers entirely to the bank's subsidiaries and is attributable to capacity expansion at Eiendomsmegler 1 and company acquisitions by SpareBank 1 Regnskapshuset SMN.

Net losses on loans and guarantees were NOK 516m (169m). These are in all essentials individually assessed loss write-downs in oil-related activity.

In 2016 SpareBank 1 SMN achieved a lending growth of 8.0 per cent (5.8 per cent) and deposit growth of 4.8 per cent (5.6 per cent).

As at 31 December 2016 the CET1 ratio was 14.9 per cent (13.6 per cent). The CET1 target set for end-2016 was 14.5 per cent was duly achieved in keeping with the bank's capital plan.

The market price of the bank's EC at year-end was NOK 64.75 (50.50). In 2016 a cash dividend of NOK 2.25 per EC was paid for the year 2015. This represents a payout ratio of 32 per cent of the consolidated net profit.

Earnings per EC were NOK 7.91 (7.02). The book value per EC was NOK 73.26 (67.65) incl. recommended dividend of NOK 3.00. The recommended dividend represents a payout ratio of 37 per cent.

Pre-tax profit in the fourth quarter in isolation was NOK 553m (388m). The result for the quarter reflects:

- Good net interest income
- Stable commission earnings
- Reduced costs as a result of a gain on the wind-up of the defined benefit pension scheme
- Lower losses than in previous quarters
- Strong 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	2016	2015
Profit for the year, Group	1.647	1.406
Profit, subsidiaries	-280	-58
Dividend, subsidiaries	147	103
Profit, associated companies	-423	-448
Dividend, associated companies	591	351
Elimination Group	-27	117
Profit for the year, Parent bank	1.655	1.471
Distribution of profit	2016	2015
Profit for the year, Parent bank	1.655	1.471
Transferred to/from revaluation reserve	95	-66
Profit for distribution	1.750	1.405
Dividends	389	292
Equalisation fund	730	616
Saving Bank's fund	411	457
Gifts	220	40
Total distributed	1.750	1.405

The annual profit for distribution reflects changes of NOK 95m in the revaluation reserve, leaving the total amount for distribution at NOK 1,750m.

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 64.0 per cent of the distributed profit.

The board of directors recommends the supervisory board to set a cash dividend of NOK 3.00 per EC, altogether totalling NOK 389m. This gives the EC holders a payout ratio of 37 per cent of the group profit. The board of directors further recommends the supervisory board to allocate NOK 220m as gifts to non-profit causes, also representing a payout ratio of 37 per cent. Of this amount it is proposed that NOK 160m be transferred to the foundation SpareBank 1 Stiftelsen SMN and NOK 60m as gifts to non-profit causes. NOK 730m and NOK 411m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2016, the ratio of EC capital to total equity remains 64.0 per cent.

Stable net interest income

Net interest income came to NOK 1,883m (1,872m). There are changes in the composition of net interest income compared with 2015:

- Increased lending to and deposits from retail and corporate customers
- Increased margins on deposits
- Reduced lending margins

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 2016 totalled NOK 282m (334m).

Competition in the home mortgage market is intense, and margins on these loans have fallen by 75 points over the last two years. In the same period deposit rates to retail and corporate customers have been lowered, so that increased deposit margins compensate for some of the margin lapse on home mortgages.

Home mortgage lending rates are subject to a general increase of up to 20 basis points with effect from 8 January 2017. The background to the increase is a rise in funding costs in the third and fourth quarter of 2016. Loans to corporates have also been repriced.

Increased commission income

Commission and other operating income totalled NOK 1,674m (1,545m), an increase of NOK 129m.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was reduced by NOK 52m due to reduced margins on retail lending. A consistently positive development is seen in other commission income, and overall growth came to NOK 173m, corresponding to 14 per cent. Growth is strongest in income from capital market activities, real estate agency and accounting services along with saving and investment and asset management.

An important element in the bank's strategy is to achieve high number of multi-product customers. The trend in incomes reflects good sales of a broad range of products both to retail and corporate customers.

Commission income (NOKm)	2016	2015	Change
Payment transfers	196	188	9
Creditcard	63	56	6
Saving products	97	82	15
Insurance	159	156	3
Guarantee commission	77	72	6
Real estate agency	391	332	59
Accountancy services	213	183	30
Brokerage income securities	126	64	62
Other commissions	69	78	-9
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1.392	1.211	182
Commissions SB1 Boligkreditt	271	326	-55
Commissions SB1 Næringskreditt	12	8	3
Total commissions	1.674	1.545	129

Very good return on financial investments

Overall return on financial investments (excluding the share of the profit/loss of affiliates and joint ventures) was NOK 521m (10m) in 2016. This breaks down as follows:

- Return on the group's equity portfolios totalled NOK 149m (62m). Of this amount, NOK 65m refers to proceeds of the Visa transaction, while the remainder is mainly gains on equity portfolios at SpareBank 1 SMN Invest.
- Net capital gains on bonds and derivatives came to NOK 236m (loss of 90m) in 2016. This is largely ascribable to reduced credit margins on the liquidity portfolio.
- Income on forex and fixed income transactions was NOK 136m (102m). This is essentially income from SpareBank 1 Markets.

	January-December		
Net return on financial investments (NOKm)	2016	2015	Change
Capital gains/dividends, shares	149	62	87
Bonds and derivatives	236	-90	326
Change in discount factor in fair value model for fixed interest loans	-	-64	64
Income on forex and fixed income	136	102	34
Net return on financial investments	521	10	511
SpareBank 1 Gruppen	317	251	66
SpareBank 1 Boligkreditt	-17	80	-97
SpareBank 1 Næringskreditt	29	30	-1
SpareBank 1 Kredittkort	24	21	3
BN Bank	86	41	45
Companies owned by SpareBank 1 SMN Invest	15	27	-12
SpareBank 1 Mobilbetaling	-27	-	-27
Other companies	-4	-2	-2
Income from investment in associated companies	423	448	-25
Total	944	458	486

Product companies and other associates

The product companies deliver a broader range of services to the bank's customers and thus commission income. The product companies also provide the banks with good return on invested capital.

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2016 was NOK 1,575m (1,316m). SpareBank 1 Forsikring is the main contributor, delivering 90 per cent of the profit. Odin Forvaltning and SpareBank 1 Gruppen Finans contribute in all essentials the remainder. SpareBank 1 SMN's share of the profit for 2016 was NOK 317m (251m). SpareBank 1 Gruppen's profit growth is ascribable to very good financial results and satisfactory growth.

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 December 2016 the bank had sold loans totalling NOK 33.1bn (31.9bn) to SpareBank 1 Boligkreditt, corresponding to 37.1 per cent (39.6 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt in 2016 was 19.0 per cent, and the bank's share of that company's profit in 2016 was minus NOK 17m (plus 80m). The deficit in 2016 is ascribable to unrealised losses on the company's basis swaps compared with unrealised gains in previous years. The bank's stake reflects the bank's relative share of sold home mortgages. The new stake as of 31 December 2016 is 19.1 per cent.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2016, loans worth NOK 2.1bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 36.5 per cent, and the bank's share of the company's profit for 2016 was NOK 29m (30m). 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, 79.9 per cent have been transferred from BN Bank.

SpareBank 1 Kredittkort

Profit for 2016 was NOK 128m (112m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.4 per cent. SpareBank 1 SMN's share of the profit for 2016 was NOK 24m, and the bank's share of the portfolio is NOK 829m (792m).

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as of 31 December 2016.

BN Bank recorded a profit of NOK 261m (125m) in 2016. SpareBank 1 SMN's share of the profit of BN Bank was NOK 86m (41m) providing a return on equity of 7.3 per cent (3.5 per cent). The profit growth is largely related to increased margins on loans to corporates, reduced operating expenses and good return on financial assets.

The board of directors of BN Bank decided in 2015 to wind down the focus on lending to commercial property and to carry out a reduction of the portfolio. As at 31 December 2016 the corporate portfolio has been reduced by NOK 16.6bn or 52 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 personal market, as reflected in the strong growth of 13.4 per cent in home mortgage lending in 2016.

BN Bank has in 2016 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 intended to strengthen home mortgage lending for BN Bank in this market. To support the focus on estate agency, the bank's board of directors have also adopted a new focus on funding of housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Mobilbetaling (mCASH)

SpareBank 1 Mobilbetaling is SpareBank 1's project to strengthen the SpareBank 1 banks' position in the mobile device field. mCASH has grown from a team of eight individuals into a business with an 18-strong staff along with advisers and sales organisation in the banks. As of 31 December 2016, 5,538 user sites are registered, of which 2,155 are clubs and associations, and close to 600,000 have downloaded the app. mCASH has a turnover totaling NOK 63 million. mCASH has achieved broad-based exposure and growth in the transport field, including Norwegian State Railways and the public transport company Ruter.

