

2017

ANNUAL REPORT

Together we make things happen



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About the bank



Statement by the Group CEO

Equipping SpareBank 1 SMN for the future

2017 was a good year for SpareBank 1 SMN. 12,000 personal customers and 1,200 corporate customers joined us over the course of the year, and we have strengthened our market share from an already high level. This makes us both proud and humble. Profit measured in kroner was the best ever. It enabled us to deliver a solid dividend to our equity certificate holders and to increase our allocation to non-profit causes. Moreover, it is pleasing to note that the bank's equity certificate has shown a sound value increase through 2017.

The bank's subsidiaries and related companies have delivered solid performances. Two of them, EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets, have made investments over the year in, respectively, BN Bank and competence and capacity building which we will garner the fruits of in the years ahead. SpareBank 1 Gruppen, and the insurers in particular, have also exceeded our expectations in 2017.

We have further developed Mid-Norway's leading finance house in 2017. Our strategy is to secure a high share of other income and thus render ourselves less vulnerable to changes in net interest income. We are well pleased with the fact that almost half of the group's income is now commission income from subsidiaries and sales commissions at the parent bank. We have also defined an objective that half of the parent bank's sales should be digital sales by the year 2020. This bolsters the group's robustness.

A good 50 per cent of the group's almost 1500 employees work outside the parent bank. SpareBank 1 Regnskapshuset employs 400 staff, and is expanding rapidly through frequent acquisitions. SpareBank 1 Markets has reversed a negative trend and is now making a profit. With last year's addition of a large new team, we have established a position as one of the leading brokerage houses. SpareBank 1 Finans Midt-Norge contributes, with its relatively few full-time position equivalents, good results, and is building exciting relationships with other banks both within and outside the SpareBank 1 Alliance. EiendomsMegler 1 Midt-Norge retains its number one position in the region and aspires to an increased market share in a somewhat more demanding housing market. BN Bank's drive in Oslo, with concepts and services delivered by EiendomsMegler 1 Midt-Norge, is another, exciting, venture offering substantial potentials. SpareBank 1 SMN Invest has shown its skill in finding profitable investments and has gradually built a portfolio of technology businesses with intriguing potentials.

SpareBank 1 SMN comes across as solid and robust. It is important to safeguard this position through the choices we are to make ahead. We are spending more and more time and money on understanding trends and building a forward-looking finance house. Where we previously competed with traditional banks we have known for decades, we now have to gear up to meet major technology giants headquartered in Silicon Valley in California or Hangzhou in China. The substantial technology shift facing the financial industry is not so very different from the one experienced by the media industry in recent years. People's media habits have changed dramatically over a short period, challenging the media houses' entire business model. Today more than half of the revenues from the Norwegian advertising market disappear to California, mainly to Google and Facebook.

We must accept that the same reality may overtake our own industry. It is probably only a matter of time before giants such as Apple press the button and launch their payment solution in the Norwegian market. This is a competition we know will come, and we have devoted substantial resources to meeting it. We

started the year by merging SpareBank 1 Mobilbetaling (mCash) with Vipps. By this means SpareBank 1 together with DNB established a common payment solution, which the other Norwegian savings banks opted to participate in as co-owners. It is my definite view that rallying round Vipps as a major Norwegian fintech project is among the most important strategic moves that have been made.

In November this work was further reinforced when we took the initiative to merge the companies Vipps, BankAxept and BankID. At the time of writing this merger is under consideration at the Competition Authority and the Financial Supervisory Authority. We expect the merger to be able go ahead before summer 2018. Norwegian banks and affiliated banks in Norway are building an important platform on which to meet growing competition in the payments area where the banks in the first instance are meeting competition from new actors. SpareBank 1 will own about 25 per cent of the merged entity, and a clear-cut ambition is to ensure that the company has the power and innovative capacity to be able to compete in an international market.

In addition, a number of initiatives have been taken over the year both by SpareBank 1 SMN and the SpareBank 1 Alliance that leave me convinced that we are making the moves necessary to guarantee our continued relevance and profitability in a world in which banks' framework conditions are changing dramatically as a result of the strong digital evolution.

In the course of 2017 we have given ourselves a substantial lift in terms of corporate social responsibility. We have, for example, undertaken to support the UN's sustainability goals by signing the UN Global Compact, and we have tightened our requirements on ethics, anti-corruption and sustainability both with respect to ourselves and our partners. A significant aspect of the corporate social responsibility effort is transparency and openness, allowing our surroundings to measure us on what we do. We will therefore report in accordance with the Global Reporting Initiative (GRI), starting with the present annual report.

SpareBank 1 SMN intends to be a digital bank with a personal and local signature. We will offer the best digital solutions and at the same time maintain a broad-based office network staffed by skilled advisers with copious local knowledge. This strategy might appear bold at a time where most observers would expect us, like other banks, to opt for a steep reduction in the number of offices. Instead we have chosen to retain all locations, but at a lower cost. This has been a successful strategy that we have chosen to give a specific name – phygital.

I am convinced that this strategy has contributed to increased market shares and improved profits. We have established a channel interaction that brings the best out of our capable advisers and the best out of our digital solutions. I believe this to be a sustainable strategy also for the years ahead.

Key goals and strategies

Vision and values

Since 2004 the bank's vision has been to be "the recommended bank" based on the values "close at hand and capable". In the second half of 2016 the entire organisation demonstrated a major, broad-based commitment to play their part in creating a new vision and new values which resulted in a resolution by the board of directors in February 2017.

Our new vision is about creating energy, results, change and development. For that reason we have chosen "Together we make things happen" as our vision. *Together* is the opening word, which is no coincidence. Achieving what we want to achieve is only possible together with others - with colleagues, customers, suppliers, partners and other local and regional capacities. We want to build relations and team up. *Making things happen* is about creating energy, results, change and development. Things happen when we enter the scene.

Our new values are:

Wholehearted: It is wonderful being together with committed people, and nothing is more inspiring than working with wholehearted colleagues. There's a pulse, force and passion in a wholehearted person – not to speak of a bank that is full of them.

Responsible: Upright, trustworthy, inspiring confidence, broad-minded, knowledgeable are all important qualities. We have summed them up in one word: Responsible. Being responsible is to say yes when it is right to do so and no when it is necessary.

Likeable: We are positive and easy to like. We are down-to-earth and straightforward. We are the real deal and on the customer's side. People choose a bank they like. One that is likeable.

Capable: Capable people are matter-of-fact and have no need to toss around grandiose terms and concepts. They exude professionalism and competence without setting themselves apart. Capable people win customers' confidence.

Strategic ambition

SpareBank 1 SMN will continue to be an independent, regional finance house, a powerhouse for the development of the region. We will be profitable and best for customer experience.

