

# 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 2016. 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**

The Group has not obtained a new calculation of pensions as of 31 March since no factors have been identified that significantly alter the pension liability. For a further description of the various pension schemes, see note 24 in the 2016 annual report.

### **Control in BN Bolig**

BN Bolig is owned 50% by BN Bank and 50% by Eiendomsmegler 1, and was treated as a jointly controlled entity in the annual accounts for 2016. Due to a change in the shareholders agreement in 2017, it is now the parties' assessment that Eiendomsmegler 1 controls the company in accordance with IFRS 10, and BN Bolig has in first quarter been consolidated as a subsidiary of Eiendomsmegler 1.

### 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 March 2017

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	228	246	-2	1	51	-1	-	-	-1	522
Interest from allocated capital	31	30	-	-	-	-	-	-	-60	-
<b>Total interest income</b>	<b>259</b>	<b>276</b>	<b>-2</b>	<b>1</b>	<b>51</b>	<b>-1</b>	<b>-</b>	<b>-</b>	<b>-61</b>	<b>522</b>
Commission income and other income	173	47	59	113	12	105	-	-	-55	455
Net return on financial investments **)	0	2	18	-	-	-	66	29	22	138
<b>Total income</b>	<b>432</b>	<b>325</b>	<b>75</b>	<b>114</b>	<b>63</b>	<b>104</b>	<b>66</b>	<b>29</b>	<b>-94</b>	<b>1,115</b>
<b>Total operating expenses</b>	<b>201</b>	<b>89</b>	<b>72</b>	<b>110</b>	<b>33</b>	<b>89</b>	<b>-</b>	<b>-</b>	<b>-23</b>	<b>571</b>
<b>Ordinary operating profit</b>	<b>230</b>	<b>237</b>	<b>2</b>	<b>4</b>	<b>30</b>	<b>15</b>	<b>66</b>	<b>29</b>	<b>-71</b>	<b>544</b>
Loss on loans, guarantees etc.	0	87	-	-	2	-	-	-	-0	89
<b>Result before tax including held for sale</b>	<b>230</b>	<b>150</b>	<b>2</b>	<b>4</b>	<b>28</b>	<b>15</b>	<b>66</b>	<b>29</b>	<b>-71</b>	<b>454</b>
<b>Post-tax return on equity*)</b>	<b>14.9 %</b>	<b>9.6 %</b>								<b>9.4 %</b>
<b>Balance (NOKm)</b>										
Loans and advances to customers	95,482	39,421	-	-	5,746	-	-	-	-611	140,038
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-33,919	-2,003	-	-	-	-	-	-	0	-35,921
Individual allowance for impairment on loan	-23	-528	-	-	-11	-	-	-	-2	-564
Group allowance for impairment on loan	-90	-218	-	-	-21	-	-	-	-20	-349
Other assets	167	192	1,867	1,002	10	288	1,543	1,217	32,552	38,838
<b>Total assets</b>	<b>61,618</b>	<b>36,863</b>	<b>1,867</b>	<b>1,002</b>	<b>5,725</b>	<b>288</b>	<b>1,543</b>	<b>1,217</b>	<b>31,919</b>	<b>142,042</b>
Deposits to customers	34,943	35,778	-	-	-	-	-	-	-545	70,176
Other liabilities and equity	26,675	1,086	1,867	1,002	5,725	288	1,543	1,217	32,464	71,866
<b>Total liabilities</b>	<b>61,618</b>	<b>36,863</b>	<b>1,867</b>	<b>1,002</b>	<b>5,725</b>	<b>288</b>	<b>1,543</b>	<b>1,217</b>	<b>31,919</b>	<b>142,042</b>