The company recorded a deficit of NOK 135m for 2016 of which SpareBank 1 SMN's share is NOK 27m. The deficit is a consequence of start-up costs and marketing and further development of mCash. The company is owned by the SpareBank 1 banks, and SpareBank 1 SMN's stake is 19.7 per cent.

Reduced operating expenses at the parent bank

Overall operating expenses came to NOK 2,003m (1,931m) in 2016. Of the increase of NOK 72m, NOK 59m is ascribable to SpareBank 1 Markets' consolidation as a subsidiary as from the second quarter of 2015.

Parent bank costs are reduced by NOK 66m to NOK 1,151m from 2015 to 2016. Parts of the change are explained by:

- The expensing of NOK 50m in reorganisation costs connected to downstaffing in 2016 and 2017.
- The termination in the fourth quarter of 2016 of the defined benefit pension scheme for employees of the parent bank and subsidiaries and the transfer of all Group employees to a defined contribution scheme. New contribution rates were concurrently introduced for defined contribution pensions. The termination resulted in a settlement gain of NOK 90m, of which NOK 74m is in the parent bank and NOK 16m in the subsidiaries.

When corrected for the above factors, parent bank costs are reduced by NOK 28m or 2.3 per cent from 2015 to 2016. Wide-ranging efficiency improvement measures have been initiated at the bank. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 90 from 720 to 630. The bank has accordingly achieved its target of zero growth in the period 2014 to 2016. Changing customer behaviour and new technology will set the stage for increasing efficiency in the period ahead, and the target of zero growth is retained for 2017.

When corrected for SpareBank 1 Markets and the pension settlement gain, cost growth among the subsidiaries was NOK 91m. The cost growth refers to Eiendomsmegler 1 (estate agency services) and SpareBank 1 Regnskapshuset SMN (accounting services). Eiendomsmegler 1 intensified its market drive through 2016 and SpareBank 1 Regnskapshuset SMN acquired businesses again in 2016, thereby increasing the cost base.

The Group cost-income ratio was 44 per cent (50 per cent).

Increased losses but low defaults

Net loan losses totalled NOK 516m (169m) for 2016. Net loan losses measure 0.39 per cent of total outstanding loans (0.14 per cent). Net losses in the fourth quarter in isolation were NOK 99m (56m).

A net loss of NOK 495m (151m) was recorded on loans to corporates for 2016. Of this amount, NOK 464m refers to four exposures in the offshore segment.

A net loss of NOK 21m (18m) was recorded in the retail banking portfolio in 2016.

Individually assessed write-downs on loans and guarantees totalled NOK 638m (184m) at 31 December 2016.

Total problem loans (defaulted and doubtful) come to NOK 1,688m (604m), or 1.23 per cent (0.47 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 214m (205m), measuring 0.16 per cent (0.16 per cent) of gross lending. Of the overall default volume, NOK 39m (26m) is loss provisioned, corresponding to 18 per cent (13 per cent).

Defaults break down to NOK 38m (50m) on corporates and NOK 176m (155m) on retail borrowers.

Other doubtful exposures totalled NOK 1,474m (399m), i.e. 1.07 per cent (0.31 per cent) of gross outstanding loans. NOK 599m (158m) or 41 per cent (40 per cent) is written down.

Other doubtful exposures break down to NOK 1,455m (350m) on corporates and NOK 19m (49m) on retail borrowers.

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 after granting of loans)
- 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).

Collectively assessed impairment write-downs were increased by NOK 150m in the first quarter of 2016. This was done on the basis that increased probability of default and reduced ship values entailed a greater likelihood of loss in oil-related activity due to a challenging market situation. An increase in individually assessed impairment write-downs as from the second quarter of 2016 connected to this sector provided a basis for reducing the provision for collectively assessed write-downs, and the write-downs were reduced by NOK 188m in this period.

Overall collectively assessed loss write-downs thus total NOK 339m (376m), measuring 0.25 per cent (0.30 per cent) of total loans. Collectively assessed write-downs break down to NOK 100m on retail exposures and NOK 239m on corporates. Of the overall provision of NOK 239m on the corporate portfolio, the provision related to oil-related activity accounts for NOK 60m. The remaining collectively assessed write-downs of NOK 179m on the corporate portfolio are fairly evenly spread across other sectors.

Total assets of NOK 138bn

The bank's assets totalled NOK 138bn at 31 December 2016 (132bn), having risen by NOK 6bn or 4.7 per cent. The increase in total assets is a consequence of increased lending.

As at 31 December 2016 home mortgage loans worth a total of NOK 35bn (33bn) 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 home mortgage lending

Total outstanding loans have risen by NOK 10.2bn (6.9bn) or 8 per cent (5.8 per cent) in 2016 to reach NOK 137.5bn (127.4bn) at year-end.

Loans to retail borrowers rose in 2016 by NOK 8.7bn (6.6bn) to reach NOK 89.4bn (80.7bn), equivalent to an increase of 10.7 per cent (9.0 per cent).

Growth in lending to corporates in 2016 was NOK 1.5bn (0.3bn) or 3.2 per cent (0.7 per cent). Overall lending to corporates was NOK 48.1bn (46.7bn) as at 31 December 2016. Loans to retail accounted for 65 per cent (63 per cent) of ordinary loans to customers as at end-2016.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 3.1bn (3.4bn) in 2016 to reach NOK 67.2bn (64.1bn) as at 31 December 2016. This represents a growth of 4.8 per cent (5.6 per cent).

Retail deposits rose by NOK 1.4bn (1.8bn) or 5.1 per cent (6.9 per cent) to reach NOK 29.7bn, while corporate deposits rose by NOK 1.6bn (1.6bn) or 4.6 per cent (4.6 per cent) to NOK 36.6bn.

The deposit-to-loan ratio at SpareBank 1 SMN was 66 per cent at 31 December 2016 (68 per cent).

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.2bn (9.4bn) at 31 December 2016. Active asset management has shown strong growth both as a result of value increases and good sales.

Saving products, customer portfolio (NOKm)	January-December		Change
	2016	2015	
Equity funds	6.612	6.540	72
Pension products	762	683	79
Active management	2.780	2.197	583
Total	10.154	9.420	734

Insurance

The bank's insurance portfolio showed growth of 5.6 per cent in the last 12 months. Growth has been strongest for personal insurance, at 12.6 per cent.

Insurance, premium volume (NOKm)	January-December		Change
	2016	2015	
Non-life insurance	738	724	14
Personal insurance	303	269	34
Occupational pensions	214	195	19
Total	1.255	1.188	67

Retail Banking

Operating income totalled NOK 1,633m (1,663m) of which net interest income accounted for NOK 953m (948m) and commission income for NOK 679m (715m). Operating income has increased due to increased lending and improved deposit margins along with increased commission income from payments, savings and investment and insurance. At the same time reduced lending margins have in isolation reduced incomes, and overall income fell by NOK 30m. Return on capital employed in the retail banking segment was 13.8 per cent (15.8 per cent). Regulatory capital of 14.5 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin for 2016 was 1.72 per cent (2.07 per cent), while the deposit margin was 0.27 per cent (minus 0.14 per cent) (measured against three-month NIBOR). The average three-month NIBOR has fallen by about 30 basis points since the start of 2015.

In the last 12 months retail lending and retail deposits grew by 10.3 per cent (8.4 per cent) and 3.9 per cent (6.2 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 home 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 1,205m (1,164m) in 2016. Net interest income was NOK 1,000m (971m), while commission income totalled NOK 205m (193m). Operating income in the corporate segment has increased due very largely to increased deposit margins and increased guarantee commissions.

Overall net losses recorded in the Corporate Banking Division were NOK 490m (151m). The losses are in all essentials related to the challenges faced in the oil and offshore segment.

Return on capital employed for the corporate banking segment in 2016 was 6.9 per cent (12.4 per cent). Regulatory capital of 14.5 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.66 per cent (2.68 per cent) and the deposit margin was minus 0.14 per cent (minus 0.29 per cent) as at end-December 2016.

Lending grew by 0.7 per cent (0.9 per cent) and deposits by 6.7 per cent (6.9 per cent) in 2016.

Subsidiaries

The subsidiaries posted an overall profit of NOK 326.8m (130.7m) before tax. The results below are from the respective company accounts.

Pre-tax profit (NOKm)	2016	2015	Change
EiendomsMegler 1 Midt-Norge	66,7	47,0	19,7
SpareBank 1 Finans Midt-Norge	103,4	83,1	20,4
SpareBank 1 Regnskapshuset SMN	42,9	34,8	8,1
Allegro Kapitalforvaltning	9,8	1,4	8,4
SpareBank 1 SMN Invest	73,7	38,6	35,2
Sparebank 1 Markets (from second quarter 2015)	9,9	-84,1	93,9
Other companies	20,4	9,8	10,6
Total	326,8	130,7	196,2

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a market share of 40 per cent, and in Trondheim of about 50 per cent. The company's pre-tax profit of NOK 66.7m (47.0m) for 2016 is very good. Dwellings sold in 2016 totalled 7,439 compared with 6,612 in 2015.