SpareBank 1 SMN is unquestionably solid, and its return on equity puts it among the three best banks in Norway. SpareBank 1 SMN will strengthen its market position in particular in Trondheim, Molde and Ålesund – towns that will see strong population growth in the years ahead – and in the SMB market.

Our ambition is to remain an independent, regional, profitable bank that means more to firms and individuals in our market area than any other bank. The SpareBank 1 Alliance is the bank's strategic foundation and the basis for SpareBank 1 SMN's regional business strategies and independence. SpareBank 1 SMN will play an active role in developing the SpareBank 1 Alliance as a leading Norwegian financial services grouping.

Central themes

SpareBank 1 SMN will in the period 2017-2020 launch concrete projects to help promote an efficient, customer-oriented and forward-looking bank. The main underlying themes are:

- To create the bank of the future. Launch sub-projects and measures to strengthen the bank's dominant position in the region, enhance selling power across all channels while at the same time building an infrastructure that ensures cost-efficient sales, distribution, production and operation.
- The SpareBank 1 Alliance to be the bank's strategic platform for cost-efficient operation, development and innovation. SpareBank 1 SMN will contribute to developing profitable product companies in the banking collaboration.
- SpareBank 1 SMN to be a powerhouse for the region's development and long-term value creation. Its activities span a broad set of measures in which the bank collaborates with private individuals, businesses, clubs and associations.

SpareBank 1 SMN will in 2017 initiate measures on the path to achieving the bank's strategic ambition. Developing the bank of the future and a distribution model for the future will have a particular focus in the form of development projects. These will ensure that the bank develops simple, efficient and effective solutions for the customer in all channels.

Financial goals

SpareBank 1 SMN intends to be among the three best-performing banks in Norway by being:

- **Customer oriented:** The bank will be best for customer experience, and thereby strengthen its market position
- **Profitable:** The bank will post an annual return on equity of 12 per cent
- **Solid:** The bank will maintain a CET1 capital adequacy ratio of 15 per cent
- **Efficient:** The bank will post zero growth in nominal costs at the parent bank from 2014 to 2018
- **Dividend:** The bank will pay its equity certificate holders a dividend of 50 per cent on their rightful portion of the profit

Close at hand

We put our faith in skilled advisers in multiple locations in combination with simple, good digital solutions.



