

Report of the Board of Directors

Accounts for first nine months 2017

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

- Pre-tax profit: NOK 1,568m (1,430m)
- Net profit: NOK 1,250m (1,185m)
- Return on equity: 10.8 percent (11.0 percent)
- Growth in lending: 9.4 percent (6.6 percent) and in deposits: 10.3 percent (4.2 percent) in the last 12 months
- Loan losses: NOK 263m (417m)
- CET1 capital ratio: 14.7 percent (14.3 percent)
- Earnings per equity certificate (EC): NOK 6.06 (5.70)

Accounts for third quarter 2017

- Pre-tax profit: NOK 607m (500m)
- Net profit: NOK 491m (414m)
- Return on equity: 12.5 percent (11.3 percent)
- Loan losses: NOK 88m (130m)
- Earnings per equity certificate (EC): NOK 2.41 (2.00)

Good result for first nine months

Main points:

- Strengthened operating profit
- Reduced losses on loans to the offshore segment
- Good results at subsidiaries and affiliates
- Satisfactory return on financial instruments
- Strong financial position
- High customer influx and good growth
- The Group's income and cost base has increased as a result of the acquisition by SpareBank 1 SMN Regnskapshuset, increased activity at SpareBank 1 SMN Markets and the establishment of BN Bolig

In the first nine months of 2017 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,568m (1,430m). The net profit was NOK 1,250m (1,185m) and return on equity was 10.8 percent (11.0 percent).

Pre-tax profit in the third quarter was NOK 607m (500m). Return on equity in the quarter was NOK 12.5 percent (11.3 percent).

Operating income in the first nine months of 2017 totalled NOK 3,078m (2,651m), an increase of NOK 427m compared with the same period of 2016. SpareBank 1 SMN Regnskapshuset's acquisition and income growth at SpareBank 1 SMN Markets explain much of the increase.

Return on financial investments in the first nine months was NOK 504m (717m), of which income from owner interests accounted for NOK 290m (349m).

Loan losses totalled NOK 263m (417m). The losses are in all essentials in the offshore segment and are in keeping with the level expected.

Growth in lending and deposits in the 12 months to end-September was 9.4 percent (6.6 percent) and 10.3 percent (4.2 percent) respectively. In the first nine months of 2017 lending rose by 7.0 percent (5.6 percent) and deposits by 8.8 percent (3.4 percent).

As at 30 September 2017 the CET1 ratio was 14.7 percent (14.3 percent); the Group targets a CET1 ratio of 15.0 per cent.

The EC's market price at the nine-month mark was NOK 81.25 (55.75 at the turn of 2017). Earnings per EC were NOK 6.06 (5.70) at the same point, and the book value was NOK 76.21 (71.17). Earnings per EC in the third quarter were NOK 2.41 (2.00). A cash dividend of NOK 3.00 per EC has been paid in 2017 for the year 2016.

Increased net interest income

Net interest income totalled NOK 1,603m (1,391m) in the first nine months of 2017. The increase of NOK 212m is mainly ascribable to increased lending and deposits and improved margins both on residential mortgages and loans to corporates. The margin improvement is a result of lower market interest rates and repricing of parts of the corporate portfolio. At NOK 559m, net interest income was NOK 48m higher in the third quarter than in the preceding quarter as a result of continued growth and lower funding costs.

A general interest rate increase has been effectuated on residential mortgage loans in 2017. After the rate increase, the average lending rate on loans for residential purposes is still at about the same level as one year ago.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first nine months of 2017 totalled NOK 266m (219m).

Increased commission income

Commission and other operating income rose to NOK 1,475m (1,260m) in the first nine months of 2017, an increase of NOK 215m or 17 percent compared with last year.