## Group 31 March 2016

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	222	232	-2	1	43	-0	-	-	-26	469
Interest from allocated capital	14	12	-	-	-	-	-	-	-26	-
<b>Total interest income</b>	<b>236</b>	<b>243</b>	<b>-2</b>	<b>1</b>	<b>43</b>	<b>-0</b>	<b>-</b>	<b>-</b>	<b>-52</b>	<b>469</b>
Commission income and other income	166	49	59	86	-2	54	-	-	-11	401
Net return on financial investments **)	0	2	10	-	-	-	61	20	79	172
<b>Total income</b>	<b>402</b>	<b>294</b>	<b>67</b>	<b>87</b>	<b>41</b>	<b>54</b>	<b>61</b>	<b>20</b>	<b>15</b>	<b>1,042</b>
<b>Total operating expenses</b>	<b>198</b>	<b>93</b>	<b>63</b>	<b>77</b>	<b>15</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-6</b>	<b>489</b>
<b>Ordinary operating profit</b>	<b>204</b>	<b>202</b>	<b>5</b>	<b>10</b>	<b>26</b>	<b>4</b>	<b>61</b>	<b>20</b>	<b>22</b>	<b>553</b>
Loss on loans, guarantees etc.	9	158	2	-	3	-	-	-	-2	170
<b>Result before tax including held for sale</b>	<b>195</b>	<b>44</b>	<b>3</b>	<b>10</b>	<b>23</b>	<b>4</b>	<b>61</b>	<b>20</b>	<b>23</b>	<b>383</b>
<b>Post-tax return on equity*)</b>	<b>12.9 %</b>	<b>3.1 %</b>								<b>8.9 %</b>

## Balance (NOKm)

Loans and advances to customers	86,451	37,479	-	-	4,603	-	-	-	987	129,520
Adv. of this to SpareBank 1 Boligkreditt	-32,769	-1,421	-	-	-	-	-	-	0	-34,190
Individual allowance for impairment on loan	-34	-155	-	-	-8	-	-	-	-2	-198
Group allowance for impairment on loan	-95	-414	-	-	-18	-	-	-	1	-527
Other assets	213	8	1,669	283	8	145	1,705	1,180	34,528	39,739
<b>Total assets</b>	<b>53,767</b>	<b>35,497</b>	<b>1,669</b>	<b>283</b>	<b>4,585</b>	<b>145</b>	<b>1,705</b>	<b>1,180</b>	<b>35,515</b>	<b>134,345</b>
Deposits to customers	33,671	29,655	-	-	-	-	-	-	525	63,851
Other liabilities and equity	20,096	5,842	1,669	283	4,585	145	1,705	1,180	34,989	70,494
<b>Total liabilities</b>	<b>53,767</b>	<b>35,497</b>	<b>1,669</b>	<b>283</b>	<b>4,585</b>	<b>145</b>	<b>1,705</b>	<b>1,180</b>	<b>35,515</b>	<b>134,345</b>

\*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 (14.5) percent to be in line with the capital plan.

	31 Mar 2017	31 Mar 2016
**) Specification of net return on financial investments incl. Investment held for sale (NOKm)		
Capital gains/dividends, shares	2	3
Bonds and derivatives	34	25
Forex and fixed income business, Markets	31	26
<b>Net return on financial investments</b>	<b>67</b>	<b>53</b>
SpareBank 1 Gruppen	66	61
SpareBank 1 Boligkreditt	-24	24
SpareBank 1 Næringskreditt	8	8
BN Bank	29	20
SpareBank 1 Kredittkort	2	6
SpareBank 1 Mobilbetaling	-13	-
Other companies	3	-0
<b>Income from investment in associates and joint ventures</b>	<b>71</b>	<b>119</b>
<b>Total net return on financial investments</b>	<b>138</b>	<b>172</b>

