

Third Quarter Report 2016



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Main figures

	January-September					
	2016		2015		2015	
From the income statement	NOKm	% ¹⁾	NOKm	% ¹⁾	NOKm	% ¹⁾
Net interest	1,391	1.36	1,399	1.46	1,872	1.46
Net commission income and other income	1,260	1.23	1,168	1.22	1,545	1.20
Net return on financial investments	717	0.70	350	0.37	459	0.36
Total income	3,368	3.28	2,917	3.05	3,876	3.02
Total operating expenses	1,521	1.48	1,416	1.48	1,931	1.50
Results before losses	1,847	1.80	1,501	1.57	1,945	1.52
Loss on loans, guarantees etc	417	0.41	112	0.12	169	0.13
Results before tax	1,430	1.39	1,389	1.45	1,776	1.38
Tax charge	242	0.24	270	0.28	370	0.29
Result investment held for sale, after tax	-3	0.00	-1	0.00	-1	0.00
Net profit	1,185	1.15	1,119	1.17	1,406	1.10

Key figures	30 Sept 2016	30 Sept 2015	31 Dec 2015
Profitability			
Return on equity ²⁾	11.0 %	11.5 %	10.7 %
Cost-income ratio ³⁾	45 %	49 %	50 %
Balance sheet figures			
Gross loans to customers	99,569	94,917	93,974
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	134,462	126,180	127,378
Deposits from customers	66,290	63,620	64,090
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	67 %	67 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt	49 %	50 %	50 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt)	6.6 %	8.3 %	5.8 %
Growth in deposits last 12 months	4.2 %	9.5 %	5.6 %
Average total assets	136,805	127,465	128,355
Total assets	139,815	129,237	131,914
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt			
Impairment losses ratio	0.42 %	0.12 %	0.14 %
Non-performing commitm. as a percentage of gross loans ⁴⁾	0.16 %	0.17 %	0.16 %
Other doubtful commitm. as a percentage of gross loans ⁴⁾	1.01 %	0.36 %	0.31 %
Solidity			
Capital adequacy ratio	18.8 %	17.9 %	18.3 %
Core capital ratio	16.3 %	15.2 %	15.6 %
Common equity tier 1 ratio	14.3 %	13.2 %	13.6 %
Core capital	14,736	13,451	13,988
Net equity and related capital	17,011	15,886	16,378
Liquidity Coverage Ratio (LCR)	138 %	76 %	118 %
Branches and staff			
Number of branches	49	49	49
No. Of full-time positions	1,205	1,228	1,208

¹⁾ Calculated as a percentage of average total assets

²⁾ Net profit as a percentage of average equity

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

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

Key figures ECC ⁵⁾	30 Sept 2016	30 Sept 2015	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 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)	55.75	54.00	50.50	58.50	55.00	34.80
Stock value (NOKM)	7,238	7,011	6,556	7,595	7,141	4,518
Booked equity capital per ECC (including dividend)	71.17	65.52	67.65	62.04	55.69	50.09
Profit per ECC, majority	5.70	5.57	7.02	8.82	6.92	5.21
Dividend per ECC			2.25	2.25	1.75	1.50
Price-Earnings Ratio	7.33	7.27	7.19	6.63	7.95	6.68
Price-Book Value Ratio	0.78	0.82	0.75	0.94	0.99	0.69

⁵⁾ The key figures are corrected for issues

Report of the Board of Directors

First nine months 2016

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

- Pre-tax profit: NOK 1,430m (1,389m)
- Post-tax profit: NOK 1,185m (1,119m)
- Return on equity: 11.0 per cent (11.5 per cent)
- Growth in lending 6.6 per cent (8.3 per cent) and in deposits 4.2 per cent (9.5 per cent), in past 12 months
- Loan losses: NOK 417m (112m)
- CET1 capital ratio: 14.3 per cent (13.2 per cent)
- Earnings per equity certificate (EC): NOK 5.70 (5.57 NOK)

Third quarter 2016

- Pre-tax profit: NOK 500m (309m)
- Post-tax profit: NOK 414m (248m)
- Return on equity: 11.3 per cent (7.4 per cent)
- Loan losses: NOK 130m (56m)
- Earnings per equity certificate (EC): NOK 2.00 (1.26 NOK)

Good profit performance for first nine months of 2016

Main points:

- Good profit performance
- Increased loan losses reduce profit compared with 2015
- Good profits at associates and high return on financial assets
- Strengthened financial position
- High customer influx and strong growth in home mortgage lending

In the first nine months of 2016 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,430m (1,389m). Net profit was NOK 1,185m (1,119m) and return on equity was 11.0 per cent (11.5 per cent).

The pre-tax profit in the third quarter was NOK 500m (309m). Return on equity in the quarter was 11.3 per cent (7.4 per cent).

Overall operating revenues for the first nine months come to NOK 2,651m (2,567m), an increase of NOK 84m compared with the same period of 2015.

Return on financial investments was NOK 717m (350m), of which income from owner interests in associates and joint ventures accounted for NOK 349m (327m) in the first nine months.

Net losses on loans and guarantees came to NOK 417m (112m). The losses break down to NOK 402m on individually assessed write-downs and NOK 15m on collectively assessed write-downs. The losses are

attributed in all essentials to the restructuring of the bank's exposure to the oil/offshore industry. There is no significant change in expected credit losses for 2016.

At end-September 12-month lending growth was 6.6 per cent (8.3 per cent) and deposit growth was 4.2 per cent (9.5 per cent). In the first nine months lending rose by 5.6 per cent (4.8 per cent) and deposits by 3.4 per cent (4.8 per cent).

At the end of the first nine months of 2016 the CET1 ratio was 14.3 per cent (13.2 per cent). CET1 capital adequacy has strengthened by 1.1 percentage point in the 12 months to end-September.

SpareBank 1 SMN plans for a CET1 ratio of 14.5 per cent by 31 December 2016. The capital plan is further described in the section on financial position.

The market price of the bank's EC at end-September was NOK 55.75 (50.50 at end-2015).

Earnings per EC in the first nine months were NOK 5.70 (5.57). The book value per EC was NOK 71.17 (65.52). Earnings per EC in the third quarter were NOK 2.00 (NOK 1.26)

Net interest income

Net interest income came to NOK 1,391m (1,399m) in the first nine months of 2016. Net interest income has been relatively stable quarter-on-quarter in 2015 and 2016, but shows substantial gross movements:

- Increased lending to and deposits from retail and corporate customers
- Increased margins on deposits
- Reduced home mortgage lending margins
- In the third quarter in isolation net interest income was reduced by NOK 12m as a result of reversed interest income on doubtful exposures

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies in the first nine months of 2016 totalled NOK 219m (253m).

Competition in the home mortgage market is strong, and margins on these loans have fallen by 80 points over the last two years. In the same period deposit rates to retail and corporate customers have been lowered, so that increased deposit margins are compensating for some of the margin lapse on home mortgages. In addition, an increase in interbank rates has raised the bank's funding costs.

Increased commission income

Commission and other operating income rose to NOK 1,260m (1,168m) in the first nine months of 2016, an increase of NOK 93m from last year corresponding to 8 per cent.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was reduced by NOK 35m due to reduced margins on loans sold to SpareBank 1 Boligkreditt. A positive development is seen in other commission income. The overall increase of NOK 128m in other commission income is ascribable to increased income from capital market activities, real estate agency and accounting services. In addition, positive growth is noted in the other income types as a result of good sales of other financial products.

Commission income (NOKm)	January-September		
	2016	2015	Change
Payment transfers	149	143	6
Creditcard	46	42	5
Saving products	66	58	9
Insurance	119	114	5
Guarantee commission	60	52	8
Real estate agency	301	262	39
Accountancy services	161	143	18
Markets	86	43	43
Other commissions	54	58	-4
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,042	914	128
Commissions SB1 Boligkreditt	211	247	-36
Commissions SB1 Næringskreditt	8	7	1
Total commissions	1,260	1,168	93

Financial investments

Overall return on financial investments (excluding the share of the profit/loss of associates and joint ventures) was NOK 368m (24m). This breaks down as follows:

- Return and dividend on the group's equity portfolios totalled NOK 110m (79m). Of the amount of NOK 110m, NOK 82m refers to the sale of Visa Europa to Visa Inc.
- Capital gains on bonds and derivatives came to NOK 158m (loss of 73m)
- Income on forex and fixed income transactions was NOK 99m (82m)

Capital gains/dividends, shares (NOKm)	January-September		
	2016	2015	Change
Capital gains/dividends, shares	110	79	31
Bonds and derivatives	158	-73	232
Change in discount factor in fair value model for fixed interest loans	-	-64	64
Income on forex and fixed income	99	82	17
Net return on financial investments	368	24	344
SpareBank 1 Gruppen	220	183	37
SpareBank 1 Boligkreditt	9	65	-55
SpareBank 1 Næringskreditt	20	22	-2
SpareBank 1 Kredittkort	20	15	5
BN Bank	79	31	48
Companies owned by SpareBank 1 SMN Invest	19	13	6
SpareBank 1 Mobilbetaling	-19	-	-19
Other companies	-0	-2	1
Income from investment in related companies	349	327	22
Total	717	351	366

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for the first nine months of 2016 was NOK 1,094m (939m). The main contributor to the profit was the insurance arm. SpareBank 1 SMN's share of the profit for the first nine months of 2016 was NOK 220m (183m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to draw benefit from the market for covered bonds. By selling their best secured home mortgage loans to the company, the banks achieve reduced funding costs and better access to funding of these loans. As at 30 September 2016 the bank had sold loans worth NOK 32.9bn (29.9bn) to SpareBank 1 Boligkreditt, corresponding to 38 per cent (38 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 nine months of 2016 was NOK 9m (65m). The result in the third quarter in isolation was impaired by losses on the company's basis swaps. For SpareBank 1 SMN the effect of the basis swaps amounted to NOK 28m in the third quarter. The stake reflects the bank's relative share of the company's balance sheet.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines as SpareBank 1 Boligkreditt. As at 30 September 2016, loans worth NOK 2.0bn (1.4bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 34.1 per cent, and the bank's share of the company's profit in the first nine months of 2016 was NOK 20m (22m). 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, 82 per cent have been transferred from BN Bank.