An increase of NOK 110m in income from accounting services is in large measure ascribable to the acquisition of Økonomisenteret with effect from January 2017. In addition, income at SpareBank 1 Markets has shown a positive trend with an increase of NOK 70m. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt has risen by 48m due to a higher volume of, and increased margins on, loans sold to those companies.

| Commission income (NOKm) | January-September | | Change |
|---|-------------------|--------------|------------|
| | 2017 | 2016 | |
| Payment transfers | 157 | 149 | 9 |
| Creditcard | 44 | 46 | -3 |
| Saving products | 64 | 66 | -2 |
| Insurance | 128 | 119 | 9 |
| Guarantee commission | 54 | 60 | -6 |
| Real estate agency | 289 | 301 | -12 |
| Accountancy services | 271 | 161 | 110 |
| Securities Brokerage | 156 | 86 | 70 |
| Other commissions | 47 | 54 | -7 |
| Commissions ex SB1 Boligkreditt and SB1 Næringskreditt | 1,209 | 1,042 | 168 |
| Commissions SB1 Boligkreditt | 254 | 211 | 43 |
| Commissions SB1 Næringskreditt | 12 | 8 | 5 |
| Total commissions | 1,475 | 1,260 | 215 |

Financial investments

Overall return on financial investments was NOK 209m (281m). This breaks down as follows:

- A net gain of NOK 111m on equities and financial derivatives (gain of NOK 152m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed rate loans, and have provided a gain of NOK 11m (26m) in the period
- The Group's holding of commercial paper and bonds has provided a gain of NOK 206m (138m)

Prices of financial instruments used by the bank for hedging purposes have fallen, and the bank has recorded a loss of NOK 147m (89m) on hedging instruments of which NOK 56m (4m) refers to losses on basis swaps.

| Return on financial assets (NOKm) | January-September | | Change |
|--|-------------------|------------|------------|
| | 2017 | 2016 | |
| Capital gains shares | 79 | 100 | -21 |
| Gain/(loss) on derivatives | 32 | 52 | -19 |
| Gain/(loss) on other financial instruments at fair value (FVO) | 11 | 26 | -16 |
| Foreign exchange gain / (loss) | 29 | 53 | -24 |
| Gain/(Loss) on certificates and bonds | 206 | 138 | 67 |
| Gain/(loss) on financial instruments related to hedging | -147 | -89 | -58 |
| of which basis-swap | -56 | -4 | -52 |
| Net return on financial instruments | 209 | 281 | -72 |

Results from ownership interests

Overall profit from ownership interests totalled NOK 290m in the first nine months of 2017 (349m).

| Income from investment in associated companies | January-September | | Change |
|---|-------------------|------------|------------|
| | 2017 | 2016 | |
| SpareBank 1 Gruppen | 214 | 220 | -6 |
| SpareBank 1 Boligkreditt | -26 | 9 | -36 |
| SpareBank 1 Næringskreditt | 18 | 20 | -2 |
| SpareBank 1 Kredittkort | 11 | 20 | -10 |
| BN Bank | 70 | 79 | -8 |
| SpareBank 1 Mobilbetaling | -14 | -19 | 5 |
| Other companies | 17 | 19 | -2 |
| Income from investment in associated companies | 290 | 349 | -58 |

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 percent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning, SpareBank 1 Medlemskort, SpareBank 1 Gruppen Finans and Conecto.

SpareBank 1 SMN's holding in SpareBank 1 Gruppen at the end of the third quarter of 2017 was unchanged at 19.5 percent.

SpareBank 1 Gruppen recorded a post-tax profit of NOK 1,123m in the first nine months of 2017 (1,094m). The main contributor to the profit and profit growth is the non-life insurance business. SpareBank 1 SMN's share of the profit for the first nine months of 2017 was NOK 214m (220m).

