

First Quarter Report 2016



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Main figures

From the income statement	31 Mar 2016		31 Mar 2015		2015	
	NOKm	%	NOKm	%	NOKm	%
Net interest	469	1.41	467	1.50	1,872	1.46
Net commission income and other income	401	1.20	377	1.21	1,545	1.20
Net return on financial investments	172	0.52	198	0.63	459	0.36
Total income	1,042	3.13	1,042	3.34	3,876	3.02
Total operating expenses	489	1.47	454	1.45	1,931	1.50
Results before losses	553	1.66	588	1.88	1,945	1.52
Loss on loans, guarantees etc	170	0.51	22	0.07	169	0.13
Results before tax	383	1.15	567	1.82	1,776	1.38
Tax charge	72	0.22	126	0.40	370	0.29
Result investment held for sale, after tax	0	0.00	0	0.00	-1	0.00
Net profit	311	0.93	441	1.41	1,406	1.10

Key figures	31 Mar 2016	31 Mar 2015	2015
Profitability			
Return on equity ¹⁾	8.9 %	14.1 %	10.7 %
Cost-income ratio ²⁾	47 %	44 %	50 %
Balance sheet figures			
Gross loans to customers	95,331	92,311	93,974
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	129,520	122,933	127,378
Deposits from customers	63,851	60,589	64,090
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	67 %	66 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt	49 %	49 %	50 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt)	5.4 %	10.0 %	5.8 %
Growth in deposits last 12 months	5.4 %	10.9 %	5.6 %
Average total assets	133,129	124,867	128,355
Total assets	134,345	123,687	131,914
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt			
Impairment losses ratio	0.53 %	0.07 %	0.14 %
Non-performing commitm. as a percentage of gross loans ³⁾	0.13 %	0.19 %	0.13 %
Other doubtful commitm. as a percentage of gross loans	0.31 %	0.18 %	0.30 %
Solidity			
Capital adequacy ratio	18.1 %	17.0 %	18.3 %
Core capital ratio	15.6 %	14.3 %	15.6 %
Common equity tier 1 ratio	13.6 %	12.3 %	13.6 %
Core capital	14,237	12,713	13,988
Net equity and related capital	16,516	15,147	16,378
Branches and staff			
Number of branches	49	49	49
No. Of full-time positions	1,216	1,157	1,208

Key figures ECC ⁴⁾	31 Mar 2016	31 Mar 2015	2015	2014	2013	2012
ECC ratio	64.0 %	64.6 %	64.0 %	64.6 %	64.6 %	64.6 %
Number of certificates issued, millions	129.83	129.83	129.83	129.83	129.83	129.83
ECC share price at end of period (NOK)	52.75	59.50	50.50	58.50	55.00	34.80
Stock value (NOKM)	6,849	7,725	6,556	7,595	7,141	4,518
Booked equity capital per ECC (including dividend)	67.37	61.95	67.65	62.04	55.69	50.09
Profit per ECC, majority	1.49	2.18	7.02	8.82	6.92	5.21
Dividend per ECC			2.25	2.25	1.75	1.50
Price-Earnings Ratio	8.83	6.81	7.19	6.63	7.95	6.68
Price-Book Value Ratio	0.78	0.96	0.75	0.94	0.99	0.69

1) Net profit as a percentage of average equity

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

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

4) The key figures are corrected for issues

Report of the Board of Directors

First quarter 2016

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

- Pre-tax profit: NOK 383m (567m)
- Net profit first quarter: NOK 311m (441m)
- Return on equity: 8.9 per cent (14.1 per cent)
- Growth in lending 5.4 per cent (10.0 per cent) in past 12 months
- Growth in deposits 5.4 per cent (10.9 per cent) in past 12 months
- CET1 capital ratio: 13.6 per cent (12.3 per cent)
- Earnings per equity certificate (EC): NOK 1.49 (2.18)
- Book value per EC: NOK 67.37 (61.95)

Good profit, but increased collectively assessed write-downs

Main points:

- Collectively assessed impairment write-downs bring a substantial profit reduction compared with the first quarter of 2015
- Good underlying operations
- High return on financial assets
- Continued low individually assessed impairment write-downs. Collectively assessed write-downs up NOK 150m
- Good financial position
- Good growth in lending and deposits

In the first quarter of 2016 SpareBank 1 SMN achieved a post-tax profit of NOK 311m (441m) and a return on equity of 8.9 per cent (14.1 per cent). Net profit was NOK 383m (567m).

Operating incomes in the first quarter came to NOK 870m, an increase of NOK 26m compared with the same period of 2015. This is largely explained by the consolidation of SpareBank 1 Markets as a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015.

Return on financial assets was NOK 172m (198m), of which income from owner interests in joint ventures accounted for NOK 119m (129m).

Operating expenses amounted to NOK 489m in the first quarter of 2016 (454m), a growth of NOK 35m. The increase is explained by the consolidation of SpareBank 1 Markets as a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015.

Loan losses totalled NOK 170m (22m) in the first quarter, of which NOK 150m (0m) is accounted for by an increase in collectively assessed write-downs related to the bank's offshore exposure.

At end-March 2016 12-month lending growth was 5.4 per cent (10.0 per cent) and deposit growth was 5.4 per cent (10.9 per cent).

SpareBank 1 SMN is planning for a CET1 ratio of 14.5 per cent by 31 December 2016. The capital plan is further described in the section on financial strength. At end-March 2016 SpareBank 1 SMN's CET1 ratio was 13.6 per cent (12.3 per cent).

In the first quarter earnings per EC were NOK 1.49 (2.18). Book value per EC was NOK 67.37 (61.95). The market price at the same point was NOK 52.75 (59.50). Dividend of NOK 2.25 per EC was paid in 2016 for the year 2015.

Net interest income

Net interest income came to NOK 469m (467m) in the first quarter 2016. Net interest income has been relatively stable per quarter in 2015 and 2016, but is marked by large gross movements:

- Increased lending to and deposits from retail and corporate clients alike
- Increased margins on deposits
- Reduced margins on home mortgage loans

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 quarter of 2016 totalled NOK 74m (91m), reflecting reduced margins on home mortgage loans.

In the course of 2014 and in 2015 five general interest rate reductions were carried out on loans to retail customers to adjust home mortgage rates to a falling interest rate level. Deposit rates to retail and corporate customers were also reduced. A further reduction of up to 15 basis points in home mortgage rates and a corresponding change in deposit rates has been decided, effective as from June 2016. Parts of the portfolio of loans to corporates are repriced to better reflect different levels of credit risk.

Commission and other operating income

Net commission and other operating income totalled NOK 401m (377m) in the first quarter of 2016. Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was down NOK 18m due to lower margins on loans sold to SpareBank 1 Boligkreditt. The overall increase in other commission income is in all essentials ascribable to the fact that SpareBank 1 Markets only became a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015. A number of the other income types also show a positive trend.

Commission income (NOKm)	1Q 16	1Q 15	Change
Payment transfers	47	47	0
Creditcard	14	13	1
Saving products	13	11	2
Insurance	39	37	3
Guarantee commission	21	16	4
Real estate agency	80	83	-3
Accountancy services	50	53	-3
Markets	39	2	37
Active management	6	4	1
Rent	8	10	-2
Other commissions	9	8	1
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	327	286	41
Commissions SB1 Boligkreditt	71	89	-18
Commissions SB1 Næringskreditt	2	2	0
Total commissions	401	377	24

Good return on financial investments

Overall return on financial investments (excluding the bank's share of the profit/loss of associates and joint ventures) was NOK 53m (69m). Overall return breaks down as follows:

- Return on the group's equity portfolios totalled NOK 3m (10m)
- Capital gains on bonds and derivatives came to NOK 25m (11m).
- Income on forex and fixed income transactions was NOK 26m (48m)

Capital gains/dividends, shares (NOKm)	1Q 16	1Q 15	Change
Capital gains/dividends, shares	3	10	-7
Bonds and derivatives	25	11	13
Income on forex and fixed income	26	48	-22
Net return on financial investments	53	69	-16
SpareBank 1 Gruppen	61	59	2
SpareBank 1 Boligkreditt	24	41	-17
SpareBank 1 Næringskreditt	8	8	0
SpareBank 1 Kredittkort	6	4	2
BN Bank	20	18	2
SpareBank 1 Mobilbetaling (mCASH)	-6	0	-6
Companies owned by SpareBank 1 SMN Invest	6	0	6
Other companies*	0	-2	2
Income from investment in related companies	119	128	-9
Total	172	197	-25

*Included investment held for sale

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first quarter of 2016 was NOK 284m (303m). The main contributor to the profit is the insurance arm, SpareBank 1 Forsikring.

SpareBank 1 SMN's share of the profit was NOK 61m (59m), including a variance of NOK 5.6m between the preliminary and final accounts for 2015.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to benefit from the market for covered bonds. The banks sell their best secured home mortgage loans to the company, affording them reduced funding costs. As of 31 March 2016 the bank had sold loans worth NOK 33bn (29bn) to SpareBank 1 Boligkreditt, corresponding to 40 per cent (39 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.0 per cent, and the bank's share of that company's profit in the first quarter of 2016 was NOK 24m (41m). Like the result for the first quarter of 2015, the result for the first quarter of 2016 is affected by unrealised gains on the company's basis swaps.

SpareBank 1 Næringskreditt

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

SpareBank 1 SMN's stake in the company is 33.6 per cent, and the bank's share of the company's profit in the first quarter of 2016 was NOK 8m (8m). The holding reflects the bank's relative share of sold loans to commercial property and the bank's stake in BN Bank. Of aggregate loans at SpareBank 1 Næringskreditt, 78 per cent have been sold from BN Bank.

SpareBank 1 Kredittkort

Profit for the first quarter of 2016 was NOK 34m (21m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.4 per cent. SpareBank 1 SMN's share of the first quarter' profit was NOK 6m (4m) and its share of the portfolio is NOK 815m (742m).