SpareBank 1 Kredittkort

Profit for the first nine months of 2016 was NOK 110m (83m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 18.3 per cent. SpareBank 1 SMN's share of the first nine months' profit was NOK 20m (15m). The bank's share of the portfolio is NOK 840m (773m).

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank. BN Bank recorded a profit of NOK 239m (93m) in the third quarter of 2016. SpareBank 1 SMN's share of the profit of BN Bank was NOK 79m (31m). Return on equity was 9.0 per cent (5.8 per cent). The profit growth is largely due to repricing of the corporate banking portfolio.

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 consisting of lending to low-risk commercial property. BN Bank's new strategy is to cultivate the retail banking business.

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 nine months of 2016 the corporate portfolio had been reduced by NOK 14.3bn or 45 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 SpareBank 1 SMN's CET1 capital adequacy by 0.5 percentage point.

SpareBank 1 Mobilbetaling (mCASH)

SpareBank 1 Mobilbetaling is SpareBank 1's project to strengthen the SpareBank 1 banks' position on new mobile interfaces through 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, along with associations. At the end of the quarter more than 4,300 associations and 7,500 payment locations have taken mCASH into use as a payments solution. Total number of registered users of mCASH is 445,000.

The company recorded a deficit of NOK 95m in the first nine months of 2016 of which SpareBank 1 SMN's share is NOK 19m. The deficit 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 1,521m (1,416m) in the first nine months of 2016. Of the increase of NOK 105m, NOK 59m is ascribable to SpareBank 1 Markets' consolidation as a subsidiary as from the second quarter of 2015.

Parent bank costs rose by NOK 8m to NOK 898m. Wide-ranging efficiency improvement measures have been initiated at the bank. Since 31 December 2014 the number of FTEs at the parent bank has been reduced from 720 to 637. The bank aims for zero growth in costs in the period 2014 to 2016. Changing customer behaviour and new technology will set the stage for increased efficiency in the period ahead.

The development in the bank's costs is also related to changes at SpareBank 1 Markets. As from the second quarter of 2015 the capital market business at SpareBank 1 SMN was transferred to SpareBank 1 Markets, and the parent bank's operating expenses in the first half of 2015 include NOK 14m related to capital market activity at SpareBank 1 SMN.

In addition, NOK 14m was set aside in the second quarter for increased reorganisation costs related to severance agreements entered into in connection with planned downstaffing in 2016.

The Group cost-income ratio was 45 per cent (49 per cent).

The bank's board of directors has decided to wind down the defined benefit pension plan and has introduced new rates for defined contribution pensions. This, together with a number of other measures, is not expected to result in higher operating expenses. Employees in the defined benefit plan will switch to defined contribution pension as from 1 January 2017. This will bring a reduction in the pension liability which will result in a one-time gain estimated NOK 85m for the parent bank and NOK 91m for the group in the accounts for the fourth quarter.

Loan losses in offshore segment but otherwise low defaults

Net losses on loans and guarantees totalled NOK 417m (112m) in the first nine months of 2016 of which NOK 15m (31m) is increased collectively assessed impairment write-downs. Net losses in the third quarter in isolation were NOK 130m (56m).

A net loss of NOK 401m was recorded on loans to corporates in the first nine months of 2016. Of this increase, NOK 342 refers to four exposures in the offshore segment. A net loss of NOK 16m was recorded on the retail banking portfolio in the first nine months of 2016.

Individually assessed write-downs on loans and guarantees in the first nine months of 2016 totalled NOK 562m (192m), an increase of NOK 370m over the last 12 months.

Total problem loans (defaulted and doubtful) came to NOK 1,581m (667m), or 1.18 per cent (0.53 per cent) of gross loans including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 221m (218m), measuring 0.16 per cent (0.17 per cent) of gross lending. Of the overall default volume, NOK 35m (29m) is loss provisioned corresponding to 16 per cent (13 per cent).

Defaults break down to NOK 44m (50m) on corporates and NOK 177m (169m) on retail borrowers.

Other doubtful exposures totalled NOK 1,360m (448m), i.e. 1.01 per cent (0.36 per cent) of gross loans. Individually assessed write-downs on these exposures came to NOK 526m (164m) corresponding to a share of 39 per cent (37 per cent).

Other doubtful exposures break down to NOK 1,344m (431m) on corporates and NOK 26m (17m) on retail borrowers.

At end-September 2016 collectively assessed write-downs related to the offshore portfolio is 8.1 per cent. The exposure in offshore has been reduced by 1.1 billion during the last 12 months.

The whole of this industry is now undergoing restructuring. The process is challenging as the companies have a debt structure which includes several banks with separate loan facilities and bond debt. The suggested solutions entails new equity capital, forbearance and renegotiated or converted bond debt. Thus far this work has provided good results. The solutions now being established for individual businesses can be expected to be of a lasting nature, load balanced between the financial institutions and to curb the bank's risk. The bank has not observed impacts to other industries at end-September 2016.

In SpareBank 1 SMN's assessment there is no basis for revising the loss estimates of around NOK 500m for the current year that were announced at the first quarter presentation.

Collectively assessed impairment write-downs

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

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

Collectively assessed impairment write-downs were increased by NOK 150m in the first quarter. This was done on the basis that an increased probability of default and reduction in ship values entail a greater likelihood of loss in oil related activity due to a challenging market situation. An increase in individually assessed impairment write-downs in the second and third quarter of 2016 related to this sector provided a basis for reducing the provision for collectively assessed write-downs, and the write-downs were reduced by NOK 110m in the second quarter and NOK 25m in the third quarter.

Overall collectively assessed loss write-downs accordingly come to NOK 391m (326m), measuring 0.29 per cent (0.26 per cent) of total loans. Collectively assessed write-downs break down to NOK 98m on retail exposures and NOK 293m on corporates. Of the provision of NOK 293m on the corporate portfolio, the provision related to oil-related activity accounts for NOK 115m. The remaining collectively assessed write-downs of NOK 178m on the corporate portfolio are fairly evenly spread across other sectors.

Total assets of NOK 140bn

The Group's assets totalled NOK 139.8bn at 30 September 2016 (129.2bn), having risen by NOK 10.6bn or 8.2 per cent over the preceding 12 months.

As at end-September 2016 home mortgage loans worth a total of 34.9bn (31.3bn) had been sold by SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in home mortgage lending, virtually zero growth in lending to corporates over the last 12 months

(For distribution by sector, see note 5 and note 9).

In the 12 months to end-September total outstanding loans rose by NOK 8.3bn (9.7bn) or 6.6 per cent (8.3 per cent) to reach NOK 134.5bn (126.2bn). Growth in 2016 has been 5.6 per cent (4.8 per cent).

Loans to retail borrowers rose by NOK 8.5bn (6.3bn) to reach NOK 87.4bn in the last 12 months, equivalent to growth of 10.8 per cent (8.7 per cent). Growth so far in 2016 has been 8.3 per cent (6.4 per cent).

Growth in lending to corporates in the last 12 months was reduced by NOK 0.2bn (growth of NOK 3.4bn) corresponding to minus 0.5 per cent (growth of 7.8 per cent). Overall lending to corporates was NOK 47.1bn in the first nine months of 2016. Lending to corporates has risen by 0.9 per cent (2.1 per cent) in 2016.

Loans to retail borrowers accounted for 65 per cent (63 per cent) of lending to customers as at end-September 2016.

Deposits

Customer deposits rose by NOK 2.7bn (5.5bn) over the last 12 months to reach NOK 66.3bn as at 30 September 2016. This represents a growth of 4.2 per cent (9.5 per cent).

Retail deposits rose by NOK 1.5bn (2.1bn) or 5.3 per cent (8.2 per cent) to reach NOK 29.7bn, while corporate deposits rose by NOK 1.2bn (3.4bn) or 3.3 per cent (10.6 per cent) to NOK 36.6bn.

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 8.2bn (7.6bn) at 30 September 2016. New sales and value changes in underlying securities explain the increase in equity funds and active asset management.

Saving products, customer portfolio (NOKm)	January-September		Change
	2016	2015	
Equity funds	4,966	4,819	147
Pension products	679	671	8
Active management	2,518	2,140	378
Total	8,163	7,630	533

Insurance products

The bank's insurance portfolio showed growth of NOK 65m corresponding to 5.5 per cent in the 12 months to end-September. Non-life insurance delivered 2.1 per cent growth, personal insurance 12.1 per cent and occupational service pensions 9.5 per cent.