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 residential mortgage loans to the company, the banks achieve reduced funding costs and better access to funding. As at 30 September 2017 the bank had sold loans totalling NOK 34bn (33bn) to SpareBank 1 Boligkreditt, corresponding to 36 percent (38 percent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.1 percent, and the bank's share of that company's profit in the first nine months of 2017 was minus NOK 26m (plus 9m). The profit share in 2017 is impaired by capital losses of NOK 62m (29m) on the company's basis swaps. The portfolio of basis swaps is valued quarterly, and may produce wide profit/loss fluctuations from quarter to quarter. Key drivers are changes in costs of hedging foreign exchange risk on the company's borrowings.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines as SpareBank 1 Boligkreditt. As at end-September 2017, loans worth NOK 2.3bn (2.0bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 36.5 percent, and the bank's share of the company's profit for the first nine months of 2017 was NOK 18m (20m). The bank's holding reflects its relative share of sold loans to commercial property and its stake in BN Bank.

SpareBank 1 Kredittkort

Profit for the first nine months of 2017 was NOK 58m (110m). SpareBank 1 Kredittkort (a credit card company) is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.9 percent. SpareBank 1 SMN's share of the profit for the first nine months was NOK 11m (20m), and the bank's share of the credit card portfolio is NOK 839m (840m). The profit decline was expected and is mainly ascribable to the cap imposed on card issuers' share of user site commission (interchange fee).

BN Bank

SpareBank 1 SMN owns 33.0 percent of BN Bank. BN Bank recorded a profit of NOK 213m for the first nine months of 2017 (239m). SpareBank 1 SMN's share of the profit of BN Bank was NOK 70m (79m). Return on equity was 7.4 percent (9.0 percent).

In keeping with the decision to wind down the focus on financing of commercial property, the commercial property portfolio has been reduced by NOK 18.5bn or 58 percent since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial position and to enhance the profitability of BN Bank's remaining corporate portfolio.

BN Bank's main focus is on the personal market.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with EiendomsMegler 1 Midt Norge, established the company BN Bolig, in which BN Bank holds a 50 percent stake. This venture into estate agency in the Oslo market is intended to contribute to stronger growth in residential lending for BN Bank in that market. To support the estate agency venture, the bank's board of directors has also decided to embark on financing of housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling (Vipps)

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

A new company has been founded to which DNB has assigned Vipps and the SpareBank 1 Alliance has assigned mCash. Other savings banks and the Eika Alliance have joined on the owner side. DNB is the largest owner with 52 percent of the shares. The SpareBank 1 Alliance is the second largest owner with 25 percent, other savings banks with 13 percent and the Eika Alliance with 10 percent.

The new Vipps is a strong Norwegian company, well equipped to compete against large Nordic and international actors in the mobile payments area. The company will develop and deliver simple, secure services at the lowest possible cost. Uniting competence with technology in a single strong Norwegian company will benefit the customers. SpareBank 1's 550,000 mCASH customers has been invited to join Vipps and will have the same options available as previously.

Operating expenses

The Group's overall operating expenses came to NOK 1,751m (1,521m) in the first nine months of 2017. Of the increase of NOK 230m, NOK 100m is ascribable to SpareBank 1 SMN Regnskap's acquisition, NOK 96m to SpareBank 1 Markets and NOK 16m to the start-up of BN Bolig. BN Bolig is consolidated as a subsidiary of EiendomsMegler 1 Midt-Norge.

Parent bank costs rose by NOK 16m to NOK 914m. A reduction of FTEs has in isolation reduced personnel costs. A new tax on financial institutions, effective as from 2017, has increased costs by NOK 15m in 2017. Other growth in costs compared with the same period of 2016 relates to technological developments.

The number of FTEs at the parent bank has been reduced from 630 to 617 so far this year and will be further reduced to 590 over the course of 2017. This will reduce staffing at the parent bank by 130 FTEs or 18 per cent since 2014. Changing customer behaviour and new technology set the stage for increased efficiency, and the target of zero cost growth is retained for 2017.

The Group cost-income ratio was 49 percent (46 percent).

Reduced loan losses

Net losses on loans and guarantees totalled NOK 263m in the first nine months of 2017 (417m). A net loss of NOK 88m was recorded in the third quarter in isolation (130m).