BN Bank

SpareBank 1 SMN owns a 33.0 per cent stake in BN Bank as of 31 March 2016.

SpareBank 1 SMN's share of the profit of BN Bank in the first quarter of 2016 was NOK 20m (18m), yielding a return on equity of about 6.8 per cent (6.0 per cent).

The board of directors of BN Bank decided in 2015 to cultivate the bank as a retail bank and to wind down the corporate business which consists of lending to low-risk commercial property. The backdrop to the decision is capital adequacy rules specific to Norway under which return on equity on this activity is low. This is because BN Bank competed in the low-risk segment with foreign actors who set their prices under a different, more liberal, regulatory regime and capital requirements.

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

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

The process of winding down the corporate banking business will be carried out in a controlled manner over time. By the end of the first quarter of 2016 the corporate portfolio had been reduced by NOK 8bn or 25 per cent since 30 June 2015. The board of directors of BN Bank aims to wind down 50 per cent of the corporate portfolio by 31 December 2016. Wind-down of the remaining corporate portfolio will strengthen CET1 capital adequacy of SpareBank 1 SMN by 0.9 percentage point.

SpareBank 1 Mobilbetaling (mCASH)

In the fourth quarter of 2015 the SpareBank 1 banks acquired the Norwegian arm of mCASH and established a mobile payments company, SpareBank 1 Mobilbetaling. The intention is to strengthen the bank's position on new mobile interfaces such as friend-to-friend payments and mobile payments in stores. Mid-February saw the start of nationwide marketing of mCash through TV/digital advertising, and a substantial focus on events and on clubs and associations. Nationally more than 1,500 clubs and associations have put mCash to use as a payments solution. mCash also offers solutions for internet commerce, stores and friend-to-friend payments.

The financial result is a consequence of start-up costs and marketing of mCash. The company is owned by the SpareBank 1 banks and SpareBank 1 SMN's stake is 19.7 per cent.

Operating expenses

Overall operating expenses came to NOK 489m (454m) in the first quarter of 2016. The increase of NOK 35m is ascribable to SpareBank 1 Markets' consolidation as a subsidiary as from the second quarter of 2015.

The parent bank reduced costs by NOK 17m to NOK 290m. This is also related to changes at SpareBank 1 Markets. As from the second quarter of 2015 SpareBank 1 SMN transferred its capital market activities to SpareBank 1 Markets, and the parent bank's operating expenses include NOK 14m on capital market activities at SpareBank 1 SMN. The parent bank's additional cost reduction of NOK 3m is a consequence of the bank's cost cutting programme.

Wide-ranging efficiency improvement measures have been initiated at the parent bank aimed at keeping nominal costs unchanged from 2014 to 2016. Since 31 December 2014 the number of FTEs at the parent bank has been reduced from 720 to 642, i.e. by 78.

The Group cost-income ratio was 47 per cent (44 per cent).

Low individual losses and low defaults, but increased provision for collectively assessed write-downs

Losses on loans and guarantees in the first quarter of 2016 came to NOK 170m (22m), of which NOK 150m (0m) refers to increased collectively assessed write-downs.

Net individual impairment write-downs of NOK 10m were recorded on loans to corporate clients in the first quarter of 2016, including a loss of NOK 1m at SpareBank 1 Finans Midt-Norge. A net loss of NOK 6m was recorded on the retail client portfolio in the first quarter of 2016.

Total individually assessed write-downs on loans and guarantees came to NOK 200m (161m) at the end of the first quarter of 2016, an increase of NOK 39m over the 12 months to end-March.

Total problem loans (defaulted and doubtful) came to NOK 616m (496m), or 0.48 per cent (0.40 per cent) of gross loans at end-March 2016.

Defaults in excess of 90 days totalled NOK 205m (262m), a decline of NOK 57m, measuring 0.16 per cent (0.21 per cent) of gross lending (including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt). Of total defaults, NOK 31m (61m) are loss provisioned, corresponding to 15 per cent (23 per cent).

Defaults break down to NOK 41m on corporates and NOK 164m on retail borrowers.

Other doubtful exposures totalled NOK 411m (234m), corresponding to 0.32 per cent (0.19 per cent) of gross outstanding loans. NOK 169m (100m) or 41 per cent (43 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 356m on corporates and NOK 56m on retail borrowers.

Increase in collectively assessed impairment write-downs

Collective assessment of impairment write-downs is based on two factors:

- events that have affected the bank's portfolio (causing migration between risk categories)
- events that have not yet affected the portfolio since the bank's credit risk models do not capture the effects rapidly enough (e.g. macroeconomic factors).

Collectively assessed impairment write-downs has been increased by NOK 150m. This was because an increased probability of default and reduced ship values bring a greater likelihood of loss in oil-related activity due to the challenging market situation continuing in 2016. Total collectively assessed loss

write-downs are accordingly NOK 527m (295m), corresponding to 0.41 per cent (0.24 per cent) of total outstanding loans. Collectively assessed write-downs break down to NOK 96m on retail exposures and NOK 431m on corporates. Of the provision of NOK 431m on the corporate portfolio, NOK 249m refers to oil-related activity

Total assets of NOK 134bn

The bank's assets totalled NOK 134bn at 31 March 2016 compared with NOK 124bn twelve months previously.

As of end-March 2016 loans worth a total of 34.2bn (30.6bn) had been sold by SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Loans

In the 12 months to end-March total outstanding loans rose by NOK 6.6bn (11.1bn) or 5.4 per cent (10.0 per cent) to reach NOK 129.5bn (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Lending increased in the first quarter by NOK 2.1bn or 1.7 per cent.

Lending to corporates fell by NOK 0.5bn (growth of 5.9bn) corresponding to a decline of 1.2 per cent (growth of 13.2 per cent) in the 12 months to end-March. Overall lending to corporates totalled NOK 47.2bn as of end-March 2016. Lending to corporates increased by NOK 0.6bn or 1.2 per cent in the first quarter.

Lending to retail customers rose by NOK 7.2bn (5.6bn) to NOK 82.3bn in the 12 months to end-March, corresponding to a growth of 9.5 per cent (8.0 per cent).

Loans to retail customers accounted for 64 per cent (61 per cent) of gross lending (including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt) to customers as of end-March 2016. Lending to retail borrowers increased by NOK 1.6bn or 2.0 per cent in the first quarter.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 3.3bn (5.9bn) to reach NOK 63.9bn in the 12 months to end-March 2016. This represents a growth of 5.4 per cent (10.9 per cent). In first quarter total deposits fell by 0.2bn or 0.4 per cent.

Retail deposits rose by NOK 1.8bn (2.3bn) or 6.9 per cent (9.4 per cent) to reach NOK 28.3bn, while corporate deposits rose by NOK 1.4bn (3.7bn) or 4.2 per cent (12.0 per cent) to reach NOK 35.5bn. At the end of the first quarter, retail deposits showed no change since year-end, while corporate deposits were reduced by NOK 0.2bn or 0.7 per cent.

(For distribution by sector, see note 9).

Investment products

The overall customer portfolio of off-balance sheet investment products amounted to NOK 8.1bn at end-March 2016, an increase of 12 per cent since the first quarter of 2015. Good growth was achieved both in equity funds and active asset management. The growth was driven mainly by new sales.

Saving products, customer portfolio (NOKm)	1Q 16	1Q 15	Change
Equity funds	5,110	4,765	345
Pension products	669	642	27
Active management	2,279	1,817	462
Total	8,058	7,224	834

Insurance products

The bank's insurance portfolio showed a growth in premium volume of NOK 53m or 5 per cent in the 12 months to end-March. Non-life insurance delivered 2 per cent growth, personal insurance 10 per cent and occupational service pensions 8 per cent. Total income on the bank's insurance portfolio topped NOK 120m in 2015, and growth is also forecast for 2016.

Insurance, premium volume (NOKm)	1Q 16	1Q 15	Change
Non-life insurance	725	711	14
Personal insurance	276	251	25
Occupational pensions	199	185	14
Total	1,200	1,147	53

Retail Banking

Operating income in the first quarter of 2016 was slightly weaker than in the first quarter of 2015, totalling NOK 402m (411m), with NOK 236m in net interest income and NOK 166m in commission income. The net decline in operating income is driven by reduced lending margins. Return on capital employed in the retail banking segment was 12.9 per cent (15.5 per cent). Regulatory capital of 14.5 per cent is utilised as capital employed, corresponding to the CET1 ratio the Group intends to reach by 31 December 2016.

The lending margin in the first quarter of 2016 was 1.78 per cent (2.28 per cent), while the deposit margin was 0.24 per cent (minus 0.35 per cent) measured against three-month Nibor. Average three-month Nibor has fallen by about 50 basis points since the start of 2015.

In the 12 months to end-March retail lending and retail deposits grew by 9.2 per cent and 5.9 per cent respectively.

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

Corporate Banking

Operating income totalled NOK 294m in the first quarter of 2016 (282m). Net interest income was NOK 243m, while other income totalled NOK 51m.

Return on equity for the corporate banking segment was 3.1 per cent for first quarter 2016 (11.9 per cent). Regulatory capital of 14.5 per cent is utilised as capital employed, corresponding to the CET1 ratio the Group intends to reach by 31 December 2016.

The lending margin was 2.57 per cent (2.75 per cent) and the deposit margin was minus 0.15 per cent (minus 0.41 per cent) in the first quarter of 2016.

Lending fell by 2.9 per cent while deposits rose by 5.1 per cent in the 12 months to end-March.

Subsidiaries

The subsidiaries posted an overall profit of NOK 44.8m (37.9m) before tax in the first quarter of 2016.

