



Quarterly report

Interim report

Q4 2016



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Main figures Group

Result summary (NOK mill and % of average assets)	Proforma 31.12.2016 ⁹⁾		31.12.2016 ⁸⁾		31.12.2015	
	Amount	%	Amount	%	Amount	%
Net interest income	1 739	1,77 %	1 490	1,79 %	1 105	2,08 %
Net commissions and other (non-interest) income	1 229	1,25 %	939	1,13 %	651	1,23 %
Net income from financial investments	207	0,21 %	220	0,26 %	514	0,97 %
Total income	3 175	3,22 %	2 649	3,19 %	2 270	4,28 %
Total operating expenses before losses on loans and guarantees	1 573	1,60 %	1 203	1,45 %	1 051	1,98 %
Profit before losses on loans and guarantees	1 602	1,63 %	1 446	1,74 %	1 219	2,30 %
Losses on loans and guarantees	86	0,09 %	75	0,09 %	56	0,11 %
Profit/loss before tax	1 516	1,54 %	1 371	1,65 %	1 163	2,19 %
Tax charge	312	0,32 %	271	0,33 %	233	0,44 %
Results for the accounting period	1 204	1,22 %	1 100	1,32 %	930	1,75 %
Minority interests	4	0,00%	4	0,01 %		
Profitability						
Return on equity capital ¹⁾		10,8 %		10,5 %		11,4 %
Cost-income ratio ²⁾		49,5 %		45,4 %		46,3 %
From the balance sheet						
Gross loans to customers	82 945		82 945		43 779	
Gross loans to customers including loans transferred to covered bond companies ³⁾	119 450		119 450		61 140	
Lending growth during the last 12 months				89,5 %		9,6 %
Lending growth in last 12 months including loans transferred to covered bond companies		11,3 %		95,4 %		9,3 %
Deposits from customers	63 070		63 070		33 458	
Deposit-to-loan ratio ⁴⁾		76,0 %		76,0 %		76,4 %
Deposit growth during the last 12 months		12,2 %		88,5 %		7,7 %
Total assets	101 640		101 640		55 971	
Total adjusted assets ⁵⁾	138 145		138 145		73 332	
Losses and commitments in default						
Losses on loans as a percentage of gross loans		0,1 %		0,1 %		0,1 %
Commitments in default as a percentage of total commitments		0,3 %		0,3 %		0,6 %
Other bad and doubtful commitments as a percentage of total commitments		0,3 %		0,3 %		0,5 %
Net commitment in default and commitments with loss provisions as a percentage of total commitments ⁶⁾		0,4 %		0,4 %		0,8 %
Financial strength						
Common equity Tier 1 capital ratio		16,9 %		16,9 %		17,2 %
Tier 1 Capital ratio		17,9 %		17,9 %		17,5 %
Capital adequacy ratio		20,3 %		20,3 %		19,1 %
Net subordinated capital	12 656		12 656		7 179	
Equity ratio		11,9 %		11,9 %		15,6 %
Leverage Ratio		7,5 %		7,5 %		9,2 %
LCR ⁷⁾		116,6 %		116,6 %		120,8 %

1) Net profit as a percentage of average equity

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

3) Covered bond companies used are SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

4) Deposit from customers as a percentage of gross loans to customers (excl. loans transferred to covered bond companies)

5) Total assets and loans transferred to the covered bond companies.

6) Net defaulted and doubtful commitments equals the sum of commitments in default and doubtful commitments minus individual write-downs

7) Liquidity Coverage Ratio; measures the size of bank's liquid assets in relation to net liquidity outflows 30 days ahead given a stress situation

8) As a result of the acquisition of Bank 1 Oslo Akershus, ratios and comparative figures in the official accounts are not comparable with previous periods.

9) Proforma consolidated displayed as it would be at 100 per cent ownership in Bank 1 Oslo Akershus from January 1, 2016.

Interim report Q4 2016

Summary

The Sparebanken Hedmark Group posted a profit after tax for 2016 of NOK 1,100 (930) million (last year's figure in brackets). The return on equity in 2016 was 10.5 (11.4) per cent.

The Sparebanken Hedmark Group posted a profit after tax for the fourth quarter of NOK 281 (194) million. The return on equity in the quarter was 9.6 (8.9) per cent.

The Group's calculated proforma result (100 per cent ownership of Bank 1 Oslo Akershus AS for the whole of 2016) after tax for 2016 amounted to NOK 1,204 million. This corresponds to a return on equity of 10.8 per cent.

The core equity tier 1 ratio was 16.9 (17.2) per cent. The total capital adequacy ratio was 20.3 (19.1) per cent.

74 per cent of the Sparebanken Hedmark Group's total lending, including loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, is loans for the retail market, primarily consisting of home mortgages. The corporate market portfolio has no exposure to the oil and gas industry and is otherwise characterised by low risk. Losses in 2016 were very low and totalled NOK 75 million for the new group. The proportion of problem loans, defined as non-performing and impaired loans, represents a very small proportion of the Group's lending and was 0.5 per cent of gross commitments on its balance sheet.

The Group and accounting matters relating to the acquisition of Bank 1 Oslo Akershus AS

The Group prepares its financial statements in accordance with the IAS 34 accounting standard.

The Group consists of Sparebanken Hedmark and the wholly owned subsidiaries Bank 1 Oslo Akershus AS, EiendomsMegler 1 Hedmark Eiendom AS, SpareBank 1 Regnskapshuset Østlandet AS and Vato AS, as well as the 95 per cent owned subsidiary SpareBank 1 Finans Østlandet AS.

Sparebanken Hedmark owns, directly and indirectly, 12.4 per cent of SpareBank 1 Gruppen AS, 21.2 per cent of SpareBank 1 Mobilbetaling AS and 18.9 per cent of SpareBank 1 Kredittkort AS. The Bank also owns 20.3 per cent of SpareBank 1 Boligkreditt AS and 9.2 per cent of SpareBank 1 Næringskreditt AS (the covered bond companies). The results from the above companies are recognised in the Bank's consolidated financial statements proportionate to the Bank's stake.

Sparebanken Hedmark's acquisition of the remaining shares in Bank 1 Oslo Akershus AS was completed with accounting effect from 29 June 2016.

The results from Bank 1 Oslo Akershus AS were in the first half of the year consolidated into the Group using the equity method with an ownership interest of 40.5 per cent. From and including the second half of the year, the results from Bank 1 Oslo Akershus AS were fully consolidated into the accounts of Sparebanken Hedmark.

The consolidation of the accounts of Bank 1 Oslo Akershus AS means that Sparebanken Hedmark's consolidated financial statements for the second half of 2016 are not directly comparable with the figures for the year before.

Key figures have been prepared for the proforma group to show what they would have been with 100 per cent ownership of Bank 1 Oslo Akershus AS from 1 January 2016.

Sparebanken Hedmark

– consolidated profit for the fourth quarter

Bank 1 Oslo Akershus AS was fully consolidated into the consolidated financial statements for the fourth quarter with 100 per cent ownership. The figures for the year before are, therefore, not directly comparable with the year's result.

The consolidated profit after tax was NOK 281 (194) million for the fourth quarter. The return on equity was 9.6 (8.9) per cent.

Interest income and other operating income

Net interest income amounted to NOK 452 (289) million. Total net interest income amounted to NOK 521 (335) million, inclusive of commissions from loans and credit transferred to the partly-owned covered bond companies (recognised as commissions) totalling NOK 69 (45) million.

The lending margin in the fourth quarter, inclusive of home mortgages in the covered bond company, amounted to 2.02 (2.55) per cent. The deposit margin was 0.22 (-0.02) per cent. The net interest margin was 2.23 (2.53) per cent.

Net commissions and other operating income amounted to NOK 295 (159) million.

The net profit from financial assets and liabilities was NOK 66 (103) million. Of this, the result from ownership interests, primarily SpareBank 1 Gruppen AS and other alliance companies, amounted to NOK 49 (70) million.

The change in value for securities issued and fixed-income investments, inclusive of hedging, was NOK 41 (28) million. For further details please see note 7 "Net result from financial assets and liabilities".

Costs and losses on loans

Total operating costs amounted to NOK 477 (294) million in the fourth quarter.

74 per cent of the Sparebanken Hedmark Group's total lending, including loans transferred to SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS, is loans for the retail market, primarily consisting of home mortgages. The corporate market portfolio has no exposure to the oil and gas industry and is otherwise characterised by low risk.

Losses amounted to 43 (18) million in the fourth quarter, of which the change in group write-downs accounted for NOK 12 (1) million.

For further details from the financial statements for the fourth quarter, please see page 16 of the report, "Results from the interim financial statements".

Credit risk

The total group write-downs to cover net loan loss provisions amounted to NOK 262 (120) million and represented 0.32 (0.28) per cent of gross lending.

The loan loss provision ratio, measured as total individual write-downs of NOK 156 (147) million in relation to total non-performing and other impaired loans of NOK 505 (491) million, was 31 (30) per cent at year-end 2016.

Credit quality, measured as total problem commitments in relation to total lending, improved significantly compared with the corresponding period last year. In total, the Group's problem commitments amounted to 0.5 (1.1) per cent of gross commitments on its balance sheet and 0.4 (0.8) per cent if one includes loans transferred to the covered bond companies. The improvement in credit quality is due to both the consolidation of Bank 1 Oslo Akershus AS's balance sheet and positive migration.

Sparebanken Hedmark – Posted consolidated profit for 2016

The Group's profit after tax for 2016 totalled NOK 1,100 (930) million. The return on equity was 10.5 (11.4) per cent.

Specification of the consolidated profit after tax in NOK millions:

	2016	2015
Parent Bank's profit after tax	964	796
Dividends received from subsidiaries/associated companies	-389	-259
Share of the result from		
SpareBank 1 Gruppen AS	192	142
Bank 1 Oslo Akershus AS	250	100
SpareBank 1 Boligkreditt AS and SpareBank Næringskreditt AS	-23	46
EiendomsMegler 1 Hedmark Eiendom AS	14	5
SpareBank 1 Finans Østlandet AS	86	74
SpareBank 1 Regnskapshuset Østlandet AS	2	11
SpareBank 1 Kredittkort AS	17	10
SpareBank 1 Mobilbetaling AS	-25	0
Others	12	5
Consolidated profit after tax	1.100	930

Interest income and other operating income

Net interest income amounted to NOK 1,490 (1,105) million. Total net interest income amounted to NOK 1,715 (1,293) million, inclusive of commissions from loans and credit transferred to partly-owned companies (recognised as commissions) totalling NOK 225 (188) million.

Net commissions amounted to NOK 759 (461) million, while other operating income was NOK 180 (190) million.

For more detailed information about the various profit centres in the Group, please see note 3 "Segment information".

The net result from financial assets and liabilities fell by NOK 294 million to NOK 220 (514) million.

Dividends of NOK 46 (9) million are primarily dividends from VISA Norge, NOK 38 (0) million, and dividends from Totens Sparebank, NOK 7 (7) million.

Net profit from ownership interests was NOK 236 (301) million. The profit from Bank 1 Oslo Akershus AS accounted for NOK 71 (84) million of the profit from ownership interests. The results from Bank 1 Oslo Akershus AS were consolidated into the consolidated financial statements with effect from the third quarter of 2016, while 40.5 per cent of the results from Bank 1 Oslo Akershus AS for the first half of 2016 were included in the results from ownership interests.