SpareBank 1 Finans Midt-Norge also delivered a very good pre-tax profit of NOK 103.4m in 2016 (83.1m). Good sales of car loans in particular made a positive contribution, with growth of 35 per cent. The company's business areas are mainly car loans to retail customers and leasing to the SMB market. Car loans account

for NOK 2.7bn and leasing for NOK 2.3bn. The company also offers consumer loans, and at year-end this portfolio was worth NOK 132m.

The Samspar banks in SpareBank 1 hold a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge. Sparebanken Sogn og Fjordane joined as co-owner in January 2016 with a stake of 7.5 per cent, thereby further strengthening the company's distributive power. 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 42.9m (34.8m) in 2016. SpareBank 1 Regnskapshuset SMN has a growth strategy based on the acquisition of small accounting firms. In 2016 the company acquired three businesses in Sunnmøre which were consolidated into the company at year-end.

The company caters to the SMB segment with a technologically modern distribution model and a broad range of services. In order to be better equipped to implement a major digital project and to modernise its accounting services, the company acquired the IT consultancy Areto Solutions in the third quarter. This company has 20 employees and offices in Trondheim.

SpareBank 1 Regnskapshuset SMN has in addition acquired all shares of Økonomisenteret Kunderegnskap in Molde along with about 110 employees with effect from 1 January 2017. SpareBank 1 Regnskapshuset SMN will now have 360 employees and an annual turnover of NOK 360m.

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 9.8m in 2016 (1.4m). The company manages a portfolio worth NOK 6.5bn.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 73.7m (38.6m) as per the fourth quarter of 2016.

Value changes and realisation of losses or gains on the company's overall holding of shares represent NOK 58.7m of the company's total income. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in 2016 was NOK 15.0m.

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 2016 was NOK 9.9m compared with minus NOK 84.1m in 2015. Results across all the company's business lines have been satisfactory. Underlying operations for these business lines are sound, with a solid customer base.

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.

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 22bn and has the funding needed for 25 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 129 per cent as at 31 December 2016.

In the second quarter the bank raised a new loan of EUR 500m in the Euromarket with a five-year term.

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 88 per cent (86 per cent).

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 December 2016 was 14.9 per cent (13.6 per cent). The change over the last 12 months is ascribable to:

- An increase of NOK 1.1bn, or 9 per cent, in CET1 capital. This is in all essentials retained profit.
- Overall capital needs are reduced by NOK 0.7bn corresponding to 0.8 per cent over the last 12 months. The reduced need for capital is largely due to a reduction in lending to commercial property at BN Bank and a reduced need for capital related to transitional arrangements. In addition, lending growth has focused on home mortgages while growth in lending to corporates has been low.

SpareBank 1 SMN goal was to attain a CET1 capital ratio of at least 14.5 per cent by 31 December 2016. The Group has attained this target with launching a stock issue. The most important measures have been:

- Profit retention and a reduced level of dividend payouts
- Sound banking operations through efficiency enhancement and increased prioritisation of profitable segments
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to households
- Wind-down of the commercial property portfolio of BN Bank. By the end of 2016 the portfolio had been reduced by 52 per cent since 30 June 2015.

As at 31 December 2016 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, down from 2.3 per cent in the preliminary assessment. 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. The increase will be effective as from 31 December 2017. The board of directors has therefore decided to raise the capital target to 15 per cent by the end of 2017 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 December 2016, including a recommended dividend of NOK 3.00, was NOK 73.26 (67.65), and earnings per EC were NOK 7.91 (7.02).

The Price / Income ratio was 8.19 (7.19) and the Price / Book ratio was 0.88 (0.74).

As at 31 December 2016 the EC was priced at NOK 64.75 and dividend of NOK 2.25 per EC was paid in 2016 for the year 2015.

Risk factors

Losses and problem loans related to the offshore industry remain at a high level at the end of 2016. 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 rate of GDP growth as a result of declining oil investment. The Norwegian krone has appreciated, thereby reducing some of the positive impact enjoyed by 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 be heavily 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 ahead

SpareBank 1 SMN has, again in 2016, shown a satisfactory development with a strengthened market position and a strong profit performance.

The bank's distribution strategy involves a comprehensive focus on digitalisation of working processes and customer processes in combination with competent advisory services present across 48 localities in the market area. A wide-ranging effort to reduce costs related to the bank's branches was launched in 2016. This work continues and is being reinforced in 2017.

The bank has taken an active part in the work on restructuring businesses in the oil and offshore segment in 2016. Impairment write-downs have been made in this sector in keeping with the forecasts announced early in the year. How this sector will develop in 2017 remains uncertain. The board of directors expect the losses to continue, but at a lower level in 2017 than in 2016. The board is pleased that there is no noticeable spread of contagion effects from the problems in the oil and offshore segment to business and industry in general in the market area.

The bank's plan for zero cost growth at the parent bank has been carried through. The directors expect and assume that changing customer behaviour and new technology will pave the way for further efficiency gains ahead.

The board is pleased that the CET1 capital ratio has strengthened to 14.9 per cent. The Group's target of a CET1 ratio of 14.5 per cent by 31 December 2016 has been achieved and a new capital target of 15.0 per cent has been set.

The board is pleased with the Group's achievements and results for 2016.

Trondheim, 7. february 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.)

Oddny Lysberg
(employee rep.)

Finn Haugan
(Group CEO)

Income statement

Parent bank					Group				
January-December					January-December				
4Q 15	4Q 16	2015	2016	(NOKm)	Note	2016	2015	4Q 16	4Q 15
916	862	3,865	3,401	Interest income		3,597	4,031	917	962
490	425	2,161	1,717	Interest expenses		1,714	2,159	424	489
426	437	1,703	1,684	Net interest	10	1,883	1,872	493	473
257	238	1,005	971	Commission income		1,251	1,245	300	309
28	22	103	85	Commission expenses		133	135	35	38
10	10	220	36	Other operating income		556	435	149	107
238	225	1,123	922	Commission income and other income		1,674	1,545	414	378
1	224	471	817	Dividends		88	25	1	3
-	-	-	-	Income from investment in related companies	3	423	448	74	121
-33	45	-125	188	Net return on financial investments	3	434	-14	153	-15
-32	270	346	1,006	Net return on financial investments		944	459	228	109
633	932	3,172	3,612	Total income		4,502	3,876	1,134	959
148	98	589	536	Staff costs		1,159	1,093	251	280
179	156	628	615	Other operating expenses		844	838	231	235
327	254	1,217	1,151	Total operating expenses	11	2,003	1,931	482	515
306	678	1,955	2,461	Result before losses		2,499	1,945	652	444
53	94	159	502	Loss on loans, guarantees etc.	6,7	516	169	99	56
252	584	1,796	1,959	Result before tax	3	1,983	1,776	553	388
75	95	325	290	Tax charge		341	370	99	100
-	-13	-	-13	Result investment held for sale, after tax	3	4	-1	7	-0
177	476	1,471	1,655	Net profit		1,647	1,406	462	287
				Equity holders of parent company		1,606	1,410	448	291
				Equity holders of non-controlling interests		41	-4	14	-4
				Profit per ECC		8.11	7.00	2.28	1.43
				Diluted profit per ECC		7.91	7.02	2.21	1.45

Other comprehensive income

Parent bank					Group				
January-December					January-December				
4Q 15	4Q 16	2015	2016	(NOKm)		2016	2015	4Q 16	4Q 15
177	476	1,471	1,655	Net profit		1,647	1,406	462	287
				Items that will not be reclassified to profit/loss					
109	-75	109	-75	Actuarial gains and losses pensions		-77	115	-77	115
-27	19	-27	19	Tax		19	-28	19	-28
-	-	-	-	Share of other comprehensive income of associates and joint venture		-1	36	18	0
82	-56	82	-56	Total		-58	123	-40	88
				Items that will be reclassified to profit/loss					
75	-	75	-52	Available-for-sale financial assets		-50	78	2	78
-	-	-	-	Share of other comprehensive income of associates and joint venture		-7	1	8	1
-1	-	-1	-	Tax		-	-1	-	-1
74	-	74	-52	Total		-58	78	10	77
333	420	1,627	1,547	Total other comprehensive income		1,531	1,607	432	452
				Equity holders of parent company		1,490	1,611	418	456
				Equity holders of non-controlling interests		41	-4	14	-4