Pre-tax profit (NOKm)	1Q 16	1Q 15	Change
EiendomsMegler 1 Midt-Norge	10.0	7.8	2.2
SpareBank 1 Finans Midt-Norge	23.4	21.3	2.1
SpareBank 1 Regnskapshuset SMN	4.3	7.9	-3.6
Allegro Kapitalforvaltning	0.6	0.3	0.3
SpareBank 1 SMN Invest	9.9	0.9	9.0
Sparebank 1 Markets	3.2	-	3.2
Other companies	-6.7	-0.3	-6.4
Total	44.8	37.9	6.9

Eiendomsmegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market share across the entire market area, in particular in Trondheim. The company's first quarter pre-tax profit of NOK 10.0m (7.8m) is satisfactory. The number of dwellings sold totalled 1,602 in the first quarter of 2016 compared with 1,658 in the same period of 2015.

SpareBank 1 Finans Midt-Norge reported a pre-tax profit of NOK 23.4m (21.3m) in the first quarter and is on a positive profit trend due to increased income, especially from car loans. At quarter-end the company managed leases and car loan agreements worth a total of NOK 4.3bn of which leases account for NOK 2.1bn and car loans for NOK 2.2bn. Growth was good, particularly in car loans. At year-end the SamSpar banks in SpareBank 1 held a stake of 27.9 per cent in SpareBank 1 Finans Midt-Norge. Sparebanken Sogn og Fjordane joined as an owner in January 2016 with a stake of 7.5 per cent, thereby further increasing the company's distribution power. After this SpareBank 1 SMN own 64.6 per cent of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 4.3m (7.9m) in the first quarter of 2016. The decline in profit is largely due to the costs of developing the company's digital platform.

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

Allegro Kapitalforvaltning manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are the company's distribution channel. The company posted a pre-tax profit of NOK 0.6m (0.3m) in the first quarter of 2016. The company manages a portfolio worth NOK 5.6bn.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 9.9m (0.9m) in the first quarter of 2016. Value changes and realisation of losses or gains on the company's overall shareholding represents NOK 3.6m of the overall profit. The company also has owner interests in the property companies Grilstad Marina and its share of this company's profit in the first quarter of 2016 was NOK 6.3m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 73.5 per cent. SpareBank 1 Markets has its head office in Oslo and departments in Trondheim and Ålesund. It has 106 employees.

SpareBank 1 Markets is an investment firm offering a complete range of products. The company's aspires to being a profitable capital market entity able to deliver all capital market services in collaboration with its owner banks.

The company recorded a pre-tax profit of NOK 3.2m in the first quarter of 2016. Good results were achieved in share trading, corporate services and fixed-income and forex trading. Underlying operations in these areas are good, with a solid customer base. Again in this quarter, a difficult market was noted in the bond area with losses on holdings and low volumes in the issue market.

The company is the leading capital market entity in SpareBank 1 SMN's market area. SpareBank 1 Markets focuses primarily on clients where the company itself has a strong competitive position alone or together with its owner banks.

Other companies

Negative financial results in other companies are ascribable to an increased unrealised loss on an interest rate swap at the bank's property company, SpareBank 1 SMN Kvartalet.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy. The strategy attaches importance to maintaining liquidity reserves that ensure the bank's ability to survive 12 months of ordinary operation without need of fresh external funding.

The bank has liquidity reserves of NOK 19bn and thus has the funding needed for 22 months of ordinary operation without fresh external finance.

The bank's funding sources and products are amply diversified. At quarter-end the proportion of money market funding in excess of 1 year was 84 per cent (85 per cent). The supply of funding in the market is satisfactory.

SpareBank 1 Boligkreditt is the bank's most important funding source. As of 31 March 2016 the bank had sold loans totalling NOK 33bn to SpareBank 1 Boligkreditt.

Rating

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

Financial position

CET1 capital adequacy at 31 March 2016 was 13.6 per cent (12.3 per cent). The change over the last 12 months is ascribed to:

- An increase of NOK 1.4bn, or 13 per cent, in CET1 capital over the last 12 months as a result of profit retention
- An increase of NOK 169m, or 2 per cent, in risk weighted assets in terms of capital need over the last 12 months, mainly as a result of reduced exposure to business and industry

As from 31 December 2015 the regulatory requirement on CET1 capital is 11.0 per cent, including combined buffer requirements. The requirement will rise to 11.5 per cent as from 30 June 2016 due to the announced increase of the countercyclical buffer to 1.5 per cent.

The board of directors of SpareBank 1 SMN continually reviews the capital situation and future capital requirements.

Finanstilsynet (Norway's FSA) has communicated its expectation of a CET1 capital ratio of 14.5 per cent by 31 December 2016. This was considered by the bank's board of directors in December 2015 and a new CET1 capital adequacy target of a minimum of 14.5 per cent by 31 December 2016 was adopted. Finanstilsynet will not set individual Pillar 2 add-ons for SpareBank 1 SMN prior to completion of the Supervisory Review and Evaluation Process (SREP) in 2016.

The board of directors of SpareBank 1 SMN expects and assumes that carrying out the bank's capital plan will ensure that the bank attains the capital requirements expected by the market and set by the authorities without the need for a stock issue.

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

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments.
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to households
- Wind-down the commercial property portfolio at BN Bank. As of end-March 2016 this portfolio had been reduced by 25 per cent since 30 June 2015

The bank's equity certificate (MING)

The book value of the bank's EC at 31 March 2016 was NOK 67.37 (61.95), and earnings per EC were NOK 1.49 (2.18).

As at 31 March 2016 the EC was priced at NOK 52.75 (NOK 59.50), and dividend of NOK 2.25 per EC had been paid in 2016 for the year 2015 (2.25).

The Price / Income ratio was 8.83 and the Price / Book ratio was 0.78 as of 31 March 2016.

Risk factors

The credit quality of the bank's loan portfolio is satisfactory, loss and default levels are low, and with the exception of oil-related businesses there are no concentrations in non-performing and problem exposures. Loans to oil-related businesses constitutes 4.3 per cent of total loans as of 31 March 2016.

The bank expects a falling rate of GDP growth as a result of declining oil investment. A weaker Norwegian krone has impacted positively on export industries, and will partially offset some effects. The bank also expects low growth in lending to mid-Norway's business sector ahead as a result of the limited level of investment.

Real wage growth will be low, but given a protracted low interest rate level the bank expects loss risk on the bank's retail banking portfolio to be low. The uncertainty relates primarily to the trend in unemployment. The bank expects unemployment to show a slight increase, but that unemployment will be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households has declined somewhat, but remains higher than wage growth and will be largely affected by the trend in house prices. The bank expects losses on home mortgage loans to remain low. If house prices stagnate, or fall, there is a risk that the household saving rate will quicken which will result in reduced turnover for parts of Norwegian business and industry.

The bank's results are affected directly and indirectly by fluctuations in the securities markets. The indirect effect relates above all to the bank's stake in SpareBank 1 Gruppen, where both the insurance business and fund management activities are affected by the fluctuations.

The bank is also exposed to risk related to access to external funding. This is reflected in the bank's conservative liquidity strategy (see the above section on funding and liquidity).

Outlook ahead

The directors are satisfied with underlying operations at the bank, the subsidiaries and joint ventures. The directors want to draw attention to the implemented measures in SpareBank 1 Markets which has given positive results.

There are still few signs that the challenges facing oil-related activity have fed through to the economy in the bank's markets area. However, the bank is organising its lending activity to allow for this eventuality and is exercising greater caution in lending.

The market situation continues to pose a major challenge to the bank's clients in the oil service sector. The bank's exposure in the first quarter comprises 67 ships mainly distributed across a limited number of shipping companies. In the board's view a good effort is being made to find temporary and long-term solutions for those companies facing challenges. There is still no basis for individual loss write-downs on any of the exposures, but the increased uncertainty and reduced ship values have prompted collective loss write-downs of NOK 150m in this sector. The directors expect individual and collective loss provisions in total of NOK 450-500m in 2016 due to a challenging market also going forward.

The directors continue to expect and assume that the CET1 target ratio of 14.5 per cent will be met by 31 December 2016 by means of the instruments set out in the bank's capital plan.

The challenges associated with a moderate oil price will impact on the bank's profit growth in 2016. The bank's earnings are robust and the bank's ability to withstand losses within the framework of current earnings is first-rate. The directors expect 2016 to be a satisfactory year for SpareBank 1 SMN.

Trondheim, 29. April 2016
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes
(employee rep.)

Oddny Lysberg
(employee rep.)

Finn Haugan
(Group CEO)

Income statement

Parent bank					Group		
2015	Q1 15	Q1 16	(NOKm)	Note	Q1 16	Q1 15	2015
3,865	1,007	865	Interest income		910	1,019	4,031
2,161	580	442	Interest expenses		441	552	2,159
1,703	427	423	Net interest	10	469	467	1,872
1,005	247	234	Commission income		295	306	1,245
103	24	18	Commission expenses		28	27	135
220	10	8	Other operating income		134	97	435
1,123	233	224	Commission income and other income		401	377	1,545
471	105	29	Dividends		0	0	25
-	-	-	Income from investment in related companies	3	119	129	448
-125	66	37	Net return on financial investments	3	53	69	-14
346	171	66	Net return on financial investments		172	198	459
3,172	832	714	Total income		1,042	1,042	3,876
588	160	148	Staff costs		295	267	1,093
629	147	142	Other operating expenses		194	186	838
1,217	307	290	Total operating expenses	11	489	454	1,931
1,955	525	424	Result before losses		553	588	1,945
159	20	167	Loss on loans, guarantees etc.	2,6,7	170	22	169
1,796	505	257	Result before tax	3	383	567	1,776
325	115	63	Tax charge		72	126	370
-	-	-	Result investment held for sale, after tax	2,3	-0	-0	-1
1,471	389	193	Net profit		311	441	1,406
Attributable to:							
Equity holders of parent company					303	439	1,410
Equity holders of non-controlling interests					8	2	-4
Profit per ECC					1.53	2.19	7.00
Diluted profit per ECC					1.49	2.18	7.02