The profit contribution from SpareBank 1 Gruppen AS totalled NOK 192 (142) million.

The net investment result from other financial assets and liabilities was minus NOK 62 (+205) million. This includes a gain of NOK 21 million, which represents a provisional settlement in arrears from the sale of Nets Holding ASA in connection with this company's sale of its shares in VISA Europe Ltd.

The Group's securities issued, fixed-income investments, derivatives and fixed-rate products for customers are generally assessed at fair value through profit and loss pursuant to IAS 39, and changes in market value are recognised in profit and loss.

2016 saw a marked contraction in the risk premium for Norwegian senior securities. For a five-year, senior issue in a Norwegian regional savings bank, the market's risk premium was reduced from an indicative 134 basis points at the start of the year to around 85 basis points at year-end. All other things being equal, this results in the relevant discount rate on previously issued fixed-income securities with fixed coupons decreasing and thus their present value (price) rising. The rise in prices for own debt results in an unrealised loss, while the rise in prices for purchased fixed-income securities results in an unrealised gain.

The net effect for Sparebanken Hedmark of price changes for all fixed-income securities, inclusive of hedging transactions, was negative in the amount of NOK 91 (+184) million in 2016, almost all of which are unrealised losses. The change in value for securities issued, inclusive of hedging, was NOK -146 (+252) million.

Please also see note 7 "Net result from financial assets and liabilities".

Costs and losses on loans

The Group's operating costs were NOK 1,203 (1,052) million. The consolidation of the results from Bank 1 Oslo Akershus AS and EiendomsMegler 1 Oslo Akershus AS, with effect from the third quarter of 2016, contributed to an increase in operating costs of NOK 392 million, while the recognition of NOK 232 million as income in connection with the winding up of the defined benefit pension scheme in Sparebanken Hedmark helped to reduce operating costs. Exclusive of the effects of the consolidation of Bank 1 Oslo Akershus AS and EiendomsMegler 1 Oslo Akershus AS, as

well as the recognition of income in connection with the winding up of the defined benefit pension scheme, operating costs increased by NOK 9 million.

Losses remained low and amounted to NOK 75 (56) million. NOK 19 (6) million of the losses occurred in the retail market divisions and NOK 33 (29) million in the corporate market divisions, while NOK 4 (0) million was recognised as income in connection with the sales of a portfolio of loans with recorded losses. The losses in SpareBank 1 Finans Østlandet AS amounted to NOK 27 (21) million. Changes in group write-downs accounted for NOK 22 (4) million of the above losses.

Equity certificates

The equity share capital at year-end 2016 consists of 106,202,540 equity certificates with a nominal value of NOK 50 per certificate. The equity certificates are owned by Sparebanken Hedmark Sparebankstiftelse (75.08 per cent), the Norwegian Confederation of Trade Unions (LO) and affiliated trade unions (14.95 per cent), Samarbeidende Sparebanker AS (5.12 per cent), SpareBank 1 Nord-Norge (1.61 per cent), SpareBank 1 SMN (1.61 per cent), and SpareBank 1 SR-Bank AS (1.61 per cent).

The book value per equity certificate (Group) at year-end 2016 was NOK 73.88 and earnings per equity certificate in 2016 was NOK 6.95.

Assets and funding

Total assets amounted to NOK 101.6 (56.0) billion at year-end 2016. Total business capital, defined as total assets plus loans transferred to the covered bond companies, amounted to NOK 138.1 (73.3) billion.

Gross lending to customers, inclusive of loans transferred to the covered bond companies, totalled NOK 119.5 (61.1) billion. At year-end, loans totalling NOK 34.9 (16.8) billion had been transferred to SpareBank 1 Boligkreditt AS and loans totalling NOK 1.6 (0.6) billion had been transferred to SpareBank 1 Næringskreditt AS. Retail customer loans transferred to the retail loan covered bond company as a percentage of the overall retail customer loans (loans on its balance sheet and transferred loans) was 39.2 (40.3) per cent.

Lending growth for the last twelve months, inclusive of transferred loans, was 9.2 (8.6) per cent in the Parent Bank Sparebanken Hedmark. Bank 1 Oslo Akershus AS's lending growth was 10.1 (13.3) per cent.

Customer deposits totalled NOK 63.1 (33.5) billion. Deposit growth was 8.2 (7.8) per cent in the Parent Bank Sparebanken Hedmark and 14.1 (7.6) per cent in Bank 1 Oslo Akershus AS. The deposit coverage ratio was 76.0 (76.4) per cent.

Borrowing from financial institutions and senior securities issued totalled NOK 24.0 (12.2) billion. The average term to maturity of the Group's long-term funding was 3.4 (3.8) years. The average term to maturity for all borrowing was 3.1 (3.6) years. The average risk premium on the Group's

borrowing portfolio, exclusive of subordinated loans and hybrid tier 1 capital, was 90 (81) basis points at year-end. The increase was primarily due to Bank 1 Oslo Akershus AS having higher borrowing costs than Sparebanken Hedmark. In addition to senior debt, the Group had NOK 1.2 (0.5) billion in outstanding subordinated loans and NOK 0.4 (0.0) billion in outstanding hybrid tier 1 capital.

At year-end 2016, the Group had enough reserves to maintain normal operations for 14 (18) months. The LCR (Liquidity Coverage Ratio) was 116.6 (120.8) per cent.

In the opinion of the Board, the Group's liquidity risk is low.

Financial strength and capital adequacy

The Group's equity amounted to NOK 12.1 (8.7) billion, which is equivalent to 11.9 (15.6) per cent of the balance sheet. The leverage ratio was 7.5 (9.2) per cent.

The Group's core equity tier 1 ratio was 16.9 (17.2) per cent. The total capital adequacy ratio was 20.3 (19.1) per cent. In the fourth quarter of the 2016 the group exceeded an equi-

ty stake of 20 per cent in SpareBank 1 Boligkreditt AS. This entails that in terms of capital adequacy, SpareBank 1 Boligkreditt AS is proportionally consolidated with the group at large as at 31 December 2016. The effect of this consolidation constitutes the most significant contribution to change in pure tier 1 capital ratio from the last quarter.

The Group's long-term capital target for core equity tier 1 capital is 16 per cent. The profit for the year after expected tax and dividends is included in the capital adequacy calculation.

Rating

Sparebanken Hedmark is rated A1 by Moody's Investor Service. The rating has a 'stable outlook'. The Bank was upgraded from A2 to A1 on 11 October 2016. Moody's justified the upgrade by explaining that the acquisition of Bank 1 increased the probability of the Bank receiving public support in a crisis situation. As the fourth largest savings bank in Norway and given its great importance with respect to access to capital in its region, Moody's believes Sparebanken Hedmark should be considered a systemically important financial institution.

Sparebanken Hedmark – Parent Bank

Results

The profit after tax for 2016 totalled NOK 964 (796) million. Banking operations, defined as net interest income plus commissions and other operating income minus operating costs and losses, has been corrected for net income recognition of NOK 220 million in the Parent Bank in connection with the winding up of the defined benefit pension scheme and achieved a profit before tax of NOK 643 (537) million. This represents an improvement of 20 per cent. Net interest income and commissions from transferred loans to the covered bond companies increased by NOK 89 million. Net other operating income increased by NOK 25 million, operating costs were reduced by NOK 4 million, and net losses were NOK 12 million higher.

Interest income and other operating income

Net interest income amounted to NOK 1,003 (880) million. Total net interest income amounted to NOK 1,157 (1,068) million, inclusive of commissions from loans and credit transferred to partly-owned companies (recognised as commissions) totalling NOK 154 (188) million. The NOK 89 million improvement is attributable to the increased net interest income of NOK 123 million due to growth and higher deposit margins. Lower margins for loans and reduced commission rates for loans transferred to the covered bond companies made a negative contribution.

The net interest margin for loans on the balance sheet (exclusive of currency loans) was 2.58 (2.42) per cent. The lending margin was 2.34 (2.64) per cent and the deposit margin was 0.24 (-0.22) per cent. The interest margin for the retail market was 2.38 (2.29) per cent, and for the corporate market it was 2.92 (2.69) per cent.

The net margin for the portfolio transferred to SpareBank 1 Boligkreditt AS was 0.86 (1.17) per cent.

The net profit from financial assets and liabilities was NOK 293 (473) million. Please see note 7 "Net result from financial assets and liabilities".

Sparebanken Hedmark received NOK 127 million as an extraordinary dividend from SpareBank 1 Gruppen AS in the fourth quarter. This dividend affects the Parent Bank's result for 2016, but has been eliminated in the consolidated financial statements. The corresponding extraordinary dividend for Bank 1 Oslo Akershus AS was NOK 16 million.

Operating costs

Total operating costs amounted to NOK 519 (743) million. The growth in costs compared with last year was -30.2 (+2.5) per cent. The main reason for the reduction in operating costs was the winding up of the Bank's defined benefit pension scheme with effect from 1 July 2016, which resulted in non-recurring income recognition of NOK 220 million in relation to the Parent Bank's personnel costs.

At the end of the quarter, the Parent Bank had 462 (470) full-time equivalents.

Operating costs represented 30.5 (41.8) per cent of total income.

Net loan loss provisions

The net loan loss provisions were NOK 47 (35) million. NOK 19 (6) million of the losses occurred in the retail market and

NOK 32 (29) million in the corporate market, while NOK 4 (0) million was recognised as income in connection with the sale of a portfolio of loans with recorded losses. The change in group write-downs accounted for NOK 19 (2) million of total losses.

Loans and deposits

Gross lending to customers at year-end 2016 totalled NOK 60.2 (55.5) billion, inclusive of loans worth NOK 18.2 (17.4) billion transferred to the covered bond companies. The Parent Bank's lending growth for the last twelve months, inclusive of loans transferred to the covered bond companies, was 9.2 (8.6) per cent.

Lending growth, inclusive of transferred loans, was 10.2 (7.6) per cent in the retail market and 6.8 (10.9) per cent in the

corporate market. The risk profile of the Bank's credit portfolio is low and did not change in the last year.

Deposits from and liabilities to customers totalled NOK 36.3 (33.5) billion at year-end 2016. The growth in deposits over the past twelve months was 8.2 (7.8) per cent. NOK 22.6 (21.6) billion of deposits came from the retail market, while NOK 13.6 (11.9) billion came from the corporate market.

Financial strength

The core equity tier 1 ratio was 31.4 (24.1) per cent at year-end.

The Parent Bank's equity was NOK 10.4 (7.7) billion. The total equity in the Parent Bank amounted to 16.9 (14.0) per cent of the balance sheet at year-end 2016.

Subsidiary - Bank 1 Oslo Akershus AS, Group*

The Bank 1 Oslo Akershus AS Group posted a profit after tax for the fourth quarter of NOK 67 (47) million. The return on equity was 7.7 (6.1) per cent. Net loan loss provisions amounted to NOK 0.3 (-3.0) million.

The Bank 1 Oslo Akershus AS Group posted a profit after tax for 2016 of NOK 334 (254) million. The return on equity was 10.0 (8.4) per cent.

The improvement was largely attributable to increased net interest income, capital gains on securities in 2016, compared with capital losses the year before, and the positive effect of the sale of the bank's share in VISA Europe Ltd. to VISA Inc.

Interest income and other operating income

Net interest income for 2016 amounted to NOK 511 (472) million. The increase was due to growth in lending, higher deposit margins, and changes in the policy for recognising hybrid tier 1 capital. Seen in isolation, lower lending margins and increased funding costs reduced net interest income.