Balance sheet

Parent bank		(NOKm)	Note	Group	
31 Dec 2015	31 Dec 2016			31 Dec 2016	31 Dec 2015
3,270	315	Cash and receivables from central banks		315	3,270
5,883	8,203	Deposits with and loans to credit institutions		3,892	2,407
89,596	96,499	Net loans to and receivables from customers	5	101,354	93,415
15,752	17,636	Fixed-income CDs and bonds	15	17,557	15,752
7,606	4,812	Derivatives	15	4,752	7,524
337	248	Shares, units and other equity interests	15	1,542	1,485
3,624	3,766	Investment in related companies		5,638	5,522
2,927	3,005	Investment in group companies		-	-
222	226	Investment held for sale		15	16
466	470	Goodwill		639	562
411	882	Other assets	12	2,376	1,962
130,095	136,062	Total assets		138,080	131,914
8,155	10,299	Deposits from credit institutions		10,509	8,155
65,091	68,391	Deposits from and debt to customers	9	67,168	64,090
35,154	36,317	Debt created by issue of securities	14	36,317	35,154
5,366	3,973	Derivatives	15	4,074	5,414
868	731	Other liabilities	13	1,531	1,734
-	-	Investment held for sale		0	0
3,463	3,140	Subordinated loan capital	14	3,182	3,463
118,097	122,850	Total liabilities		122,781	118,010
2,597	2,597	Equity capital certificates		2,597	2,597
-0	-0	Own holding of ECCs		-4	-21
895	895	Premium fund		895	895
3,790	4,487	Dividend equalisation fund		4,484	3,790
292	389	Recommended dividends		389	292
40	220	Provision for gifts		220	40
4,105	4,498	Savings bank's reserve		4,498	4,105
279	126	Unrealised gains reserve		139	290
-	-	Other equity capital		1,656	1,597
		Non-controlling interests		425	318
11,998	13,212	Total equity capital		15,299	13,904
130,095	136,062	Total liabilities and equity		138,080	131,914

Cash flow statement

Parent bank			Group	
January-September			January-September	
2015	2016	(NOKm)	2016	2015
1.471	1.655	Net profit	1.647	1.406
70	34	Depreciations and write-downs on fixed assets	98	104
159	502	Losses on loans and guarantees	516	169
1.700	2.191	Net cash increase from ordinary operations	2.261	1.678
224	2.310	Decrease/(increase) other receivables	2.234	-190
-782	-1.586	Increase/(decrease) short term debt	-1.601	-112
-3.277	-7.405	Decrease/(increase) loans to customers	-8.454	-3.472
-1.520	-2.318	Decrease/(increase) loans credit institutions	-1.485	-1.118
3.889	3.299	Increase/(decrease) deposits to customers	3.078	3.410
-968	2.144	Increase/(decrease) debt to credit institutions	2.354	-968
-1.575	-1.885	Increase/(decrease) in short term investments	-1.805	-1.575
-2.311	-3.249	A) Net cash flow from operations	-3.418	-2.351
-61	-26	Increase in tangible fixed assets	-52	-50
1	-	Reductions in tangible fixed assets	-	1
-821	-223	Paid-up capital, associated companies	33	-98
-6	36	Net investments in long-term shares and partnerships	-67	-702
-887	-213	B) Net cash flow from investments	-86	-849
93	-324	Increase/(decrease) in subordinated loan capital	-281	93
-1	0	Increase/(decrease) in equity	0	-1
-292	-292	Dividend cleared	-292	-292
-160	-40	To be disbursed from gift fund	-40	-160
2.153	1.162	Increase/(decrease) in other long term loans	1.162	2.153
1.792	507	C) Net cash flow from financial activities	549	1.792
-1.405	-2.955	A) + B) + C) Net changes in cash and cash equivalents	-2.955	-1.405
4.676	3.270	Cash and cash equivalents at 1.1	3.270	4.676
3.270	315	Cash and cash equivalents at end of quarter	315	3.270
-1.405	-2.955	Net changes in cash and cash equivalents	-2.955	-1.405

Change in equity

Parent Bank (NOKm)	Issued equity		Earned equity					Total equity
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	
Equity at 1 January 2015	2.597	895	3.619	3.122	292	160	139	10.824
Net profit	-	-	457	616	292	40	66	1.471
Other comprehensive income								
Available-for-sale financial assets	-	-	-	-	-	-	74	74
Actuarial gains (losses), pensions	-	-	29	53	-	-	-	82
Other comprehensive income	-	-	29	53	-	-	74	156
Total other comprehensive income	-	-	486	669	292	40	140	1.627
Transactions with owners								
Dividend declared for 2014	-	-	-	-	-292	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-160	-	-160
Purchase and sale of own ECCs	-	-	-	-1	-	-	-	-1
Total transactions with owners	-	-	-	-1	-292	-160	-	-453
Equity at 31 December 2015	2.597	895	4.105	3.790	292	40	279	11.998
Equity at 1 January 2016	2.597	895	4.105	3.790	292	40	279	11.998
Net profit	-	-	411	730	389	220	-95	1.655
Other comprehensive income								
Available-for-sale financial assets	-	-	2	3	-	-	-57	-52
Actuarial gains (losses), pensions	-	-	-20	-36	-	-	0	-56
Other comprehensive income	-	-	-18	-33	-	-	-57	-108
Total other comprehensive income	-	-	393	697	389	220	-152	1.547
Transactions with owners								
Dividend declared for 2015	-	-	-	-	-292	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-40
Purchase and sale of own ECCs	0	-	-	0	-	-	-	0
Total transactions with owners	0	-	-	0	-292	-40	-	-332
Equity at 30 September 2016	2.597	895	4.498	4.487	389	220	126	13.212

Group	Attributable to partent company equity holders									
	Issued equity		Earned equity							
(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2015	2.597	895	3.619	3.122	292	160	148	1.620	72	12.524
Net profit	-	-	457	616	292	40	66	-61	-4	1.406
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	37	-	37
Available-for-sale financial assets	-	-	-	-	-	-	77	-	-	77
Actuarial gains (losses), pensions	-	-	29	53	-	-	-	4	1	87
Other comprehensive income	-	-	29	53	-	-	77	41	1	201
Total other comprehensive income	-	-	486	669	292	40	142	-20	-3	1.607
Transactions with owners										
Dividend declared for 2014	-	-	-	-	-292	-	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-160	-	-	-	-160
Purchase and sale of own ECCs	-	-	-	-1	-	-	-	-	-	-1
Direct recognitions in equity	-	-	-	-	-	-	-	4	-	4
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-3	-	-3
Own ECC held by SB1 Markets*)	-21	-	-	-	-	-	-	-5	-	-25
Change in non-controlling interests	-	-	-	-	-	-	-	-	249	249
Total transactions with owners	-21	-	-	-1	-292	-160	-	-3	249	-227
Equity at 31 December 2015	2.576	895	4.105	3.790	292	40	290	1.597	318	13.904

*) Holding of own equity certificates as part of SpareBank 1 Markets' trading activity

(NOKm)	Attributable to parent company equity holders									
	Issued equity		Earned equity							
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2016	2.576	895	4.105	3.790	292	40	290	1.597	318	13.904
Net profit	-	-	411	730	389	220	-95	-49	41	1.647
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-8	-	-8
Available-for-sale financial assets	-	-	2	3	-	-	-56	-0	-	-50
Estimate deviation, pensions	-	-	-20	-36	-	-	-	-1	-0	-58
Other comprehensive income	-	-	-18	-33	-	-	-56	-9	-0	-116
Total other comprehensive income	-	-	393	697	389	220	-151	-58	41	1.531
Transactions with owners										
Dividend declared for 2015	-	-	-	-	-292	-	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-	-40
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Direct recognitions in equity	-	-	-	-	-	-	-	-12	-	-12
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	132	-	132
Own ECC held by SB1 Markets*)	17	-	-	-3	-	-	-	-2	-	11
Change in non-controlling interests	-	-	-	-	-	-	-	-	66	66
Total transactions with owners	17	-	-	-3	-292	-40	-	118	66	-135
Equity at 31 December 2016	2.593	895	4.498	4.484	389	220	139	1.656	425	15.299

*) Holding of own equity certificates as part of SpareBank 1 Markets' trading activity

Notes

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Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2015. Further, the Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts.

Note 2 - Critical estimates and assessment concerning the use of accounting principles

When it prepares the consolidated accounts the management team makes estimates, discretionary assessments and assumptions which influence the application of accounting principles. This accordingly affects recognised amounts for assets, liabilities, revenues and expenses. Last year's annual accounts give a closer explanation of significant estimates and assumptions in Note 3 Critical estimates and assessments concerning the use of accounting principles.

Pensions

Sparebank1 SMN Group has two different pension arrangements; defined benefit and defined contribution plan. For a further description of the various pension schemes, see note 24 in the 2015 annual report.