Other comprehensive income

Parent bank					Group		
2015	Q1 15	Q1 16	(NOKm)		Q1 16	Q1 15	2015
1,471	389	193	Net profit		311	441	1,406
Items that will not be reclassified to profit/loss							
109	-	-	Actuarial gains and losses pensions		-	-	115
-27	-	-	Tax		-	-	-28
-	-	-	Share of other comprehensive income of associates and joint venture		0	0	36
82	-	-	Total		0	0	123
Items that will be reclassified to profit/loss							
75	-	-	Available-for-sale financial assets		-	-	78
-	-	-	Share of other comprehensive income of associates and joint venture		-14	1	1
-1	-	-	Tax		-	-	-1
74	-	-	Total		-14	1	78
1,627	389	193	Total other comprehensive income		297	442	1,607
Attributable to:							
Equity holders of parent company					289	439	1,611
Equity holders of non-controlling interests					8	2	-4

Key figures

Parent bank				Group		
2015	Q1 15	Q1 16	Result as per cent of average total assets:	Q1 16	Q1 15	2015
1.34	1.38	1.29	Net interest	1.41	1.50	1.46
0.89	0.76	0.68	Commission income and other income	1.20	1.21	1.20
0.27	0.55	0.20	Net return on financial investments	0.52	0.63	0.36
0.96	0.99	0.88	Total operating expenses	1.47	1.45	1.50
1.54	1.70	1.29	Result before losses	1.66	1.88	1.52
0.13	0.06	0.51	Loss on loans, guarantees etc.	0.51	0.07	0.13
1.42	1.63	0.78	Result before tax	1.15	1.82	1.38
0.38	0.37	0.41	Cost -income ratio	0.47	0.44	0.50
72 %	69 %	71 %	Loan-to-deposit ratio	67 %	66 %	68 %
13.0 %	14.4 %	6.5 %	Return on equity	8.9 %	14.1 %	10.7 %

Balance sheet

Parent bank					Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016	(NOKm)	Note	31 Mar 2016	31 Mar 2015	31 Dec 2015
3,270	568	1,241	Cash and receivables from central banks		1,241	568	3,270
5,883	5,056	6,103	Deposits with and loans to credit institutions		2,324	1,952	2,407
89,596	88,158	90,652	Net loans to and receivables from customers	5	94,606	91,855	93,415
15,752	13,954	15,956	Fixed-income CDs and bonds	15	15,956	13,954	15,752
7,606	7,436	8,180	Derivatives	15	8,091	7,340	7,524
337	264	336	Shares, units and other equity interests	2,15	1,644	700	1,485
3,624	3,362	3,622	Investment in related companies		5,759	5,185	5,522
2,927	2,564	2,814	Investment in group companies		-	-	-
222	222	330	Investment held for sale	2	214	16	16
447	447	447	Goodwill		528	529	528
431	412	2,421	Other assets	12	3,982	1,587	1,996
130,095	122,443	132,101	Total assets		134,345	123,687	131,914
8,155	7,598	8,549	Deposits from credit institutions		8,549	7,598	8,155
65,091	61,137	64,815	Deposits from and debt to customers	9	63,851	60,589	64,090
35,154	31,971	35,888	Debt created by issue of securities	14	35,888	31,971	35,154
5,366	6,096	6,211	Derivatives	15	6,237	6,096	5,414
868	1,463	1,294	Other liabilities	13	2,279	1,495	1,734
-	-	-	Investment held for sale	2	5	0	0
3,463	3,415	3,485	Subordinated loan capital	14	3,485	3,415	3,463
118,097	111,681	120,242	Total liabilities		120,294	111,165	118,010
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-6	-0	-21
895	895	895	Premium fund		895	895	895
3,790	3,122	3,790	Dividend equalisation fund		3,782	3,122	3,790
292	-	-	Recommended dividends		-	-	292
40	-	-	Provision for gifts		-	-	40
4,105	3,619	4,105	Savings bank's reserve		4,105	3,619	4,105
279	139	279	Unrealised gains reserve		290	148	290
-	-	-	Other equity capital		1,705	1,622	1,597
-	389	193	Profit for the period		311	441	-
-	-	-	Non-controlling interests		372	78	318
11,998	10,761	11,859	Total equity capital		14,051	12,521	13,904
130,095	122,443	132,101	Total liabilities and equity		134,345	123,687	131,914

Cash flow statement

Parent bank				Group		
2015	Q1 15	Q1 16	(NOKm)	Q1 16	Q1 15	2015
1,471	389	193	Net profit	311	441	1,406
70	10	10	Depreciations and write-downs on fixed assets	24	25	104
159	20	167	Losses on loans and guarantees	170	22	169
1,700	419	371	Net cash increase from ordinary operations	505	488	1,678
224	90	-2,529	Decrease/(increase) other receivables	-2,659	113	-190
-782	870	1,271	Increase/(decrease) short term debt	1,401	652	-112
-3,277	-1,461	-1,223	Decrease/(increase) loans to customers	-1,361	-1,527	-3,472
-1,520	-691	-220	Decrease/(increase) loans credit institutions	82	-663	-1,118
3,889	-137	-276	Increase/(decrease) deposits to customers	-239	-163	3,410
-968	-1,528	394	Increase/(decrease) debt to credit institutions	394	-1,528	-968
-1,575	307	-204	Increase/(decrease) in short term investments	-204	307	-1,575
-2,311	-2,130	-2,416	A) Net cash flow from operations	-2,081	-2,321	-2,349
-61	-3	-46	Increase in tangible fixed assets	49	-6	-50
1	-	-	Reductions in tangible fixed assets	-	-	1
-821	-196	7	Paid-up capital, associated companies	-310	-25	-98
-6	-7	1	Net investments in long-term shares and partnerships	-112	15	-702
-887	-206	-38	B) Net cash flow from investments	-373	-16	-849
93	34	22	Increase/(decrease) in subordinated loan capital	22	34	93
-1	-	0	Increase/(decrease) in equity	0	-	-1
-292	-292	-292	Dividend cleared	-292	-292	-292
-160	-160	-40	To be disbursed from gift fund	-40	-160	-160
2,153	-1,353	734	Increase/(decrease) in other long term loans	734	-1,353	2,153
1,792	-1,771	424	C) Net cash flow from financial activities	424	-1,771	1,792
-1,405	-4,108	-2,030	A) + B) + C) Net changes in cash and cash equivalents	-2,030	-4,108	-1,405
4,676	4,676	3,270	Cash and cash equivalents at 1.1	3,270	4,676	4,676
3,270	568	1,241	Cash and cash equivalents at end of quarter	1,241	568	3,270
-1,405	-4,108	-2,030	Net changes in cash and cash equivalents	-2,030	-4,108	-1,405

Change in equity

Parent Bank (NOKm)	Issued equity		Earned equity						
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Total equity
Equity at 1 January 2015	2,597	895	3,619	3,122	292	160	139	-	10,824
Net profit	-	-	457	616	292	40	66	-	1,471
Other comprehensive income									
Available-for-sale financial assets	-	-	-	-	-	-	74	-	74
Actuarial gains (losses), pensions	-	-	29	53	-	-	-	-	82
Other comprehensive income	-	-	29	53	-	-	74	-	156
Total other comprehensive income	-	-	486	669	292	40	140	-	1,627
Transactions with owners									
Dividend declared for 2014	-	-	-	-	-292	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-160	-	-	-160
Purchase and sale of own ECCs	-	-	-	-1	-	-	-	-	-1
Total transactions with owners	-	-	-	-1	-292	-160	-	-	-453
Equity at 31 December 2015	2,597	895	4,105	3,790	292	40	279	-	11,998
Equity at 1 January 2016	2,597	895	4,105	3,790	292	40	279	-	11,998
Net profit	-	-	-	-	-	-	-	193	193
Total other comprehensive income	-	-	-	-	-	-	-	193	193
Transactions with owners									
Dividend declared for 2015	-	-	-	-	-292	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-40
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Total transactions with owners	0	-	-	0	-292	-40	-	-	-332
Equity at 31 March 2016	2,597	895	4,105	3,790	-	-	279	193	11,859

Group	Attributable to parent company equity holders									
	Issued equity		Earned equity							
(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2015	2,597	895	3,619	3,122	292	160	148	1,620	72	12,524
Net profit	-	-	457	616	292	40	66	-61	-4	1,406
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	37	-	37
Available-for-sale financial assets	-	-	-	-	-	-	77	-	-	77
Actuarial gains (losses), pensions	-	-	29	53	-	-	-	4	1	87
Other comprehensive income	-	-	29	53	-	-	77	41	1	201
Total other comprehensive income	-	-	486	669	292	40	142	-20	-3	1,607
Transactions with owners										
Dividend declared for 2014	-	-	-	-	-292	-	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-160	-	-	-	-160
Purchase and sale of own ECCs	-	-	-	-1	-	-	-	-	-	-1
Direct recognitions in equity	-	-	-	-	-	-	-	4	-	4
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-3	-	-3
Own ECC held by SB1 Markets*)	-21	-	-	-	-	-	-	-5	-	-25
Change in non-controlling interests	-	-	-	-	-	-	-	-	249	249
Total transactions with owners	-21	-	-	-1	-292	-160	-	-3	249	-227
Equity at 31 December 2015	2,576	895	4,105	3,790	292	40	290	1,597	318	13,904

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

(NOKm)	Attributable to parent company equity holders									
	Issued equity		Earned equity							
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2016	2,576	895	4,105	3,790	292	40	290	1,597	318	13,904
Net profit	-	-	-	-	-	-	-	303	8	311
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-14	-	-14
Other comprehensive income	-	-	-	-	-	-	-	-14	-	-14
Total other comprehensive income	-	-	-	-	-	-	-	289	8	297
Transactions with owners										
Dividend declared for 2015	-	-	-	-	-292	-	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-	-40
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Direct recognitions in equity	-	-	-	-	-	-	-	-5	-	-5
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	135	-	135
Own ECC held by SB1 Markets ^{*)}	14	-	-	-9	-	-	-	-0	-	5
Change in non-controlling interests	-	-	-	-	-	-	-	-	46	46
Total transactions with owners	14	-	-	-9	-292	-40	-	130	46	-150
Equity at 31 March 2016	2,590	895	4,105	3,782	-	-	290	2,016	372	14,051