Net interest income must be viewed in the context of commissions from SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS. In 2016, these commissions amounted to NOK 146 (170) million.

Net commissions and other operating income amounted to NOK 570 (572) million. The reduction was due to reduced commissions from SpareBank 1 Boligkreditt AS due to lower lending rates for customers than in 2015.

The net result from financial investments was NOK 111 (7) million.

The change in value for financial assets was NOK 98 (-64) million and was largely due to dividends and gains received in connection with the sale of VISA Europe Ltd. to VISA Inc. for NOK 45 million. Bonds and derivatives showed capital

gains of NOK 44 (-65) million. The gains from securities were primarily due to gains in the bank's liquidity portfolio due to the contraction of spreads and capital gains linked to currency activities.

Income from ownership interests amounted to NOK 13 (71) million. The reduction was primarily attributable to a NOK 53 million reduction in the share of the profit from SpareBank 1 Boligkreditt AS.

Operating costs and losses on loans

Operating costs for 2016 amounted to NOK 753 (737) million. The increase was primarily attributable to increased costs linked to the merger process with Sparebanken Hedmark and write-downs due to disposals of fixed assets in connection with closed local bank branches in 2016.

The net loan loss provisions were NOK 12 (net receipts on losses of 18) million. Gross non-performing and impaired loans at year-end 2016 amounted to NOK 69 (87) million. Measured against gross lending, this was 0.2 (0.3) per cent. Individual write-downs at year-end 2016 amounted to NOK 13 (18) million. Group write-downs amounted to NOK 120 (99) million at year-end 2016. The increase in group write-downs reflects the weaker economic situation and is in line with indications from the Financial Supervisory Authority of Norway to Norwegian banks concerning assessing their level of loss write-downs.

Loans and deposits

Total lending amounted to NOK 52.9 billion. Of this, loans transferred to the covered bond companies accounted for NOK 18.3 billion. In the last twelve months, lending to customers, inclusive of transferred loans, grew by 10.1 per cent.

The distribution between the retail market and the corporate market at year-end 2016 was 82/18 (81/19) per cent, inclusive of loans transferred to the covered bond companies.

The credit risk profile has seen a general improvement in the last year.

Deposits from customers at year-end 2016 amounted to NOK 26.8 (23.5) billion, which represents growth of 14.1 per cent. The on balance sheet deposit coverage ratio (deposits/loans) was, at year-end 2016, 77.4 (73.9) per cent.

Funding and financial strength

The bank's liquidity situation is good. New borrowing takes place through funding from the Parent Bank, Sparebanken Hedmark.

Subsidiaries - other

The financing company SpareBank 1 Finans Østlandet AS (95 per cent ownership interest) posted a profit after tax of NOK 86 (74) million. At the end of the year, the finance company's gross lending totalled NOK 6.3 (5.6) billion. Gross lending growth over the past twelve months was 12.1 (16.9) per cent.

Partly-owned companies

SpareBank 1 Gruppen AS (12.4 per cent stake) achieved a consolidated profit after tax of NOK 1,598 (1,287) million. The return on equity was 19.4 (16.9) per cent.

SpareBank 1 Boligkreditt AS (20.3 per cent stake) is the alliance banks' joint retail loan covered bond company. The company posted a loss after tax of NOK -110 (+473) million. The results for 2016 was heavily affected by a negative change in value for basis swaps linked to its own borrowing. The reasons for this are twofold: the market price for new basis swaps has decreased and booked gains are reversed in line with the maturity of the swaps.

SpareBank 1 Næringskreditt AS (9.2 per cent stake) is the alliance banks' joint corporate loan covered bond company. The company posted a profit after tax of NOK 84 (89) million.

Sparebanken Hedmark – Proforma consolidated profit for 2016

Key figures have been prepared for the proforma group to show what they would have been with 100 per cent ownership of Bank 1 Oslo Akershus AS from 1 January 2016.

The proforma consolidated profit after tax for 2016 was NOK 1,204 million.

The return on equity was 10.8 per cent.

The lending margin, inclusive of home mortgages in the covered bond company, amounted to 2.13 (2.40) per cent. The deposit margin was 0.10 (-0.26) per cent. The net interest margin was 2.23 (2.14) per cent.

Net interest income amounted to NOK 1,739 million. Total net interest income amounted to NOK 2,039 million, inclusive of commissions from loans and credit transferred to the

The group's capital and core capital ratios at year-end 2016 were 19.5 (17.8) per cent and 16.4 (15.9) per cent, respectively. The core equity tier 1 ratio was 14.4 (15.3) per cent. The group's primary capital was NOK 3.5 (3.0) billion.

For more detailed information about the financial statements of Bank 1 Oslo Akershus AS, please see the bank's interim report available from its website.

SpareBank 1 Regnskapshuset Østlandet AS posted earnings of NOK 158 (172) million and achieved a profit after tax of NOK 2 (11) million.

The estate agency EiendomsMegler 1 Hedmark Eiendom AS posted earnings of NOK 99 (81) million and achieved a profit after tax of NOK 14 (5) million.

SpareBank 1 Kredittkort AS (18.9 per cent stake) is the alliance banks' joint credit card company. The company posted a profit after tax of NOK 129 (112) million. The return on equity was 12.7 (12.9) per cent.

SpareBank 1 Mobilbetaling AS (21.2 per cent stake) is the alliance banks' joint mobile phone payment company. The company posted a loss after tax of NOK -135 million.

For more information about the accounts of the various companies, please see the interim reports available from the companies' own websites.

partly-owned companies (recognised as commissions) totalling NOK 300 million.

Net commissions and other operating income amounted to NOK 1,229 million.

The operating costs for Sparebanken Hedmark – Proforma Group amounted to NOK 1,573 (1,788) million. The costs were affected by the winding up of the defined benefit pension schemes in Sparebanken Hedmark (Parent Bank), EiendomsMegler 1 Hedmark Eiendom AS and SpareBank 1 Finans Østlandet AS, which resulted in a combined recognition of income in personnel costs of NOK 232 million.

Losses amounted to NOK 86 (38) million. Of this, changes in group write-downs accounted for NOK 43 (18) million.

Outlook

The international economy was generally weak in 2016, due in part to instability in the financial markets in the first half of the year. Meanwhile, a number of economies saw improved growth in the second half of the year. The International Monetary Fund expects this improvement to continue in 2017. Better prospects for global economic activity have been reflected in higher share prices, interest rates and oil prices. However, there appears to be a great deal of uncertainty. The combination of Brexit negotiations and the French presidential election constitute a political risk in Europe. Potentially unpredictable economic policy in the US could also result in turmoil in the financial markets. The trends toward greater protectionism weigh heavily on long-term growth prospects.

Economic activity in Norway remains lower than normal. Better economic outlooks internationally in combination with higher oil prices have, however, contributed to expectations of higher growth for the Norwegian economy as well. Unemployment is showing signs of stabilising, although Norges Bank is not expecting any notable decline in unemployment before 2018. Norges Bank also appears to be planning for very gradual rate hikes. The central bank's forecast means that there is a slightly greater probability that the key policy rate will be lowered rather than raised in the next year.

The Norwegian authorities are concerned about the development of financial imbalances in light of strong growth in house prices. Given this background, the Ministry of Finance recently increased the countercyclical capital buffer from 1.5 to 2 per cent, with effect from 31 December 2017, in line with Norges Bank's advice. In addition, the government introduced new home mortgage regulations from 1 January 2017.

Sparebanken Hedmark recently received the Financial Supervisory Authority of Norway's Pillar 2 requirement for core equity tier 1 capital of 1.7 per cent. Sparebanken Hedmark's goal is still to be the most solid regional savings bank with a core equity tier 1 ratio target of 16 per cent over time. At year-end 2016, the Group had a core equity tier 1 ratio of 16.9 per cent, well above the authorities' overall requirements.

Sparebanken Hedmark's home market has been the Interior Region encompassing the counties of Hedmark and

Oppland. This region has traditionally been less cyclically sensitive than other regions, in part due to industry in the region not being particularly exposed to the oil and gas industry. In the last few years, the region has also benefited from a weak Norwegian krone. From this perspective, the strengthening of the Norwegian krone in the last six months has had a negative effect on local business. This drawback should however be offset by the benefits of increased economic activity in the rest of the country.

The Group has significant activities in the housing market in the capital region through its ownership in Bank 1 Oslo Akershus AS. The increase in housing prices in this region in the last year appears excessive. However, the Board believes that the Bank's lending practices have significantly reduced its vulnerability in the event of any correction in the housing market, reflected in part by the Bank operating well within the framework of the new home mortgage regulations. The Board deems the overall risk in the Group's loan portfolio to be low. Actual losses and the proportion of problem loans are very low. The Group is well positioned, with a strong position in a stable home market and good opportunities in the Bank's growth areas based on continued prudent lending practices. Based on its high capital adequacy, a good liquidity situation and a conservative loan portfolio, the Board believes that the Group is well-prepared should the macroeconomic trends deteriorate.

Bank 1 Oslo Akershus AS will be operated as a subsidiary of Sparebanken Hedmark until the legal merger has been completed. The plan is to complete the merger on 1 April 2017. A technical merger during 2017 is also planned. The two banks' network of branches does not overlap, but during the integration process they will amalgamate common functions to create more expert and efficient environments.

Sparebanken Hedmark is planning to list on the stock exchange in 2017 after the legal merger has been completed and if the market conditions are satisfactory. Listing on the stock exchange will enable the Bank to play an active role in the future structural development of the industry. At the same time, it will give the Bank an opportunity to offer ownership to customers, staff and investors.

The Board of Directors of Sparebanken Hedmark

Hamar, 2 February 2017

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Leader

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Erik Garaas

Espen Bjørklund Larsen

Guro Nina Vestvik

Vibeke Harvold Larsen

Morten Herud

Hans-Christian Gabrielsen

Richard Heiberg
CEO

Income statement

Parent bank				Notes	Proforma		Group		
Q4 15	Q4 16	31.12.15	31.12.16		31.12.16	31.12.16	31.12.15	Q4 16	Q4 15
(NOK million)									
429	435	1 748	1 692	Interest income	3 066	2 494	1 972	786	481
192	173	868	689	Interest expenses	1 328	1 004	867	333	192
237	262	880	1 003	Net interest income	1 739	1 490	1 105	452	289
110	104	435	427	Commission income	1 129	830	514	275	129
7	7	27	28	Commission expenses	89	71	53	23	14
6	6	21	21	Other operating income	189	180	190	43	44
109	103	429	420	Net commission and other income	1 229	939	651	295	159
		9	45	Dividends from other than group companies	7	77	9		
1	122	259	369	Net profit from ownership interests	7	199	301	49	70
33	1	205	-122	Net profit from other financial assets and liabilities	7	-69	205	17	33
34	123	473	293	Net income from financial assets and liabilities	207	220	514	66	103
380	489	1 782	1 715	Total net income	3 175	2 649	2 270	813	551
97	98	381	162	Personnel expenses	8	765	590	253	155
9	10	36	38	Depreciation		65	46	22	13
100	89	327	320	Other operating expenses		743	416	201	125
206	196	743	519	Total operating expenses before losses on loans and guarantees	1 573	1 203	1 052	477	292
174	292	1 038	1 196	Profit before losses on loans and guarantees	1 602	1 446	1 220	337	260
10	31	35	47	Losses on loans and guarantees	6	86	56	43	18
164	261	1 003	1 149	Profit/loss before tax	1 516	1 371	1 164	294	242
51	-15	207	186	Tax charge		312	234	14	48
113	276	796	964	Results for the accounting period	1 204	1 100	930	281	194
				Majority interests		1 095	930	280	194
				Minority interests		4		1	
				Earnings per equity certificate (NOK)		6,95			
113	276	796	964	Statement of comprehensive income according to IAS 1	1 204	1 100	930	281	194
28	-6	79	-71	Actuarial gains / losses on pensions		-52	85	19	34
-6	1	-20	18	Tax effect of actuarial gains / losses on pensions		12	-21	-13	-7
				Share of other comprehensive income from associates and joint ventures		-7	34	22	-2
22	-6	59	-54	Total items not reclassified through profit or loss	-46	-46	98	28	25
37	24	67	5	Change in value of financial assets available for sale		4	67	26	37
				Financial assets available for sale transferred to profit and loss on write-down due to permanent impairment of value					
				Financial assets available for sale transferred to profit and loss on realisation					
				Share of other comprehensive income from associates and joint ventures		7	15	7	14
37	24	67	5	Total items reclassified through profit or loss	11	11	82	33	51
59	19	127	-48	Total profit and loss items recognised in equity	-35	-35	180	61	76
172	295	923	915	Total profit/loss for the accounting year	1 169	1 064	1 109	341	270
				Majority share of comprehensive income		1 164	1 109	341	270
				Minority interest of comprehensive income		4		1	