## 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 March 2017 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 first quarter of 2017 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 50 per cent in 2017. The write-down will increase by another 10 per cent per year thereafter. As at 31 March 2017 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure NOK 690 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 2016	31 Mar 2016	31 Mar 2017	(NOKm)	31 Mar 2017	31 Mar 2016	31 Dec 2016
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-7	-6	-4
895	895	895	Premium fund	895	895	895
4,487	3,790	4,487	Dividend equalisation fund	4,470	3,782	4,484
4,498	4,105	4,498	Savings bank's reserve	4,498	4,105	4,498
389	-	-	- Recommended dividends	-	-	389
220	-	-	- Provision for gifts	-	-	220
126	279	126	Unrealised gains reserve	139	290	139
-	-	-	- Other equity	1,921	1,705	1,656
-	-	-	- Non-controlling interests	443	372	425
-	193	279	Net profit	358	311	-
<b>13,212</b>	<b>11,859</b>	<b>12,883</b>	<b>Total book equity</b>	<b>15,315</b>	<b>14,051</b>	<b>15,299</b>
-	-	-	- Hybrid capital included in total equity	-267	-	-
-470	0	-475	Deferred taxes, goodwill and other intangible assets	-853	-668	-741
-	-	-	- Part of reserve for unrealised gains, associated companies	117	119	117
-609	-	-	- Deduction for allocated dividends and gifts	-	-	-609
-	-	-	- Non-controlling interests recognised in other equity capital	-443	-372	-425
-	-	-	- Non-controlling interests eligible for inclusion in CET1 capital	223	184	220
-	-93	-	- Surplus financing of pension obligations	-	-43	-
-	-193	-279	Net profit	-358	-311	-
-	100	100	Year-to-date profit included in core capital (50 per cent pre tax of group profit in 2017)	179	218	-
-29	-35	-30	Value adjustments due to requirements for prudent valuation	-48	-57	-48
-190	-32	-186	Positive value of adjusted expected loss under IRB Approach	-247	-104	-248
-	-	-	Adjustments for unrealised losses (gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	8	-	-
-	-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-188	-576	-337

11,913	11,159	12,013	<b>Total common equity Tier one</b>	13,437	12,440	13,229
950	950	950	Hybrid capital, core capital	1,358	1,301	1,358
483	496	459	Hybrid capital covered by transitional provisions	459	496	483
<b>13,346</b>	<b>12,605</b>	<b>13,422</b>	<b>Total core capital</b>	<b>15,254</b>	<b>14,237</b>	<b>15,069</b>
			<b>Supplementary capital in excess of core capital</b>	-	-	-
1,000	1,000	1,000	Subordinated capital	1,710	1,648	1,698
673	673	561	Subordinated capital covered by transitional provisions	561	673	673
-256	-43	-237	Deduction for significant investments in financial institutions	-237	-43	-256
<b>1,418</b>	<b>1,631</b>	<b>1,324</b>	<b>Total supplementary capital</b>	<b>2,034</b>	<b>2,279</b>	<b>2,116</b>
<b>14,764</b>	<b>14,236</b>	<b>14,746</b>	<b>Net subordinated capital</b>	<b>17,288</b>	<b>16,516</b>	<b>17,185</b>
				-	-	-
				-	-	-
			<b>Minimum requirements subordinated capital</b>	-	-	-
1,065	1,063	1,055	Involvement with specialised enterprises	1,186	1,232	1,206
1,064	1,040	1,087	Other corporations exposure	1,126	1,086	1,102
1,128	1,134	1,133	Mass market exposure, property	1,615	1,606	1,602
156	162	158	Mass market exposure, SMEs	168	171	166
71	37	74	Other retail exposure	77	39	74
1,223	1,235	1,267	Equity investments	1	1	3
<b>4,707</b>	<b>4,671</b>	<b>4,773</b>	<b>Total credit risk IRB</b>	<b>4,173</b>	<b>4,135</b>	<b>4,153</b>
35	27	34	Debt risk	35	29	36
-	-	-	Equity risk	15	10	5
-	-	-	Currency risk	1	-	1
334	334	341	Operational risk	510	479	479
898	947	885	Exposures calculated using the standardised approach	1,891	1,893	1,772
51	45	56	Credit value adjustment risk (CVA)	119	91	84
-	-	-	Transitional arrangements	523	666	574
<b>6,026</b>	<b>6,024</b>	<b>6,088</b>	<b>Minimum requirements subordinated capital</b>	<b>7,268</b>	<b>7,303</b>	<b>7,103</b>
<b>75,325</b>	<b>75,295</b>	<b>76,101</b>	<b>Risk weighted assets (RWA)</b>	<b>90,846</b>	<b>91,286</b>	<b>88,788</b>
3,390	3,388	3,425	Minimum requirement on CET1 capital, 4.5 per cent	4,088	4,108	3,995
			Capital Buffers	-	-	-
1,883	1,882	1,903	Capital conservation buffer, 2.5 per cent	2,271	2,282	2,220
2,260	2,259	2,283	Systemic risk buffer, 3.0 per cent	2,725	2,739	2,664
1,130	753	1,142	Countercyclical buffer, 1.5 per (1.0 per cent)	1,363	913	1,332
<b>5,273</b>	<b>4,894</b>	<b>5,327</b>	<b>Total buffer requirements on CET1 capital</b>	<b>6,359</b>	<b>5,934</b>	<b>6,215</b>
<b>3,251</b>	<b>2,877</b>	<b>3,262</b>	<b>Available CET1 capital after buffer requirements</b>	<b>2,990</b>	<b>2,399</b>	<b>3,018</b>
			<b>Capital adequacy</b>	<b>0</b>	<b>0</b>	<b>0</b>
15.8 %	14.8 %	15.8 %	Common equity Tier one ratio	14.8 %	13.6 %	14.9 %
17.7 %	16.7 %	17.6 %	Core capital ratio	16.8 %	15.6 %	17.0 %
19.6 %	18.9 %	19.4 %	Capital adequacy ratio	19.0 %	18.1 %	19.4 %
9.5 %	9.2 %	9.3 %	Leverage ratio	7.4 %	6.8 %	7.4 %

## Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2016	31 Mar 2016	31 Mar 2017	(NOKm)	31 Mar 2017	31 Mar 2016	31 Dec 2016
10,290	9,061	10,460	Agriculture, forestry, fisheries, hunting	10,679	9,222	10,499
1,599	1,351	1,306	Sea farming industries	1,700	1,715	1,985
2,701	2,537	2,820	Manufacturing	3,113	2,806	2,985
2,980	2,917	2,756	Construction, power and water supply	3,335	3,391	3,532
2,288	2,705	2,496	Retail trade, hotels and restaurants	2,735	2,898	2,510
4,983	5,609	4,863	Maritime sector	4,863	5,631	4,983
13,688	14,327	14,060	Property management	14,115	14,390	13,744
2,442	2,125	2,465	Business services	2,100	1,822	2,072
3,220	3,037	3,203	Transport and other services provision	3,840	3,544	3,836
273	194	277	Public administration	291	212	288
1,670	1,688	1,895	Other sectors	1,924	1,583	1,700
<b>46,135</b>	<b>45,550</b>	<b>46,600</b>	<b>Gross loans in retail market</b>	<b>48,696</b>	<b>47,214</b>	<b>48,133</b>
86,513	79,988	88,257	Wage earners	91,343	82,307	89,402
<b>132,648</b>	<b>125,538</b>	<b>134,857</b>	<b>Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt</b>	<b>140,038</b>	<b>129,520</b>	<b>137,535</b>
33,142	32,676	33,757	SpareBank 1 Boligkreditt	33,757	32,676	33,142
2,069	1,514	2,164	SpareBank 1 Næringskreditt	2,164	1,514	2,069
<b>97,437</b>	<b>91,348</b>	<b>98,935</b>	<b>Gross loans in balance sheet</b>	<b>104,117</b>	<b>95,331</b>	<b>102,325</b>
620	188	551	- Specified write-downs	564	198	632
318	508	328	- Collective write-downs	349	527	339
<b>96,499</b>	<b>90,652</b>	<b>98,056</b>	<b>Net loans to and receivables from customers</b>	<b>103,204</b>	<b>94,606</b>	<b>101,354</b>