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

Notes

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Note 1 - Accounting principles

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

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

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

Guarantee fund levy

After the implementation of IFRIC 21, there has been a discussion of whether the annual levy to the guarantee fund for 2015 and 2016 should be expensed in first quarter. The levy to the Banks' Guarantee Fund is normally based on previous quarters' average guaranteed deposits and average risk weighted assets. The question of whether withdrawing from the guarantee fund arrangement will entail a refund of levy paid in excess is not regulated. In practice a pro rata charge has been made upon enrolment. This practice and consistency of treatment suggest a pro rata approach upon withdrawal. The Ministry of Finance will settle the matter by administrative decision. This has a bearing on when the levy is to be recognised in the accounts. The financial supervisory Authority (FSA) concluded in their circular from 19.november 2015 that the guarantee fund levy should be fully expensed in first quarter every year, and expects that the banks change their practice from first quarter 2016. The Ministry of Finance has in a letter from 8.april 2016 asked that FSA prepare draft for changes to the regulation regarding the calculation of levy upon withdrawal where the banks will get the levy refunded for the part of the year the bank is no longer a member of the guarantee fund. The Ministry of Finance requests that the consequences for the guarantee fund and other parties be assessed in the hearing, included the effect for the members' accounting for the levy. Due date for the response was set to 1.june 2016. Awaiting the FSA response, Sparebank 1 SMN has continued its earlier practice of accrual on a monthly basis.

The expense was 14,5 million in first quarter 2016, compared to 14,4 million in first quarter 2015. If the guarantee fund levy had been fully expensed in first quarter 2016, the interest expenses would increase by 43,6 million (42,9 million in 2015)

Pensions

The Group has not obtained a new calculation of pensions as of 31 March since no factors have been identified that significantly alter the pension liability.

For a further description of the various pension schemes, see note 24 - Pension in the 2015 annual report.

Companies held for sale

The strategy of SpareBank 1 SMN is that ownership in companies resulting from engagements in default should be of short duration, normally not more than a year. The investments are accounted for at fair value and classified as held for sale.

Assets and liabilities related to the company Brannstasjonen SMN AS have been presented as held for sale from 1Q 2016 as group management and board has approved the sale of the company, and the process for sale has come to the point where it is highly likely that a transaction will be completed before 12 months. Brannstasjonen SMN AS was founded in 2012 after SMN acquired Kongensgt 2, the previous fire station. The purpose was to develop the property for own use since the bank at that point had a need for more office space driven by the growth strategy and the newly established credit card company in addition to the need to integrate SMN Regnskapshuset in the head quarter. Subsequently, it has been shown that the need for office space is less than anticipated due to the digitalisation and efficiency gains to be realised.

2016 1Q (mill. kr)	Assets	Liabilities	Revenue	Expenses	Profit/Loss	Ownership
Mavi XV AS group	19	0	0	-0	-0	100 %
Brannstasjonen SMN AS	195	5	-	-0	-0	100 %
Total Held for sale	214	5	0	-1	-0	-

Stake in SpareBank 1 Finans Midt-Norge reduced

From 18. january 2016 the subsidiary SpareBank 1 Finans Midt-Norge has had Sparebanken Sogn og Fjordane as new owner and partner, as SpareBank 1 SMN reduced its ownership in the company by 7,5 prosent from 72,1 per cent to 64,6 per cent.

Note 3 - Account by business line

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

The segment SB1 Markets comprises the subsidiary SpareBank 1 Markets as from the second quarter of 2015. SpareBank 1 Markets became a subsidiary on 1 April 2015 when SpareBank 1 SMN integrated its markets activity into SpareBank 1 Markets and at the same time increased its holding to 73.3 per cent.

In the reporting on the first quarter of 2015 and previously, the segment Markets comprised SpareBank 1 SMN's own markets activity in the parent bank. The result for the first quarter of 2015 moved to the column 'uncollated'.

Group 31 March 2016

Profit and loss account (NOKm)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	222	232	-2	1	43	-0	-	-	-26	469
Interest from allocated capital	14	12	-	-	-	-	-	-	-26	-
Total interest income	236	243	-2	1	43	-0	-	-	-52	469
Commission income and other income	166	49	59	86	-2	54	-	-	-11	401
Net return on financial investments **)	0	2	10	-	-	-	61	20	79	172
Total income	402	294	67	87	41	54	61	20	15	1,042
Total operating expenses	198	93	63	77	15	50	-	-	-6	489
Ordinary operating profit	204	202	5	10	26	4	61	20	22	553
Loss on loans, guarantees etc.	9	158	2	-	3	-	-	-	-2	170
Result before tax including held for sale	195	44	3	10	23	4	61	20	23	383
Post-tax return on equity*)	12.9 %	3.1 %								8.9 %
Balance (NOKm)										
Loans and advances to customers	86,451	37,479	-	-	4,603	-	-	-	987	129,520
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-32,769	-1,421	-	-	-	-	-	-	0	-34,190
Individual allowance for impairment on loan	-34	-155	-	-	-8	-	-	-	-2	-198
Group allowance for impairment on loan	-95	-414	-	-	-18	-	-	-	1	-527
Other assets	213	8	1,669	283	8	145	1,705	1,180	34,528	39,739
Total assets	53,767	35,497	1,669	283	4,585	145	1,705	1,180	35,515	134,345
Deposits to customers	33,671	29,655	-	-	-	-	-	-	525	63,851
Other liabilities and equity	20,096	5,842	1,669	283	4,585	145	1,705	1,180	34,989	70,494
Total liabilities	53,767	35,497	1,669	283	4,585	145	1,705	1,180	35,515	134,345

Group 31 March 2015

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	221	216	-15	1	40	0	-	-	4	467
Interest from allocated capital	18	19	0	-	-	-	-	-	-36	-
Total interest income	239	235	-15	1	40	0	-	-	-32	467
Commission income and other income	173	43	3	83	-5	53	-	-	28	377
Net return on financial investments **)	0	4	43	0	0	-	59	18	72	197
Total income	411	282	32	83	35	53	59	18	67	1,042
Total operating expenses	199	99	10	76	13	45	-	-	11	454
Ordinary operating profit	212	183	21	8	23	8	59	18	56	588
Loss on loans, guarantees etc.	3	17	-	-	2	-	-	-	-	22
Result before tax including held for sale	209	165	21	8	21	8	59	18	56	566
Post-tax return on equity*)	15.5 %	11.9 %								14.1 %

Balance (NOKm)

Loans and advances to customers	79,184	38,606	-	-	3,638	-	-	-	1,504	122,933
Adv. of this to SpareBank 1 Boligkreditt	-29,250	-1,371	-	-	-	-	-	-	-1	-30,622
Individual allowance for impairment on loan	-26	-125	-	-	-8	-	-	-	-2	-160
Group allowance for impairment on loan	-90	-188	-	-	-16	-	-	-	-	-295
Other assets	224	5	-	283	4	123	1,482	1,220	28,491	31,831
Total assets	50,042	36,926	-	283	3,619	123	1,482	1,220	29,993	123,687
Deposits to customers	31,782	28,219	-	-	-	-	-	-	588	60,589
Other liabilities and equity	18,260	8,708	-	283	3,619	123	1,482	1,220	29,404	63,098
Total liabilities	50,042	36,926	-	283	3,619	123	1,482	1,220	29,993	123,687

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

**) Specification of net return on financial investments incl. investment held for sale (NOKm)

	1Q 2016	1Q 2015
Capital gains/dividends, shares	3	10
Bonds and derivatives	25	11
Forex and fixed income business, Markets	26	48
Net return on financial investments	53	69
SpareBank 1 Gruppen	61	59
SpareBank 1 Boligkreditt	24	41
SpareBank 1 Næringskreditt	8	8
BN Bank	20	18
SpareBank 1 Kredittkort	6	4
Companies owned by SpareBank 1 SMN Invest	6	-
Other companies	-6	-2
Income from investment in associates and joint ventures	119	128
Total net return on financial investments	172	197

Note 4 - Capital adequacy

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

As of 31 March 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3 per cent and countercyclical buffer is 1 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11 per cent. The countercyclical buffer is announced to increase to 1.5 per cent with effect from 30 June 2016.

In connection with changed requirements on conditions governing hybrid capital, hybrid capital not meeting the new requirements over time will not be eligible as other core capital. The bonds will subject to a stepwise reduction of 40 per cent in 2016 and 10 per cent thereafter. As at 31 March 2016 SpareBank 1 SMN held hybrid capital worth NOK 450m that will be subject to stepwise reduction. Finanstilsynet may require the hybrid capital to be written down in proportion to equity capital if the bank's CET1 capital ratio falls below 5.125 per cent.

The parent bank calculates capital charges against operational risk using the standardised approach. In the case of subsidiaries, the basic indicator approach is applied.