Balance sheet

Parent Bank			Group		
31.12.15	31.12.16	(NOK million)	Notes	31.12.16	31.12.15
ASSETS					
264	354	Cash and deposits with central banks		759	264
5 701	7 191	Loans to and receivables from credit institutions		1 735	864
37 952	41 762	Loans to and receivables from customers	5,6	82 537	43 526
6 133	5 630	Certificates, bonds and fixed-income funds	10	9 776	6 133
455	349	Financial derivatives	9	810	455
294	321	Shares, units and other equity interests	10	747	294
2 457	1 681	Investments in associates and joint ventures		3 618	3 386
859	3 842	Investments in subsidiaries			
		Assets held for sale		5	
314	304	Property, plant and equipment		587	341
104	102	Goodwill and other intangible assets		371	211
13		Deferred tax asset			
314	338	Other assets	12	695	497
54 861	61 873	Total assets		101 640	55 970
LIABILITIES					
661	1 666	Deposits from and liabilities to credit institutions		2 054	660
33 508	36 259	Deposits from and liabilities to customers	13	63 070	33 458
11 576	12 404	Liabilities arising from issuance of securities	10,14	21 937	11 576
320	233	Financial derivatives	9,1	349	320
163	148	Current tax liabilities		247	167
	10	Deferred tax liabilities		118	65
440	222	Other debt and liabilities recognised in the balance sheet	15	554	510
496	502	Subordinated loan capital	10,14	1 203	496
47 166	51 443	Total liabilities		89 532	47 253
EQUITY CAPITAL					
3 987	5 310	Equity certificates	17	5 310	3 987
	520	Premium fund		520	
3 019	3 313	Primary capital		3 310	3 019
503	974	Cohesion funds		982	503
50	33	Endowment fund		33	50
135	134	Fund for unrealised gains		132	135
	148	Dividends		148	1 023
		Other equity		1 223	
		Hybrid capital		400	
		Minority interests		47	
7 695	10 430	Total equity capital		12 107	8 718
54 861	61 873	Total liabilities and equity capital		101 640	55 970

The Board of Directors of Sparebanken Hedmark

Hamar, 2 February 2017

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CEO

Changes in equity capital

Parent Bank (NOK million)	Paid-up equity		Earned equity capital						Total equity capital
	Equity certificates	Premium fund	Primary capital	Cohesion funds	Endowment fund	Fund for unrealised gains	Other equity	Dividends	
Equity capital at 1 January 2015			6 644		42	109			6 796
OB correction: Correction of previous years' errors			57			-57			
Adjusted equity capital at 1 January 2015			6 701		42	52			6 796
ECs transferred Foundation	3 987		-3 987						
Results for the accounting year			312	468		16			796
Actuarial gains / losses on pensions			24	35					59
Change revaluation reserve						67			67
Donations distributed from profit 2014			-6						-6
To endowment fund in 2015			-25		25				
Grants from endowment fund in 2015					-17				-17
Equity capital at 31 December 2015	3 987		3 019	503	50	135			7 695
Equity capital at 1 January 2016	3 987		3 019	503	50	135			7 695
Equity certificates issued and transferred to owners	1 323	520							1 843
Results for the accounting year			316	506		-7		148	964
Actuarial gains after tax on pensions			-17	-35					-53
Change revaluation reserve						5			5
Donations distributed from profit 2015			-6						-6
Grants from endowment fund in 2016					-18				-18
Equity capital at 31 December 2016	5 310	520	3 313	974	33	134	0	148	10 430

Group	Paid-up equity		Earned equity capital								Total equity capital	
	Equity certificates	Premium fund	Primary capital	Cohesion funds	Endowment fund	Fund for unrealised gains	Other equity	Dividends	Hybrid capital	Minority interests		
(NOK million)												
Equity capital at 1 January 2015			6 645		42	109	827					7 624
OB correction:												
Correction of previous years' errors in joint ventures							5					5
Corrections of previous years' error			57			-57						
Adjusted equity capital at 1 January 2015			6 702		42	52	832					7 630
ECs transferred foundation	3 987		-3 987									0
Results for the accounting year			312	468		16	134					930
Actuarial gains / losses on pensions			24	35			5					65
Share of other comprehensive income from associated companies and joint ventures not reclassified through profit or loss							34					34
Change revaluation reserve						67						67
Other items that will be reclassified in associated companies and joint ventures							14					14
Adjusted equity capital in associated companies and joint ventures							2					2
Donations distributed from profit 2014			-6									-6
To endowment fund in 2015			-25		25							
Grants from endowment fund in 2015					-17							-17
Equity capital at 31 December 2015	3 987	0	3 019	503	50	135	1 023					8 718
Equity capital at 1 January 2016	3 987		3 019	503	50	135	1 023				0	8 718
Korrigerer av IB i TS							73					73
Korrigert egenkapital per 01.01.2015	3 987	0	3 019	503	50	135	1 096					8 791
Equity certificates issued and transferred owners	1 323	520										1 843
Results for the accounting year			316	506		-7	129	148			4	1 097
Actuarial gains after tax on pensions			-13	-27								-40
Share of other comprehensive income from associated companies and joint ventures not reclassified through profit or loss			-7									-7
Change revaluation reserve						5						5
Share of other comprehensive income from associated companies and joint ventures reclassified through profit or loss							11					11
Adjusted equity in associated companies and joint ventures							-13					-13
Reclassification of hybrid capital in subsidiary									400			400
Change in shareholding in Group companies											43	43
Donations distributed from profit 2015			-6									-6
Grants from endowment fund in 2016					-18							-18
Equity capital at 31 December 2016	5 310	520	3 310	982	33	134	1 223	148	400		47	12 107

Cash flow statement

Parent Bank		(NOK million)	Group	
31.12.15	31.12.16		31.12.16	31.12.15
10 912	11 442	This year's down-payment on repayment loans etc. to customers	24 740	13 378
		Change in advance rent leasing	15	9
-14 568	-16 232	Newly discounted repayment loans etc. to customers for the year	-31 296	-17 868
74	157	Change in balances of foreign currency lending	167	74
513	760	Change in balances of credits	650	511
1 403	1 314	Interest and commission income on lending	2 251	1 726
4	24	Included in previous years' realised losses on lending	33	9
		Net cash flow from assets held for sale		
-1 663	-2 535	Cash flow from lending operations (A)	-3 441	-2 161
2 146	1 201	Change in balances of deposits from customers at call	2 295	2 118
277	1 548	Change in balances of deposits from customers with agreed maturity dates	1 503	277
-566	-374	Interest payments to customers	-518	-564
1 857	2 375	Cash flow from deposit operations (B)	3 279	1 831
-2 184	517	Net cash flow from certificates and bonds	-540	-2 184
39	-85	Cash flow linked to exchange rate gains / losses on certificates and bonds	-112	39
92	89	Interest received on certificates and bonds	120	92
-2 053	522	Cash flow from investments in securities (C)	-532	-2 053
-835	-1 502	Change in receivables from credit institutions with agreed maturity dates	-44	-170
126	150	Interest received on deposits in credit institutions	153	126
-709	-1 352	Cash flow from deposits in credit institutions (D)	110	-44
563	562	Other income	1 108	814
-860	-766	Operating expenses payable	-1 500	-1 186
-128	-177	Tax payments	-181	-130
-24	-23	Donations	-23	-24
-40		Contributions from the group		-6
-10	-30	Net cash flow from change in other assets	61	-43
57	-67	Net cash flow from change in accruals	-164	-45
-33	10	Net cash flow from change in other liabilities	520	-16
-475	-491	Remaining cash flow from current operations (E)	-178	-635
-3 043	-1 482	CASH FLOW FROM OPERATIONS (A+B+C+D+E=F)	-762	-3 062
-6	999	Change in deposits from credit institutions	467	-10
4 000	2 901	Receipts arising from issuance of securities	2 901	4 000
-658	-1 631	Payments arising from redemption of securities issued	-1 846	-658
-440	-492	Buy-back of own securities	-542	-440
-241	-261	Interest payments on financing	-336	-241
2 656	1 517	Cash flow from financing activities (G)	644	2 651
-31	-27	Investments in fixed assets and intangible assets	-43	-50
2		Sales of fixed assets and intangible assets at sales price		2
-174	-49	Net cash flow from purchase and sale of equity interests	-49	-174
268	435	Share dividends from equity interests	371	187
64	358	Cash flow from investments (H)	279	-35
	-2 068	Liquidity effect of acquisition and sale of ownership interests (I)	-238	-28
-150	-95	Liquidity effect from placements in subsidiaries (L)	5	
-474	73	CHANGE IN CASH AND CASH EQUIVALENTS (F+G+H+I+L+M)	-71	-474
783	309	Cash and cash equivalents at 1 January (B1OA 100 % incl.)	1 152	783
309	382	Cash and cash equivalents at the end of the period	1 082	309
		Cash and cash equivalents comprise:		
264	354	Cash and deposits with central banks	759	264
46	28	Deposits etc. at call with banks	323	46
309	382	Cash and cash equivalents at the end of the period (BOA1 100 % incl.)	1 082	309