Insurance, premium volume (NOKm)	January-September		Change
	2016	2015	
Non-life insurance	735	720	15
Personal insurance	296	264	32
Occupational pensions	208	190	18
Total	1,239	1,174	65

Retail Banking

Operating income in the first nine months totalled NOK 1,277m (1,239m) of which net interest income accounted for NOK 713m (709m) and commission income for NOK 513m (530m). Operating income has increased due to increased lending and improved deposit margins along with increased commission income from payments, savings and investment and insurance. At the same time reduced lending margins have in isolation reduced incomes, and overall income fell by NOK 12m. Return on capital employed in the retail banking segment was 13.5 per cent (16.2 per cent). Regulatory capital of 14.5 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio to be attained by 31 December 2016.

The lending margin in the first nine months of 2016 was 1.76 per cent (2.11 per cent), while the deposit margin was 0.24 per cent (minus 0.20 per cent) (measured against three-month NIBOR). The average three-month NIBOR has fallen by 30 basis points since the start of 2015.

In the 12 months to end-September retail lending and retail deposits grew by 10.3 per cent (8.1 per cent) and 4.4 per cent (5.1 per cent) respectively.

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

Corporate Banking

Operating income totalled NOK 889m (874m) in the first nine months of 2016. Net interest income was NOK 731m (729m), while commission income totalled NOK 158m (146m) including NOK 10m (11m) on fixed income and forex business. Operating income in the corporate segment has increased mainly due to increased deposit margins and higher guarantee commissions.

Total losses recorded in the Corporate Banking Division were NOK 398m (100m) of which individually assessed write-downs accounted for NOK 383m and collectively assessed write-downs for NOK 15m. Losses are in all essentials related to the challenges faced in the oil and offshore segment.

Return on capital employed for the corporate banking segment was 4.1 per cent in the first nine months of 2016 (12.9 per cent). Regulatory capital of 14.5 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio to be attained by 31 December 2016.

The lending margin was 2.60 per cent (2.68 per cent) and the deposit margin was minus 0.16 per cent (minus 0.31 per cent) in the first nine months.

Lending was reduced by 2.5 per cent (growth of 7.8 per cent) and deposits by 6.4 per cent (16.2 per cent) in the 12 months to end-September.

Subsidiaries

The subsidiaries posted an overall profit of NOK 220.3m (167.5m) before tax and minority interests.

Pre-tax profit (NOKm)	January-September		
	2016	2015	Change
EiendomsMegler 1 Midt-Norge	59.5	39.5	20.0
SpareBank 1 Finans Midt-Norge	74.9	63.6	11.4
SpareBank 1 Regnskapshuset SMN	32.9	26.0	6.9
Allegro Kapitalforvaltning	5.1	2.1	3.0
SpareBank 1 SMN Invest	36.7	33.0	3.7
Sparebank 1 Markets (from second quarter 2015)	6.0	-62.7	68.6
Other companies	5.3	3.3	2.0
Total	220.3	104.8	115.5

The figures are the respective companies' results. The bank's stake in EiendomsMegler 1 Midt-Norge is 87.0 per cent, in SpareBank 1 Finans Midt-Norge 64.6 per cent, in Allegro 90.1 per cent and in SpareBank 1 Markets 73.5 per cent. The stake in the other companies is 100 per cent.

EiendomsMegler 1 Midt-Norge posted a very good result in the first nine months of 2016. The company leads the field in Trøndelag and in Møre og Romsdal with a market share of 40 per cent, and in Trondheim of about 50 per cent. The company's first nine months' profit of NOK 59.5m (39.5m) is very good and is NOK 20.0m better than in the same period of 2015. Good sales – in particular of new housing projects – explain much of the profit improvement, at the same time as the total number of dwellings sold also showed an increase. The number of dwelling units sold totalled 5,776 in the first nine months of 2016 compared with 5,290 in the same period of 2015.

SpareBank 1 Finans Midt-Norge reported a profit of NOK 74.9m in the first nine months of 2016 (63.6m) and shows positive profit growth due to increased income from car loans in particular. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. Leases account for NOK 2.3bn and car loans for NOK 2.6bn.

Sound growth has been noted – in particular in car loans which show 38 per cent growth over the last 12 months. The Samspar banks in SpareBank 1 hold a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge. Sparebanken Sogn og Fjordane joined as co-owner in January 2016 with a stake of 7.5 per cent, thereby further strengthening the company's distributive power. SpareBank 1 SMN now owns 64.6 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 32.9m (26.0m) for the first nine months of 2016. SpareBank 1 SMN Regnskapshuset SMN has a growth strategy based on the acquisition of small accounting firms. In 2016 the company has acquired three businesses in Sunnmøre which are consolidated into the company at quarter-end.

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

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 5.1m in the first nine months of 2016 (2.1m). The company manages a portfolio worth NOK 6.1bn.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 36.7m (33.0m) in the first nine months of 2016.

Value changes and realisation of losses or gains on the company's overall shareholding represents NOK 20.8m of the company's overall profit. The company has in addition owner interests in the property company Grilstad Marina and its share of that company's profit in the first nine months of 2016 was NOK 19.1m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 73.5 per cent. The company is headquartered in Oslo and has offices in Trondheim and Ålesund. It has a staff of 108.

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

The company's pre-tax profit in the first nine months of 2016 was NOK 6.0m. Results across all the company's business lines have been satisfactory. Underlying operations for these business lines are sound, with a solid customer base.

The company is the leading capital market unit in SpareBank 1 SMN's market area. SpareBank 1 Markets' main focus is on clients where the company is in a strong competitive position alone or in collaboration with its owner banks.

Satisfactory funding and good liquidity

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

The bank has liquidity reserves of NOK 25bn and has the funding needed for 29 months of ordinary operation without fresh external finance.

The Ministry of Finance requires all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead in time given a stressed situation.

The LCR was relatively high at quarter-end and is calculated at 138 per cent as at 30 September 2016.

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

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 85 per cent (88 per cent).

Rating

SpareBank 1 SMN has a rating of A1 (stable outlook) with Moody's and a rating of A- (stable outlook) with Fitch Ratings.

Financial position

The CET1 capital ratio at 30 September 2016 was 14.3 per cent (13.2 per cent). The change over the last 12 months is ascribable to:

- An increase of NOK 1.2bn, or 10.4 per cent, in CET1 capital over the last 12 months. This is in all essentials retained profit.
- Overall capital needs have risen by NOK 141m corresponding to 2.0 per cent over the last 12 months. The low growth in need for capital is largely because growth has been in the area of home mortgage lending rather than in lending to corporates. Reduced lending to commercial property at BN Bank has also made a positive contribution to the low growth in the need for capital. A change in the composition of lending has brought a higher capital requirement related to the Basel floor transitional rule, and this represents 10 per cent of the group's overall capital requirement.

As at 30 September 2016 the regulatory requirement on CET1 capital is 11.5 per cent, including combined buffer requirements. The countercyclical buffer was raised to 1.5 per cent on 30 June 2016.

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

SpareBank 1 SMN aims to achieve a CET1 target of at least 14.5 per cent by 31 December 2016.

The board of directors of SpareBank 1 SMN assumes and expects that carrying through the bank's capital plan will ensure that the bank attains the capital levels expected by the market and set by the authorities without need of 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 of the commercial property portfolio of BN Bank. By the end of the third quarter of 2016 the portfolio had been reduced by 45 per cent since 30 June 2015.

The bank has received a letter from Finanstilsynet (Norway's FSA) giving an assessment of risks that are not adequately covered by Pillar 1. Finanstilsynet's assessment provides for an add-on of 2.3 per cent mainly related to owner risk, market risk and credit concentration risk. The directors' assessment is that this add-on is higher than the underlying conditions in the bank warrant. However, this has no impact on the directors' CET1 capital target of 14.5 per cent. The bank will deliver its reply by 1 November 2016. .

The bank's equity certificate (MING)

The book value of the bank's EC at quarter-end was NOK 71.17 (65.52), and earnings per EC were NOK 5.70 (5.57). As at 30 September 2016 the EC was priced at NOK 55.75 (NOK 50.50 at 31 December 2015). Dividend of NOK 2.25 per EC has been paid in 2016 for the year 2015.

The Price / Income ratio was 7.33 (7.27) and the Price / Book ratio was 0.78 (0.82).

Risk factors

The challenges in the offshore industry entail a high level of losses and problem loans. The increase in individually assessed write-downs and collectively assessed write-downs is in all essentials ascribable to customers in this market segment. The bank sees little evidence of contagion effects to the rest of the loan portfolio. Credit quality in the rest of the portfolio is satisfactory, and loss and default levels in other portfolios are low.

The bank expects a continued low rate of GDP growth as a result of declining oil investment. The Norwegian krone has appreciated, thereby reducing some of the positive impact enjoyed by export industries, and will partially offset some of these effects. The bank expects moderate growth in credit demand from mid-Norway's business sector ahead as a result of the continued low level of investment.

The bank expects a slight increase in unemployment, but that unemployment will remain relatively low, and, given continued low interest rates, the bank considers that the risk of loss in the bank's retail banking portfolio will remain low.