## Note 6 - Losses on loans and guarantees

### Parent Bank

	January-March								
	2017			2016			2016		
Losses on loans and guarantees (NOKm)	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-1	-72	-73	6	9	15	0	449	450
+ Change in collective impairment losses provisions for the period	-	10	10	-	150	150	-	-40	-40
+ Actual loan losses on commitments for which provisions have been made	2	146	148	4	0	4	8	34	42
+ Actual loan losses on commitments for which no provision has been made	0	3	3	0	-0	0	10	49	59
- Recoveries on commitments previously written-off	1	0	1	0	1	1	6	3	8
<b>Losses of the year on loans and guarantees</b>	<b>0</b>	<b>87</b>	<b>87</b>	<b>9</b>	<b>158</b>	<b>167</b>	<b>13</b>	<b>490</b>	<b>502</b>

### Group

	January-March								
	2017			2016			2016		
Losses on loans and guarantees (NOKm)	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-1	-72	-73	6	10	16	0	454	454
+ Change in collective impairment losses provisions for the period	1	10	11	0	150	150	4	-42	-38
+ Actual loan losses on commitments for which provisions have been made	2	146	148	4	0	4	8	36	44
+ Actual loan losses on commitments for which no provision has been made	2	3	5	1	0	1	14	50	64
- Recoveries on commitments previously written-off	1	0	1	0	1	1	6	3	9
<b>Losses of the year on loans and guarantees</b>	<b>3</b>	<b>87</b>	<b>89</b>	<b>11</b>	<b>159</b>	<b>170</b>	<b>21</b>	<b>495</b>	<b>516</b>

## Note 7 - Losses

## Parent Bank

Individual write-downs (NOKm)	31 Mar 2017			31 Mar 2016			2016		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	28	597	625	28	148	176	28	148	176
- Actual losses during the period for which provisions for individual impairment losses have been made previously	2	146	148	4	0	4	8	34	42
- Reversal of provisions from previous periods	2	6	8	2	3	5	3	36	39
+ Increased write-downs on provisions previously written down	0	79	79	7	4	11	2	6	8
+ Write-downs on provisions not previously written down	-2	10	8	4	8	12	4	518	523
<b>Individual write-downs to cover loss on loans and guarantees at period end *)</b>	<b>23</b>	<b>534</b>	<b>557</b>	<b>34</b>	<b>157</b>	<b>190</b>	<b>24</b>	<b>602</b>	<b>625</b>

\*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.2m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	31 Mar 2017			31 Mar 2016			2016		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	90	228	318	90	268	358	90	268	358
Period's collective write-downs to cover loss on loans, guarantees etc	-	10	10	-	150	150	-	-40	-40
<b>Collective write-downs to cover loss on loans and guarantees at period end</b>	<b>90</b>	<b>238</b>	<b>328</b>	<b>90</b>	<b>418</b>	<b>508</b>	<b>90</b>	<b>228</b>	<b>318</b>

## Group

Individual write-downs (NOKm)	31 Mar 2017			31 Mar 2016			2016		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1	31	607	638	31	153	184	31	153	184
- Actual losses during the period for which provisions for individual impairment losses have been made previously	2	146	148	4	0	4	8	36	44
- Reversal of provisions from previous periods	2	6	8	2	3	5	3	36	39
+ Increased write-downs on provisions previously written down	0	79	79	7	4	11	2	6	8
+ Write-downs on provisions not previously written down	-2	10	8	5	9	14	4	523	528
<b>Individual write-downs to cover loss on loans and guarantees at period end *)</b>	<b>26</b>	<b>544</b>	<b>570</b>	<b>37</b>	<b>163</b>	<b>200</b>	<b>27</b>	<b>611</b>	<b>638</b>