Results from the quarterly accounts

Group	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
(Isolated figures in NOK million)	2016	2016	2016	2016	2015	2015	2015	2015	2014
Interest income	786	765	472	472	481	497	492	501	527
Interest expenses	333	323	172	176	192	218	221	236	255
Net interest income	452	442	300	297	289	280	271	265	272
Commission income	275	295	137	123	129	132	130	123	116
Commission expenses	23	23	13	13	14	14	12	13	12
Other operating income	43	37	51	50	44	37	48	61	54
Net commission and other income	295	310	175	160	159	155	166	171	158
Dividends		1	45				1	7	1
Net profit from ownership interests	49	21	96	70	70	66	76	88	97
Net profit from other financial assets and liabilities	17	30	-47	-63	33	142	5	26	29
Net income from financial assets and liabilities	66	53	94	7	103	208	82	121	126
Total net income	813	804	569	464	551	643	519	557	556
Personnel expenses	253	27	145	148	155	145	143	147	146
Depreciation	22	19	12	11	13	11	11	11	11
Other operating expenses	201	168	102	94	126	92	97	100	107
Total operating expenses before losses on loans and guarantees	477	214	259	253	294	248	251	258	264
Profit before losses on loans and guarantees	337	590	310	211	260	395	268	299	293
Losses on loans and guarantees	43	3	20	9	18	-2	35	5	24
Profit/loss before tax	294	587	289	202	242	397	233	294	269
Tax charge	14	163	62	33	48	89	43	54	56
Results for the accounting period	281	424	227	169	194	307	190	240	214

Results from the quarterly accounts

	Q4 ⁷⁾ 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Profitability									
Return on equity capital ¹⁾	9,6 %	15 %	9,0 %	7,6 %	8,9 %	14,7 %	9,5 %	12,5 %	11,3 %
Net interest income ²⁾	1,79 %	1,75 %	1,53 %	2,09 %	2,08 %	2,05 %	2,08 %	2,13 %	2,17 %
Cost-income ratio ³⁾	58,6 %	26,6 %	45,6 %	54,5 %	52,9 %	38,6 %	48,4 %	46,3 %	47,3 %
Soliditet og likviditet									
From the balance sheet									
Gross loans to customers	82 945	81 336	79 286	44 308	43 779	42 793	42 091	40 484	39 936
Gross loans to customers including loans transferred to covered bond companies ⁴⁾	119 450	117 625	115 224	62 156	61 140	59 437	57 995	56 619	55 930
Lending growth during the last 12 months	89,5 %	90,1 %	88,4 %	9,4 %	9,6 %	9,1 %	10,0 %	9,8 %	7,4 %
Lending growth in last 12 months including loans transferred to covered bond companies	95,4 %	99,9 %	98,7 %	9,8 %	9,3 %	8,4 %	7,6 %	7,7 %	6,8 %
Deposits from customers	63 070	62 107	62 637	33 675	33 458	33 052	33 205	31 054	31 070
Deposit-to-loan ratio ⁵⁾	76,0 %	76,4 %	79,0 %	76,0 %	76,4 %	77,2 %	78,9 %	76,7 %	77,8 %
Deposit growth during the last 12 months	88,5 %	87,9 %	88,6 %	8,4 %	7,7 %	4,7 %	3,6 %	3,7 %	3,2 %
Total assets	101 640	99 720	100 883	57 184	55 970	54 501	53 558	51 101	49 934
Losses and commitments in default									
Losses on loans as a percentage of gross loans	0,1 %	0,1 %	0,1 %	0,1 %	0,2 %	0,0 %	0,3 %	0,1 %	0,2 %
Commitments in default as a percentage of total commitments	0,3 %	0,4 %	0,3 %	0,5 %	0,6 %	0,7 %	0,8 %	0,7 %	0,8 %
Other bad and doubtful commitments as a percentage of total commitments	0,3 %	0,2 %	0,3 %	0,4 %	0,5 %	0,4 %	0,5 %	0,5 %	0,5 %
Net defaulted and doubtful commitments as a percentage of total commitments ⁶⁾	0,4 %	0,5 %	0,4 %	0,7 %	0,8 %	0,8 %	0,9 %	0,8 %	0,9 %
Financial strength									
Common equity Tier 1 capital ratio	16,9 %	17,5 %	16,0 %	16,9 %	17,2 %	17,1 %	17,0 %	15,3 %	14,8 %
Tier 1 Capital ratio	17,9 %	18,3 %	16,7 %	17,3 %	17,5 %	17,5 %	17,4 %	15,8 %	15,2 %
Capital adequacy ratio	20,3 %	20,2 %	18,6 %	18,8 %	19,1 %	18,8 %	19,0 %	17,6 %	17,1 %
Net subordinated capital	12 656	9 608	9 305	7 229	7 178	7 030	6 924	6 318	6 273

1) Net profit for the period as a percentage of average equity

2) Net interest income for the period as a percentage of average total assets

3) Total operating expenses for the period as a percentage of total operating income

4) Covered bond companies used are SpareBank 1 Boligkreditt AS and SpareBank 1 Næringskreditt AS

5) Deposits from customers as a percentage of gross loans to customers (excl. loans transferred to covered bond companies)

6) Liquidity Coverage Ratio; measures the size of bank's liquid assets in relation to net liquidity outflows 30 days ahead given a stress situation

7) As a result of the acquisition of Bank 1 Oslo Akershus, ratios and comparative figures in the official accounts are not comparable with previous periods.

Notes to the accounts

Note 1 Accounting principles

Basis for preparation

The quarterly accounts for Sparebanken Hedmark cover the period 01.01 - 31.12.2016 and have not been audited. The quarterly accounts have been prepared in accordance with IAS 34 Interim Financial Reporting, relevant IFRS standards and IFRIC interpretations.

The presentation currency is NOK (Norwegian kroner), which is also the functional currency of all the units in the group. All amounts are in NOK millions unless stated otherwise.

The quarterly accounts do not contain all the information required in a full set of annual accounts and should be read in conjunction with the annual financial statements for 2015.

The group has applied the same accounting principles and calculation methods in this quarterly report as in the last annual report.

IAS 37, interpretation; IFRIC 21 Levies

The interpretation concerns the date from which a liability to pay a levy should be recognized in the accounts. Following the introduction of the standard, there has been a discussion as to whether the annual levy for the Norwegian Banks' Guarantee Fund for 2015 and 2016 should be expensed in its entirety in the first quarter. The levy to the Banks' Guarantee Fund is normally based on average guaranteed deposits and average risk-weighted assets for previous quarters.

Ministry of Finance issued 19 September 2016 a new regulation with effect from 1 January 2017 regulating reduction of the Guarantee Fund charge upon withdrawal of the scheme during the year. Sparebanken Hedmark has per 31.12.2016 continued the current practice of accrual on a monthly basis in the accounts.

Guarantee fund levy for 2016 is NOK 22.5 million.

Important accounting estimates and discretionary assessments

In drawing up the consolidated financial statements, group management applies estimates and discretionary assessments and makes assumptions that determine the effect of applying accounting principles. These will therefore affect reported amounts for assets and liabilities, income and expenses. The annual financial statements for 2015 provide more details of critical estimates and assessments in relation to the use of accounting principles in Note 3.

New standards and interpretations that have not yet been implemented

A series of new standards, changes to standards and interpretations need to be used in future financial accounts. IFRS 9 "Financial instruments", IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases" are among the most significant standards that the group has chosen not to implement early. The group has started preparations for the implementation of IFRS 9 and an assessment of its impact. The group has worked with models and clarifications around valuation, classifications etc. throughout 2016. The work with models and the assessment of financial consequences continues through 2017 so that the group will be ready for implementation by 01.01.2018. The group has considered the impact of IFRS 15 "Revenue from contracts with customers" and IFRS 16 "Leases", concluding that these will not have significant consequences.

There are no new standards or interpretations that have yet to come into effect that are expected to impact significantly the financial accounts of the group.

Note 2 Changes in the composition of the group

2016

On 29 June 2016 Sparebanken Hedmark purchased the remaining 59.5 per cent of the shares in Bank 1 Oslo Akerhus AS (B1OA). As a consequence, Sparebanken Hedmark owns 100 per cent of the shares in B1OA. B1OA was until 29 June 2016 classified as an associated company. From 29 June 2016 B1OA is classified as a wholly owned subsidiary.

On 01 January 2016, 5 per cent of the shares in SpareBank 1 Finans Østlandet AS were sold to SpareBank 1 Ringerike Hadeland. The company was a wholly-owned subsidiary of Sparebanken Hedmark.

2015

In the fourth quarter, the group acquired 12.6 per cent of SpareBank 1 Mobilbetaling AS. The company is owned jointly with the other banks in the SpareBank 1 alliance.

In the second quarter, SpareBank 1 Markets AS was reclassified for accounting purposes from an associated company to shares available for sale. The stake in the company is now 6.1 per cent.

Note 3 Segment information

This segment information is linked to the way the group is run and followed up internally in the entity through reporting on performance and capital, authorisations and routines. Reporting on segments is divided into following areas:

- Retail banking, corporate banking, real estate, financing, accounting and other activities.
- Real estate brokerage, leasing, financing and accounting are organised as independent companies.
- The result of the elimination of companies appears with other activities in a separate column.
- Tax is calculated at 25 per cent (27 per cent in 2015) for retail banking and corporate banking.

31 December 2016	Retail banking	Corporate banking	Bank 1 Oslo Akershus AS	SpareBank 1 Finans Østlandet	Eiendoms-megler 1 Hedmark Eiendom	SpareBank 1 Regnskapshuset Østlandet	Unallocated activities	Total
Income statement								
Net interest income	552	457	262	238		-1	-19	1 490
-of which internal items			-4			1	-3	
Net commission and other income	340	87	280	-29	99	158	4	939
-of which internal items			-2	-2			2	
Net return on financial investments	2		53				165	220
Operating expenses*	509	202	383	68	79	155	-193	1 203
Profit before losses by segment:	385	343	212	142	19	2	343	1 446
Losses on loans and guarantees	15	31	1	27				75
Profit / loss per segment before taxes	370	311	211	115	19	2	343	1 371
Tax charge	93	78	50	29	5		16	271
Profit / loss after tax charge	278	234	160	86	14	2	327	1 100
Balance sheet								
Lending to customers	24 053	17 169	34 659	6 327			737	82 945
-of which internal items						21	21	
Individual loan write-downs	-28	-90	-13	-14				-145
Collective loan write-downs	-36	-87	-120	-20				-262
Other assets	102	1	8 324	165	55	144	10 311	19 103
Total assets	24 091	16 994	42 850	6 458	55	144	11 045	101 640
Deposits from and liabilities to customers	21 985	13 614	26 838				634	63 070
-of which internal items								
Other liabilities and equity	2 106	3 380	16 012	6 458	55	144	10 414	38 569
Total equity and liabilities	24 091	16 994	42 850	6 458	55	144	11 045	101 640

31 December 2015	Retail banking	Corporate banking		SpareBank 1 Finans Østlandet	Eiendoms-megler 1 Hedmark Eiendom	SpareBank 1 Regnskapshuset Østlandet	Unallocated activities	Total
Income statement								
Net interest income	482	390		227	1	-2	7	1 105
-of which internal items				-1		-2	3	
Net commission and other income	350	78		-26	81	172	-3	651
-of which internal items				-1			1	
Net return on financial investments							514	514
Operating expenses*	534	210		86	74	155	-7	1 052
Profit before losses by segment:	298	258		115	7	15	526	1 220
Losses on loans and guarantees	6	29		21				56
Profit / loss per segment before taxes	292	229		95	7	15	526	1 164
Tax charge	79	62		20	2	4	67	234
Profit / loss after tax charge per segment	213	167		75	5	11	459	930
Balance sheet								
Gross lending to customers	21 270	16 174		5 643			693	43 779
-of which internal items						23	-23	
Individual loan write-downs	-32	-87		-13				-133
Collective loan write-downs	-27	-76		-17				-120
Other assets	128	1		67	43	135	12 070	12 444
Total assets	21 339	16 012		5 680	43	135	12 762	55 970
Deposits from and liabilities to customers	21 068	11 915					475	33 458
-of which internal items								
Other liabilities and equity	271	4 097		5 680	43	135	12 286	22 513
Total equity and liabilities	21 339	16 012		5 680	43	135	12 761	55 970

* Operating expenses in Retail and Corporate contains their share of indirect costs.