Credit demand from Norwegian households remains higher than wage growth and will be heavily affected by the trend in house prices. 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

SpareBank 1 SMN is on a satisfactory trend. The board of directors highlight good profit performances at subsidiaries and associates.

Strong growth in home mortgage lending confirms that the bank is strengthening its solid market position among retail customers. More and more small and medium-sized businesses are opting to become customers of SpareBank 1 SMN. The competitive situation for lending to commercial property is demanding. Norwegian and foreign banks price differently as a result of differing regulatory requirements. This dampens an otherwise positive margin trend in the corporate area.

The work on restructuring businesses in the oils and offshore segment receives much attention. Impairment write-downs in this segment total NOK 509m, of which NOK 356m in 2016. The directors assume that challenges in this segment will continue and expect losses of around NOK 500m for the year as a whole.

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

The directors are pleased that the CET1 capital ratio has strengthened to 14.3 per cent. The group's target of a CET1 ratio of 14.5 per cent by 31 December 2016 is expected to be achieved.

2016 is expected to be a good year for SpareBank 1 SMN.

Trondheim, 23. October 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					
January-September					January-September						
2015	3Q 15	3Q 16	2015	2016	(NOKm)	Note	2016	2015	3Q 16	3Q 15	2015
3,865	962	826	2,949	2,539	Interest income		2,680	3,069	874	1,058	4,031
2,161	538	426	1,671	1,292	Interest expenses		1,289	1,670	425	593	2,159
1,703	423	400	1,277	1,248	Net interest	10	1,391	1,399	449	466	1,872
1,005	256	252	749	734	Commission income		952	936	326	317	1,245
103	28	22	75	63	Commission expenses		99	97	34	38	135
220	8	9	210	26	Other operating income		407	329	120	99	435
1,123	237	239	884	697	Commission income and other income		1,260	1,168	412	378	1,545
471	4	13	470	593	Dividends		87	23	13	0	25
-	-	-	-	-	Income from investment in related companies	3	349	327	103	78	448
-125	-85	80	-92	143	Net return on financial investments	3	281	1	157	-91	-14
346	-81	93	378	736	Net return on financial investments		717	350	274	-13	459
3,172	579	732	2,540	2,680	Total income		3,368	2,917	1,134	831	3,876
588	140	139	441	439	Staff costs		908	814	294	264	1,093
629	144	156	450	459	Other operating expenses		613	602	210	203	838
1,217	284	294	890	898	Total operating expenses	11	1,521	1,416	504	466	1,931
1,955	295	438	1,650	1,783	Result before losses		1,847	1,501	630	364	1,945
159	54	127	106	408	Loss on loans, guarantees etc.	2,6,7	417	112	130	56	169
1,796	242	311	1,544	1,375	Result before tax	3	1,430	1,389	500	309	1,776
325	65	70	250	196	Tax charge		242	270	85	61	370
-	-	-	-	-	Result investment held for sale, after tax	2, 3	-3	-1	-1	0	-1
1,471	177	241	1,294	1,179	Net profit		1,185	1,119	414	248	1,406
					Attributable to:						
					Equity holders of parent company		1,158	1,119	405	253	1,410
					Equity holders of non-controlling interests		27	0	9	-5	-4
					Profit per ECC		5.84	5.57	2.04	1.23	7.00
					Diluted profit per ECC		5.70	5.57	2.00	1.26	7.02

Other comprehensive income

Parent bank					(NOKm)	Group				
2015	3Q 15	3Q 16	2015	2016		2016	2015	3Q 16	3Q 15	2015
January-September						January-September				
1,471	177	241	1,294	1,179	Net profit	1,185	1,119	414	248	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	-19	35	4	6	36
82	-	-	-	-	Total	-19	35	4	6	123
					Items that will be reclassified to profit/loss					
75	-	-	-	-52	Available-for-sale financial assets	-52	-	-	-	78
-	-	-	-	-	Share of other comprehensive income of associates and joint venture	-15	0	1	-1	1
-1	-	-	-	-	Tax	-	-	-	-	-1
74	-	-	-	-52	Total	-67	0	1	-1	78
1,627	177	241	1,294	1,127	Total other comprehensive income	1,099	1,154	420	253	1,607
					Attributable to:					
					Equity holders of parent company	1,072	1,154	411	258	1,611
					Equity holders of non-controlling interests	27	0	9	-5	-4

Other comprehensive income comprise items reflected directly in equity capital that are not transactions with owners, cf. IAS 1.

Balance sheet

Parent bank				Note	Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016			30 Sept 2016	30 Sept 2015	31 Dec 2015
			(NOKm)				
3,270	1,252	1,080	Cash and receivables from central banks		1,080	1,252	3,270
5,883	6,122	10,755	Deposits with and loans to credit institutions		6,652	2,807	2,407
89,596	90,673	94,108	Net loans to and receivables from customers	5	98,619	94,400	93,415
15,752	14,430	16,977	Fixed-income CDs and bonds	15	16,898	14,430	15,752
7,606	7,580	5,536	Derivatives	15	5,489	7,513	7,524
337	254	235	Shares, units and other equity interests	2,15	1,253	1,221	1,485
3,624	3,366	3,669	Investment in related companies		5,649	5,189	5,522
2,927	2,853	3,005	Investment in group companies		-	-	-
222	222	330	Investment held for sale	2	217	15	16
466	466	475	Goodwill		628	552	562
411	272	1,556	Other assets	12	3,331	1,859	1,962
130,095	127,490	137,726	Total assets		139,815	129,237	131,914
8,155	8,324	10,491	Deposits from credit institutions		10,591	8,324	8,155
65,091	64,276	67,387	Deposits from and debt to customers	9	66,290	63,620	64,090
35,154	33,557	37,124	Debt created by issue of securities	14	37,124	33,557	35,154
5,366	5,523	5,016	Derivatives	15	5,004	5,486	5,414
868	691	1,409	Other liabilities	13	2,353	1,342	1,734
-	-	-	Investment held for sale	2	11	0	0
3,463	3,453	3,507	Subordinated loan capital	14	3,550	3,453	3,463
118,097	115,824	124,933	Total liabilities		124,922	115,782	118,010
2,597	2,597	2,597	Equity capital certificates		2,597	2,597	2,597
-0	-0	-0	Own holding of ECCs		-2	-0	-21
895	895	895	Premium fund		895	895	895
3,790	3,122	3,790	Dividend equalisation fund		3,791	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	221	Unrealised gains reserve		233	148	290
-	-	5	Other equity capital		1,679	1,660	1,597
-	1,294	1,179	Profit for the period		1,185	1,119	-
			Non-controlling interests		411	295	318
11,998	11,666	12,792	Total equity capital		14,893	13,455	13,904
130,095	127,490	137,726	Total liabilities and equity		139,815	129,237	131,914

Cash flow statement

Parent bank				Group		
January-September				January-September		
2015	2015	2016	(NOKm)	2016	2015	2015
1,471	1,294	1,179	Net profit	1,185	1,119	1,406
70	31	31	Depreciations and write-downs on fixed assets	73	79	104
159	106	408	Losses on loans and guarantees	417	112	169
1,700	1,430	1,618	Net cash increase from ordinary operations	1,675	1,310	1,678
224	384	915	Decrease/(increase) other receivables	560	-62	-190
-782	-884	190	Increase/(decrease) short term debt	220	-520	-112
-3,277	-4,301	-4,920	Decrease/(increase) loans to customers	-5,621	-4,402	-3,472
-1,520	-1,758	-4,871	Decrease/(increase) loans credit institutions	-4,245	-1,518	-1,118
3,889	3,074	2,296	Increase/(decrease) deposits to customers	2,200	2,940	3,410
-968	-799	2,336	Increase/(decrease) debt to credit institutions	2,436	-799	-968
-1,575	-253	-1,225	Increase/(decrease) in short term investments	-1,146	-253	-1,575
-2,311	-3,106	-3,661	A) Net cash flow from operations	-3,921	-3,303	-2,349
-61	-17	-30	Increase in tangible fixed assets	-33	-28	-50
-821	-489	-230	Paid-up capital, associated companies	-213	6	-98
-6	2	50	Net investments in long-term shares and partnerships	253	-285	-702
-887	-504	-211	B) Net cash flow from investments	7	-307	-849
93	82	44	Increase/(decrease) in subordinated loan capital	86	82	93
-1	-0	0	Increase/(decrease) in equity	0	-0	-1
-292	-292	-292	Dividend cleared	-292	-292	-292
-160	-160	-40	To be disbursed from gift fund	-40	-160	-160
2,153	556	1,970	Increase/(decrease) in other long term loans	1,970	556	2,153
1,792	186	1,682	C) Net cash flow from financial activities	1,724	186	1,792
-1,405	-3,424	-2,190	A) + B) + C) Net changes in cash and cash equivalents	-2,190	-3,424	-1,405
4,676	4,676	3,270	Cash and cash equivalents at 1.1	3,270	4,676	4,676
3,270	1,252	1,080	Cash and cash equivalents at end of quarter	1,080	1,252	3,270
-1,405	-3,424	-2,190	Net changes in cash and cash equivalents	-2,190	-3,424	-1,405