\*) Individually assessed impairment write-downs on guarantees, totalling NOK 6.2m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	31 Mar 2017			31 Mar 2016			2016		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	100	239	339	96	281	376	96	281	376
Period's collective write-downs to cover loss on loans, guarantees etc	1	10	11	0	150	150	4	-42	-38
<b>Collective write-downs to cover loss on loans and guarantees at period end</b>	<b>100</b>	<b>249</b>	<b>349</b>	<b>96</b>	<b>431</b>	<b>527</b>	<b>100</b>	<b>239</b>	<b>339</b>

## Note 8 - Defaults and problem loans

### Parent Bank

	31 Mar 2017			31 Mar 2016			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
<b>Total defaults (NOKm)</b>									
Loans in default for more than 90 days *)	138	34	172	141	28	169	144	29	173
- Individual write-downs	16	15	30	14	13	27	17	18	36
<b>Net defaults</b>	<b>122</b>	<b>19</b>	<b>142</b>	<b>127</b>	<b>15</b>	<b>142</b>	<b>127</b>	<b>11</b>	<b>138</b>
Provision rate	11 %	43 %	18 %	10 %	47 %	16 %	12 %	62 %	21 %
<b>Problem loans</b>									
Problem loans (not in default)	33	1,025	1,058	50	348	399	19	1,435	1,453
- Individual write-downs	7	520	527	20	143	163	6	584	590
<b>Net problem loans</b>	<b>26</b>	<b>505</b>	<b>531</b>	<b>31</b>	<b>205</b>	<b>236</b>	<b>13</b>	<b>851</b>	<b>863</b>
Provision rate	22 %	51 %	50 %	39 %	41 %	41 %	33 %	41 %	41 %

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

### Group

	31 Mar 2017			31 Mar 2016			31 Dec 2016		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
<b>Total defaults (NOKm)</b>									
Loans in default for more than 90 days *)	173	38	211	164	41	205	176	38	214
- Individual write-downs	19	15	34	15	15	31	20	19	39
<b>Net defaults</b>	<b>154</b>	<b>23</b>	<b>177</b>	<b>148</b>	<b>26</b>	<b>174</b>	<b>156</b>	<b>18</b>	<b>174</b>
Provision rate	11 %	41 %	16 %	9 %	37 %	15 %	12 %	51 %	18 %
<b>Problem loans</b>									
Problem loans (not in default)	33	1,045	1,078	56	356	411	19	1,455	1,474
- Individual write-downs	7	529	536	22	148	169	6	592	599
<b>Net problem loans</b>	<b>26</b>	<b>517</b>	<b>542</b>	<b>34</b>	<b>208</b>	<b>242</b>	<b>13</b>	<b>863</b>	<b>875</b>
Provision rate	22 %	51 %	50 %	39 %	41 %	41 %	33 %	41 %	41 %

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

## Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			(NOKm)	Group		
31 Dec 2016	31 Mar 2016	31 Mar 2017		31 Mar 2017	31 Mar 2016	31 Dec 2016
2,791	2,661	2,847	Agriculture, forestry, fisheries, hunting	2,847	2,661	2,791
420	534	1,533	Sea farming industries	1,533	534	420
1,727	2,221	2,671	Manufacturing	2,671	2,221	1,727
2,416	1,733	2,191	Construction, power and water supply	2,191	1,733	2,416
4,067	3,331	3,416	Retail trade, hotels and restaurants	3,416	3,331	4,067
1,740	2,196	1,445	Maritime sector	1,445	2,196	1,740
4,387	4,311	4,626	Property management	4,384	4,105	4,153
5,550	5,185	5,729	Business services	5,729	5,185	5,550
4,848	5,183	5,859	Transport and other services provision	5,382	4,714	4,339
8,627	7,079	9,419	Public administration	9,419	7,079	8,627
2,048	2,050	1,735	Other sectors	1,405	1,761	1,569
<b>38,621</b>	<b>36,485</b>	<b>41,470</b>	<b>Total</b>	<b>40,421</b>	<b>35,520</b>	<b>37,398</b>
29,769	28,330	29,754	Wage earners	29,754	28,330	29,769
<b>68,391</b>	<b>64,815</b>	<b>71,224</b>	<b>Total deposits</b>	<b>70,176</b>	<b>63,851</b>	<b>67,168</b>