Parent Bank				Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016	(NOKm)	31 Mar 2016	31 Mar 2015	31 Dec 2015
2,597	2,597	2,597	Equity capital certificates	2,597	2,597	2,597
-0	-0	-0	- Own holding of ECCs	-6	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,782	3,122	3,790
4,105	3,619	4,105	Savings bank's reserve	4,105	3,619	4,105
292	-	-	- Recommended dividends	-	-	292
40	-	-	- Provision for gifts	-	-	40
279	139	279	Unrealised gains reserve	290	148	290
-	-	-	- Other equity	1,705	1,622	1,597
-	-	-	- Non-controlling interests	372	78	318
-	389	193	Net profit	311	441	-
11,998	10,761	11,859	Total book equity	14,051	12,521	13,904
-447	-447	-447	Deferred taxes, goodwill and other intangible assets	-668	-569	-662
-	-	-	- Part of reserve for unrealised gains, associated companies	119	120	264
-332	-	-	- Deduction for allocated dividends and gifts	-	-	-332
-	-	-	- Non-controlling interests recognised in other equity capital	-372	-78	-318
-	-	-	- Non-controlling interests eligible for inclusion in CET1 capital	184	36	132
-93	-4	-93	Surplus financing of pension obligations	-43	-	-43
-	-389	-193	Net profit	-311	-441	-
-	270	100	Year-to-date profit included in core capital (73 per cent pre tax of group profit)	218	322	-
-33	-30	-35	Value adjustments due to requirements for prudent valuation	-57	-44	-55
-164	-277	-32	Positive value of adjusted expected loss under IRB Approach	-104	-381	-239
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-576	-477	-458
10,928	9,884	11,159	Total common equity Tier one	12,440	11,008	12,192
950	950	950	Hybrid capital, core capital	1,310	1,217	1,310
495	497	496	Hybrid capital covered by transitional provisions	496	497	495
-	-	-	Direct, indirect and synthetic investments in financial sector companies	-9	-9	-9
12,373	11,331	12,605	Total core capital	14,237	12,713	13,988

			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,648	1,692	1,647
786	786	673	Subordinated capital covered by transitional provisions	673	786	786
-43	-43	-43	Direct, indirect and synthetic investments in financial sector companies	-43	-43	-43
1,743	1,743	1,631	Total supplementary capital	2,279	2,435	2,390
14,116	13,074	14,236	Net subordinated capital	16,516	15,147	16,378
			Minimum requirements subordinated capital			
1,027	1,258	1,063	Involvement with specialised enterprises	1,232	1,506	1,213
1,049	987	1,040	Other corporations exposure	1,086	1,038	1,105
1,093	1,089	1,134	Mass market exposure, property	1,606	1,447	1,557
157	141	162	Mass market exposure, SMEs	171	149	167
38	54	37	Other retail exposure	39	54	40
1,221	1,160	1,235	Equity investments	1	0	0
4,585	4,689	4,671	Total credit risk IRB	4,135	4,194	4,082
64	199	27	Debt risk	29	200	64
-	-	-	Equity risk	10	2	10
-	-	-	Currency risk	-	0	-
316	316	334	Operational risk	479	452	457
922	911	947	Exposures calculated using the standardised approach	1,893	2,025	1,805
53	42	45	Credit value adjustment risk (CVA)	91	97	106
-	-	-	Transitional arrangements	666	163	634
5,939	6,158	6,024	Minimum requirements subordinated capital	7,303	7,134	7,157
74,243	76,969	75,295	Risk weighted assets (RWA)	91,286	89,171	89,465
3,341	3,464	3,388	Minimum requirement on CET1 capital, 4.5 per cent	4,108	4,013	4,026
			Capital Buffers			
1,856	1,924	1,882	Capital conservation buffer, 2.5 per cent	2,282	2,229	2,237
2,227	2,309	2,259	Systemic risk buffer, 3.0 per cent	2,739	2,675	2,684
742		753	Countercyclical buffer, 1.0 per cent	913		895
4,826	4,233	4,894	Total buffer requirements on CET1 capital	5,934	4,904	5,815
2,761	2,187	2,877	Available CET1 capital after buffer requirements	2,399	2,091	2,351
			Capital adequacy			
14.7 %	12.8 %	14.8 %	Common equity Tier one ratio	13.6 %	12.3 %	13.6 %
16.7 %	14.7 %	16.7 %	Core capital ratio	15.6 %	14.3 %	15.6 %
19.0 %	17.0 %	18.9 %	Capital adequacy ratio	18.1 %	17.0 %	18.3 %
9.1 %	8.7 %	9.2 %	Leverage ratio	6.8 %	6.3 %	6.7 %

Note 5 - Distribution of loans by sector/industry

Parent Bank				Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016	(NOKm)	31 Mar 2016	31 Mar 2015	31 Dec 2015
8,515	7,557	9,061	Agriculture, forestry, fisheries, hunting	9,222	7,694	8,674
1,485	1,137	1,351	Sea farming industries	1,715	1,322	1,807
2,387	1,920	2,537	Manufacturing	2,806	2,190	2,675
3,141	3,571	2,917	Construction, power and water supply	3,391	4,048	3,598
2,482	2,774	2,705	Retail trade, hotels and restaurants	2,898	2,937	2,666
6,043	5,995	5,609	Maritime sector	5,631	6,017	6,066
14,377	14,312	14,327	Property management	14,390	14,375	14,346
2,019	3,389	2,125	Business services	1,822	3,594	1,777
2,859	2,892	3,037	Transport and other services provision	3,544	3,344	3,355
192	266	194	Public administration	212	286	211
1,458	1,951	1,688	Other sectors	1,583	1,969	1,477
44,958	45,765	45,550	Gross loans in retail market	47,214	47,776	46,653
78,575	73,445	79,988	Wage earners	82,307	75,157	80,725
123,533	119,210	125,538	Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt	129,520	122,933	127,378
31,944	29,165	32,676	SpareBank 1 Boligkreditt	32,676	29,165	31,944
1,460	1,457	1,514	SpareBank 1 Næringskreditt	1,514	1,457	1,460
90,129	88,587	91,348	Gross loans in balance sheet	95,331	92,311	93,974
174	151	188	- Specified write-downs	198	160	183
358	278	508	- Collective write-downs	527	295	376
89,596	88,158	90,652	Net loans to and receivables from customers	94,606	91,855	93,415

Note 6 - Losses on loans and guarantees

Parent Bank

Losses on loans and guarantees (NOKm)	1Q 16			1Q 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	6	9	15	1	-14	-13	2	9	11
+ Change in collective impairment losses provisions for the period	-	150	150	-	-	-	-	80	80
+ Actual loan losses on commitments for which provisions have been made	4	0	4	1	32	33	7	58	65
+ Actual loan losses on commitments for which no provision has been made	0	-0	0	2	0	2	8	4	12
- Recoveries on commitments previously written-off	0	1	1	1	1	1	6	3	9
Losses of the year on loans and guarantees	9	158	167	3	17	20	11	148	159

Group

Losses on loans and guarantees (NOKm)	1Q 16			1Q 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	6	10	16	1	-14	-13	3	9	11
+ Change in collective impairment losses provisions for the period	0	150	150	-	-	-	2	80	82
+ Actual loan losses on commitments for which provisions have been made	4	0	4	2	32	34	8	59	67
+ Actual loan losses on commitments for which no provision has been made	1	0	1	2	0	2	13	7	21
- Recoveries on commitments previously written-off	0	1	1	1	1	1	8	4	12
Losses of the year on loans and guarantees	11	159	170	4	18	22	18	151	169

Note 7 - Losses

Parent Bank

Individual write-downs (NOKm)	31 Mar 16			31 Mar 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1*	28	148	176	25	140	165	25	140	165
- Actual losses during the period for which provisions for individual impairment losses have been made previously	4	0	4	1	32	33	7	58	65
- Reversal of provisions from previous periods	2	3	5	1	1	2	2	40	43
+ Increased write-downs on provisions previously written down	7	4	11	1	4	4	1	21	22
+ Write-downs on provisions not previously written down	4	8	12	2	15	17	12	85	96
Individual write-downs to cover loss on loans and guarantees	34	157	190	26	126	152	28	148	176

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1.8m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	31 Mar 16			31 Mar 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 01.01	90	268	358	90	188	278	90	188	278
Period's collective write-downs to cover loss on loans, guarantees etc	-	150	150	-	-	-	-	80	80
Collective write-downs to cover loss on loans and guarantees	90	418	508	90	188	278	90	268	358

Group

Individual write-downs (NOKm)	31 Mar 16			31 Mar 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans and guarantees at 1.1*	31	153	184	27	146	173	27	146	173
- Actual losses during the period for which provisions for individual impairment losses have been made previously	4	0	4	2	32	34	8	59	67
- Reversal of provisions from previous periods	2	3	5	1	1	2	3	42	46
+ Increased write-downs on provisions previously written down	7	4	11	1	4	4	1	21	22
+ Write-downs on provisions not previously written down	5	9	14	3	17	20	14	87	102
Individual write-downs to cover loss on loans and guarantees	37	163	200	28	133	161	31	153	184

*) Individually assessed impairment write-downs on guarantees, totalling NOK 1.8m, are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOKm)	31 Mar 16			31 Mar 15			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 1.1	96	281	376	94	201	295	94	201	295
Period's collective write-downs to cover loss on loans, guarantees etc	0	150	150	-	-	-	2	80	82
Collective write-downs to cover loss on loans and guarantees	96	431	527	94	201	295	96	281	376

Note 8 - Defaults and problem loans

Parent Bank

	31 Mar 2016			31 Mar 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)									
Loans in default for more than 90 days *)	141	28	169	142	82	224	133	38	171
- Individual write-downs	14	13	27	18	39	58	15	8	23
Net defaults	127	15	142	123	43	166	119	30	148
Provision rate	10 %	47 %	16 %	13 %	48 %	26 %	11 %	22 %	13 %
Problem loans									
Problem loans (not in default)	50	348	399	14	211	225	45	341	387
- Individual write-downs	20	143	163	7	87	94	13	139	152
Net problem loans	31	205	236	7	124	131	32	202	234
Provision rate	39 %	41 %	41 %	49 %	41 %	42 %	29 %	41 %	39 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q1

Group

	31 Mar 2016			31 Mar 2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Total defaults (NOKm)									
Loans in default for more than 90 days *)	164	41	205	155	107	262	155	50	205
- Individual write-downs	15	15	31	20	42	61	17	9	26
Net defaults	148	26	174	135	65	200	138	41	179
Provision rate	9 %	37 %	15 %	13 %	39 %	23 %	11 %	18 %	13 %
Problem loans									
Problem loans (not in default)	56	356	411	15	219	234	49	350	399
- Individual write-downs	22	148	169	8	92	100	14	144	158
Net problem loans	34	208	242	7	127	134	34	206	241
Provision rate	39 %	41 %	41 %	54 %	42 %	43 %	30 %	41 %	40 %