Change in equity

Parent Bank	Issued equity		Earned equity						
(NOKm)	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	-	-	-	-	-	-	-	1,179	1,179
Other comprehensive income									
Available-for-sale financial assets	-	-	-	-	-	-	-57	5	-52
Other comprehensive income	-	-	-	-	-	-	-57	5	-52
Total other comprehensive income	-	-	-	-	-	-	-57	1,184	1,127
Transactions with owners									
Dividend declared for 2015	-	-	-	-	-292	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-40
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Total transactions with owners	0	-	-	0	-292	-40	-	-	-332
Equity at 30 September 2016	2,597	895	4,105	3,790	-	-	221	1,184	12,792

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

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

(NOKm)	Attributable to parent company equity holders									
	Issued equity		Earned equity							
	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend	Gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2016	2,576	895	4,105	3,790	292	40	290	1,597	318	13,904
Net profit	-	-	-	-	-	-	-	1,158	27	1,185
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-34	-	-34
Available-for-sale financial assets	-	-	-	-	-	-	-57	5	-	-52
Other comprehensive income	-	-	-	-	-	-	-57	-29	-	-86
Total other comprehensive income	-	-	-	-	-	-	-57	1,129	27	1,099
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	-	-	-	-	-	-	-	4	-	4
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	136	-	136
Own ECC held by SB1 Markets ^{*)}	19	-	-	0	-	-	-	-2	-	17
Change in non-controlling interests	-	-	-	-	-	-	-	-	66	66
Total transactions with owners	19	-	-	0	-292	-40	-	138	66	-109
Equity at 30 September 2016	2,595	895	4,105	3,791	-	-	233	2,864	411	14,893

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

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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 preparing the group accounts, the management team employs estimates and discretionary assessments and makes assumptions that impact on the effect of the accounting policies that are applied. This will accordingly influence amounts recognised for assets, liabilities, incomes and expenses. Note 3 - Critical estimates and assessments concerning the use of accounting principles- in last year's annual accounts gives an account of important estimates and assumptions.

Pensions

SpareBank 1 SMN has two types of pension agreement – defined benefit and defined contribution. For further details of the two types of pension plans, see note 25 in the 2015 annual report.

The group's pension liabilities are accounted for under IAS 19R. Variance from estimates is therefore entered directly against equity capital and presented under other incomes and expenses.

The decision to terminate the defined benefit pension plan was taken at a board meeting on 21 October 2016. Employees in the defined benefit pension plan will switch to a defined contribution pension plan as from 1 January 2017. This will entail a reduction in the pension liability resulting in a one-time gain estimated to NOK 85 million for the parent bank and NOK 91 million for the group in the fourth quarter accounts. Updated assumptions for calculating the liability will have the opposite effect on the liability with NOK 54 million for the parent bank and NOK 59 million for the group. Both these effects will be included in the accounts for the fourth quarter.

Companies held for sale

SpareBank 1 SMN's strategy is that ownership resulting from exposure defaults should in principle be of short duration, normally no longer than one year. Investments are recognised at fair value in the parent bank's accounts, and are classified as held for sale.

Assets and debt related to the company Brannstasjon SMN AS are classified as held for sale from the first quarter of 2016 based on the group management team's and board of directors' go-ahead for the sale of the company, and the fact that the process has reached the stage where it is highly likely that the sale will be completed within 12 months. Brannstasjon SMN AS was founded in 2012 after SMN's purchase of Kongensgt 2 which was formerly a fire station. The purpose of the purchase was to develop the property for SMN's own use since there was a need for additional space at that point, driven by a strategy for growth and the establishment of a credit card company as well as a need to integrate SMN Regnskapshuset in the bank's head office. In retrospect it turns out that the need for more space was redundant due to the substantial efficiency gains provided by digitalisation in the longer term. The shares of Brannstasjon SMN AS, of which the property with cadastral number 401 BNR 383 ("Brannstasjon") was the main asset, were transferred to Aberdeen Eiendomsfond Norge I AS with effect from 1 October 2016. Disposal of the shares will entail a gain of NOK 7 million for the Group which will be recognised in the fourth quarter of 2016.

2016 Q3 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit/Loss	Ownership
Mavi XV AS group	13	0	1	-2	-1	100 %
Brannstasjon SMN AS	204	11	1	-3	-2	100 %
Total held for sale	217	11	2	-5	-3	-

Note 3 - Account by business line

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

Group 30 September 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	679	703	-7	3	135	0	-	-	-123	1,391
Interest from allocated capital	34	28	-	-	-	-	-	-	-61	-
Total interest income	713	731	-7	3	135	0	-	-	-184	1,391
Commission income and other income	513	148	153	327	-9	172	-	-	-45	1,260
Net return on financial investments ^{**})	0	10	59	-	-	-	220	79	346	713
Total income	1,227	889	205	330	126	172	220	79	117	3,365
Total operating expenses	602	264	195	271	43	139	-	-	7	1,521
Ordinary operating profit	625	625	10	59	83	33	220	79	109	1,844
Loss on loans, guarantees etc.	10	398	4	-	9	-	-	-	-3	417
Result before tax including held for sale	615	227	6	59	75	33	220	79	113	1,427
Post-tax return on equity ^{*)}	13.5 %	4.1 %								11.0 %
Balance (NOKm)										
Loans and advances to customers	91,655	38,312	-	-	5,170	-	-	-	-676	134,462
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-33,021	-1,872	-	-	-	-	-	-	0	-34,893
Individual allowance for impairment on loan	-24	-522	-	-	-10	-	-	-	-2	-558
Group allowance for impairment on loan	-95	-279	-	-	-18	-	-	-	1	-391
Other assets	203	47	1,636	323	9	213	1,590	1,181	35,995	41,196
Total assets	58,718	35,686	1,636	323	5,151	213	1,590	1,181	35,317	139,815
Deposits to customers	34,911	31,441	-	-	-	-	-	-	-63	66,290
Other liabilities and equity	23,807	4,245	1,636	323	5,151	213	1,590	1,181	35,380	73,526
Total liabilities	58,718	35,686	1,636	323	5,151	213	1,590	1,181	35,317	139,815

Group 30 September 2015

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	672	685	-2	2	112	-0	-	-	-70	1,399
Interest from allocated capital	37	44	-	-	-	-	-	-	-81	-
Total interest income	709	729	-2	2	112	-0	-	-	-151	1,399
Commission income and other income	530	135	25	282	24	153	-	-	19	1,168
Net return on financial investments ^{**})	1	11	31	-	-	-	183	31	93	349
Total income	1,239	874	55	284	136	153	183	31	-39	2,917
Total operating expenses	565	258	118	244	68	127	-	-	36	1,416
Ordinary operating profit	674	617	-63	39	68	26	183	31	-74	1,501
Loss on loans, guarantees etc.	6	100	-	-	5	-	-	-	1	112
Result before tax including held for sale	668	517	-63	39	63	26	183	31	-76	1,388
Post-tax return on equity ^{*)}	16.2 %	12.9 %								11.5 %

Balance (NOKm)

Loans and advances to customers	83,077	37,781	-	-	4,199	-	-	-	1,124	126,180
Adv. of this to SpareBank 1 Boligkreditt	-29,993	-1,269	-	-	-	-	-	-	-1	-31,263
Individual allowance for impairment on loan	-24	-158	-	-	-7	-	-	-	-2	-191
Group allowance for impairment on loan	-90	-218	-	-	-17	-	-	-	-0	-326
Other assets	140	9	1,316	281	14	137	1,453	1,145	30,341	34,836
Total assets	53,109	36,144	1,316	281	4,189	137	1,453	1,145	31,462	129,237

Deposits to customers	33,449	29,567	-	-	-	-	-	-	604	63,620
Other liabilities and equity	19,660	6,578	1,316	281	4,189	137	1,453	1,145	30,858	65,617
Total liabilities	53,109	36,144	1,316	281	4,189	137	1,453	1,145	31,462	129,237

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

**) Specification of net return on financial investments incl. Investment held for sale (NOKm)	2016	2015
Capital gains/dividends, shares	110	79
Bonds and derivatives	158	-73
Change in discount factor in fair value model for fixed interest loans	-	-64
Forex and fixed income business, Markets	99	82
Net return on financial investments	368	24
SpareBank 1 Gruppen	220	183
SpareBank 1 Boligkreditt	9	65
SpareBank 1 Næringskreditt	20	22
BN Bank	79	31
SpareBank 1 Kredittkort	20	15
Companies owned by SpareBank 1 SMN Invest	19	13
Other companies	-22	-3
Income from investment in associates and joint ventures	346	326
Total net return on financial investments	713	349

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 30 September 2016 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and countercyclical buffer is 1.5 per cent. These requirements are additional to the requirement of 4.5 per cent CET1 capital, so that the overall minimum requirement on CET1 capital is 11.5 per cent. The countercyclical buffer increased to 1.5 per cent from 1.0 per cent with effect from 30 June 2016.

As from 1 October 2016, differentiated rates become effective for the countercyclical buffer with 1.5 per cent being maintained for exposures in Norway. For exposures in other countries the countercyclical capital buffer rate set by the authorities in the country concerned is used. If the country concerned has not established a rate, the same rate as for exposures in Norway is to be used unless the Ministry of Finance sets another rate.