A net loss of NOK 252m was recorded on loans to corporates in the first nine months of 2017 (401m), in all essentials related to loans to the offshore segment. A net loss of NOK 11m was recorded on the retail banking portfolio in the first nine months of 2017 (16m).

Individually assessed write-downs on loans and guarantees totalled NOK 707m in the first nine months (562m).

Total problem loans (defaulted and doubtful) came to NOK 1,478m (1,581m), or 1.00 percent (1.18 percent), of gross loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 263m (221m), measuring 0.18 percent (0.16 percent) of gross lending. Of the total default volume, NOK 41m (35m) is loss provisioned corresponding to 16 percent (16 percent).

Defaults break down to NOK 84m (44m) on corporates and NOK 178m (177m) on retail borrowers.

Other doubtful exposures totalled NOK 1,215m (1,360m), 0.83 percent (1.01 percent) of gross lending. Individual write-downs on these exposures totalled NOK 665m (526m), corresponding to a share of 55 percent (39 percent).

Other doubtful exposures break down to NOK 1,196m (1,334m) on corporates and NOK 19m (26m) on retail borrowers.

Collectively assessed impairment write-downs

The calculation of collectively assessed impairment write-downs is based on two factors:

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

Collectively assessed impairment write-downs have increased by NOK 8m in 2017. Overall collectively assessed impairment write-downs thus total NOK 346m (391m), measuring 0.24 percent (0.29 percent) of total loans. Collectively assessed write-downs break down to NOK 102m on retail exposures and NOK 244m on corporates. Of the overall provision of NOK 244m on the corporate portfolio, the provision for oil-related activity accounts for NOK 70m. The remaining collectively assessed write-downs of NOK 174m on the corporate portfolio are fairly evenly spread across other sectors.

Total assets of NOK 147bn

The Group's assets totalled NOK 146.9bn (139.8bn) at 30 September 2017, having risen by NOK 7.1bn or 5.1 percent over the last 12 months.

As at end-September 2017 residential mortgage loans totalling NOK 36.5bn (34.9bn) had been sold by 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.

Good growth in residential mortgage lending

(For distribution by sector – see note 5 and note 9)

Total outstanding loans have risen by NOK 12.7bn (8.3bn) or 9.4 percent (6.6 percent) in the last 12 months to reach NOK 147.1bn (134.5bn) as at end-September 2017. Growth in 2017 comes to 7.0 percent (5.6 percent).

Lending to retail borrowers rose by NOK 9.0bn (8.5bn) or 10.3 percent (10.8 percent) in the last 12 months to reach NOK 96.4bn. Growth in lending thus far in 2017 comes to 7.8 percent (8.3 percent). A good influx of new customers is an important reason why the bank is achieving higher lending growth than other participants in the residential mortgage market.

Lending to corporates increased by NOK 3.7bn (reduction of 0.2bn) or 7.9 percent (minus 0.5 percent) in the last 12 months. Overall lending to corporates came to NOK 50.8bn as at 30 September 2017. Lending to corporate borrowers has grown by 5.5 percent (0.9 percent) in 2017.

Loans to retail borrowers accounted for 66 percent (65 percent) of total loans to customers at end-September 2017.

Strong growth in deposits

Customer deposits rose by NOK 6.8bn (2.7bn) in the last 12 months to reach NOK 73.1bn as at 30 September 2017. This represents a growth of 10.3 percent (4.2 percent) in the last 12 months.

Retail deposits rose by NOK 1.8bn (1.5bn) or 6.2 percent (5.3 percent) to reach NOK 31.5bn at end-September 2017. Corporate deposits rose by NOK 5.0bn (1.2bn) or 13.6 percent (3.3 percent) to reach NOK 41.6bn. In 2017 retail deposits have risen by 5.8 percent (4.7 percent) and corporate deposits by 11.2 percent (2.4 percent).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.7bn at 30 September 2017 (8.2bn). The growth in equity funds and active asset management products is explained by new sales and value changes on underlying securities.