## Note 10 - Net interest income

Parent bank			(NOK million)	Group		
January-March				January-March		
2016	2016	2017		2017	2016	2016
			<b>Interest income</b>			
124	31	32	Interest income from loans to and claims on central banks and credit institutions	9	14	48
2,986	766	768	Interest income from loans to and claims on customers	842	824	3,240
292	68	76	Interest income from money market instruments, bonds and other fixed income securities	75	68	289
-	-	-	Other interest income	5	4	19
<b>3,401</b>	<b>865</b>	<b>876</b>	<b>Total interest income</b>	<b>931</b>	<b>910</b>	<b>3,597</b>
			<b>Interest expense</b>			
152	33	37	Interest expenses on liabilities to credit institutions	37	33	153
652	169	158	Interest expenses relating to deposits from and liabilities to customers	154	165	636
708	189	168	Interest expenses related to the issuance of securities	168	189	708
145	36	35	Interest expenses on subordinated debt	35	36	146
2	1	-0	Other interest expenses	2	3	13
58	15	12	Guarantee fund levy	12	15	58
<b>1,717</b>	<b>442</b>	<b>409</b>	<b>Total interest expense</b>	<b>409</b>	<b>441</b>	<b>1,714</b>
<b>1,684</b>	<b>423</b>	<b>467</b>	<b>Net interest income</b>	<b>522</b>	<b>469</b>	<b>1,883</b>

## Note 11 - Operating expenses

Parent bank				Group		
January-March				January-March		
2016	2016	2017	(NOKm)	2017	2016	2016
197	51	53	IT costs	69	64	252
18	5	5	Postage and transport of valuables	6	6	22
55	11	11	Marketing	24	20	98
34	10	12	Ordinary depreciation	26	24	98
124	30	29	Operating expenses, real properties	27	25	109
70	13	12	Purchased services	30	21	108
116	21	30	Other operating expense	44	34	156
<b>615</b>	<b>142</b>	<b>153</b>	<b>Total other operating expenses</b>	<b>227</b>	<b>194</b>	<b>844</b>

## Note 12 - Other assets

Parent Bank				Group		
31 Dec 2016	31 Mar 2016	31 Mar 2017	(NOKm)	31 Mar 2017	31 Mar 2016	31 Dec 2016
27	33	27	Deferred tax asset	196	187	196
121	132	113	Fixed assets	891	953	906
37	6	80	Earned income not yet received	118	52	63
20	2,037	486	Accounts receivable, securities	841	2,353	220
198	124	198	Pension assets	208	125	208
479	67	267	Other assets	649	273	784
<b>882</b>	<b>2,398</b>	<b>1,171</b>	<b>Total other assets</b>	<b>2,903</b>	<b>3,943</b>	<b>2,376</b>

## Note 13 - Other liabilities

Parent Bank				Group		
31 Dec 2016	31 Mar 2016	31 Mar 2017	(NOKm)	31 Mar 2017	31 Mar 2016	31 Dec 2016
0	-	0	Deferred tax	33	21	33
266	315	-38	Payable tax	4	363	319
8	13	8	Capital tax	8	13	8
73	370	44	Accrued expenses and received, non-accrued income	362	543	367
118	107	317	Provision for accrued expenses and commitments	317	107	118
26	25	26	Pension liabilities	26	31	26
90	40	71	Drawing debt	71	40	90
1	-1	197	Creditors	253	59	39
0	249	646	Debt from securities	954	503	147
-	-	-	Equity Instruments	217	386	181
148	176	668	Other liabilities	735	212	203
<b>731</b>	<b>1,294</b>	<b>1,939</b>	<b>Total other liabilities</b>	<b>2,979</b>	<b>2,279</b>	<b>1,531</b>