*) There are no defaults that relates to loans in the guarantee portfolio taken over from BN Bank per Q1

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank				Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016	(NOKm)	31 Mar 2016	31 Mar 2015	31 Dec 2015
2,541	2,548	2,661	Agriculture, forestry, fisheries, hunting	2,661	2,548	2,541
674	524	534	Sea farming industries	534	524	674
2,518	2,177	2,221	Manufacturing	2,221	2,177	2,518
2,164	2,092	1,733	Construction, power and water supply	1,733	2,092	2,164
4,116	3,764	3,331	Retail trade, hotels and restaurants	3,331	3,764	4,116
1,994	2,129	2,196	Maritime sector	2,196	2,129	1,994
4,295	4,282	4,311	Property management	4,105	4,138	4,099
4,836	4,610	5,185	Business services	5,185	4,610	4,836
4,643	4,714	5,183	Transport and other services provision	4,714	4,346	4,138
7,221	5,232	7,079	Public administration	7,079	5,232	7,221
1,755	2,572	2,050	Other sectors	1,761	2,536	1,454
36,756	34,645	36,485	Total	35,520	34,096	35,754
28,336	26,493	28,330	Wage earners	28,330	26,493	28,336
65,091	61,137	64,815	Total deposits	63,851	60,589	64,090

Note 10 - Net interest income

Parent bank				Group		
2015	1Q 15	1Q 16 (NOK million)		1Q 16	1Q 15	2015
Interest income						
112	28	31	Interest income from loans to and claims on central banks and credit institutions	14	10	43
3,447	901	766	Interest income from loans to and claims on customers	824	929	3,669
			Interest income from money market instruments, bonds and other fixed income			
304	77	68	securities	68	77	304
1	0	-	Other interest income	4	3	16
3,865	1,007	865	Total interest income	910	1,019	4,031
Interest expense						
147	46	33	Interest expenses on liabilities to credit institutions	33	18	148
968	269	169	Interest expenses relating to deposits from and liabilities to customers	165	264	949
840	212	189	Interest expenses related to the issuance of securities	189	212	840
149	38	36	Interest expenses on subordinated debt	36	38	149
0	1	1	Other interest expenses	3	5	17
57	14	15	Guarantee fund levy	15	14	57
2,161	580	442	Total interest expense	441	552	2,159
1,703	427	423	Net interest income	469	467	1,872

Note 11 - Operating expenses

Parent bank				Group		
2015	1Q 15	1Q 16	(NOKm)	1Q 16	1Q 15	2015
588	160	148	Personnel expenses	295	267	1,093
194	56	51	IT costs	64	62	240
18	5	5	Postage and transport of valuables	6	6	22
55	11	11	Marketing	20	23	96
41	10	10	Ordinary depreciation	24	25	104
123	30	30	Operating expenses, real properties	25	23	100
68	12	13	Purchased services	21	15	105
129	23	21	Other operating expenses	34	33	171
1,217	307	290	Total operating expenses	489	454	1,931

Note 12 - Other assets

Parent Bank			(NOKm)	Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016		31 Mar 2016	31 Mar 2015	31 Dec 2015
33	-	33	Deferred tax asset	187	30	187
153	156	156	Fixed assets	992	1,098	1,065
23	33	6	Earned income not yet received	52	55	39
3	26	2,037	Accounts receivable, securities	2,353	26	200
124	6	124	Pensions	125	6	125
95	192	66	Other assets	274	371	381
431	412	2,421	Total other assets	3,982	1,587	1,996

Note 13 - Other liabilities

Parent Bank			(NOKm)	Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016		31 Mar 2016	31 Mar 2015	31 Dec 2015
-	32	-	Deferred tax	21	45	21
420	238	315	Payable tax	363	265	459
13	10	13	Capital tax	13	10	13
70	553	370	Accruals	543	464	303
78	224	107	Provisions	107	224	78
25	25	25	Pension liabilities	31	32	31
46	137	40	Drawing debt	40	137	46
6	19	2	Creditors	59	67	39
61	59	249	Debt from securities	503	59	145
-	-	-	Equity Instruments	386	-	394
150	167	174	Other liabilities	212	194	204
868	1,463	1,294	Total other liabilities	2,279	1,495	1,734

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

Parent Bank				Group		
31 Dec 2015	31 Mar 2015	31 Mar 2016	(NOKm)	31 Mar 2016	31 Mar 2015	31 Dec 2015
-	2,305	-	Short-term debt instruments, nominal value	-	2,305	-
34,014	28,519	34,759	Bond debt, nominal value	34,759	28,519	34,014
775	824	813	Value adjustments	813	824	775
365	323	317	Accrued interest	317	323	365
35,154	31,971	35,888	Total	35,888	31,971	35,154

Change in securities debt (NOKm)

	31 Mar 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Bond debt, nominal value	34,759	2,438	1,300	-393	34,014
Value adjustments	813	-	-	38	775
Accrued interest	317	-	-	-49	365
Total	35,888	2,438	1,300	-404	35,154

Change in subordinated debt and hybrid instruments (NOKm)

	31 Mar 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Ordinary subordinated loan capital, nominal value	1,667	-	-	6	1,661
Perpetual subordinated loan capital, nominal value	299	-	-	-	299
Hybrid instruments, nominal value	1,400	-	-	-	1,400
Value adjustments	92	-	-	2	89
Accrued interest	27	-	-	13	14
Total	3,485	-	-	22	3,463

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

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

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

Level 2: Valuation based on observable market data

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

Level 3: Valuation based on other than observable data

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

For a further description of the valuation methods, see note 27 in the annual accounts for 2015.

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	66	8,025	-	8,091
- Bonds and money market certificates	2,762	13,194	-	15,956
- Equity instruments	948	-	588	1,536
- Fixed interest loans	-	43	4,345	4,388
Financial assets available for sale				
- Equity instruments	-	-	108	108
Total assets	3,775	21,262	5,041	30,078
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit/loss				
Derivatives	88	6,149	-	6,237
Equity instruments	380	7	-	387
Total liabilities	468	6,156	-	6,624

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

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	377	6,964	-	7,340
- Bonds and money market certificates	3,170	10,784	-	13,954
- Equity instruments	53	-	611	664
- Fixed interest loans	-	43	3,991	4,034
Financial assets available for sale				
- Equity instruments	-	-	35	35
Total assets	3,600	17,791	4,637	26,027
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit/loss				
Derivatives	375	5,721	-	6,096
Total liabilities	375	5,721	-	6,096

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

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 16	4,405	574	108	5,087
Investment in periode	148	11	-	159
Disposals in the periode	-230	-3	-	-233
Gain or loss on financial instruments	22	5	-	28
Closing balance	4,345	588	108	5,041

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

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 15	3,277	625	35	3,937
Investment in periode	828	4	-	833
Disposals in the periode	-157	-20	-	-177
Gain or loss on financial instruments	43	2	-	45
Closing balance	3,991	611	35	4,637

Note 16 - Financial instruments and offsetting

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

SpareBank 1 SMN 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. Regarding financial institutions, the Bank enters into standardised and mainly bilateral ISDA agreements. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of 31. March 2016 the Bank has 27 active CSA agreements. The Bank only enters into agreements with cash as collateral. The Bank has delegated responsibility for handling these agreements to SEB Prime Collateral Services which handles margin requirements on behalf of the Bank.

SpareBank 1 SMN was registered as a GCM member of NASDAQ OMX Clearing AB in October 2015. The bank has since December 2015 offered customers clearing representation related to their trade in electricity and salmon derivatives on NASDAQ OMX Oslo ASA and Fish Pool ASA. Clearing representation entails that the bank substitutes itself in the place of the client as counterparty to NASDAQ OMX Clearing AB and takes on the obligation to NASDAQ to furnish margin collateral and to execute settlement of contracts and pay charges. For the bank's exposure as a GCM, clients will furnish collateral in the form of a deposit of cash and/or encumbrance of assets.

In the case of securities and derivatives that are traded on the Oslo Stock Exchange, the subsidiary SpareBank 1 Markets DNB ASA is used as clearing agent vis-a-vis Oslo Clearing. Any margin collateral is paid to a DNB account. DNB operates as agent between SpareBank 1 Markets and Oslo Clearing. Hence Oslo Clearing is SpareBank 1 Markets' counterparty.

The table shows what the Parent Bank and the Group can offset in the event of bankruptcy or default.