Internet Bank



7.675.000
+ 25.000*
logins

Mobile Bank



25.300.000
+ 4.600.000*
logins

smn.no



10.200.000
+ 1.700.000*
visitors

Vipps



100.000
**
users

Facebook



64.000
+ 4.000*
followers

Direct Bank

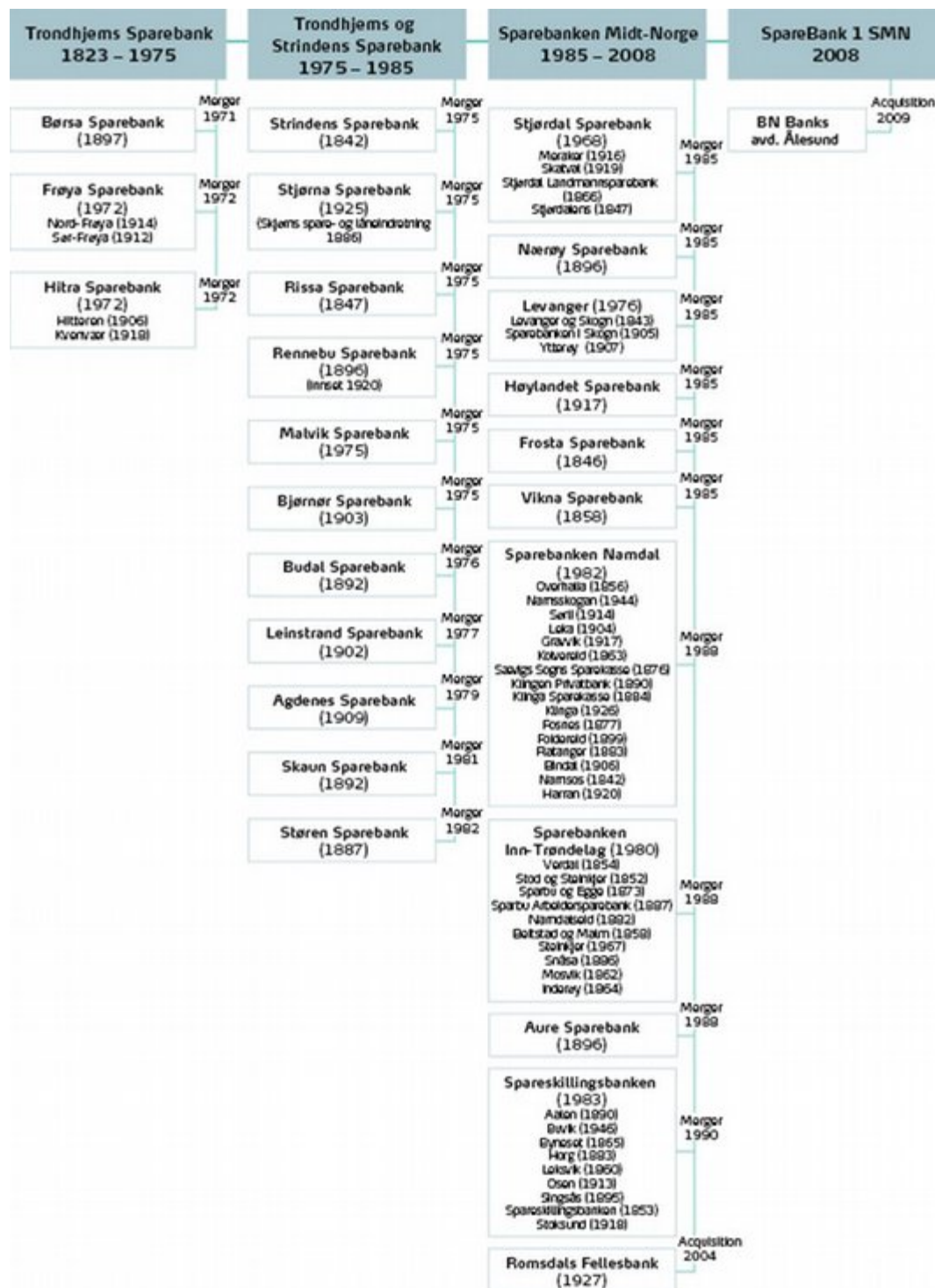


460.000
+ 40.000*
enquiries

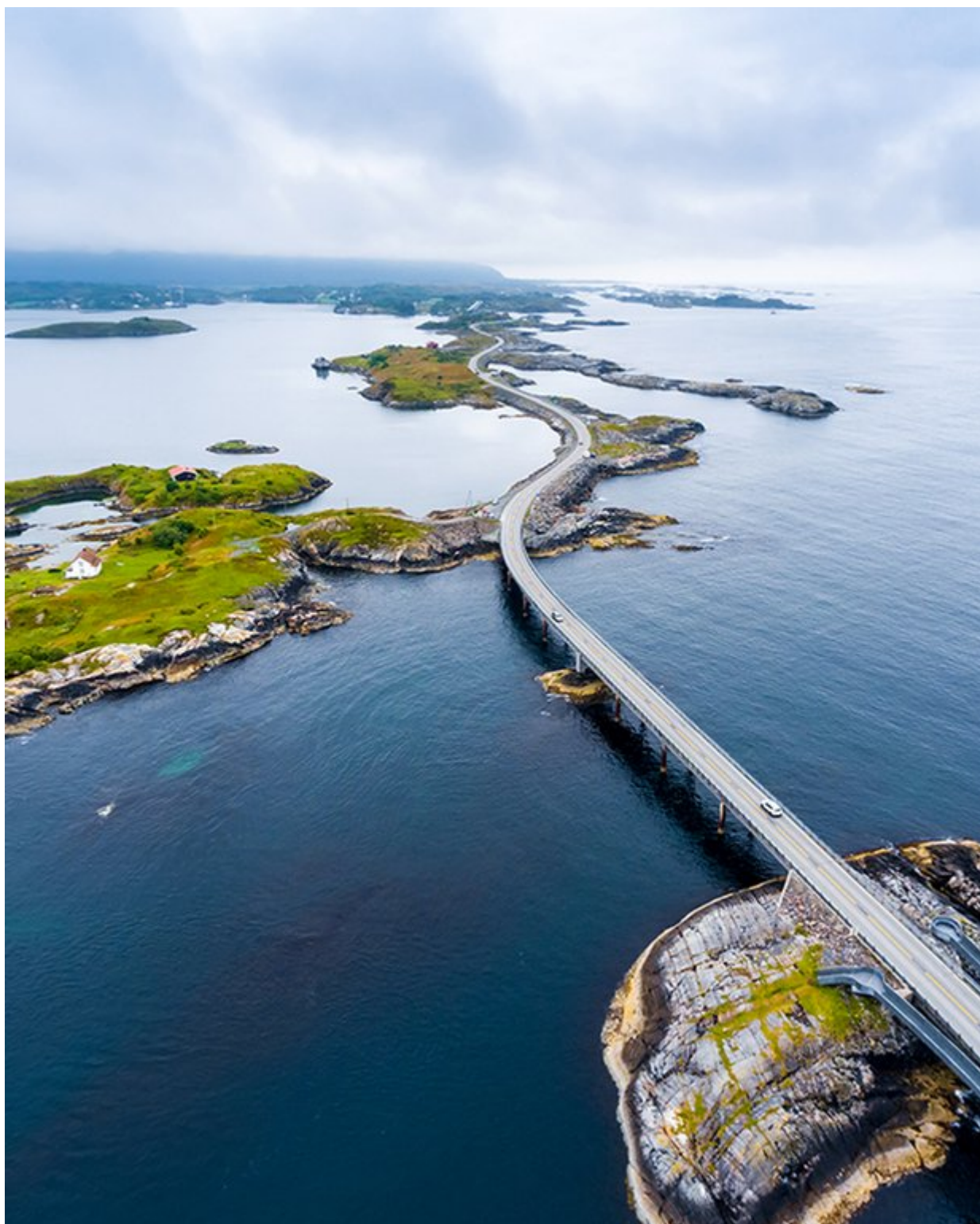
* Increase from 2016 ** Replace mCash

The story of SpareBank 1 SMN

The first customers entered Trondhjems Sparebank in the year 1823. Our offering of financial services has evolved in keeping with society as a whole. Initially the Bank's goal was to combat poverty and give ordinary people the opportunity to save. Today SpareBank 1 SMN is one of Norway's largest banks and a complete financial department store.