| Saving products, customer portfolio (NOKm) | January-September | | Change |
|--|-------------------|--------------|--------------|
| | 2017 | 2016 | |
| Equity funds | 5,964 | 4,966 | 998 |
| Pension products | 828 | 679 | 149 |
| Active management | 2,926 | 2,518 | 408 |
| Total | 9,718 | 8,163 | 1,555 |

Insurance portfolios

The bank's insurance portfolio showed growth of NOK 106m or 8.6 percent in the last 12 months. Non-life insurance showed 4.2 percent growth, personal insurance 18.9 percent growth and occupational pensions 9.1 percent growth.

| Insurance, premium volume (NOKm) | January-September | | Change |
|----------------------------------|-------------------|--------------|------------|
| | 2017 | 2016 | |
| Non-life insurance | 766 | 735 | 31 |
| Personal insurance | 352 | 296 | 56 |
| Occupational pensions | 227 | 208 | 19 |
| Total | 1,345 | 1,239 | 106 |

Retail Banking

Overall operating income came to NOK 1,396m (1,227m) of which net interest income accounted for NOK 819m (713m) and commission income for NOK 576m (513m). Incomes have risen in most product areas as a result of a good customer influx and an increase in the number of multi-product customers. Overall incomes have grown by NOK 169m. Return on capital employed in the retail banking segment was 16.3

percent (13.5 percent). Regulatory capital of 15.0 percent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin in the first nine months of 2017 was 1.90 percent (1.80 percent), while the deposit margin was 0.24 percent (0.24 percent) (measured against three-month NIBOR). The average three-month NIBOR has fallen by about 30 basis points since the start of 2017.

In the last 12 months retail lending and retail deposits grew by 9.9 percent (10.3 percent) and 5.9 percent (4.4 percent) respectively.

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

Corporate Banking

Operating income totalled NOK 974m in the first nine months of 2017 (889m), having risen by NOK 85m. Net interest income was NOK 814m (731m) and commission income totalled NOK 160m (158m), including NOK 9m (10m) on fixed-income and forex business. Operating income in the corporate segment has risen due in all essentials to increased lending margins and good growth.

Overall losses in the corporate banking division came to NOK 249m (398m). The losses are in all essentials related to the challenges in the oil and offshore segment.

Return on capital employed for the corporate banking segment in the first nine months of 2017 was 10.1 percent (4.1 percent). Regulatory capital of 15.0 percent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.77 percent (2.66 percent) and the deposit margin was minus 0.10 percent (minus 0.10 percent) as at end-September 2017.

Lending grew by 5.6 percent (minus 2.5 percent) and deposits by 15.4 percent (6.4 percent) in the last 12 months.

Subsidiaries

The subsidiaries posted an overall profit for the first nine months of 2017 of NOK 192.9m (220.3m) before tax and minority interests.

| Pre-tax profit (NOKm) | January-September | | |
|---|-------------------|--------------|--------------|
| | 2017 | 2016 | Change |
| EiendomsMegler 1 Midt-Norge | 12.5 | 59.5 | -47.0 |
| SpareBank 1 Finans Midt-Norge | 93.5 | 74.9 | 18.6 |
| SpareBank 1 Regnskapshuset SMN | 45.0 | 32.9 | 12.2 |
| Sparebank 1 Markets (proforma incl. SpareBank 1 Kapitalforvaltning) | -5.9 | 11.1 | -16.9 |
| SpareBank 1 SMN Invest | 31.5 | 36.7 | -5.2 |
| Other companies | 16.2 | 5.3 | 10.9 |
| Total | 192.9 | 220.3 | -27.4 |

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market share throughout the market area, in particular in Trondheim. Its ambition is to continue to strengthen its market share in the region. The company has, in collaboration with BN Bank, established BN Bolig in

which EiendomsMegler 1 and BN Bank each hold a 50 percent stake. BN Bolig targets the estate agency market in Oslo and, in addition to enhancing income from estate agency, will promote stronger growth in residential lending for BN Bank in this market.