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 30 September 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	30 Sept 2015	30 Sept 2016	(NOKm)	30 Sept 2016	30 Sept 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	-2	-0	-21
895	895	895	Premium fund	895	895	895
3,790	3,122	3,790	Dividend equalisation fund	3,791	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	221	Unrealised gains reserve	233	148	290
-	-	5	Other equity	1,679	1,660	1,597
-	-	-	- Non-controlling interests	411	295	318
-	1,294	1,179	Net profit	1,185	1,119	-
11,998	11,666	12,792	Total book equity	14,893	13,455	13,904
-447	-447	-475	Deferred taxes, goodwill and other intangible assets	-758	-679	-662
-	-	-	- Part of reserve for unrealised gains, associated companies	119	179	264
-332	-	-	- Deduction for allocated dividends and gifts	-	-	-332
-	-	-	- Non-controlling interests recognised in other equity capital	-411	-295	-318
-	-	-	- Non-controlling interests eligible for inclusion in CET1 capital	211	49	132
-93	-4	-93	Surplus financing of pension obligations	-94	-	-43
-	-1,294	-1,179	Net profit	-1,185	-1,119	-
-	992	823	Year-to-date profit included in core capital (70 per cent pre tax of group profit)	830	817	-
-33	-32	-30	Value adjustments due to requirements for prudent valuation	-51	-49	-55
-164	-199	-146	Positive value of adjusted expected loss under IRB Approach	-205	-277	-239
-	-	-	Direct, indirect and synthetic investments in financial sector	-453	-428	-458
10,928	10,682	11,693	Total common equity Tier one	12,895	11,652	12,192
950	950	950	Hybrid capital, core capital	1,363	1,311	1,310
495	496	487	Hybrid capital covered by transitional provisions	487	496	495
-	-	-	Direct, indirect and synthetic investments in financial sector	-9	-9	-9
12,373	12,128	13,129	Total core capital	14,736	13,451	13,988

Parent Bank				Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016		30 Sept 2016	30 Sept 2015	31 Dec 2015
			Supplementary capital in excess of core capital			
1,000	1,000	1,000	Subordinated capital	1,644	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	2,275	2,435	2,390
14,116	13,871	14,760	Net subordinated capital	17,011	15,886	16,378
			Minimum requirements subordinated capital			
1,027	1,062	1,025	Involvement with specialised enterprises	1,166	1,262	1,213
1,049	981	1,068	Other corporations exposure	1,107	1,058	1,105
1,093	1,136	1,141	Mass market exposure, property	1,602	1,551	1,557
157	174	155	Mass market exposure, SMEs	164	186	167
38	15	36	Other retail exposure	38	15	40
1,221	1,155	1,240	Equity investments	3	0	0
4,585	4,524	4,665	Total credit risk IRB	4,080	4,073	4,082
64	93	18	Debt risk	19	94	64
-	-	-	Equity risk	10	10	10
-	-	-	Currency risk	1	0	-
316	316	334	Operational risk	479	457	457
922	911	968	Exposures calculated using the standardised approach	1,828	1,827	1,805
53	55	48	Credit value adjustment risk (CVA)	88	92	106
-	-	-	Transitional arrangements	723	533	634
5,939	5,899	6,033	Minimum requirements subordinated capital	7,228	7,087	7,157
74,243	73,732	75,407	Risk weighted assets (RWA)	90,353	88,586	89,465
3,341	3,318	3,393	Minimum requirement on CET1 capital, 4.5 per cent	4,066	3,986	4,026
			Capital Buffers			
1,856	1,843	1,885	Capital conservation buffer, 2.5 per cent	2,259	2,215	2,237
2,227	2,212	2,262	Systemic risk buffer, 3.0 per cent	2,711	2,658	2,684
742	737	1,131	Countercyclical buffer, 1.5 per (1.0 per cent)	1,355	886	895
4,826	4,793	5,278	Total buffer requirements on CET1 capital	6,325	5,758	5,815
2,761	2,571	3,021	Available CET1 capital after buffer requirements	2,505	1,908	2,351
			Capital adequacy			
14.7 %	14.5 %	15.5 %	Common equity Tier one ratio	14.3 %	13.2 %	13.6 %
16.7 %	16.4 %	17.4 %	Core capital ratio	16.3 %	15.2 %	15.6 %
19.0 %	18.8 %	19.6 %	Capital adequacy ratio	18.8 %	17.9 %	18.3 %
9.1 %	9.1 %	9.2 %	Leverage ratio	7.1 %	6.7 %	6.7 %

Note 5 - Distribution of loans by sector/industry

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016		30 Sept 2016	30 Sept 2015	31 Dec 2015
8,515	8,159	9,419	Agriculture, forestry, fisheries, hunting	9,607	8,313	8,674
1,485	1,297	1,359	Sea farming industries	1,738	1,581	1,807
2,387	2,224	2,692	Manufacturing	2,977	2,517	2,675
3,141	3,232	3,160	Construction, power and water supply	3,684	3,707	3,598
2,482	2,768	2,276	Retail trade, hotels and restaurants	2,482	2,940	2,666
6,043	6,073	5,027	Maritime sector	5,027	6,097	6,066
14,377	14,130	13,704	Property management	13,761	14,142	14,346
2,019	1,880	2,534	Business services	2,174	1,698	1,777
2,859	3,021	3,311	Transport and other services provision	3,893	3,509	3,355
192	205	255	Public administration	269	225	211
1,458	2,569	1,533	Other sectors	1,463	2,587	1,477
44,958	45,558	45,270	Gross loans in retail market	47,074	47,315	46,653
78,575	76,868	84,650	Wage earners	87,388	78,864	80,725
123,533	122,426	129,920	Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt	134,462	126,180	127,378
31,944	29,894	32,930	SpareBank 1 Boligkreditt	32,930	29,894	31,944
1,460	1,369	1,963	SpareBank 1 Næringskreditt	1,963	1,369	1,460
90,129	91,163	95,027	Gross loans in balance sheet	99,569	94,917	93,974
174	182	546	- Specified write-downs	558	191	183
358	308	373	- Collective write-downs	391	326	376
89,596	90,673	94,108	Net loans to and receivables from customers	98,619	94,400	93,415

Note 6 - Losses on loans and guarantees

Parent Bank

Losses on loans and guarantees (NOKm)	January-September								
	2016			2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-0	374	373	0	18	19	2	9	11
+ Change in collective impairment losses provisions for the period	-	15	15	-	30	30	-	80	80
+ Actual loan losses on commitments for which provisions have been made	7	7	13	6	51	57	7	58	65
+ Actual loan losses on commitments for which no provision has been made	6	5	11	4	1	5	8	4	12
- Recoveries on commitments previously written-off	3	2	5	4	1	5	6	3	9
Losses of the year on loans and guarantees	10	398	408	6	100	106	11	148	159

Group

Losses on loans and guarantees (NOKm)	January-September								
	2016			2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Change in individual impairment losses provisions for the period	-0	378	377	0	19	19	3	9	11
+ Change in collective impairment losses provisions for the period	3	13	15	1	30	31	2	80	82
+ Actual loan losses on commitments for which provisions have been made	7	7	15	7	53	60	8	59	67
+ Actual loan losses on commitments for which no provision has been made	10	5	15	7	3	10	13	7	21
- Recoveries on commitments previously written-off	4	2	5	6	2	8	8	4	12
Losses of the year on loans and guarantees	16	401	417	10	102	112	18	151	169

Note 7 - Losses

Parent Bank

	January-September								
	2016			2015			2015		
Individual write-downs (NOKm)	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	7	7	13	6	51	57	7	58	65
- Reversal of provisions from previous periods	3	20	23	2	29	31	2	40	43
+ Increased write-downs on provisions previously written down	2	5	7	1	4	5	1	21	22
+ Write-downs on provisions not previously written down	4	399	403	7	95	102	12	85	96
Individual write-downs to cover loss on loans and guarantees at period end *)	24	525	549	24	159	183	28	148	176

*) Individually assessed impairment write-downs on guarantees, totalling NOK 3.3m, are shown in the balance sheet as a liability under 'Other liabilities'

	2016			2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs (NOKm)									
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	-	15	15	-	30	30	-	80	80
Collective write-downs to cover loss on loans and guarantees at period end	90	283	373	90	218	308	90	268	358

Group

	January-September								
	2016			2015			2015		
Individual write-downs (NOKm)	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	7	7	15	7	53	60	8	59	67
- Reversal of provisions from previous periods	4	21	25	3	29	32	3	42	46
+ Increased write-downs on provisions previously written down	2	6	7	1	4	5	1	21	22
+ Write-downs on provisions not previously written down	5	404	410	9	96	106	14	87	102
Individual write-downs to cover loss on loans and guarantees at period end *)	27	535	562	27	165	192	31	153	184

*) Individually assessed impairment write-downs on guarantees, totalling NOK 3.3m, are shown in the balance sheet as a liability under 'Other liabilities'

	2016			2015			2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Collective write-downs (NOKm)									
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	3	13	15	1	30	31	2	80	82
Collective write-downs to cover loss on loans and guarantees at period end	98	293	391	95	231	326	96	281	376