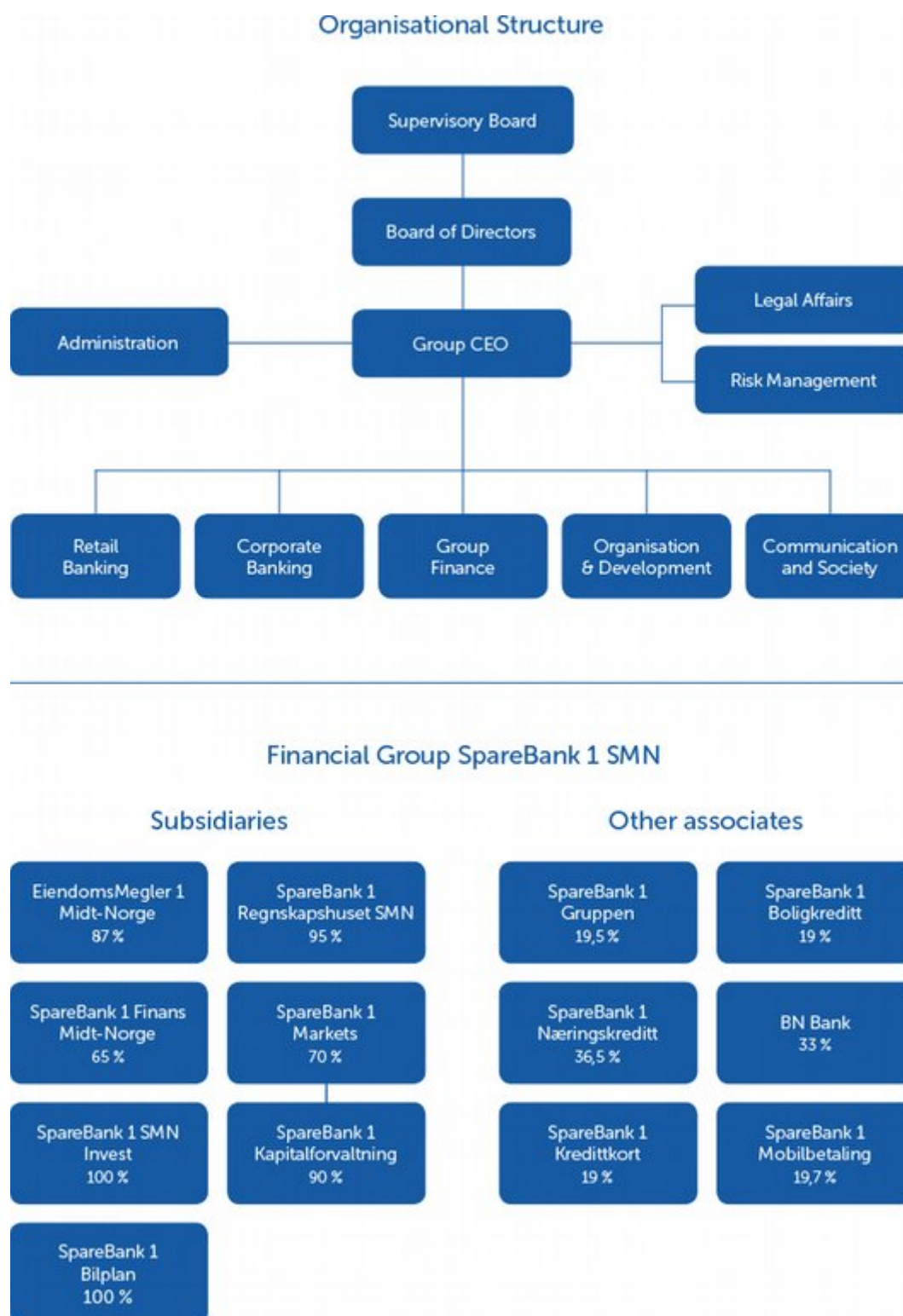


The business



Business description

SpareBank 1 SMN is the region's leading financial services group and one of six owners of the SpareBank 1 Alliance. Its head office is in Trondheim and the group and its subsidiaries employ just over 1,300 staff. SpareBank 1 SMN is a regional independent savings bank with a local footing. Through the SpareBank 1 Alliance and its own subsidiaries, SpareBank 1 SMN has secured access to competitive products in the fields of financing, savings and investment, insurance and payment services. The bank is organised under the following structure:



Retail Banking

The business area Retail Banking offers advice to personal customers, farm sector customers, clubs, associations and one-person businesses. Together with product suppliers and subsidiaries, the bank offers all products that are important in making customer finances simpler and securer and in finding solutions together with the customer. The advice offered is based in the customer's needs. Although production tasks and solutions are becoming increasingly digital, we believe there is a large and unmet need for advice in building and safeguarding the present and the future for all customer groups of this business area.

Our ambition is to have the industry's best digital solutions, providing customers with straightforward day-to-day banking services and an opportunity to meet all their needs in the banking and insurance sphere. But we still see the value of decentral localisation that gives the customer an opportunity to meet us for one-stop advice, and to feel that that we are something more and different than the sum of our products.

In addition to following the industry's norms and requirements on good advisory practices, we must as a bank contribute knowledge and insight to continuously improve the quality and relevance of advisory content to our customers.

Our hallmark is our ability to meet an ever larger part of our customers' needs for financial services in an industry in which many actors focus on selling individual products.

Customers and market position

In 2017 SpareBank 1 SMN strengthened its position as the leading actor in all Retail Banking's customer groups, and all product areas. More than 59,000 planned customer advisory sessions were completed in 2017, and this number is expected to increase further. The residential mortgage portfolio continues on a positive trend.

Our business has a strong standing among our customers, and shows an excellent trend in customer satisfaction. The interaction with subsidiaries, Corporate Banking and the Norwegian Confederation of Trade Unions (LO) is important in enabling Retail Banking to attain the division's goal of continued growth in activity and the customer base.

Financial developments

Retail Banking posted an overall pre-tax profit of NOK 1,132m.

The loan book shows high growth, but at consistently low risk. The increase in growth compared with 2016 is largely down to new borrowers coming from banks that have made structural changes and no longer offer locally based advice. In addition to an unprecedented customer influx, we have also seen a good trend in sales across a broader range of products, and have positive expectations of growth in sales in 2018 too.

We anticipate greater uncertainty in the housing market in the period ahead, and this may have a bearing on risk in the industry. Back in March 2016 we made changes to our credit practice in order to be well prepared should house prices level off or fall. By means of a more stringent lending policy over time than is the norm in the industry, we believe we are well prepared for the levelling off of house prices we saw towards the end of 2017 and for any fall in house prices ahead. The region has a robust industry composition, and the bank has in addition focused its retail banking business on smaller loans and home financing. This makes for good risk diversification and, in combination with good sales and a good portfolio trend for mainstream products, gives us a solid basis to withstand possible negative shifts in the Norwegian economy.



Local and digital

We are moving step by step from being a traditional bank offering digital services to a digital bank with a personal and local signature.

Svein Tore Samdal, executive director, Retail Banking

Customers are growing in number, making more purchases and staying with us longer

2017 was another year confirming that our strategy is well-suited to the customers we want to cater to. We are moving step by step from being a traditional bank offering digital services to a digital bank with a personal and local signature. Customers are making ever more demands of us as a bank, and we see these demands change based on needs, situation and life phase. That is why we are offering more products and services across more channels than ever before. The customer experience is our important main focus in a broad range of situations. It is about enabling accessible and straightforward product purchases, secure establishment of new products and services, effective digital services that make daily life simpler for the banking customer and his/her family and competent advice in the more demanding situations that arise in a customer's life.

In 2017 we continued the sound growth trend. With a lending growth of more than 10 per cent we ended the year well above the target set of 2017, at the same time as growth in risk and quality is as targeted. We also achieved good deposit growth of 6.7 per cent. The growth in deposits is a result of high activity aimed at ensuring that all customers hold their salary and current accounts with us and a conscious desire on the part of many borrowers to do their day-to-day banking with us as well.

We retain our local presence in 48 locations across our region while at the same time adapting our office structure to a more digital day-to-day life. Specifically this entails an increase in advisory services related to life events and a drop in the number of enquiries related to day-to-day banking and services. The latter are to a greater extent provided through good intuitive digital solutions, increasingly frequently via the customer's mobile bank. In 2017 we also opted to introduce ANNE, our digital chatbot, who guides customers in many of their day-to-day enquiries. We believe the range of possibilities offered by this technology to be unexplored territory, and it could significantly enhance the customer's experience by coming across as both competent and accessible.

2017 was the year in which mCash merged with VIPPS. This has been good news for all our club and association customers who can now benefit from a flexible payment solution with very many users.

Moreover, good use has been made of the year to prepare for various scenarios that may become a reality as a result of PSD2, the revised payment services directive. We will play a leading role on this front, and focus on new partner and business initiatives to the benefit of all our customers.

2018 awaits us. Another year of change. We will continue to seize our opportunities – providing our customers with better advice, our staff with a sense of achievement and a fantastic working day, and our investors with a splendid return.

Privatmarked	2 017	2 016
Deposits	37.2 bn	34.9 bn
Loans	103.1 bn	93.8 bn
No. of customers	218 000	215 000
No. of FTEs	350	371
Profit before tax	1,127 bn	850 bn

Corporate Banking

The business area Corporate Banking provides the bank with advice in investment and operations financing, domestic and foreign money transfers, fixed income and currency hedging, investment of surplus liquidity and insurance of individuals and buildings/operating equipment. Much of the business is in close cooperation with Retail Banking, SpareBank 1 Markets and with subsidiaries offering leasing, factoring and accountancy services. The business is physically located across the entire market area to secure proximity to customers combined with satisfactory competence units.