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

## Group

Change in securities debt (NOKm)	31 Mar 2017	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2016
Bond debt, nominal value	39,283	6,614	3,050	183	35,535
Value adjustments	352	-	-	-101	453
Accrued interest	267	-	-	-61	328
<b>Total</b>	<b>39,901</b>	<b>6,614</b>	<b>3,050</b>	<b>20</b>	<b>36,317</b>

Change in subordinated debt and hybrid capital (NOKm)	31 Mar 2017	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2016
Ordinary subordinated loan capital, nominal value	1,733	-	-	29	1,704
Hybrid capital, nominal value	1,400	-	-	-	1,400
Value adjustments	60	-	-	-4	64
Accrued interest	10	-	-	-4	14
<b>Total</b>	<b>3,203</b>	<b>-</b>	<b>-</b>	<b>21</b>	<b>3,182</b>

## 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 March 2017:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	10	4,691	-	4,701
- Bonds and money market certificates	2,504	16,200	-	18,704
- Equity instruments	1,079	-	537	1,616
- Fixed interest loans	-	43	3,717	3,760
Financial assets available for sale				
- Equity instruments	-	-	60	60
<b>Total assets</b>	<b>3,593</b>	<b>20,934</b>	<b>4,314</b>	<b>28,841</b>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
- Derivatives	13	3,496	-	3,509
- Equity instruments	213	3	-	217
<b>Total liabilities</b>	<b>226</b>	<b>3,500</b>	<b>-</b>	<b>3,726</b>

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	66	8,025	-	8,091
- Bonds and money market certificates	2,762	13,194	-	15,956
- Equity instruments	948	-	588	1,536
- Fixed interest loans	-	43	4,345	4,388
Financial assets available for sale				
- Equity instruments	-	-	108	108
<b>Total assets</b>	<b>3,775</b>	<b>21,262</b>	<b>5,041</b>	<b>30,078</b>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
- Derivatives	88	6,150	-	6,238
- Equity instruments	380	7	-	387
<b>Total liabilities</b>	<b>468</b>	<b>6,156</b>	<b>-</b>	<b>6,624</b>

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
<b>Total assets</b>	<b>3,514</b>	<b>19,796</b>	<b>4,367</b>	<b>27,676</b>
<b>Liabilities</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial liabilities through profit/loss				
- Derivatives	48	4,026	-	4,074
- Equity instruments	173	8	-	181
<b>Total liabilities</b>	<b>221</b>	<b>4,034</b>	<b>-</b>	<b>4,255</b>

The following table presents the changes in the instruments classified in level 3 as at 31 March 2017:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	3,783	524	60	4,367
Investment in periode	154	4	-	158
Disposals in the periode	-232	-	-	-232
Gain or loss on financial instruments	12	9	-	21
<b>Closing balance</b>	<b>3,717</b>	<b>537</b>	<b>60</b>	<b>4,314</b>

The following table presents the changes in the instruments classified in level 3 as at 31 March 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	148	11	-	159
Disposals in the periode	-230	-3	-	-233
Gain or loss on financial instruments	22	5	-	28
<b>Closing balance</b>	<b>4,345</b>	<b>588</b>	<b>108</b>	<b>5,041</b>

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
<b>Closing balance</b>	<b>3,783</b>	<b>524</b>	<b>60</b>	<b>4,367</b>

## 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 while housing prices fall 30 per cent. In the same period minimum requirements to LCR shall be fulfilled.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the first quarter was 2.80 years. The overall LCR at the same point was 136 per cent and the average overall LCR in the quarter was 117 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 147 and 78 per cent respectively.