Note 8 - Defaults and problem loans

Parent Bank

Total defaults (NOKm)	30 Sept 2016			30 Sept 2015			31 Dec 2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Loans in default for more than 90 days ^{*)}	149	30	178	149	35	184	133	38	171
- Individual write-downs	14	17	31	15	10	25	15	8	23
Net defaults	134	13	147	134	25	160	119	30	148
Provision rate	10 %	56 %	17 %	10 %	28 %	13 %	11 %	22 %	13 %
Problem loans									
Problem loans (not in default)	26	1,318	1,345	16	422	438	45	341	387
- Individual write-downs	9	509	518	10	149	159	13	139	152
Net problem loans	17	810	826	7	272	279	32	202	234
Provision rate	36 %	39 %	39 %	58 %	35 %	36 %	29 %	41 %	39 %

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

Group

Total defaults (NOKm)	30 Sept 2016			30 Sept 2015			31 Dec 2015		
	RM	CM	Total	RM	CM	Total	RM	CM	Total
Loans in default for more than 90 days ^{*)}	177	44	221	169	50	218	155	50	205
- Individual write-downs	18	18	35	18	11	29	17	9	26
Net defaults	160	26	186	151	39	190	138	41	179
Provision rate	10 %	41 %	16 %	10 %	22 %	13 %	11 %	18 %	13 %
Problem loans									
Problem loans (not in default)	26	1,334	1,360	17	431	448	49	350	399
- Individual write-downs	9	517	526	10	154	164	14	144	158
Net problem loans	17	817	833	7	277	284	34	206	241
Provision rate	36 %	39 %	39 %	57 %	36 %	37 %	30 %	41 %	40 %

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

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016		30 Sept 2016	30 Sept 2015	31 Dec 2015
2,541	2,450	2,805	Agriculture, forestry, fisheries, hunting	2,805	2,450	2,541
674	553	229	Sea farming industries	229	553	674
2,518	1,870	1,481	Manufacturing	1,481	1,870	2,518
2,164	2,372	2,148	Construction, power and water supply	2,148	2,372	2,164
4,116	3,416	3,365	Retail trade, hotels and restaurants	3,365	3,416	4,116
1,994	1,928	1,675	Maritime sector	1,675	1,928	1,994
4,295	4,535	5,325	Property management	5,104	4,347	4,099
4,836	5,038	5,216	Business services	5,216	5,038	4,836
4,643	4,657	5,062	Transport and other services provision	4,623	4,218	4,138
7,221	6,358	8,419	Public administration	8,419	6,358	7,221
1,755	2,922	1,992	Other sectors	1,555	2,894	1,454
36,756	36,097	37,715	Total	36,618	35,442	35,754
28,336	28,178	29,672	Wage earners	29,672	28,178	28,336
65,091	64,276	67,387	Total deposits	66,290	63,620	64,090

Note 10 - Net interest income

Parent bank			(NOK million)	Group		
January-September				January-September		
2015	2015	2016		2016	2015	2015
			Interest income			
112	82	92	Interest income from loans to and claims on central banks and credit institutions	37	30	43
3,447	2,633	2,235	Interest income from loans to and claims on customers	2,417	2,796	3,669
304	233	213	Interest income from money market instruments, bonds and other fixed income securities	211	233	304
1	1	-	Other interest income	14	11	16
3,865	2,949	2,539	Total interest income	2,680	3,069	4,031
			Interest expense			
147	116	114	Interest expenses on liabilities to credit institutions	114	116	148
968	766	488	Interest expenses relating to deposits from and liabilities to customers	476	751	949
840	635	535	Interest expenses related to the issuance of securities	535	635	840
149	112	109	Interest expenses on subordinated debt	110	112	149
3	2	2	Other interest expenses	10	16	20
54	41	44	Guarantee fund levy	44	41	54
2,161	1,671	1,292	Total interest expense	1,289	1,670	2,159
1,703	1,277	1,248	Net interest income	1,391	1,399	1,872

Note 11 - Operating expenses

Parent bank				Group		
January-September				January-September		
2015	2015	2016	(NOKm)	2016	2015	2015
588	440	439	Personnel expenses	908	814	1,093
194	161	157	IT costs	195	193	240
18	13	13	Postage and transport of valuables	17	16	22
55	34	38	Marketing	68	65	96
41	31	31	Ordinary depreciation	73	79	104
123	90	91	Operating expenses, real properties	78	75	100
68	46	49	Purchased services	75	68	105
129	76	80	Other operating expense	107	106	171
1,217	890	898	Total other operating expenses	1,521	1,416	1,931

Note 12 - Other assets

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016		30 Sept 2016	30 Sept 2015	31 Dec 2015
33	-	33	Deferred tax asset	184	169	187
133	129	124	Fixed assets	925	1,043	1,031
23	47	22	Earned income not yet received	53	41	39
3	16	1,165	Accounts receivable, securities	1,657	251	200
124	6	124	Pensions	125	6	125
95	74	87	Other assets	386	348	381
411	272	1,556	Total other assets	3,331	1,859	1,962

Note 13 - Other liabilities

Parent Bank			(NOKm)	Group		
31 Dec 2015	30 Sept 2015	30 Sept 2016		30 Sept 2016	30 Sept 2015	31 Dec 2015
-	34	0	Deferred tax	22	48	21
420	192	292	Payable tax	351	241	459
13	10	13	Capital tax	13	10	13
70	51	73	Accrued expenses and received, non-accrued income	331	23	303
78	87	95	Provision for accrued expenses and commitments	95	87	78
25	17	25	Pension liabilities	31	32	31
46	43	75	Drawing debt	75	43	46
6	3	4	Creditors	51	48	39
61	-	605	Debt from securities	940	157	145
-	-	-	Equity Instruments	176	362	394
150	255	226	Other liabilities	267	291	204
868	691	1,409	Total other liabilities	2,353	1,342	1,734

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

Group

	30 Sept 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Change in securities debt (NOKm)					
Bond debt, nominal value	36,206	7,066	3,454	-1,420	34,014
Value adjustments	655	-	-	-120	775
Accrued interest	263	-	-	-102	365
Total	37,124	7,066	3,454	-1,642	35,154

	30 Sept 2016	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2015
Change in subordinated debt and hybrid equity (NOKm)					
Ordinary subordinated loan capital, nominal value	1,762	43	-	59	1,660
Perpetual subordinated loan capital, nominal value	300	-	-	-	300
Hybrid equity, nominal value	1,400	-	-	-	1,400
Value adjustments	77	-	-	-12	89
Accrued interest	11	-	-	-3	14
Total	3,550	43	-	44	3,463

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

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

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

Level 2: Valuation based on observable market data

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

Level 3: Valuation based on other than observable data

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

The following table presents the Group's assets and liabilities measured at fair value at 30 September 2016:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	70	5,419	-	5,489
- Bonds and money market certificates	1,936	14,962	-	16,898
- Equity instruments	622	-	505	1,127
- Fixed interest loans	-	43	3,771	3,813
Financial assets available for sale				
- Equity instruments	42	-	84	126
Total assets	2,670	20,423	4,359	27,453
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	58	4,947	-	5,004
- Equity instruments	174	6	-	180
Total liabilities	231	4,953	-	5,184

The following table presents the Group's assets and liabilities measured at fair value at 30 September 2015:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	64	7,448	-	7,513
- Bonds and money market certificates	1,697	12,732	-	14,430
- Equity instruments	613	-	572	1,184
- Fixed interest loans	-	43	4,706	4,749
Financial assets available for sale				
- Equity instruments	-	-	36	36
Total assets	2,374	20,223	5,314	27,912
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	64	5,421	-	5,486
Total liabilities	64	5,421	-	5,486

The following table presents the changes in the instruments classified in level 3 as at 30 September 2016:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	4,405	574	108	5,087
Investment in periode	377	24	28	429
Disposals in the periode	-991	-70	-3	-1,077
Gain or loss on financial instruments	-20	-22	-49	-79
Closing balance 30 September 16	3,771	505	84	4,359

The following table presents the changes in the instruments classified in level 3 as at 30 September 2015:

(NOKm)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January	3,277	625	35	3,937
Investment in periode	2,044	9	3	2,056
Disposals in the periode	-599	-61	-2	-662
Gain or loss on financial instruments	48	-2	-	47
Change in valuation model for fixed interest loans	-64	-	-	-64
Closing balance 30 September 2015	4,706	572	36	5,314

Note 16 - Liquidity risk

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

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

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the third quarter was 2.82 years. The overall LCR at the same point was 138 per cent and the average overall LCR in the quarter was 122 per cent. The LCR in Norwegian kroner and the euro at quarter-end was 87 and 426 per cent respectively.