The bank is IRB approved and uses the advanced IRB approach to compute capital charges and credit risk. The bank has good credit scoring models, processes and tools along with its organisation of industry competence which ensures sound knowledge and management of the loan portfolio. This will assure that further growth is in keeping with the bank's responsibility as a market leader in the region and that risk exposure is consistent with the bank's credit strategy. Together with the other alliance banks, substantial resources are expended on continuously improving the credit scoring models.

Customers and market position

The bank services some 21,000 corporate clients including the public sector. In 2017 about 1,500 new corporate clients were registered. SpareBank 1 SMN has a market share of about 35 per cent of the corporate market in the region. The bank also services a number of customers in business areas such as insurance, capital market, leasing, factoring and accounting. The business sector in Trøndelag and in Møre and Romsdal features a large number of small and medium-sized companies. This structure has a clear bearing on the bank's organisation of its business.

The Corporate Customer Centre is a central business line in Corporate Banking, enabling corporate customers to receive good follow up and relevant advice in selecting products and services and in the use of digital services. Customer satisfaction (CSI) hit an all-time high in 2017. The score takes into account competence, service, information and initiative.

Financial developments

The business area Corporate Banking increased its income by close to NOK 20m to NOK 1.2bn last year. The income is generated by a positive trend in all business lines, but in particular from increased deposit margins and higher guarantee commission. It is especially gratifying that income from insurance (general and life) is rising and that more and more businesses see the value of turning to a local provider with local competence in all product areas to meet all their financial service needs.

Growth in lending has been low and in keeping with the bank's capital plan, and ended at 1.5 per cent for the year, while deposit growth was excellent with an increase of 19.5 per cent. We anticipate low lending growth again in 2018 while aspiring to a deposit growth of about 5 per cent.

In step with the digitalisation of our products and services, we have downsized our staff and thereby our costs in this business line. More focus will be given to digitalisation, improving the efficiency of processes and staff reductions in 2018.

The oil price fall has led to a significant deterioration of prospects for companies working in oil and offshore, and the business unit has therefore recognised losses of NOK 320m in 2017. The write-downs are in all essentials related to a portfolio of offshore service vessels. Little spread of contagion from the low oil price to other industries is in evidence and losses and defaults in other parts of the portfolio are extremely low.



SMBs even more important

In 2018 we will continue to focus on the SMB segment in order to reduce concentrations in individual industries or single name groupings.

Vegard Helland, executive director, Corporate Banking

Continuing focus on SMBs

SpareBank 1 SMN has clear ambitions to strengthen its position as the leading bank for small and medium-sized businesses in Trøndelag and in Møre and Romsdal.

Corporate Banking employs a systematic approach to attracting new customers, and all customer advisers have specific customer recruitment objectives for 2018. Continuous improvement is key to freeing up time for the customer advisers to enable them to carry out their primary task of taking care of existing customers and recruiting new ones. In 2018 we will continue to focus on the SMB segment with a view to reducing concentrations in individual industries or single name groupings.

The solution lies in having skilled advisers close at hand in the bank combined with development of new digitalised solutions that make day-to-day banking a simpler matter and that free up time and resources which can be devoted to providing good advice and to designing solutions tailored to the customer.

In collaboration with SpareBank 1 Regnskapshuset, the bank has developed new digital services for business and industry. This is being done at an innovation unit at the company SMB Lab whose mission is to launch concepts, products and services that are tailored throughout to the needs of small and medium-sized businesses and simplify their everyday life.

The bank's goal is to reduce losses from the levels seen in 2017. This, together with a profitability enhancement programme for the business unit, will improve profit and the risk adjusted return. The bank remains prepared to take the action needed to meet any problems that may arise in the oil and offshore sector. It is working closely with customers to find solutions that safeguard shared interests in the economic situation prevailing at any time. Corporate Banking will accordingly maintain the capacity and competence needed for the bank to remain a readily accessible and capable provider of financial services in the long term.

While the macroeconomic picture is uncertain on a general level, differing challenges are faced in the sectors to which the bank's clients are exposed. Again in 2017 the bank published its Economic Barometer

which takes the pulse of the most important industries in the region and produces economic growth forecasts for our three counties. Corporate Banking attaches great importance to having advisers with a practical business understanding of important industries. Cooperation with other SpareBank 1 banks is close.

In 2017 the business area has had a major focus on compliance, in particular on the anti-money laundering effort. This effort has produced good results and at year-end the business area has accomplished its aims. Further, we have launched a major project to build a new customer interface that combines information from the bank and accounts and permits third parties to deliver services to our customers. The new customer interface will be made available to the market in the course of 2018 and will enable increased digital sales and, not least, distribution of new products and services.

Næringsliv	2 017	2 016
Deposits	38.7 bn	32.4 bn
Loans	39.5 bn	38.9 bn
No. of customers	15 000	15 000
No. of FTEs	145	158
Profit before tax	632 m	384 m

Digital Trend

At the start of 2018 the Norwegian financial industry faces major changes. The revised Payment Services Directive, PSD2, will be introduced in the course of the year. The bank and the SpareBank 1 Alliance have set an ambitious goal: to exploit this opportunity to offer improved services and create more value for existing and new customers. It will require increased investment to lift the bank's services out of closed electronic systems into an open system enabling us to offer banking services to both new and existing customers. This can be done through the bank's existing channels, new dedicated interfaces and ecosystems bringing in a number of partners.

Much of the development work will take place through the SpareBank 1 Alliance which has a strong development unit, but the bank is also strengthening its internal team with new skills to enable more customer centric innovation and development.

At the same time external partners are being invited to engage in innovation based on the bank's products and services and data. We are also collaborating closely with start-up companies, for example through our proximity to the incubator F3 Finance for the Future which is located in the bank's head office.

Employee-driven innovation – best at getting better

In 2017 SpareBank 1 SMN has had a strong focus on involving its staff in the bank's improvement and innovation processes. The goal has been to create a better flow in internal work processes, increased quality and reduced delivery time to the customer and to remove pain points in digital purchase and service solutions.

In addition, ahead of the Group get-together in autumn 2017, all staff members were invited to take part in a grand idea competition called SMN Group Pitch 2017. The competition resulted in 120 well-documented and well-founded ideas, and some of their creators were invited to participate in further development and prototyping.

Relevant customer communication and digital selling

The bank offers simple, user-friendly digital solutions for all our services, and we estimate that 50 per cent of all sales will be digital in 2020. Last year the bank introduced one of the market's most powerful tools for coordinating relevant customer communication across different channels. Correct use of data and a well-functioning and effective channel interaction are crucial to creating relevant initiatives and to increasing sales across all channels. Advanced statistical prediction models significantly enhance targeting.

Of the total number of sales, digital sales accounted for 24 per cent in 2017 – up from 19 per cent the previous year. We see a clear tendency for many of our customers to prefer a digital channel where the bank offers good solutions. This year we will develop new digital solutions for financing.