The group's pension liabilities are accounted for under IAS 19R. Estimate variances are therefore directly reflected in equity capital and are presented under other comprehensive income.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme will transfer to the defined contribution scheme as from 1 January 2017, and will receive a paid-up policy showing rights accumulated under the defined benefit scheme. Paid-up policies are managed by the pension fund, which becomes a paid-up pension fund as from 1 January 2017. A framework agreement has been established between SpareBank 1 SMN and the pension fund which covers funding, asset management etc. In view of the responsibility still held by SpareBank 1 SMN, future liabilities will need to be incorporated in the accounts. The board of the pension fund is required to be composed of representatives from the Group and participants in the pension schemes in accordance with the articles of association of the pension fund.

The change has entailed a reduction in the pension liabilities which entails a one-time gain of NOK 74 million for the parent bank and NOK 90 million for the Group in the accounts for the fourth quarter.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2016.

Actuarial assumptions	31 Dec 2016	1 January 2016	31 Dec 2015
Discount rate	2.60 %	2.70 %	2.70 %
Expected rate of return on plan assets	2.60 %	2.70 %	2.70 %
Expected future wage and salary growth	2.25 %	2.25 %	2.25 %
Expected adjustment on basic amount (G)	2.25 %	2.25 %	2.50 %
Expected increase in current pension	0.00 %	0.00 %	0.00 %
Employers contribution	14.10 %	14.10 %	14.10 %

Demographic assumptions:

Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2 % to 50 year, 0 % after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)	Funded	Unfunded	Total
Net pension liability in the balance sheet 1.1	-119	25	-94
OCI accounting 1 Jan	11	-	11
OCI accounting 31 December	13	0	14
Net defined-benefit costs in profit and loss account	-63	1	-62
Paid in pension premium, defined-benefit schemes	-48		-48
Benefits paid	-	-1	-1
Net pension liability in the balance sheet 31 December 2016	-207	26	-181

Net pension liability in the balance sheet Group (NOKm)	31 Dec 2016	31 Dec 2015
Net present value of pension liabilities	641	711
Estimated value of pension assets	-826	-808
Net pension liability in the balance sheet before employer's contribution	-185	-97
Employers contribution	4	4
Net pension liability in the balance sheet	-181	-94

Pension cost Group (NOKm)	31 Dec 2016	31 Dec 2015
Present value of pension accumulated in the year	23	28
Net interest income	-2	-0
Settlement gain	-90	-
Net pension cost related to defined benefit plans, incl unfunded pension commitment	-69	28
Employer's contribution subject to accrual accounting	6	5
Cost of defined contribution pension and early retirement pension scheme	46	42
Total pension cost in the period	-17	75

Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for joint ventures incorporated by the equity method the Group's profit share is stated, after tax, as well as book value of the investment at group level.

Group 31 December 2016

Profit and loss account (NOKm)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1- Regnskaps- huset SMN	SB1- Gruppen	BN Bank	Uncollated	Total
Net interest	906	960	-8	4	183	0	-	-	-163	1.883
Interest from allocated capital	47	40	-	-	-	-	-	-	-86	-
Total interest income	953	1.000	-8	4	183	0	-	-	-249	1.883
Commission income and other income	679	196	212	426	-11	234	-	-	-62	1.674
Net return on financial investments **)	1	9	88	-	-	-	317	86	448	949
Total income	1.633	1.205	292	430	172	235	317	86	137	4.506
Total operating expenses	770	332	282	363	55	191	-	-	11	2.003
Ordinary operating profit	863	873	10	68	117	44	317	86	125	2.503
Loss on loans, guarantees etc.	13	490	0	-	13	-	-	-	1	516
Result before tax including held for sale	850	384	10	68	104	44	317	86	124	1.988
Post-tax return on equity*)	13,8 %	6,9 %								11,3 %
Balance (NOKm)										
Loans and advances to customers	93.757	38.938	-	-	5.430	-	-	-	-590	137.535
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-33.307	-1.903	-	-	-	-	-	-	-0	-35.211
Individual allowance for impairment on loan	-24	-596	-	-	-11	-	-	-	-2	-632
Group allowance for impairment on loan	-90	-228	-	-	-20	-	-	-	-0	-339
Other assets	177	35	1.702	322	16	218	1.476	1.186	31.594	36.726
Total assets	60.514	36.245	1.702	322	5.414	218	1.476	1.186	31.002	138.080
Deposits from and debt to customers	34.856	32.401	-	-	-	-	-	-	-89	67.168
Other liabilities and equity	25.658	3.845	1.702	322	5.414	218	1.476	1.186	31.091	70.912
Total liabilities & Equity	60.514	36.245	1.702	322	5.414	218	1.476	1.186	31.002	138.080

Group 31 December 2015

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1- Finans MN	SB1- Regnskaps- huset SMN	SB1- Gruppen	BN Bank	Uncollated	Total
Net interest	907	922	-2	4	154	-0	-	-	-112	1.872
Interest from allocated capital	41	48	-	-	-	-	-	-	-89	-
Total interest income	948	971	-2	4	154	-0	-	-	-202	1.872
Commission income and other income	715	180	56	360	33	197	-	-	5	1.545
Net return on financial investments **)	1	13	50	-	-	-	251	41	101	458
Total income	1.663	1.164	104	364	187	197	251	41	-96	3.875
Total operating expenses	779	353	188	317	97	162	-	-	35	1.931
Ordinary operating profit	884	810	-85	47	91	35	251	41	-131	1.944
Loss on loans, guarantees etc.	11	151	-	-	8	-	-	-	-2	169
Result before tax including held for sale	873	659	-85	47	83	35	251	41	-129	1.776
Post-tax return on equity*)	15,8 %	12,4 %								10,7 %

Balance (NOKm)

Loans and advances to customers	84.981	37.226	-	-	4.376	-	-	-	796	127.378
Adv. of this to SpareBank 1 Boligkreditt	-32.061	-1.343	-	-	-	-	-	-	0	-33.404
Individual allowance for impairment on loan	-28	-146	-	-	-7	-	-	-	-2	-183
Group allowance for impairment on loan	-95	-264	-	-	-18	-	-	-	1	-376
Other assets	140	3	1.456	281	4	144	1.509	1.157	33.803	38.499
Total assets	52.937	35.476	1.456	281	4.355	144	1.509	1.157	34.598	131.914
Deposits from and debt to customers	33.534	30.367	-	-	-	-	-	-	188	64.090
Other liabilities and equity	19.402	5.108	1.456	281	4.355	144	1.509	1.157	34.410	67.824
Total liabilities & Equity	52.937	35.476	1.456	281	4.355	144	1.509	1.157	34.598	131.914

*) As from the third quarter 2014, calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 14.5 percent to be in line with the capital plan.

**) Specification of net return on financial investments incl. Investment held for sale (NOKm)	2016	2015
Capital gains/dividends, shares	149	62
Bonds and derivatives	236	-90
Change in discount factor in fair value model for fixed interest loan	-	-64
Forex and fixed income business, Markets	136	102
Net return on financial investments	521	11
SpareBank 1 Gruppen	317	251
SpareBank 1 Boligkreditt	-17	80
SpareBank 1 Næringskreditt	29	30
BN Bank	86	41
SpareBank 1 Kredittkort	24	21
Companies owned by SpareBank 1 SMN Invest	15	27
SpareBank 1 Mobilbetaling	-27	-2
Other companies	0	-2
Income from investment in associates and joint ventures	427	448
Total net return on financial investments	949	458

Note 4 - Capital adequacy

SpareBank 1 SMN utilises the Internal Rating Based Approach (IRB) for credit risk. Use of IRB imposes wide-ranging requirements on the bank's organisational set-up, competence, risk models and risk management systems. As from 31 March 2015 the bank has received permission to apply the Advanced IRB Approach to those corporate portfolios that were previously reported under the Basic Indicator Approach.

As of 31 December 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 1.5 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11.5 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN, effective as from the fourth quarter of 2016. The total minimum requirement on CET1 capital is accordingly 13.6 per cent.

The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016. The Ministry of Finance has decided to increase the buffer by 0.5 per cent to 2.0 per cent with effect from 31 December 2017.

As from the fourth quarter of 2016 differentiated rates came into force for the countercyclical buffer. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the fourth quarter of 2016 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For groups, the risk-weighted countercyclical capital buffer is 1.5 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 40 per cent in 2016 and thereafter 10 per cent per year. As at 31 December 2016 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure NOK 661 million. The financial supervisory authority may require the hybrid capital to be written down in proportion to equity capital if the bank's CET1 capital ratio falls below 5.125 per cent.