Note 4 Capital adequacy

Parent Bank			Group	
Basel III	Basel III		Basel III	Basel III
31.12.2015	31.12.2016		31.12.2016	31.12.2015
3 987	5 310	Equity certificates	5 310	3 987
	520	Premium fund	520	
503	974	Cohesion funds	982	503
3 019	3 313	Primary capital	3 310	3 019
50	33	Endowment fund	33	50
135	134	Fund for unrealised gains	132	135
		Hybrid capital	400	
	148	Dividends	148	
		Other equity	1 223	
		Minority interests	47	
7 695	10 430	Total equity carried	12 106	8 718
		Tier 1 capital		
	-160	Share of equity not included in Tier 1 capital	-604	
		Minority interests that can be included in LET 1 capital	36	
-119	43	Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	43	-119
-104	-90	Goodwill and other intangible assets		-217
-155	-117	Positive value of expected losses under the IRB approach	-205	-182
-264		CET1 instruments of financial sector entities where the institution does not have a significant investment		
		CET1 instruments of financial sector entities where the institution does have a significant investment	-452	-1 720
		Valve adjustments to common equity Tier 1 Capital ratio related to regulatory filters	10	
-10	-10	Value adjustments due to the requirements for prudent valuation	-33	-13
-220		Excess of deduction from AT1 items over AT1 Capital		
6 823	10 095	Total common equity Tier 1 capital	10 531	6 468
		Additional Tier 1 capital		
		Hybrid capital	619	162
-220		AT1 instruments of financial sector entities where the institution does not have a significant investment		
		AT1 instruments of financial sector entities where the institution does have a significant investment		-32
		Excess of deduction from T2 items over CET 1 Capital		
220		Excess of deduction from AT1 items over CET 1 Capital		
0	0	Total additional Tier 1 capital	619	130
		Supplementary capital in excess of Tier 1 capital		
500	500	Subordinated loan	1 524	783
-277		T2 instruments of financial sector entities where the institution does not have a significant investment		
		T2 instruments of financial sector entities where the institution does have a significant investment	-17	-202
		Excess of deduction from T2 items over AT1 Capital		
223	500	Total supplementary capital	1 507	581
7 047	10 595	Net subordinated capital	12 656	7 179
4 257	3 624	Corporates - SME	4 546	4 639
6 253	6 791	Corporates - Specialised Lending	10 628	8 270
763	532	Corporates - Other	768	847
905	847	SME exposure	1 104	939
6 301	5 997	Retail mortgage exposure	18 393	8 538
624	1 392	Other retail exposure	1 834	704
19 103	19 183	Risk-weighted assets credit risk IRB	37 273	23 937
7 068	10 505	Exposures calculated using the standardised approach	14 575	10 237
		Market risk		
199	162	CVA	452	234
1 989	2 253	Operational risk	3 702	3 269
		Basel 1 transitional floor	6 263	
28 359	32 104	Risk-weighted assets	62 265	37 677
2 269	2 568	Capital requirements (8%)	4 981	3 014
		Buffer requirements		
709	803	Conservation buffer (2.5%)	1 557	942
284	482	Countercyclical capital buffer (1.5 % as at Q2 2016, 1 % in prior periods)	934	377
851	963	Systemic risk buffer (3%)	1 868	1 130
1 843	2 247	Total buffer requirements for common equity (7 % per Q4 2016, 6,5 % per Q4 2015)	4 359	2 449
3 704	6 403	Available common equity (net minimum requirement of 11.5 % per Q4 2016, 11 % per Q4 2015)	3 370	2 323
		Capital adequacy ratio		
24,1 %	31,4 %	Common equity Tier 1 capital ratio	16,9 %	17,2 %
24,1 %	31,4 %	Tier 1 Capital ratio	17,9 %	17,5 %
24,8 %	33,0 %	Capital adequacy ratio	20,3 %	19,1 %

Note 5 Loans to and receivables from customers

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
		Loans by type of receivable		
		Financial leasing	2 854	2 490
10 940	9 884	Overdraft facilities and operating credits	13 417	10 940
860	1 153	Building loans	1 491	847
26 295	30 885	Repayment loans	65 017	29 412
80	81	Accrued interest	165	90
38 175	42 003	Gross loans to and receivables from customers	82 945	43 779
222	241	Write-downs	408	253
37 953	41 762	Loans to and receivables from customers	82 537	43 526
		Loans by type of market		
21 814	24 653	Private customers	53 421	24 289
16 354	17 346	Corporate	29 331	19 287
6	4	Public sector	193	203
38 175	42 003	Gross loans to and receivables from customers	82 945	43 779
222	241	Write-downs	408	253
37 953	41 762	Loans to and receivables from customers	82 537	43 526

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
23 870	27 033	Private customers	57 269	2 635
177	166	Public sector	407	374
4 304	4 776	Primary industries	5 102	4 543
336	202	Paper and pulp industries	218	357
858	938	Other industry	1 236	1 136
1 491	2 447	Building and construction	3 429	2 140
258	237	Power and water supply	435	404
1 214	1 013	Wholesale and retail trade	1 660	1 589
185	325	Hotel and restaurants	627	197
8 286	8 805	Real estate	15 007	8 345
2 386	1 819	Commercial services	5 275	2 937
334	364	Transport and communications	1 518	1 138
21	57	Other	255	21
43 719	48 181	Total commitments by sector and industry	92 437	49 525

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
21 814	24 653	Private customers	53 421	24 289
6	4	Public sector	193	203
3 731	4 102	Primary industries	4 428	3 970
275	202	Paper and pulp industries	218	292
534	542	Other industry	801	777
836	831	Building and construction	1 684	1 417
228	214	Power and water supply	407	374
804	791	Wholesale and retail trade	1 332	1 128
169	188	Hotel and restaurants	476	181
7 667	8 283	Real estate	14 157	7 722
1 836	1 917	Commercial services	4 356	2 365
254	220	Transport and communications	1 287	1 041
21	56	Other	187	21
38 175	42 003	Total gross loans by sector and industry	82 945	43 779

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
32	29	Private customers	41	38
5	14	Primary industries	14	5
1	1	Paper and pulp industries	1	1
5	16	Other industry	21	9
9	8	Building and construction	9	9
1	1	Power and water supply	1	1
20	16	Wholesale and retail trade	21	20
		Hotel and restaurants		
20	14	Real estate	14	21
25	20	Commercial services	20	25
		Transport and communications	4	2
119	118	Total individual write-downs by sector and industry	146	132

Note 6 Losses on loans and guarantees

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
1	1	Change in individual write-downs in the period	2	5
2	19	Change in collective write-downs in the period	27	4
21	16	Realised losses on commitments previously written down	36	36
15	34	Realised losses on commitments not previously written down	43	21
3	24	-Recoveries on loans and guarantees previously written down	33	9
35	47	Total losses on loans and guarantees	75	56

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
134	134	Individual write-downs to cover losses on loans and guarantees at 1 January	147	143
21	20	Realised losses in the period on loans and guarantees previously written down individually	39	35
14	19	Reversal of write-downs in previous years	28	24
3	6	Increase in write-downs on commitments previously written down individually	9	8
32	28	Write-downs on commitments not previously written down individually	53	55
		Change in closing balances due to acquisition of Bank 1 Oslo Akershus	13	
134	128	Individual write-downs to cover losses on loans and guarantees at the end of period *)	156	147

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
101	103	Collective write-downs to cover losses on loans and guarantees at 1 January	120	116
2	19	Collective write-downs to cover losses on loans and guarantees in the period	22	4
		Change in closing balances due to acquisition of Bank 1 Oslo Akershus	120	
103	122	Collective write-downs to cover losses on loans and guarantees	262	120

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
180	137	Gross defaulted commitments for more than 90 days	233	234
32	40	Individual write-downs on defaulted commitments	54	41
148	97	Net defaulted commitments	179	193
18 %	29 %	Provision rate	23%	18 %
234	230	Gross problem commitments (not in default)	272	257
102	88	Individual write downs on problem commitments	101	107
132	142	Net problem commitments	171	150
44 %	38 %	Provision rate	37%	42 %
32 %	35 %	Total provision rate	31 %	30 %

Note 7 Net income from financial assets and liabilities

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
9	45	Net income from equity instruments available for sale	46	9
9	45	Net income from other than group companies	46	9
259	389	Dividends (Parent bank) or net profit (Group) from group companies	236	301
	-20	Write-down of assets in group companies		
259	369	Net income from ownership interests	236	301
-75	22	Net change in value on bonds and certificates identified at fair value through profit and loss	35	-75
7	15	Net change in value of derivatives related to bonds and certificates	21	7
-68	36	Net change in value to bonds and certificates including security	56	-68
294	-65	Net change in value of securities at fair value through profit and loss	100	294
-42	-87	Net change in value in derivatives that hedge securities issued	-246	-42
252	-151	Net change in value to securities debt including security	-146	252
15	-41	Fixed-rate loans and deposits to customers at fair value through profit and loss	-78	15
-6	6	Net change in value of other derivatives	54	-6
	13	Gains / losses on realisation of equity instruments available for sale	29	
12	16	Net income from currency trading	24	12
205	-122	Net income from other financial assets and liabilities	-62	205
473	293	Total net income from financial assets and liabilities	220	514

Note 8 Payroll expenses

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
271	309	Payroll	646	440
43	53	Employers' National Insurance contribution	110	67
46	-220	Pension costs (note 24)*	-215	54
22	20	Social security expenses	32	30
381	162	Total personnel expenses	573	590

*)Sparebanken Hedmark discontinued the benefit pension scheme from 1 July 2016 (with the exception of those who at this time was on sick leave or partial disability) and the net liability is booked as revenue. Those employees who previously had defined benefit pensions are now moved over to the bank deposit scheme.