The bank has a new CRM system in the pipeline which, together with advanced statistical models and the Adobe campaign manager, will enhance and effectivise channel interaction, making for increased sales and a better customer experience.

Developing effective and efficient cloud services and digital assistants

In 2017 the bank has actively studied the opportunities and risks involved in using the cloud as a technological platform for new IT solutions. Over the year a good basis was laid for using new solutions ourselves or placing them in a secure manner with selected cloud service providers. Cloud solutions provide

opportunities to establish new solutions more quickly than would otherwise be the case or to adapt solutions to meet new needs.

The bank has worked purposefully on installing robotic process automation (RPA) to digitalise and increase the efficiency of operational processes. RPA will also be a focal area in 2018. Developing a security architecture and solutions geared to a more open business model are challenges facing the financial industry. SpareBank 1 SMN plays its part in the Alliance's shared security strategy effort to address and respond to the changes this development will bring.



New customer behaviour makes for increased digital sales

We estimate that 50 per cent of all sales will be digital in 2020.

Nelly S. Maske, executive director, Organisation and Development

The SpareBank 1 Alliance

The SpareBank 1 Alliance brings together the Norwegian SpareBank 1 banks in a collaboration on banking and products through their jointly owned companies SpareBank 1 Gruppen and SpareBank 1 Banksamarbeidet.

About SpareBank 1 Gruppen

SpareBank 1 Gruppen is the parent company of eight subsidiaries which all develop and deliver products to the Alliance banks which in turn offers these products to customers in their local markets. The company also develops and delivers products to the Norwegian Confederation of Trade Unions' (LO) associated unions and members through the credit card programme LOfavør.

SpareBank 1 Gruppen is wholly owned by SpareBank 1 banks and the LO as follows: SpareBank 1 SR-Bank (19.5 per cent), SpareBank 1 Nord-Norge (19.5 per cent), SpareBank 1 SMN (19.5 per cent), Samarbeidende Sparebanker AS (19.5 per cent), Sparebanken 1 Østlandet (12.4 per cent), and the LO and associated unions (9.6 per cent).

SpareBank 1 Gruppen wholly owns the following subsidiaries

SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning, Conecto, SpareBank 1 Factoring, SpareBank 1 Portefølje, SpareBank 1 Spleis and SpareBank 1 Medlemskort (owns 51%).

About SpareBank 1 Banksamarbeidet

SpareBank 1 Banksamarbeidet, a banking collaboration, has the administrative responsibility for collaborative processes and delivery of services to the SpareBank 1 Alliance. The company delivers business platforms and joint management and development services to the Alliance banks, and plays its part in ensuring that joint development and joint activities provide the banks with economies of scale and competence. The company also owns and manages the Alliance's intellectual property rights under the joint brand name SpareBank 1.

The people - the bank's greatest asset

Behind the fine accounting figures lie favourable economic conditions and solid banking. But, the bank's definitively greatest asset is and will continue to be the skills and competence of its staff.

The people

Technological development and changing customer behaviour mean the bank has to adapt to a new everyday and equip itself for the future. This has also influenced the work done on organisation development and management in 2017. Reorganisation, staff development and recruitment of new competence to build the bank of the future had high priority in the year behind us. A new vision and new values were launched in 2017. The new values will help to build a culture that makes the bank a good place to work and a good place to be a customer.

At the end of 2017 the bank employed the equivalent of 595 FTEs.

Vision and values

In January 2017 a new vision and a new set of values were launched. They were the result of a thoroughgoing process marked by great involvement and a strong commitment. The vision conveys meaning, direction and energy to the people working at the bank. The bank's new vision reads: "Together we make things happen".

The bank's new values are wholehearted, responsible, likeable and capable. The values are intended to build a bank's identity, and form the basis for a culture in which the staff thrive, and work each day to create results for the good of our customers and the bank.

Recruitment and attractiveness to employees

SpareBank 1 SMN is among the region's most attractive employers and is met with great interest when job vacancies are to be filled. In 2017 many new, high-quality staff were recruited who, together with the organisation as a whole, will play an important part in adapting and developing the bank in step with the considerable changes we are facing.

The bank has a targeted focus on colleges and universities with a view to building relations with talented students. We attract many applicants and note a keen interest both in our mentor programme for business and economics students and in the bank's summer project.

Reorganisation

Changing customer behaviour and technological opportunities call for adjustments to the organisation. Digitalisation and automation of customer and production processes lessen the need for people in parts of the business. Targeted reorganisation processes have been carried through in parts of the organisation, and 39 severance packages were agreed in 2017. The processes are described more fully in the chapter on corporate social responsibility.

Employee development

The bank's managers and staff are its most important resource and a crucial differentiating factor when it comes to attaining goals and fulfilling strategies. That is why the bank attaches great importance to developing competence and skills. Internal training activities are arranged on a substantial scale, and many

of our talented managers and staff are offered opportunities for professional and personal development on external courses and at educational institutions. The bank works continuously to identify competence needs in the short and long term to assure our ability to offer our customers advisory and other services of the highest quality.

In 2017 we completed a pilot project on the use of virtual reality (VR) technology in training our customer advisers. The project is continuing in 2018 the focus on training of relationship skills in the context of dialoguing with customers.

New pension scheme

As from 1 January 2017 all employees were members of a defined contribution pension scheme. Although the bank closed its defined benefit scheme in 2008, about half of employees were still on that scheme at the start of 2016. After a long and thoroughgoing process with the employees' representatives it was decided to transfer all employees to the defined contribution scheme. The bank also decided with effect from 2017 to increase the defined contribution rates to 7 per cent from 0 to 7.1G* and to 15 per cent in the interval 7.1 to 12G*.

Health, environment and safety

The bank has a targeted focus on measures designed to promote a good work environment, and substantial resources are devoted to encouraging good health through physical activity and keeping fit. The programme "Better Shape" stimulates individuals and departments to keep fit by holding competitions and awarding prizes, by subsidising fitness centre membership and by organising fitness activities at work. Employees log their workouts in a digital fitness diary, and the share of employees who tracked their workouts in 2017 was 81 per cent.

Sickness absence in 2017 was 4.0 per cent, with sickness absence reported by the employees and by a doctor accounting for 0.8 per cent and 3.2 per cent respectively.

Gender equality

SpareBank 1 SMN is concerned that women and men should have equal opportunities in terms of personal development, salary and career. At the pay settlement in 2017 correctives were applied to ensure that pay level imbalances between women and men were evened out. The gender distribution at the bank in 2017 was 51.2 per cent women and 48.8 per cent men. The proportion of female managers was 41.8 per cent. The group management team consists of six persons, of which one is a woman. The bank's focus on diversity and gender equality/equal opportunity is described in detail in the chapter on corporate social responsibility.