Parent Bank			Group	
31 Dec 2015	31 Dec 2016	(NOKm)	31 Dec 2016	31 Dec 2015
2,597	2,597	Equity capital certificates	2,597	2,597
-0	-0	- Own holding of ECCs	-4	-21
895	895	Premium fund	895	895
3,790	4,487	Dividend equalisation fund	4,484	3,790
4,105	4,498	Savings bank's reserve	4,498	4,105
292	389	Recommended dividends	389	292
40	220	Provision for gifts	220	40
279	126	Unrealised gains reserve	139	290
-	-	- Other equity	1,656	1,597
-	-	- Non-controlling interests	425	318
11,998	13,212	Total book equity	15,299	13,904
-447	-470	Deferred taxes, goodwill and other intangible assets	-741	-662
-	-	- Part of reserve for unrealised gains, associated companies	117	264
-332	-609	Deduction for allocated dividends and gifts	-609	-332
-	-	- Non-controlling interests recognised in other equity capital	-425	-318
-	-	- Non-controlling interests eligible for inclusion in CET1 capital	220	132
-93	-	- Surplus financing of pension obligations	-	-43
-33	-29	Value adjustments due to requirements for prudent valuation	-48	-55
-164	-190	Positive value of adjusted expected loss under IRB Approach	-248	-239
-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-337	-458
10,928	11,913	Total common equity Tier one	13,229	12,192
950	950	Hybrid capital, core capital	1,358	1,301
495	483	Hybrid capital covered by transitional provisions	483	495
12,373	13,346	Total core capital	15,069	13,988
Supplementary capital in excess of core capital				
1,000	1,000	Subordinated capital	1,698	1,647
786	673	Subordinated capital covered by transitional provisions	673	786
-43	-256	Deduction for significant investments in financial institutions	-256	-43
1,743	1,418	Total supplementary capital	2,116	2,390

14,116	14,764	Net subordinated capital	17,185	16,378
		Minimum requirements subordinated capital		
1,027	1,065	Involvement with specialised enterprises	1,206	1,213
1,049	1,064	Other corporations exposure	1,102	1,105
1,093	1,128	Mass market exposure, property	1,602	1,557
157	156	Mass market exposure, SMEs	166	167
38	71	Other retail exposure	74	40
1,221	1,223	Equity investments	3	0
4,585	4,707	Total credit risk IRB	4,153	4,082
64	35	Debt risk	36	64
-	-	Equity risk	5	10
-	-	Currency risk	1	-
316	334	Operational risk	479	457
922	898	Exposures calculated using the standardised approach	1,772	1,805
53	51	Credit value adjustment risk (CVA)	84	106
-	-	Transitional arrangements	574	634
5,939	6,026	Minimum requirements subordinated capital	7,103	7,157
74,243	75,325	Risk weighted assets (RWA)	88,788	89,465
3,341	3,390	Minimum requirement on CET1 capital, 4.5 per cent	3,995	4,026
		Capital Buffers		
1,856	1,883	Capital conservation buffer, 2.5 per cent	2,220	2,237
2,227	2,260	Systemic risk buffer, 3.0 per cent	2,664	2,684
742	1,130	Countercyclical buffer, 1.5 per (1.0 per cent)	1,332	895
4,826	5,273	Total buffer requirements on CET1 capital	6,215	5,815
2,761	3,251	Available CET1 capital after buffer requirements	3,018	2,351
		Capital adequacy		
14.7 %	15.8 %	Common equity Tier one ratio	14.9 %	13.6 %
16.7 %	17.7 %	Core capital ratio	17.0 %	15.6 %
19.0 %	19.6 %	Capital adequacy ratio	19.4 %	18.3 %
9.1 %	9.5 %	Leverage ratio	7.4 %	6.7 %

Note 5 - Distribution of loans by sector/industry

Parent Bank			Group	
31 Dec 2015	31 Dec 2016	(NOKm)	31 Dec 2016	31 Dec 2015
8,515	10,290	Agriculture, forestry, fisheries, hunting	10,499	8,674
1,485	1,599	Sea farming industries	1,985	1,807
2,387	2,701	Manufacturing & Mining	2,985	2,675
3,141	2,980	Construction, power and water supply	3,532	3,598
2,482	2,288	Retail trade, hotels and restaurants	2,510	2,666
6,043	4,983	Maritime sector	4,983	6,066
14,377	13,688	Property management	13,744	14,346
2,019	2,442	Business services	2,072	1,777
2,859	3,220	Transport and other services provision	3,836	3,355
192	273	Public administration	288	211
1,458	1,670	Other sectors	1,700	1,477
44,958	46,135	Gross loans in retail market	48,133	46,653
78,575	86,513	Wage earners	89,402	80,725
123,533	132,648	Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt	137,535	127,378
31,944	33,142	SpareBank 1 Boligkreditt	33,142	31,944
1,460	2,069	SpareBank 1 Næringskreditt	2,069	1,460
90,129	97,437	Gross loans in balance sheet	102,325	93,974
174	620	- Specified write-downs	632	183
358	318	- Collective write-downs	339	376
89,596	96,499	Net loans to and receivables from customers	101,354	93,415

Note 6 - Losses on loans and guarantees

Parent Bank

	January- December					
	2016			2015		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees (NOKm)						
Change in individual impairment losses provisions for the period	0	449	450	2	9	11
Change in collective impairment losses provisions for the period	-	-40	-40	-	80	80
Actual loan losses on commitments for which provisions have been made	8	34	42	7	58	65
Actual loan losses on commitments for which no provision has been made	10	49	59	8	4	12
Recoveries on commitments previously written-off	-6	-3	-8	-6	-3	-9
Losses of the year on loans and guarantees	13	490	502	11	148	159

Group

	January- December					
	2016			2015		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees (NOKm)						
Change in individual impairment losses provisions for the period	0	454	454	3	9	11
Change in collective impairment losses provisions for the period	4	-42	-38	2	80	82
Actual loan losses on commitments for which provisions have been made	8	36	44	8	59	67
Actual loan losses on commitments for which no provision has been made	14	50	64	13	7	21
Recoveries on commitments previously written-off	-6	-3	-9	-8	-4	-12
Losses of the year on loans and guarantees	21	495	516	18	151	169

Note 7 - Losses

Parent Bank

January- December

Individual write-downs (NOKm)	2016			2015		
	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	28	148	176	25	140	165
- Actual losses during the period for which provisions for individual impairment losses have been made previously	8	34	42	7	58	65
- Reversal of provisions from previous periods	3	36	39	2	40	43
+ Increased write-downs on provisions previously written down	2	6	8	1	21	22
+ Write-downs on provisions not previously written down	4	518	523	12	85	96
Individual write-downs to cover loss on loans and guarantees at period end *)	24	602	625	28	148	176

*) Individually assessed impairment write-downs on guarantees, totalling NOK 5.6m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	2016			2015		
	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	90	268	358	90	188	278
Period's collective write-downs to cover loss on loans, guarantees etc	-	-40	-40	-	80	80
Collective write-downs to cover loss on loans and guarantees at period end	90	228	318	90	268	358

Group

January- December

Individual write-downs (NOKm)	2016			2015		
	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	31	153	184	27	146	173
- Actual losses during the period for which provisions for individual impairment losses have been made previously	8	36	44	8	59	67
- Reversal of provisions from previous periods	3	36	39	3	42	46
+ Increased write-downs on provisions previously written down	2	6	8	1	21	22
+ Write-downs on provisions not previously written down	4	523	528	14	87	102
Individual write-downs to cover loss on loans and guarantees at period end *)	27	611	638	31	153	184

*) Individually assessed impairment write-downs on guarantees, totalling NOK 5.6m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	2016			2015		
	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	96	281	376	94	201	295
Period's collective write-downs to cover loss on loans, guarantees etc	4	-42	-38	2	80	82
Collective write-downs to cover loss on loans and guarantees at period end	100	239	339	96	281	376

Note 8 - Defaults and problem loans

Parent Bank

	31. Dec 2016			31. Dec 2015		
	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)						
Loans in default for more than 90 days *)	144	29	173	133	38	171
- Individual write-downs	17	18	36	15	8	23
Net defaults	127	11	138	119	30	148
Provision rate	12 %	62 %	21 %	11 %	22 %	13 %
Problem loans						
Problem loans (not in default)	19	1,435	1,453	45	341	387
- Individual write-downs	6	584	590	13	139	152
Net problem loans	13	851	863	32	202	234
Provision rate	33 %	41 %	41 %	29 %	41 %	39 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per fourth quarter

Group

	31 Dec 2016			31 Dec 2015		
	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)						
Loans in default for more than 90 days *)	176	38	214	155	50	205
- Individual write-downs	20	19	39	17	9	26
Net defaults	156	18	174	138	41	179
Provision rate	12 %	51 %	18 %	11 %	18 %	13 %
Problem loans						
Problem loans (not in default)	19	1,455	1,474	49	350	399
- Individual write-downs	6	592	599	14	144	158
Net problem loans	13	863	875	34	206	241
Provision rate	33 %	41 %	41 %	30 %	41 %	40 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per fourth quarter