Note 9 Financial derivatives

At fair market value through p & l account	Parent Bank 31.12.16		
	Contract sum	Fair market value	
		Assets	Liabilities
Foreign exchange instruments			
Forward exchange contracts	558	6	8
Currency swap contracts	1 686	7	3
Total foreign exchange instruments	2 244	13	11
Interest rate instruments			
Interest rate swaps (incl. int. rate & currency)	10 970	334	222
Other interest rate contracts			
Total interest rate instruments	10 970	334	222
Other financial derivatives			
Guarantee liability - Eksportfinans ASA	20	2	0
Total financial derivatives in MNOK			
Total currency instruments	2 244	13	11
Total interest rate instruments	10 970	334	222
Other financial derivatives	20	2	0
Total	13 234	349	233

At fair market value through p & l account	31.12.15		
	Contract sum	Fair market value	
		Assets	Liabilities
Foreign exchange instruments			
Forward exchange contracts	626	12	10
Currency swap contracts	1 988	3	27
Total foreign exchange instruments	2 614	15	37
Interest rate instruments			
Interest rate swaps (incl. int. rate & currency)	10 465	435	281
Other interest rate contracts	150	6	
Total interest rate instruments	10 615	441	281
Other financial derivatives			
Guarantee liability - Eksportfinans ASA	66	0	3
Total financial derivatives in MNOK			
Total currency instruments	2 614	15	37
Total interest rate instruments	10 615	441	281
Total other financial instruments	66	0	3
Total	13 295	455	320

At fair market value through p & l account	Group 31.12.16		
	Contract sum	Fair market value	
		Assets	Liabilities
Foreign exchange instruments			
Forward exchange contracts	805	7	10
Currency swap contracts	2 076	19	7
Total foreign exchange instruments	2 881	26	18
Interest rate instruments			
Interest rate swaps (incl. int. rate & currency)	21 853	783	331
Other interest rate contracts	50		
Total interest rate instruments	21 903	783	331
Other financial derivatives			
Guarantee liability - Eksportfinans ASA	20	2	0
Total financial derivatives in MNOK			
Total currency instruments	2 881	26	18
Total interest rate instruments	21 903	783	331
Other financial derivatives	20	2	0
Total	24 804	810	349

At fair market value through p & l account

31.12.15

	Contract sum	Fair market value	
		Asstes	Liabilities
Foreign exchange instruments			
Forward exchange contracts	626	12	10
Currency swap contracts	1 988	3	27
Total foreign exchange instruments	2 614	15	37
Interest rate instruments			
Interest rate swaps (incl. int. rate & currency)	10 465	435	281
Other interest rate contracts	150	6	
Total interest rate instruments	10 615	441	281
Other financial derivatives			
Guarantee liability - Eksportfinans ASA	66	0	3
Total financial derivatives in MNOK			
Total currency instruments	2 614	15	37
Total interest rate instruments	10 615	441	281
Total other financial instruments	66	0	3
Total	13 295	455	320

Note 10 Determination of fair value of financial instruments

The table below shows financial instruments at fair value by valuation method. The different levels are defined as follows:

- Level 1: Quoted prices for similar asset or liability on an active market
- Level 2: Valuation based on other observable factors either direct (price) or indirect (deduced from prices) than the quoted price (used on level 1) for the asset or liability
- Level 3: Valuation based on factors not based on observable market data (non-observable inputs)

All figures are identical for the parent bank and the group.

Group				
31.12.2016 (incl B1OA)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit and loss				
- Derivatives		808	2	810
- Bonds and certificates		9 776		9 776
- Fixed-rate loans			5 913	5 913
- Loans with interest-rate guarantees	356			356
Financial assets available for sale				
- Equity instruments	188		203	391
- Other financial assets (Visa Norge)			32	32
Total assets	544	10 585	6 150	17 279
Liabilities				
Financial assets at fair value through profit and loss				
- Derivatives		349		349
- Securities issued		18 203		18 203
- Subordinated loan capital		502		502
- Fixed-rate deposits		646		646
- Term deposit			107	107
Total liabilities	0	19 700	107	19 807
31.12.2015 (without B1OA)	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit and loss				
- Derivatives		455		455
- Bonds and certificates		6 133		6 133
- Fixed-rate loans to customers		2 771		2 771
Financial assets available for sale				
- Equity instruments	154		139	294
- Other financial assets (Visa Norge)			40	40
Total assets	154	9 359	180	9 693
Liabilities				
Financial assets at fair value through profit and loss				
- Derivatives		317	3	320
- Securities issued		11 576		11 576
- Subordinated loan capital		496		496
- Fixed-rate deposits from customers		89		89
- Term deposit			61	61
Total liabilities	0	12 479	64	12 543

Fair value of financial instruments traded on active markets is based on the market value on the balance sheet day. considered active if the market prices are easily and regularly available from a stock exchange, dealer, broker, industrial group, A market is pricing service or regulatory authority and these prices represent actual and regularly occurring arm's-length market transactions. The market price used for financial assets is the current purchase price; for financial liabilities the current selling price is used. Instruments included in level 1 include only equity instruments listed on Oslo Børs or the New York Stock Exchange, classified as held for trading or available for sale.

Fair value value of financial instruments that are not traded in an active market (such as individual OTC derivatives) is determined using valuation methods. These valuation methods make maximum use of observable data where available and try to avoid using the group's own estimates. If all the significant data required to determine the fair value of an instrument is observable data, the instrument is included in level 2. If one or more important inputs required to determine the fair value of an instrument are observable market data, the instrument is included in level 3.

Valuation methods used to determine the value of financial instruments include:

- Fair value of interest rate swaps is calculated as the present value of the estimated future cash flow based on observable yield curves.
- Fair value forward contracts in a foreign currency is determined by looking at the present value of the difference between the agreed forward exchange rate and the foreign exchange rate on balance sheet day.
- Fair value of bonds and certificates (assets and liabilities) is calculated as the present value of the estimated future cash flow based on observable yield curves, including an indicated credit spread on issuers from a recognised broker a reputable brokerage firms or Reuters pricing service.
- Fair value of fixed-rate deposits and loans is calculated as the present value of the estimated future cash flow based on an observable swap yield curve, plus an implicit mark-up calculated as the difference between the reference rate and the interest rate indicated by the bank's price list on balance sheet day.
- Other methods, such as multiplier models, have been used to determine the fair value of the remaining financial instruments.

The table below presents the changes in value of the instruments classified in level 3:

31.12.15-31.12.16 (incl B1OA)	Fixed-rate loans to customers	Equity instruments	Derivatives	Term deposit	Other financial assets	Total
Opening balance	5 447	199	-3	-61	71	5 653
Investments in the period	1 237	1		-47		1 190
Sales / redemption in the period	-692	-4	3	1		-692
Gains / losses recognised through profit and loss	-79	-1	3			-77
Gains / losses recognised directly against comprehensive income		8			-39	-31
Closing balance	5 913	203	2	-107	32	6 043
Gains / losses for the period included in the profit for assets owned on the balance sheet day	-79		3			-77

31.12.14-31.12.15 (without B1OA)	Loans with interest-rate guarantees	Equity instruments	Derivatives	Term deposit	Other financial assets	Total
Opening balance	1	108	3			112
Investments in the period		30		-61		-30
Sales / redemption in the period	-1	-2	-3			-6
Gains / losses recognised through profit and loss			-3			-3
Gains / losses recognised directly against comprehensive income		3			40	43
Closing balance	0	139	-3	-61	40	117
Gains / losses for the period included in the profit for assets owned on the balance sheet day			-3			-3

Gains and losses on instruments classified in level 3 recognised in profit and loss are included in their entirety under net profit from other financial assets and liabilities in the income statement.

Specification of fair value, instruments classified in level 3:

31.12.2016 (incl B1OA)	Fixed-rate loans to customers	Equity instruments	Derivatives	Term deposit	Other financial assets	Total
Nominal value including accrued interest (fixed income instruments) / cost (shares)	5 861	152		-107		5 907
Fair value adjustment	52	51	2		32	137
Closing balance	5 913	203	2	-107	32	6 043

Sensitivity, instruments classified as level 3

The valuation of fixed-rate loans to customers is based on the agreed rate with the customer. The loans are discounted by the current yield curve plus a discretionary market premium. An increase in the discount rate by ten basis points would have resulted in a negative change in fair value of MNOK 15.

Equity instruments in Level 3 consists of the significant shareholdings in Oslo Kongressenter Folkets Hus BA (MNOK 56), Eksportfinans ASA (MNOK 75) and SpareBank 1 Markets AS (NOK 30 million). The valuation of the two former is based on the book value of their equity adjusted for surplus and deficit values. Based on valuation from 2010 and later broker reviews, it is considered to be significant added value in the property mass of the Oslo Convention Centre People's House (P/B 4.9). Based on an external valuation in connection with a demerger in 2012 and subsequent results, the value of Eksportfinans is considered to be substantially smaller. The value of the shareholding in SpareBank 1 Markets are based on issue price 29.10.2015.

Derivatives in Level 3 is entirely a 1.3 percentage share of a portfolio hedge agreement with Eksportfinans ASA. The agreement secures Eksportfinans against further decreases in the portfolio from 29 February 2008 up to 1.5 billion. Any recovery of values relative to the nominal value accruing to participants in the portfolio hedge agreement as payment for the hedge. Eksportfinans performs monthly valuation of the hedging agreement based on the fair value of the underlying instruments.

The valuation of term deposits is based on the agreed rate with the customer. The contributions are discounted by the current yield curve plus a discretionary market premium reducing the discount rate by ten basis points would have resulted in an insignificant negative change in fair value of TNOK 38.

Other financial assets are entirely the Group's share of the remaining settlement for Visa Norway sale of Visa Europe Ltd to Visa Inc. This consists of an agreed cash consideration settled in 2019 as well as preference shares in Visa that will be converted into tradable shares no later than 2028. The valuation of the Group's assets is based on the closing exchange rates (EUR and USD), the share price of tradable Visa Inc stocks, purchase agreement conversion factor for the preference shares and the adopted settlement share of Visa Norway FLI to the member banks Sparebanken Hedmark and Bank 1 Oslo Akershus AS. The value of this record will change with the aforementioned assumptions.

Note 11 Financial instruments and offsetting

As from 2013 the bank is required to disclose financial instruments which the bank considers to fulfil the requirements for netting under IAS 32.42, and financial instruments in respect of which offsetting agreements have been entered into. Both in accordance with IFRS 7.13 A-F.

The bank has no financial instruments booked on a net basis in the financial statements.

Sparebanken Hedmark has two sets of agreements which regulate counterparty risk and netting of derivatives. For retail and corporate customers, use is made of framework agreements requiring provision of collateral. For customers engaged in trading activity, only cash deposits are accepted as collateral. The agreements are unilateral, i.e. it is only the customers that provide collateral. As regards financial institutions, the bank enters into standardised and mainly bilateral ISDA agreements. Additionally, the bank has entered into supplementary agreements on provision of cash collateral (CSA) with ten institutional counterparties.

The Group's exposure as a result of reverse repurchase agreements are recognized under "Loans and advances to credit institutions". Net exposure takes into account the value of the underlying security. Reverse repurchase agreements are governed by GMRA agreements with counterparty. The Group has per 31.12.2016 two GMRA agreement.

The assets and liabilities below may be offset.