Equity capital certificate ratio

(NOKm)	30 Sept 2016	31 Dec 2015
ECC capital	2,597	2,597
Dividend equalisation reserve	3,790	3,790
Premium reserve	895	895
Unrealised gains reserve	142	179
Other equity capital	3	-
A. The equity capital certificate owners' capital	7,428	7,461
Ownerless capital	4,105	4,105
Unrealised gains reserve	79	100
Other equity capital	2	-
B. The saving bank reserve	4,186	4,205
To be disbursed from gift fund	-	40
Dividend declared	-	292
Equity ex. profit	11,614	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)	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015	1Q 2015	4Q 2014	3Q 2014
Interest income	874	896	910	962	1,058	992	1,019	1,103	1,080
Interest expenses	425	424	441	489	593	525	552	618	617
Net interest	449	472	469	473	466	467	467	485	463
Commission income	326	331	295	309	317	313	306	323	314
Commission expenses	34	36	28	38	38	32	27	33	28
Other operating income	120	154	134	107	99	132	97	81	74
Commission income and other income	412	448	401	378	378	413	377	371	361
Dividends	13	73	0	3	0	22	0	5	0
Income from investment in related companies	103	127	119	121	78	120	129	144	170
Net return on financial investments	157	71	53	-15	-91	23	69	-58	1
Net return on financial investments	274	271	172	109	-13	165	198	91	170
Total income	1,134	1,191	1,042	959	831	1,044	1,042	947	993
Staff costs	294	318	295	280	264	283	267	267	235
Other operating expenses	210	209	194	235	203	213	186	212	190
Total operating expenses	504	528	489	515	466	496	454	479	425
Result before losses	630	664	553	444	364	548	588	467	568
Loss on loans, guarantees etc.	130	118	170	56	56	35	22	34	24
Result before tax	500	546	383	388	309	513	567	434	545
Tax charge	85	85	72	100	61	83	126	60	101
Result investment held for sale, after tax	-1	-1	-0	-0	0	-0	-0	0	-1
Net profit	414	460	311	287	248	430	441	375	443

Key figures from quarterly accounts

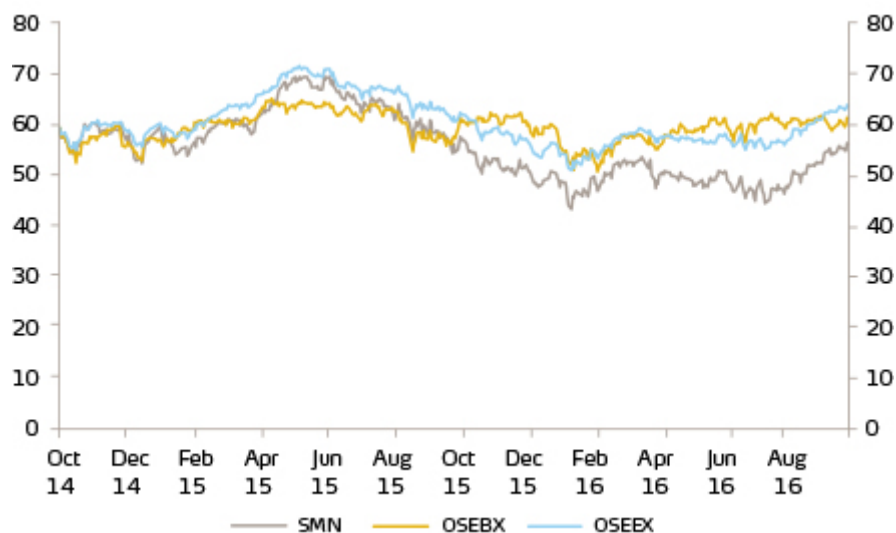
Group (NOKm)	3Q 2016	2Q 2016	1Q 2016	4Q 2016	3Q 2015	2Q 2015	1Q 2015	4Q 2015	3Q 2014
Profitability									
Return on equity per quarter	11.3%	12.9%	8.9%	8.4%	7.4%	13.4%	14.1%	12.1%	14.8%
Cost-income ratio	44 %	44 %	47 %	54 %	56 %	47 %	44 %	51 %	43 %
Balance sheet figures									
Gross loans to customers	99,569	97,790	95,331	93,974	94,917	94,179	92,311	90,578	86,724
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	134,462	132,583	129,520	127,378	126,180	124,519	122,933	120,435	116,464
Deposits from customers	66,290	67,031	63,851	64,090	63,620	66,186	60,589	60,680	58,091
Total assets	139,815	141,145	134,345	131,914	129,237	130,888	123,687	126,047	117,194
Average total assets	140,480	137,745	133,129	130,575	130,063	127,288	124,867	121,620	117,976
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskreditt last 12 months	6.6 %	6.5 %	5.4 %	5.8 %	8.3 %	8.4 %	10.0 %	7.3 %	5.4 %
Growth in deposits last 12 months	4.2 %	1.3 %	5.4 %	5.6 %	9.5 %	11.4 %	10.9 %	8.5 %	8.5 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio	0.39 %	0.36 %	0.53 %	0.18 %	0.18 %	0.11 %	0.07 %	0.11 %	0.08 %
Non-performing commitm. as a percentage of gross loans	0.16 %	0.19 %	0.16 %	0.16 %	0.17 %	0.23 %	0.19 %	0.22 %	0.29 %
Other doubtful commitm. as a percentage of gross loans	1.01 %	0.90 %	0.32 %	0.31 %	0.36 %	0.30 %	0.18 %	0.18 %	0.18 %
Solidity									
Common equity tier 1	14.3 %	14.1 %	13.6 %	13.6 %	13.2 %	12.7 %	12.3 %	11.2 %	11.5 %
Core capital ratio	16.3 %	16.1 %	15.6 %	15.6 %	15.2 %	14.6 %	14.3 %	13.0 %	13.4 %
Capital adequacy ratio	18.8 %	18.7 %	18.1 %	18.3 %	17.9 %	17.3 %	17.0 %	15.7 %	16.1 %
Core capital	14,736	14,604	14,237	13,988	13,451	13,142	12,713	12,382	12,302
Net equity and related capital	17,011	16,882	16,516	16,378	15,886	15,577	15,147	14,937	14,826
Liquidity Coverage Ratio (LCR)	122 %	123 %	107 %	107 %	81 %	79 %	66 %	85 %	83 %
Key figures ECC *)									
ECC share price at end of period (NOK)	55.75	46.70	52.75	50.50	54.00	65.50	59.50	58.50	59.25
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)	71.17	69.18	67.37	67.65	65.52	64.18	61.95	62.04	60.53
Profit per ECC, majority	2.00	2.21	1.49	1.45	1.26	2.13	2.18	1.85	2.19
Price-Earnings Ratio	6.98	5.27	8.83	8.71	10.72	7.70	6.81	7.89	6.75
Price-Book Value Ratio	0.78	0.68	0.78	0.75	0.82	1.02	0.96	0.94	0.98

*) The key figures are corrected for issues

Equity capital certificates

Stock price compared with OSEBX and OSEEX

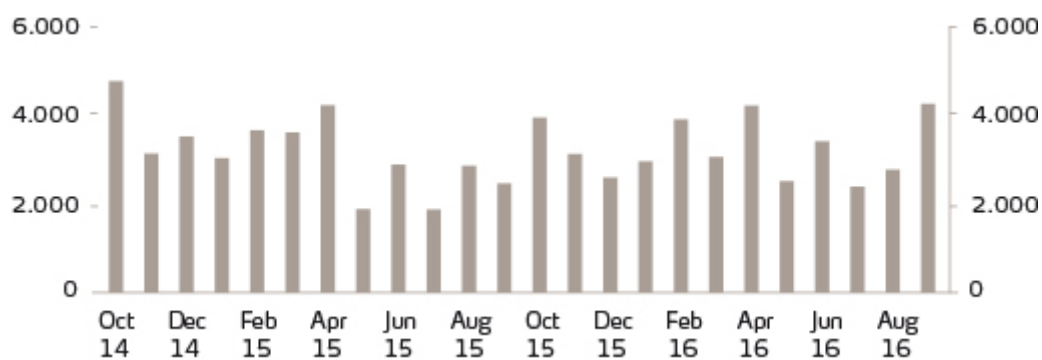
1 Oct 2014 to 30 Sep 2016



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

Trading statistics

1 October 2014 to 30 September 2016



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	5,222,288	4.02 %
Verdipapirfondet DNB Norge (IV)	4,102,874	3.16 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,826,686	2.95 %
VPF Danske Invest Norske Aksjer Inst. II	3,209,467	2.47 %
State Street Bank and Trust CO (nominee)	2,900,083	2.23 %
VPF Pareto Aksje Norge	2,870,827	2.21 %
Meteva AS	2,359,388	1.82 %
Pareto AS	1,821,202	1.40 %
MP Pensjon PK	1,792,160	1.38 %
The Bank of New York Mellon (nominee)	1,736,232	1.34 %
Forsvarets Personellservice	1,717,046	1.32 %
VPF Danske Invest Norske Aksjer Inst. I	1,598,523	1.23 %
DNB Livsforsikring AS	1,480,544	1.14 %
JP Morgan Chase Bank (nominee)	1,404,888	1.08 %
State Street Bank and Trust CO (nominee)	1,400,186	1.08 %
VPF Nordea Kapital	1,383,148	1.07 %
JP Morgan Chase Bank (nominee)	1,311,137	1.01 %
VPF DNB Norge selektiv	1,247,000	0.96 %
Vind LV AS	1,115,600	0.86 %
The 20 largest ECC holders in total	46,464,670	35.79 %
Others	83,371,773	64.21 %
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



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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 September 30 2016**

We have reviewed the accompanying balance sheet of the parent company and the group as of September 30 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 nine 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 September 30 2016, and of its financial performance and its cash flows for the nine period then ended in accordance with International Accounting Standard 34, as adopted by the EU.

Trondheim, 21 October 2016
Deloitte AS

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

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