EiendomsMegler 1 Midt-Norge's pre-tax profit in the first nine months of 2017 was NOK 12.5m (59.5m). Its profit performance is weakened by start-up costs at BN Bolig inasmuch as EiendomsMegler 1 Midt-Norge fully consolidates BN Bolig's results as a subsidiary.

Dwellings sold in the first nine months of 2017 totalled 5,304 compared with 5,770 in the same period of 2016.

SpareBank 1 Finans Midt-Norge delivered a pre-tax profit of NOK 93.5m in the first nine months of 2017 (74.9m), and shows positive profit growth thanks to strong income growth, limited growth in costs and sound risk management. The company's main business lines are leasing to the SMB market and car loans to retail customers. The company manages leases and car loan agreements worth a total of NOK 6.0bn, of which leases account for NOK 2.7bn (2.3bn) and car loans for NOK 3.3bn (2.6bn).

Sound growth is noted, particularly in car loans where growth in the last 12 months comes to 27 percent. At end-September 2017 the Samspar banks in SpareBank 1 held a 27.9 percent stake in SpareBank 1 Finans Midt-Norge and Sparebanken Sogn og Fjordane a stake of 7.5 percent. SpareBank 1 SMN owns 64.6 percent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 45.0m (32.9m) in the first nine months of 2017. The profit growth is related to business acquisition effects and sound operations.

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

SpareBank 1 Regnskapshuset SMN acquired all shares of Økonomisenteret with about 110 employees with effect from 1 January 2017, bringing the company's workforce to 360 and annual turnover to NOK 360m. This has contributed to profit growth in 2017 along with a substantial increase in both income and costs.

SpareBank 1 SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 31.5m (36.7m) in the first nine months of 2017.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 16.0m 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 the first nine months of 2017 was NOK 15.5m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 70.6 percent. The company is headquartered in Oslo and has offices in Trondheim and Ålesund. It has a staff of 129. Since quarter-end the company has also acquired the trading desk at SpareBank 1 SR-Bank Markets, and now has a branch in Stavanger with five brokers. In the transaction, SpareBank 1 SR-Bank became co-owner of the company.

SpareBank 1 Markets also owns SpareBank 1 Kapitalforvaltning (previously Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is a key element in SpareBank 1 Markets' asset management venture with aggregate total assets of NOK 10bn. The company has 15 staff members.

The company's pre-tax profit for the first nine months of 2017 was minus NOK 9.8m (6.0m). The group has recorded positive income growth in recent quarters, in particular in equity trading and investment banking

(corporate). SpareBank 1 Kapitalforvaltning recorded a profit for the first nine months of 2017 of NOK 3.4m (3.8m). For SpareBank 1 Markets including SpareBank 1 Kapitalforvaltning the pro forma consolidated pre-tax profit as at the third quarter is minus NOK 5.9m (plus 11.1m).

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

SpareBank 1 Markets 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 bank.

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 fresh external funding.

The bank has liquidity reserves of NOK 22bn and thus has the funding needed for 24 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 the banks' liquid assets relative to net liquidity outflow 30 days ahead in time given a stressed situation.

The LCR is calculated at 124 percent as at 30 September 2017 (138 percent).

The Group's deposit to loan ratio as at 30 September 2017, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 percent (49 percent).

The bank's funding sources and products are amply diversified. At the end-september mark the proportion of the bank's overall money market funding in excess of 1 year was 83 percent (85 percent).

Rating

SpareBank 1 SMN has a rating of A1 (outlook negative) with Moody's and a rating of A- (outlook stable) with Fitch Ratings. Moody's revised the outlook for SpareBank 1 SMN and other Norwegian banks from a stable to negative outlook in July 2017. The change was triggered by the anticipated introduction of the EU's Bank Recovery and Resolution Directive (BRRD), which is likely to lessen the probability of support from public authorities to Norwegian banks.