Parent Bank	Amounts not presented on the balance sheet on a net basis					
	Gross financial assets/(liabilities)	Recognised on a net basis	Net financial assets/(liabilities) on the balance sheet	Financial instruments	Cash collateral given/(received)	Net amount
31.12.2016						
Derivatives as assets	349	0	349	-50	0	299
Derivatives as liabilities	-233	0	-233	50	136	-47
31.12.2015						
Derivatives as assets	455	0	455	-48	0	407
Derivatives as liabilities	-320	0	-320	48	116	-157

Group	Amounts not presented on the balance sheet on a net basis					
	Gross financial assets/(liabilities)	Recognised on a net basis	Net financial assets/(liabilities) on the balance sheet	Financial instruments	Cash collateral given/(received)	Net amount
31.12.2016 (incl B1OA)						
Derivatives as assets	810	0	810	-126	-201	483
Derivatives as liabilities	-349	0	-349	126	168	-54
31.12.2015 (without B1OA)						
Derivatives as assets	455	0	455	-48	0	407
Derivatives as liabilities	-320	0	-320	48	116	-157

Note 12 Other assets

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
73	103	Capital payments into pension fund	103	73
17	17	Accrued income, not yet received	31	21
27	26	Prepaid costs, not yet incurred	138	27
197	193	Other assets	424	376
314	338	Other assets	695	497

Note 13 Deposits from and liabilities to customers

Parent Bank			Group	
31.12.2015	31.12.2016		31.12.2016	31.12.2015
20 396	21 998	Private customers	38 443	20 396
4 126	4 256	Public sector	4 699	4 126
921	941	Primary industries	950	921
104	103	Paper and pulp industries	107	104
503	670	Other industry	782	503
806	884	Building and construction	1 092	806
124	259	Power and water supply	262	124
882	782	Wholesale and retail trade	1 417	882
131	120	Hotel and restaurants	247	131
1 487	1 920	Real estate	3 794	1 487
3 756	4 006	Commercial services	10 071	3 706
268	305	Transport and communications	422	268
4	14	Other operations	784	4
33 508	36 259	Total deposits by sector and industry	63 070	33 458

Note 14 Securities-related debt

Parent Bank

Changes in liabilities from issuance of securities	31.12.2016	Issued	Due / redeemed	Other changes	31.12.2015
Certificate-based debt, nominal value	0		-500		500
Bond debt, nominal value	12 093	2 904	-2 050	425	10 814
Subordinated loan capital, nominal value	500				500
Accrued interest	123			-12	136
Adjustments	189			66	123
Total debt raised through issuance of securities and subordinated loan capital, fair value	12 906	2 904	-2 550	478	12 073

Changes in liabilities from issuance of securities	31.12.2015	Issued	Due / redeemed	Other changes	31.12.2014
Certificate-based debt, nominal value	500	500			0
Bond debt, nominal value	10 814	3 500	-1 205	110	8 410
Subordinated loan capital, nominal value	500				500
Accrued interest	136			4	131
Adjustments	123			-291	415
Total debt raised through issuance of securities and subordinated loan capital, fair value	12 073	4 000	-1 205	-178	9 455

Group

Changes in liabilities from issuance of securities	31.12.2016	Issued	Due / redeemed	Other changes	31.12.2015
Certificate-based debt, nominal value	0		-500		500
Bond debt, nominal value	21 199	3 877	-3 345	12	20 654
Subordinated loan capital, nominal value	1 200				1 200
Accrued interest	221			-8	230
Adjustments	520			-66	586
Total debt raised through issuance of securities and subordinated loan capital, fair value	23 140	3 877	-3 845	-63	23 170

Changes in liabilities from issuance of securities	31.12.2015	Issued	Due / redeemed	Other changes	31.12.2014
Certificate-based debt, nominal value	500	500			0
Bond debt, nominal value	10 814	3 500	-1 205	110	8 410
Subordinated loan capital, nominal value	500				500
Accrued interest	136			4	131
Adjustments	123			-291	415
Total debt raised through issuance of securities and subordinated loan capital, fair value	12 073	4 000	-1 205	-178	9 455

Note 15 Other debt and liabilities

Parent Bank		Group	
31.12.2015	31.12.2016	31.12.2016	31.12.2015
263	40	119	280
14	10	10	14
7	7	8	7
34	30	37	41
121	135	380	167
440	222	554	510
Total other debt and liabilities recognised in the balance sheet			

Note 16 Disclosure - Business combination

Acquisition of Bank 1 Oslo Akershus

Sparebanken Hedmark entered into separate purchase agreements in December 2015 through which it gained ownership of 100 percent of the shares in Bank 1 Oslo Akershus (B1OA), which is a regional bank headquartered in Oslo. Sparebanken Hedmark previously owned 40.54 percent of the shares in B1OA. Separate agreements for the purchase of the remaining shares were entered into with the Norwegian Confederation of Trade Unions (LO) for the purchase of their ownership interest of 29.9 percent, and other Sparebank 1 banks for their ownership interest of 29.6 percent in total. Through the purchase of the remaining shares in B1OA, Sparebanken Hedmark increase its geographic market area and diversifies the customer portfolio. Moreover, the bank gains cost synergies through increased economies of scale. The agreements were subject to approval by the Supervisory Board of Sparebanken Hedmark and by public authorities. These approvals were obtained in Q2 2016, and Sparebanken Hedmark has determined that the acquisition date and the date upon which it gained control over B1OA is June 29, 2016. From this date and onwards, B1OA has been consolidated as a wholly owned subsidiary.

The fair values of the identifiable assets and liabilities of B1OA as at the date of acquisition were:

	29.06.2016
ASSETS	
Cash and deposits with central banks	576
Due from credit institutions	803
Loans to customers	33 377
Commercial paper, bonds and financial derivatives	4 659
Other investments	423
Investments in associated companies and joint ventures	1 304
Fixed tangible assets	276
Other assets	523
Total assets	41 941
LIABILITIES	
Due to credit institutions	536
Deposits from customers	25 911
Debt securities issued	10 387
Financial derivatives	195
Other liabilities	578
Subordinated loan capital	701
Total liabilities	38 308
Hybrid capital	400
Total identifiable net assets at fair value	3 233
Total payment made	2 068
Fair value of existing ownership share	1 316
Total identifiable net assets at fair value	-3 233
Goodwill	151
Issuance of equity certificates in Sparebanken Hedmark	1 843
Cash paid	225
Total payment made	2 068

Based on the purchase price and fair value of identified assets and liabilities, MNOK 151 is allocated to goodwill, out of which MNOK 12 is a consequence of deferred tax.

The Goodwill recognized is primarily attributed to the expected synergies and other benefits from combining the assets and activities of B1OA with those of Sparebanken Hedmark. None of the goodwill recognized is expected to be deductible for income tax purposes.

The payment in the form of equity certificates in Sparebanken Hedmark consists of a total of 26 462 540 certificates. The fair value of these certificates has been measured based on marked based valuation methodologies performed by external valuation experts.

Transaction costs have not been included in the statement of profit or loss for the accounting year 2016.

For the acquired receivables in the form of loans to customers, the gross contractual amount receivable is MNOK 33 505, and the best estimate as of the acquisition date of the contractual cash flows not expected to be collected is MNOK 128. The previously held ownership interest in B1OA which was classified as an associated company was measured to its fair value at the acquisition date. The fair value as of this date was MNOK 1 316, resulting in a gain of MNOK 25. In addition, costs recognized in other comprehensive income totaling of MNOK 21 were recycled over ordinary profit/loss in connection with the acquisition.

Because the date of acquisition was June 29, cost and income from B1OA have not been consolidated in the first half of 2016, in accordance with IFRS 3. The result share has been included in accordance with the equity method at MNOK 71. If the acquisition had taken place at the beginning of the year, revenue from continuing operations would have been MNOK 596 and the profit before tax MNOK 215.

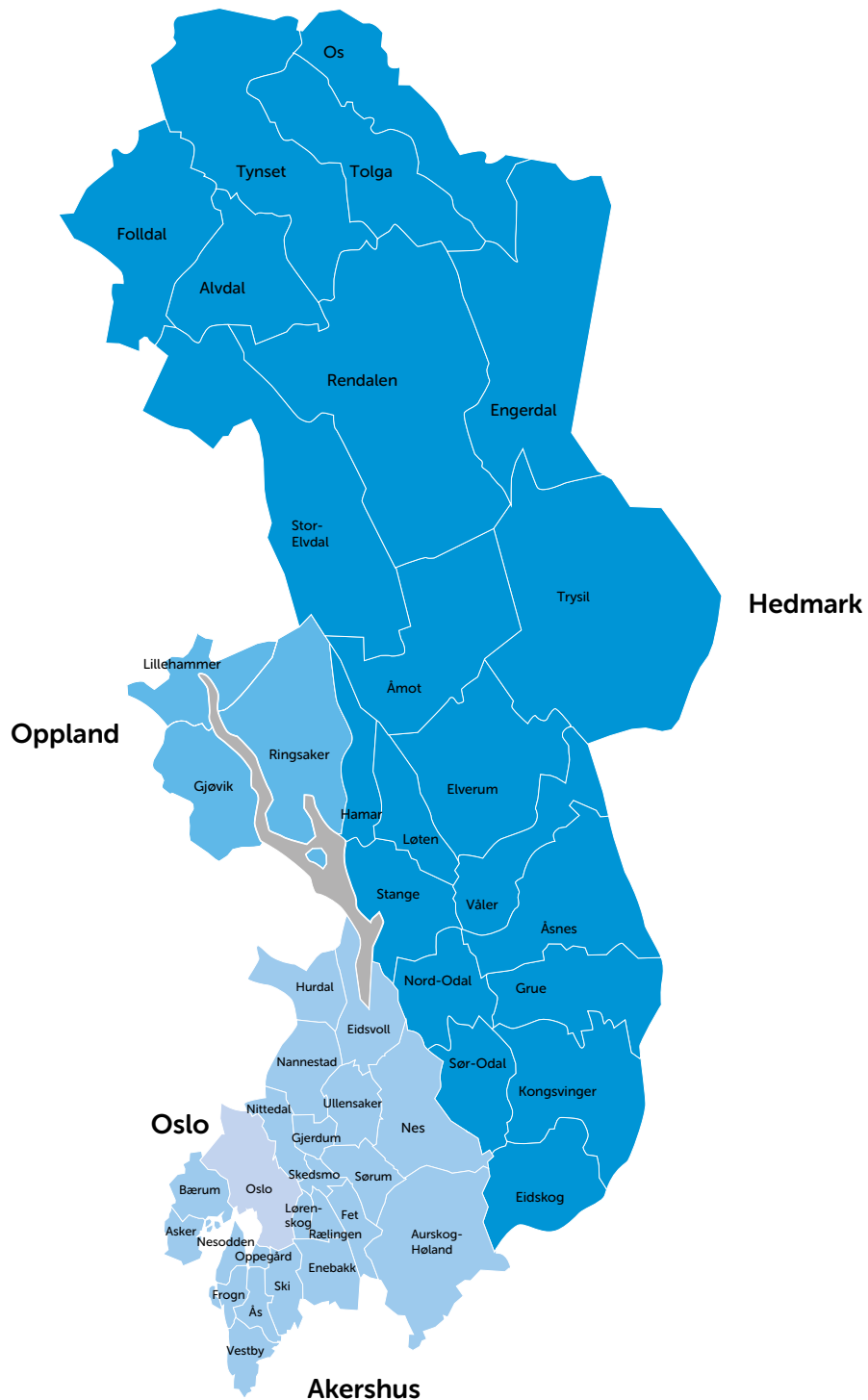
Note 17 Equity capital certificates

Equity share capital per 31.12.16 consist of 106.202.540 equity certificates at NOK 50 each.

Parent Bank	31.12.2016
Equity capital certificates	5 310
Dividend equalisation fund	974
Premium Fund	520
Fund for unrealised gains	90
A. The equity capital certificate owners' capital	6 894
Primary capital	3 313
Endowment fund	44
B. Total primary capital	3 357
Endowment fund	33
Dividends	148
Total other equity	181
Total equity	10 430
Equity capital certificate ratio (A/(A+B)) after allocation	67,3 %
Equity certificates issued	106 202 540

Equity capital certificate ratio for distribution

Owner of equity certificates:	No. Of EC's	Share in %
Sparebanken Hedmark Sparebankstiftelse	79 740 000	75,08 %
Norwegian Confederation of Trade Unions (LO) and affiliated unions	15 881 965	14,95 %
Samarbeidende Sparebanker AS	5 438 749	5,12 %
SpareBank 1 Nord-Norge	1 713 942	1,61 %
SpareBank 1 SMN	1 713 942	1,61 %
SpareBank 1 SR-Bank	1 713 942	1,61 %



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