Society/social conditions	2 017	2 016
No. Of FTP equivalents	595	630
Sickness absence	4 %	3,9 %
Women's share of workforce	51,2 %	51,8 %
Womens's share of senior positions	41,8 %	41,2 %
Average age	46 yrs	46 yrs
Employee engagement	83	N/A

*G = the basic amount available under the Norway's national insurance scheme.

Corporate social responsibility



Corporate social responsibility

SpareBank 1 SMN aims to contribute to society's value creation through responsible banking operations that instil public confidence in the bank.

The four core values *wholehearted*, *responsible*, *likeable* and *competent* are all connected to corporate social responsibility. However, *responsible* singles itself out as the most important guide for SpareBank 1 SMN's CSR efforts.

The bank's focus on corporate social responsibility is designed to strengthen competitiveness, reduce risk, attract good customers, investors and skilled staff, boost innovation and contribute to the further development of the region of which the Group is a part. By this means the bank creates value in a *responsible and sustainable manner* for all stakeholders. SpareBank 1 SMN's ambition is to use corporate social responsibility as a competitive advantage through integrating CSR into all corporate governance and incorporating CSR in all governing documents, relevant policies and guidelines.

The bank is now reporting for the first time on the bank's performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI), in accordance with the Core option. The bank will report its CSR results under the GRI standard on a yearly cycle together with the annual report.

Steering sustainability

SpareBank 1 SMN developed a new CSR strategy in 2017. The strategy builds on the bank's values, is rooted in the group management team and adopted by the board of directors. The board of directors was actively involved in developing the strategy, and is a key driver in its implementation.

The strategy applies to the entire Group including the subsidiaries, and will be revised every two years. The Group executive directors are responsible for ensuring that each specialist area develops specific, measurable, relevant and timed measures that contribute to attaining the objectives of the CSR strategy. The head of corporate communications is responsible for integrating the strategy into action plans. The Group CEO has the overall responsibility for ensuring that plans and measures are acted on and implemented.

The strategy describes concrete objectives under the following themes:

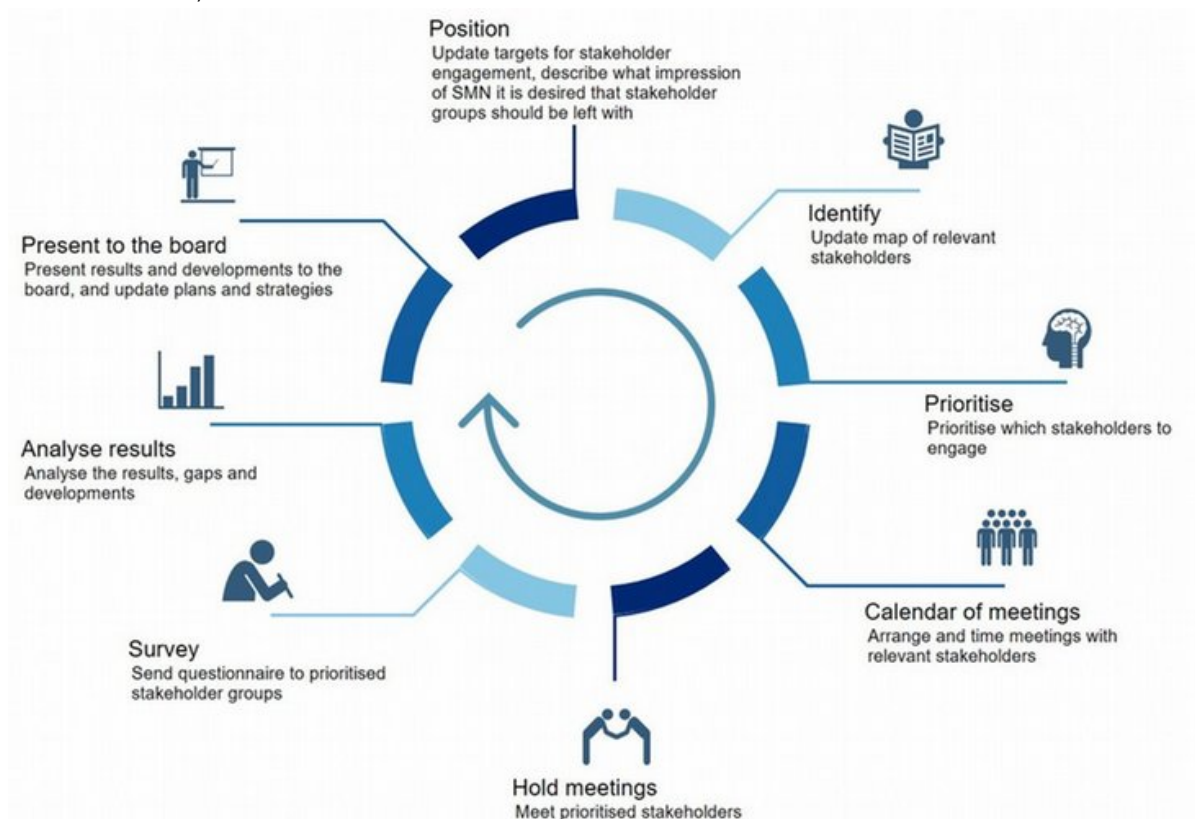
- Responsible products and services
- Communication and openness
- Ethics and anti-corruption
- Environment and climate
- Staff and organisation

In addition to the specific responsibility of the Group management team, all managers are responsible for ensuring that the work on sustainable development and corporate social responsibility is relevant to the Group's activities. The managers are also responsible for implementing adopted measures and for ensuring that all staff members within their particular area of responsibility are familiar with the measures concerned.

An annual internal control review is carried out to check compliance with and knowledge of the strategy. The result of this review is reported to the board of directors.

Involving stakeholders (GRI 102-43)

SpareBank 1 SMN's CSR strategy defines how the bank is to engage its stakeholders. The bank endeavours on a continuous basis to identify and engage its own surroundings, and to integrate inputs into important decision processes. The bank endeavours to meet the demands and expectations of the bank's stakeholders in an open and constructive manner. To this end the bank has an annual process devoted to stakeholder activities, rooted in the board of directors:



In its approach to stakeholder engagement, SpareBank 1 SMN shall: (GRI 102-42)

1. Define stakeholders on a broad and strategic basis and seek opportunities
2. Prioritise stakeholders according to their value to the bank and their interest in the bank and be open about what the bank gains from the stakeholder dialogue
3. Be open, clear, inquisitive and constructive in dialoguing with the stakeholders
4. Seek partnerships and share success stories with the stakeholders
5. Take the stakeholders' views on board in corporate governance.