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			Group	
31 Dec 2015	31 Dec 2016	(NOKm)	31 Dec 2016	31 Dec 2015
2,541	2,791	Agriculture, forestry, fisheries, hunting	2,791	2,541
674	420	Sea farming industries	420	674
2,518	1,727	Manufacturing & Mining	1,727	2,518
2,164	2,416	Construction, power and water supply	2,416	2,164
4,116	4,067	Retail trade, hotels and restaurants	4,067	4,116
1,994	1,740	Maritime sector	1,740	1,994
4,295	4,387	Property management	4,153	4,099
4,836	5,550	Business services	5,550	4,836
4,643	4,848	Transport and other services provision	4,339	4,138
7,221	8,627	Public administration	8,627	7,221
1,755	2,048	Other sectors	1,569	1,454
36,756	38,621	Total	37,398	35,754
28,336	29,769	Wage earners	29,769	28,336
65,091	68,391	Total deposits	67,168	64,090

Note 10 - Net interest income

Parent bank		(NOK million)	Group	
January- December	2016		January- December	2015
2015	2016		2016	2015
		Interest income		
112	124	Interest income from loans to and claims on credit institutions	48	43
3,447	2,986	Interest income from loans to and claims on customers	3,240	3,669
304	292	Interest income from money market instruments, bonds and other fixed income securities	289	304
1	-	Other interest income	19	16
3,865	3,401	Total interest income	3,597	4,031
		Interest expense		
147	152	Interest expenses on liabilities to credit institutions	153	148
968	652	Interest expenses relating to deposits from and liabilities to customers	636	949
840	708	Interest expenses related to the issuance of securities	708	840
149	145	Interest expenses on subordinated debt	146	149
3	2	Other interest expenses	13	20
54	58	Guarantee fund levy	58	54
2,161	1,717	Total interest expense	1,714	2,159
1,703	1,684	Net interest income	1,883	1,872

Note 11 - Operating expenses

Parent bank			Group		
January-December			January-December		
2015	2016	(NOKm)	2016	2015	
588	536	Personnel expenses	1,159	1,093	
194	197	IT costs	252	240	
18	18	Postage and transport of valuables	22	22	
55	55	Marketing	98	96	
41	34	Ordinary depreciation	98	104	
123	124	Operating expenses, real properties	109	100	
68	70	Purchased services	108	105	
129	116	Other operating expense	156	171	
1,217	1,151	Total other operating expenses	2,003	1,931	

Note 12 - Other assets

Parent Bank			Group	
31 Dec 2015	31 Dec 2016	(NOKm)	31 Dec 2016	31 Dec 2015
33	27	Deferred tax asset	196	187
133	121	Fixed assets	906	1,031
23	37	Earned income not yet received	63	39
3	20	Accounts receivable, securities	220	200
124	198	Assets	207	125
95	479	Other assets	785	381
411	882	Total other assets	2,376	1,962

Note 13 - Other liabilities

Parent Bank			Group	
31 Dec 2015	31 Dec 2016	(NOKm)	31 Dec 2016	31 Dec 2015
-	0	Deferred tax	33	21
420	266	Payable tax	319	459
13	8	Capital tax	8	13
70	73	Accrued expenses and received, non-accrued income	367	303
78	118	Provision for accrued expenses and commitments	118	78
25	26	Pension liabilities	26	31
46	90	Drawing debt	90	46
6	3	Creditors	39	39
61	0	Debt from securities	147	145
-	-	Equity Instruments	181	394
150	146	Other liabilities	203	204
868	731	Total other liabilities	1,531	1,734

Note 14 - Debt created by issue of securities and subordinated debt

Group

Change in securities debt (NOKm)	31 Dec 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Bond debt, nominal value	35,535	8,158	5,492	-1,145	34,014
Value adjustments	453	-	-	-322	775
Accrued interest	328	-	-	-37	365
Total	36,317	8,158	5,492	-1,504	35,154

Change in subordinated debt and hybrid instruments (NOKm)	31 Dec 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Ordinary subordinated loan capital, nominal value	1,704	43	-	2	1,660
Perpetual subordinated loan capital, nominal value	-	-	300	-	300
Hybrid instruments, nominal value	1,400	-	-	-	1,400
Value adjustments	64	-	-	-26	89
Accrued interest	14	-	-	0	14
Total	3,182	43	300	-24	3,463

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market

Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

Level 2: Valuation based on observable market data

Level 2 consists of instruments that are valued by the use of information that does not consist in quoted prices, but where the prices are directly or indirectly observable for the assets or liabilities concerned, and which also include quoted prices in non-active markets.

Level 3: Valuation based on other than observable data

If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2016:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	44	4.708	-	4.752
- Bonds and money market certificates	2.511	15.046	-	17.557
- Equity instruments	959	-	524	1.483
- Fixed interest loans	-	43	3.783	3.826
Financial assets available for sale				
- Equity instruments	-	-	60	60
Total assets	3.514	19.796	4.367	27.676
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	48	4.026	-	4.074
- Equity instruments	173	8	-	181
Total liabilities	221	4.034	-	4.255

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2015:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	39	7.485	-	7.524
- Bonds and money market certificates	2.207	13.545	-	15.752
- Equity instruments	803	-	574	1.377
- Fixed interest loans	-	43	4.405	4.447
Financial assets available for sale				
- Equity instruments	-	-	108	108
Total assets	3.048	21.073	5.087	29.207
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	44	5.371	-	5.414
- Equity instruments	385	9	-	394
Total liabilities	429	5.380	-	5.808

The following table presents the changes in the instruments classified in level 3 as at 31 December 2016:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	4.405	574	108	5.087
Investment in periode	770	28	1	799
Disposals in the periode	-1.347	-66	-	-1.413
Gain or loss on financial instruments	-44	-13	-50	-106
Closing balance	3.783	524	60	4.367

The following table presents the changes in the instruments classified in level 3 as at 31 December 2015:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	3.277	625	35	3.937
Investment in periode	2.224	20	-	2.244
Disposals in the periode	-1.000	-63	-2	-1.065
Gain or loss on financial instruments	-33	-7	75	34
Change in valuation model for fixed interest loans	-64	-	-	-64
Closing balance	4.405	574	108	5.087

Note 16 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or to finance asset increases. Liquidity risk management starts out from the group's overall liquidity strategy which is reviewed and adopted by the board of directors at least once each year. The liquidity strategy reflects the group's moderate risk profile.

The group mitigates liquidity risk by diversifying its funding across different markets, funding sources, maturities and instruments and through the use of long-term funding. Contingency plans exist both for the group and the SpareBank 1 alliance for managing the liquidity situation in periods of capital market turbulence. These plans address both bank-specific and systemic crises and a combination of the two. The group's objective is to survive twelve months of ordinary operations without access to fresh external funding.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the fourth quarter was 2.84 years. The overall LCR at the same point was 129 per cent and the average overall LCR in the quarter was 115 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 101 and 132 per cent respectively.

Equity capital certificate ratio

(NOKm)	31 Dec 2016	31 Dec 2015
ECC capital	2.597	2.597
Dividend equalisation reserve	4.487	3.790
Premium reserve	895	895
Unrealised gains reserve	81	179
A. The equity capital certificate owners' capital	8.060	7.461
Ownerless capital	4.498	4.105
Unrealised gains reserve	45	100
B. The saving bank reserve	4.543	4.205
To be disbursed from gift fund	220	40
Dividend declared	389	292
Equity ex. profit	13.212	11.998
Equity capital certificate ratio A/(A+B)	63,95 %	63,96 %
Equity capital certificate ratio for distribution	63,95 %	63,96 %

Results from quarterly accounts

Group (NOKm)	4Q 2016	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2015	4Q 2014
Interest income	917	874	896	910	962	1,058	992	1,019	1,103
Interest expenses	424	425	424	441	489	593	525	552	618
Net interest	493	449	472	469	473	466	467	467	485
Commission income	300	326	331	295	309	317	313	306	323
Commission expenses	35	34	36	28	38	38	32	27	33
Other operating income	149	120	154	134	107	99	132	97	81
Commission income and other income	414	412	448	401	378	378	413	377	371
Dividends	1	13	73	0	3	0	22	0	5
Income from investment in related companies	74	103	127	119	121	78	120	129	144
Net return on financial investments	153	157	71	53	-15	-91	23	69	-58
Net return on financial investments	228	274	271	172	109	-13	165	198	91
Total income	1,134	1,134	1,191	1,042	959	831	1,044	1,042	947
Staff costs	251	294	318	295	280	264	283	267	267
Other operating expenses	231	210	209	194	235	203	213	186	212
Total operating expenses	482	504	528	489	515	466	496	454	479
Result before losses	652	630	664	553	444	364	548	588	467
Loss on loans, guarantees etc.	99	130	118	170	56	56	35	22	34
Result before tax	553	500	546	383	388	309	513	567	434
Tax charge	99	85	85	72	100	61	83	126	60
Result investment held for sale, after tax	7	-1	-1	-0	-0	0	-0	-0	0
Net profit	462	414	460	311	287	248	430	441	375