Financial position

The CET1 capital ratio at 30 September 2017 was 14.7 percent (14.3 percent). The change over the last 12 months is essentially ascribable to strong growth in CET1 capital enabled mainly by profit retention.

In the third quarter the CET1 ratio was reduced by 0.25 percentage points. This is explained by:

- Increased deductions from CET1 capital related to the bank's ownership interests in SpareBank 1 Gruppen and SpareBank 1 Betaling
- Risk weighted assets for the IRB portfolios were reduced somewhat, but this is largely offset by the added need for capital under the transitional arrangement. Somewhat higher-than-planned growth in lending to corporate clients has in isolation weakened the CET1 capital ratio by 0.13 percentage point

- A changed understanding of the calculation of capital charges under the transitional arrangement for non-consolidated financial institutions has produced an increase in risk weighted assets. The effect for SpareBank 1 SMN is a weakening of CET1 capital adequacy by 0.18 percentage point

As at 30 September 2017 the regulatory requirement on CET1 capital is 11.5 percent, 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 percent. The add-on is mainly related to owner risk, market risk and credit concentration risk. In December 2016 the Ministry of Finance decided that the countercyclical buffer should be increased by a further 0.5 percent, to 2.0 percent with effect from 31 December 2017. SMN has a capital target of 15 percent designed to secure a sufficient buffer.

The board of directors of SpareBank 1 SMN assesses the capital situation and future capital requirements on a continuous basis.

The bank's equity certificate (MING)

The book value of the bank's EC at quarter-end was NOK 76.21 (71.17), and earnings per EC were NOK 6.06 (5.70). As at 30 September 2017 the EC was priced at NOK 81.25 (55.75 as at 31 December 2016). Dividend of NOK 3.00 per EC has been paid in 2017 for the year 2016.

The Price / Income ratio was 10.05 (7.33) and the Price / Book ratio was 1.07 (0.78).

Risk factors

The Group's problem loans reflect the challenges related to the offshore industry. As at 30 September, loans to oil-related activity account for 3.2 percent of the Group's overall outstanding loans. Credit quality in the bank's remaining loan portfolio is satisfactory, there have been no spillover effects from offshore to other sectors, and there are no other concentrations in non-performing or doubtful exposures.

Positive growth signals are noted both internationally and in Norway. A weaker Norwegian krone has impacted positively on Norwegian exports, but some strengthening of the krone is expected ahead. Real wage growth is expected to quicken somewhat ahead. This, combined with a persistent low interest rate level, suggests low risk of loss in the bank's retail banking portfolio. Unemployment is reduced, and the bank's assumption is that unemployment will be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households remains higher than wage growth and will over time be influenced by the trend in house prices. If house prices stagnate, or fall, there is a risk of a rising saving rate among highly leveraged households which could lead to 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 essentially 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 also the above section on funding and liquidity).

Outlook

SpareBank 1 SMN published in October its economic barometer for Trøndelag and Møre og Romsdal. It shows a region in which optimism is growing, unemployment is low and businesses are seeing sound growth and healthy profits. The oil slump appears to be over, which is of particular benefit to Møre og Romsdal.

SpareBank 1 SMN posted a good third-quarter profit performance. Core business lines show sound growth and improved profitability.

Losses on loans amounted to 0.25 per cent for the first nine months. This is a considerable improvement on last year. The region's robust economy makes for low losses across all industries apart from offshore.

A CET1 ratio of 14.7 per cent at quarter-end is somewhat short of the 15.0 per cent target, and will be brought up to the target level through a reduction in business volume.

A number of measures have been taken to strengthen the Group's competitive power. The most important are more effective use of capital, more correct pricing of risk and an increase in the number of multi-product customers. The bank is modernising its distribution and streamlining work processes. The industry portal Driv, analysis-based customer dialogue and robotic process automation facilitate self-service, enhance the customer experience and reduce costs.

The intention is to distribute 50 per cent of Group profit as dividend and donations for 2017.

The board of directors is well satisfied with the Group's performance.

Trondheim, 26. October 2017
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)