Parent Bank

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default (NOKm)
31 Mar 2016	Derivatives	1.634
31 Mar 2015	Derivatives	1.407
31 Dec 2015	Derivatives	2.149

Group

Period	Type of financial instrument	Amounts which can only be netted upon bankruptcy or default (NOKm)
31 Mar 2016	Derivatives	1.612
31 Mar 2015	Derivatives	1.407
31 Dec 2015	Derivatives	2.120

Equity capital certificate ratio

(NOKm)	31 Mar 2015	31 Dec 2015
ECC capital	2,597	2,597
Dividend equalisation reserve	3,790	3,790
Premium reserve	895	895
Unrealised gains reserve	179	179
A. The equity capital certificate owners' capital	7,461	7,461
Ownerless capital	4,105	4,105
Unrealised gains reserve	100	100
B. The saving bank reserve	4,205	4,205
To be disbursed from gift fund	-	40
Dividend declared	-	292
Equity ex. profit	11,666	11,998
Equity capital certificate ratio A/(A+B)	63.96 %	63.96 %
Equity capital certificate ratio for distribution	63.96 %	63.96 %

Results from quarterly accounts

Group (NOKm)	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2014	4Q 2014	3Q 2014	2Q 2014	1Q 2014
Interest income	910	962	1,058	992	1,019	1,103	1,080	1,055	1,027
Interest expenses	441	489	593	525	552	618	617	625	615
Net interest	469	473	466	467	467	485	463	430	412
Commission income	295	309	317	313	306	323	314	326	318
Commission expenses	28	38	38	32	27	33	28	28	25
Other operating income	134	107	99	132	97	81	74	96	93
Commission income and other income	401	378	378	413	377	371	361	394	385
Dividends	0	3	0	22	0	5	0	14	46
Income from investment in related companies	119	121	78	120	129	144	170	131	82
Net return on financial investments	53	-15	-91	23	69	-58	1	56	129
Net return on financial investments	172	109	-13	165	198	91	170	201	257
Total income	1,042	959	831	1,044	1,042	947	993	1,026	1,055
Staff costs	295	280	264	283	267	267	235	245	254
Other operating expenses	194	235	203	213	186	212	190	198	187
Total operating expenses	489	515	466	496	454	479	425	443	441
Result before losses	553	444	364	548	588	467	568	583	614
Loss on loans, guarantees etc.	170	56	56	35	22	34	24	15	17
Result before tax	383	388	309	513	567	434	545	568	597
Tax charge	72	100	61	83	126	60	101	103	99
Result investment held for sale, after tax	-0	-0	0	-0	-0	0	-1	-1	1
Net profit	311	287	248	430	441	375	443	464	500

Key figures from quarterly accounts

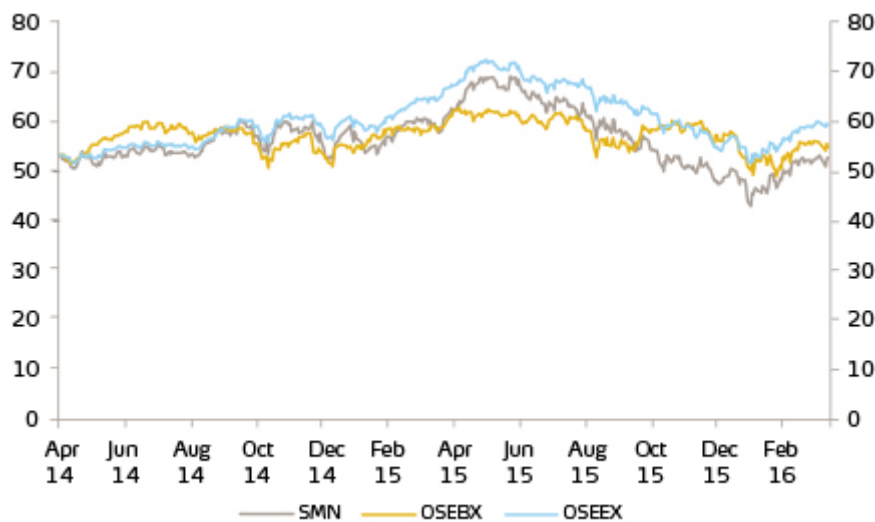
Group (NOKm)	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2014	4Q 2014	3Q 2014	2Q 2014	1Q 2014
Profitability									
Return on equity per quarter	8.9%	8.4%	7.4%	13.4%	14.1%	12.1%	14.8%	16.0%	17.7%
Cost-income ratio	47 %	54 %	56 %	47 %	44 %	51 %	43 %	43 %	42 %
Balance sheet figures									
Gross loans to customers	95,331	93,974	94,917	94,179	92,311	90,578	86,724	85,465	79,606
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	129,520	127,378	126,180	124,519	122,933	120,435	116,464	114,819	111,800
Deposits from customers	63,851	64,090	63,620	66,186	60,589	60,680	58,091	59,402	54,643
Total assets	134,345	131,914	129,237	130,888	123,687	126,047	117,194	118,758	111,609
Average total assets	133,129	130,575	130,063	127,288	124,867	121,620	117,976	115,184	113,485
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt last 12 months	5.4 %	5.8 %	8.3 %	8.4 %	10.0 %	7.3 %	5.4 %	5.1 %	4.4 %
Growth in deposits last 12 months	5.4 %	5.6 %	9.5 %	11.4 %	10.9 %	8.5 %	8.5 %	8.5 %	5.4 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio	0.53 %	0.18 %	0.18 %	0.11 %	0.07 %	0.11 %	0.08 %	0.05 %	0.06 %
Non-performing commitm. as a percentage of gross loans	0.13 %	0.13 %	0.17 %	0.23 %	0.19 %	0.22 %	0.29 %	0.29 %	0.24 %
Other doubtful commitm. as a percentage of gross loans	0.31 %	0.30 %	0.36 %	0.30 %	0.18 %	0.18 %	0.18 %	0.18 %	0.21 %
Solidity									
Common equity tier 1	13.6 %	13.6 %	13.2 %	12.7 %	12.3 %	11.2 %	11.5 %	11.4 %	11.1 %
Core capital ratio	15.6 %	15.6 %	15.2 %	14.6 %	14.3 %	13.0 %	13.4 %	13.3 %	12.9 %
Capital adequacy ratio	18.1 %	18.3 %	17.9 %	17.3 %	17.0 %	15.7 %	16.1 %	15.0 %	14.8 %
Core capital	14,237	13,988	13,451	13,142	12,713	12,382	12,302	11,635	11,303
Net equity and related capital	16,516	16,378	15,886	15,577	15,147	14,937	14,826	13,164	12,893
Key figures ECC *)									
ECC share price at end of period (NOK)	52.75	50.50	54.00	65.50	59.50	58.50	59.25	54.25	53.75
Number of certificates issued, millions	129.83	129.83	129.83	129.83	129.83	129.83	129.83	129.83	129.83
Booked equity capital per ECC (including dividend)	67.37	67.65	65.52	64.18	61.95	62.04	60.53	58.32	56.39
Profit per ECC, majority	1.49	1.45	1.26	2.13	2.18	1.85	2.19	2.29	2.48
Price-Earnings Ratio	8.83	8.71	10.72	7.70	6.81	7.89	6.75	5.91	5.42
Price-Book Value Ratio	0.78	0.75	0.82	1.02	0.96	0.94	0.98	0.93	0.95

*) The key figures are corrected for issues

Equity capital certificates

Stock price compared with OSEBX and OSEEX

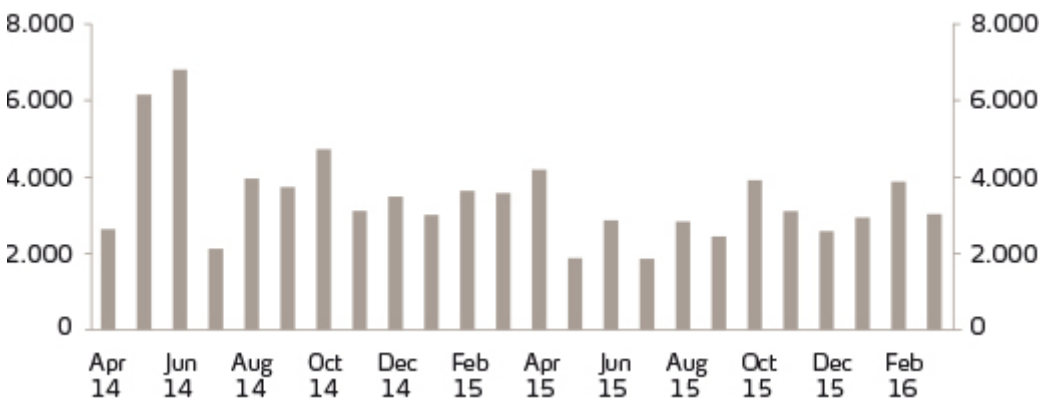
1 April 2014 to 31 March 2016



OSEBX = Oslo Stock Exchange Benchmark Index (rebased)
OSEEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 April 2014 to 31 March 2016



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	4,893,715	3.77 %
Verdipapirfondet DNB Norge (IV)	4,102,743	3.16 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,826,686	2.95 %
State Street Bank and Trust CO (nominee)	3,386,341	2.61 %
VPF Pareto Aksje Norge	2,857,106	2.20 %
VPF Odin Norden	2,771,784	2.13 %
VPF Danske Invest Norske Aksjer Inst. II	2,467,267	1.90 %
Meteva AS	2,359,388	1.82 %
Vind LV AS	1,876,006	1.44 %
Pareto AS	1,821,202	1.40 %
MP Pensjon PK	1,792,160	1.38 %
Forsvarets Personellservice	1,717,046	1.32 %
The Bank of New York Mellon (nominee)	1,514,192	1.17 %
JP Morgan Chase Bank (nominee)	1,511,137	1.16 %
DNB Bank ASA	1,435,000	1.11 %
DNB Livsforsikring AS	1,433,340	1.10 %
VPF Nordea Kapital	1,383,148	1.07 %
State Street Bank and Trust CO (nominee)	1,328,788	1.02 %
JP Morgan Chase Bank (nominee)	1,316,527	1.01 %
The 20 largest ECC holders in total	47,758,967	36.78 %
Others	82,077,476	63.22 %
Total issued ECCs	129,836,443	100.00 %

Dividend policy

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

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

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

Auditor's report

Deloitte.

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Translation from the original Norwegian version

To the Board of Directors of SpareBank 1 SMN

**Report on Review of Interim Financial Information of SpareBank 1 SMN
as of March 31 2016**

We have reviewed the accompanying balance sheet of the parent company and the group as of March 31 2016 for SpareBank 1 SMN and the related statements of income for the parent company and the group, changes in equity and cash flows for the three month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34, as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

We have conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view of the financial position of the entity as at March 31 2016, and of its financial performance and its cash flows for the three month period then ended in accordance with International Accounting Standard 34, as adopted by the EU.

Trondheim, 29 March 2016
Deloitte AS

Mette Estenstad (Signed)
State Authorised Public Accountant (Norway)

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