Key figures from quarterly accounts

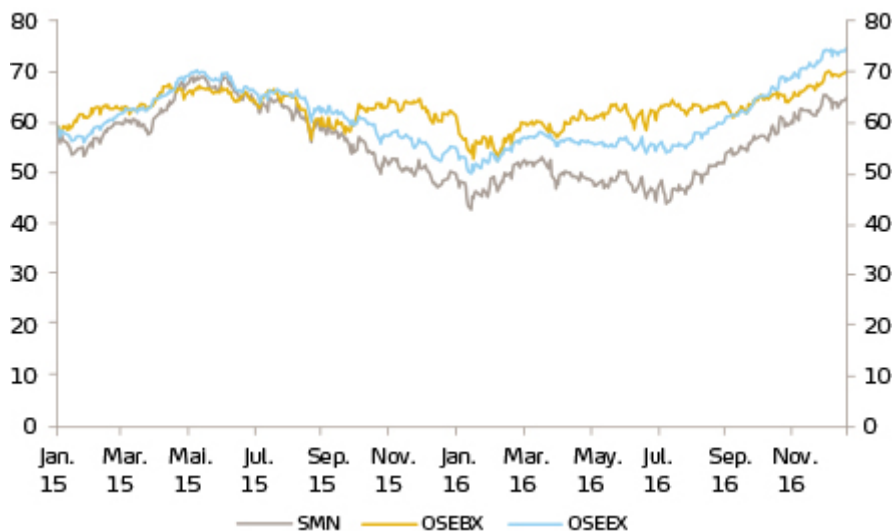
Group (NOKm)	4Q 2016	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2015	4Q 2014
Profitability									
Return on equity per quarter	12.2%	11.3%	12.9%	8.9%	8.4%	7.4%	13.4%	14.1%	12.1%
Cost-income ratio	43 %	44 %	44 %	47 %	54 %	56 %	47 %	44 %	51 %
Balance sheet figures									
Gross loans to customers	102,325	99,569	97,790	95,331	93,974	94,917	94,179	92,311	90,578
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	137,535	134,462	132,583	129,520	127,378	126,180	124,519	122,933	120,435
Deposits from customers	67,168	66,290	67,031	63,851	64,090	63,620	66,186	60,589	60,680
Total assets	138,080	139,815	141,145	134,345	131,914	129,237	130,888	123,687	126,047
Average total assets	138,948	140,480	137,745	133,129	130,575	130,063	127,288	124,867	121,620
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt last 12 months	8.0 %	6.6 %	6.5 %	5.4 %	5.8 %	8.3 %	8.4 %	10.0 %	7.3 %
Growth in deposits last 12 months	4.8 %	4.2 %	1.3 %	5.4 %	5.6 %	9.5 %	11.4 %	10.9 %	8.5 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio	0.29 %	0.39 %	0.36 %	0.53 %	0.18 %	0.18 %	0.11 %	0.07 %	0.11 %
Non-performing commitm. as a percentage of gross loans	0.16 %	0.16 %	0.19 %	0.16 %	0.16 %	0.17 %	0.23 %	0.19 %	0.22 %
Other doubtful commitm. as a percentage of gross loans 4)	1.07 %	1.01 %	0.90 %	0.32 %	0.31 %	0.36 %	0.30 %	0.18 %	0.18 %
Solidity									
Common equity tier 1	14.9 %	14.3 %	14.1 %	13.6 %	13.6 %	13.2 %	12.7 %	12.3 %	11.2 %
Core capital ratio	17.0 %	16.3 %	16.1 %	15.6 %	15.6 %	15.2 %	14.6 %	14.3 %	13.0 %
Capital adequacy ratio	19.4 %	18.8 %	18.7 %	18.1 %	18.3 %	17.9 %	17.3 %	17.0 %	15.7 %
Core capital	15,069	14,736	14,604	14,237	13,988	13,451	13,142	12,713	12,382
Net equity and related capital	17,185	17,011	16,882	16,516	16,378	15,886	15,577	15,147	14,937
Liquidity Coverage Ratio (LCR)	115 %	122 %	123 %	107 %	107 %	81 %	79 %	66 %	85 %
Key figures ECC *)									
ECC share price at end of period (NOK)	64.75	55.75	46.70	52.75	50.50	54.00	65.50	59.50	58.50
Number of certificates issued, millions	129.83	129.83	129.83	129.83	129.83	129.83	129.83	129.83	129.83
Booked equity capital per ECC (including dividend)	73.26	71.17	69.18	67.37	67.65	65.52	64.18	61.95	62.04
Profit per ECC, majority	2.21	2.00	2.21	1.49	1.45	1.26	2.13	2.18	1.85
Price-Earnings Ratio	7.34	6.98	5.27	8.83	8.71	10.72	7.70	6.81	7.89
Price-Book Value Ratio	0.88	0.78	0.68	0.78	0.75	0.82	1.02	0.96	0.94

*) The key figures are corrected for issues

Equity capital certificates

Stock price compared with OSEBX and OSEEX

1 Jan 2015 to 31 Dec 2016

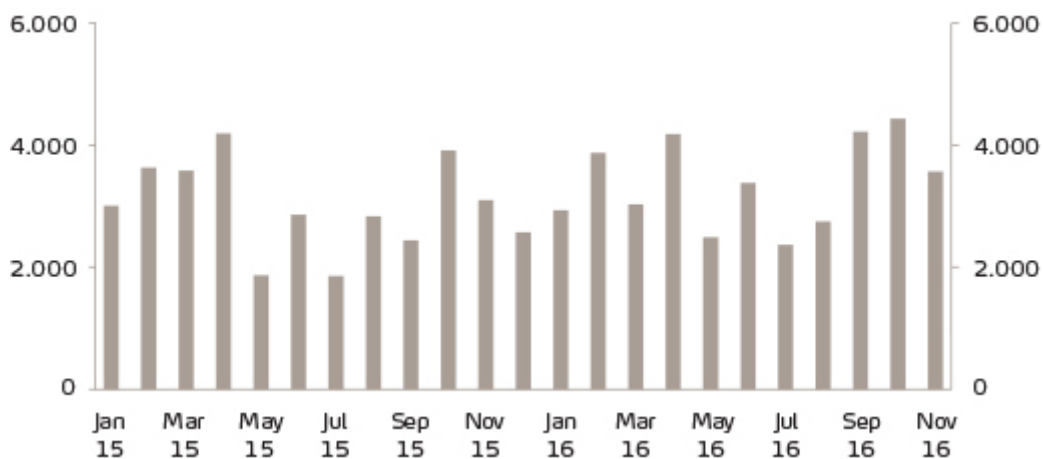


OSEBX = Oslo Stock Exchange Benchmark Index (rebased)

OSEEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 Jan 2015 to 31 Dec 2016



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	5,222,288	4.02 %
Verdipapirfondet DNB Norge (IV)	4,102,874	3.16 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,826,686	2.95 %
VPF Danske Invest Norske Aksjer Inst. II	3,413,628	2.63 %
VPF Pareto Aksje Norge	2,790,615	2.15 %
State Street Bank and Trust CO (nominee)	2,778,421	2.14 %
Meteva AS	2,359,388	1.82 %
Pareto AS	1,821,202	1.40 %
MP Pensjon PK	1,782,160	1.37 %
Forsvarets Personellservice	1,717,046	1.32 %
VPF Alfred Berg Gambak	1,650,130	1.27 %
VPF Danske Invest Norske Aksjer Inst. I	1,618,823	1.25 %
State Street Bank and Trust CO (nominee)	1,591,191	1.23 %
VPF Nordea Kapital	1,540,475	1.19 %
DNB Livsforsikring AS	1,523,948	1.17 %
JP Morgan Chase Bank (nominee)	1,516,189	1.17 %
JP Morgan Chase Bank (nominee)	1,462,135	1.13 %
VPF DNB Norge selektiv	1,223,037	0.94 %
VPF Nordea Avkastning	1,090,099	0.84 %
The 20 largest ECC holders in total	46,995,726	36.20 %
Others	82,840,717	63.80 %
Total issued ECCs	129,836,443	100.00 %

Dividend policy

SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide equity certificate holders with a good, stable and competitive return in the form of dividend and a rising value of the bank's equity certificate.

The net profit for the year will be distributed between the owner capital (the equity certificate holders) and the ownerless capital in accordance with their respective shares of the bank's total equity capital.

SpareBank 1 SMN's intention is that up to one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that up to one half of the owner capital's share of the net profit for the year should be disbursed as gifts or transferred to a foundation. This is on the assumption that capital adequacy is at a satisfactory level. When determining dividend payout, account will be taken of the profit trend expected in a normalised market situation, external framework conditions and the need for tier 1 capital.