SpareBank 1 SMN engages in continuous dialogue with a number of stakeholders, and in 2017 the bank held meetings with customers, investors, mayor, county governor, the Consumer Council, the Financial Supervisory Authority of Norway, Future in our Hands, the Norwegian Confederation of Trade Unions (LO) and Finance Norway to discuss the theme of sustainability. (GRI 102-40)

This dialogue has in particular lifted the bank's policy formulation regarding responsible investment and responsible credit practices, a theme which has been the subject of a number of discussions with Finance Norway, the Consumer Council and Future in our Hands. (GRI 102-44)

SpareBank 1 SMN will focus on themes of major importance for the bank's external and internal stakeholders, and will support the bank's overarching business strategy. The bank will throughout take on board the stakeholders' legitimate expectations in the strategy process. Through the stakeholder dialogue, the bank has identified material themes, reported selected indicators on these themes and explained how it handles the themes. The bank is a part of the SpareBank 1 Alliance and, where material themes are covered by the Alliance, the report describes the Alliance's assessments (GRI 102-46)

In its materiality process the bank defined the following themes as top priority:

- Responsible investments, negative screening and exclusion and requirements on financial suppliers
- Responsible credit practices
- Responsible marketing of products and services and good banking
- Personal data protection and information security
- Staff development
- Diversity and equal opportunity
- Ethics and anti-corruption
- Economic crime
- Developing local business
- Innovation and digitalisation

(GRI 102-47)

Reporting of CSR and sustainability

SpareBank 1 SMN devoted 2017 to professionalising the bank's CSR efforts. The reporting process was an important aspect of this work. Inputs were received from external stakeholders, and all managers, the board of directors, the respective bank directors and the managements of the subsidiaries were involved.

The bank's specialists obtained information on each theme of the report and the chapters are quality assured by the bank's managers in the particular field.

The report is approved by the Group management and the board of directors, and adopted by the bank's highest body, the supervisory board, together with the annual report.

The bank is now reporting for the first time on the bank's performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI), in accordance with the Core option. (GRI 102-54) The bank will report its CSR results under the GRI standard on a yearly cycle together with the annual report. (GRI 102-52)

The information provided in the report is as balanced and correct as possible, and sufficiently precise and accessible to permit an evaluation of the bank's performance as regards CSR. The report refers to management documents and makes documents in the public domain accessible via references to enable the reader to obtain further details to supplement the information offered by the report. The report is published as part of the adopted annual report to ensure timeliness and relevance. (GRI 102-46)

The GRI index can be downloaded from our webpage on corporate social responsibility

Responsible investments

One of the bank's fundamental values is responsible-mindedness. This term implies that the bank has an

extended responsibility for how its actions affect the environment, people, jobs and management of assets now and in the future. Capital is an important input factor both in ethical and unethical activity. The bank intentionally channels capital to ethical activity and away from unethical activity in order to contribute to creating a better society and to reduce risk in its own asset management. In dialogue with our stakeholders, the bank has identified active ownership, negative screening and requirements on financial suppliers as material themes which we must have under our control to ensure responsible asset management.

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments. We are duty bound to do what we can to support the UN's sustainability goals, and we are concerned that companies in which we invest or to whom we loan money should take account of themes such as responsible management of water resources, forests, mineral extraction, responsible oil extraction and refinement of petroleum products, and fishery resources.

The bank's geographical catchment area is Trøndelag and Møre and Romsdal. Given this geographical demarcation, investments and lending are largely restricted to companies subject to Norwegian law. However, globalisation and digitalisation have changed the context in which the bank operates. The bank has accordingly in 2017 undergone a comprehensive programme aimed at structuring its work on responsible investments.

All of SpareBank 1 SMN's direct investments, subsidiaries and companies in which it exerts majority control are now subject to a new policy from 2017  "Our requirements on sustainability in our lending and our owner positions" and  "Our principles regarding ethics, corporate social responsibility, corporate governance and sustainability in asset management". The policies describe the criteria underlying positive and negative screening over and above statutory requirements (GRI FS11) and the bank's requirements on its external asset managers.

The bank acts on its responsibility for customers' and the bank's owner interests through separate guidelines in order:

1. Not to take owner positions or provide loans to companies that fail to abide by our principles, and to include caveats regarding follow-up and consequences in the event of any deviation (covenants) in funding where the companies concerned operate in industries, countries and regions posing a particularly high risk
2. To exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active owner management
3. To require documentation that customers have taken action on circumstances that violate our principles
4. Take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.

Annually, and for the first time in April 2018, the bank will review developments in the documentation of compliance with anti-money laundering rules, requirements on transparency, ethics, corporate social responsibility, sustainability and corporate governance at small companies in which the bank holds owner positions. The bank will also check necessary measures to improve procedures and processes for following up on its owner positions. All the bank's employees are required to annually review the bank's policy for sustainable and ethical investments and to be aware that the bank expects all credit cases and investment

decisions regarding international companies and risk industries to be accompanied by an assessment of compliance with the bank's principles, and an account of control measures and opportunities for sanctions that are established in the event of breaches.

The bank has separate funds for liquidity purposes invested in bonds. These total about NOK 19.7bn (GRI FS11) Other assets such as derivatives, fixed interest loans, subordinated loans and equity instruments total NOK 9.5bn (GRI FS11) The bank's ownership in subsidiaries and group companies is additional to this.

Investments at SpareBank 1 SMN can be divided into three categories:

- The bank's own direct investments
- Investments carried out by asset management services mediated through the bank (Odin Forvaltning)
- Investments carried out by the gift fund and SpareBank 1 SMN Utvikling.

The bank endorses the United Nations-supported Principles for Responsible Investment (PRI) in all its own investments, and endeavours to ensure that the principles are also complied with by SpareBank 1 Gruppen's companies.

Own direct investments

Subsidiaries (and companies under majority control)

SpareBank 1 SMN EiendomsMegler 1 Midt-Norge, SpareBank 1 Finans Midt-Norge, SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Invest and SpareBank 1 Markets. SpareBank 1 Markets manages own funds with total assets of about NOK 2.2bn. The subsidiary SpareBank 1 Kapitalforvaltning manages capital on behalf of its customers and about NOK 6bn. (GRI FS11)

SpareBank 1 SMN Invest is the bank's wholly-owned subsidiary, and manages capital of about NOK 300m. (GRI FS11) SpareBank 1 SMN Invest operates in Norway's technology capital, Trondheim, and through SpareBank 1 SMN Invest the bank meets a further need in the local community – for local capital for technology. SpareBank 1 SMN Invest invests exclusively in unquoted equities and mutual funds in the bank's geographical area.

Additionally, the company takes over shares in connection with bankruptcies and loan defaults in order to retain local business activity. Where required, its owner position is used to influence the company concerned to comply with the bank's principles as regards sustainability, ethics, governance and corporate social responsibility. The bank requires evidence of a positive development in the willingness of the company concerned to comply with the bank's principles in order to maintain its owner position. Owner positions in companies that breach the bank's principles are followed up in the form of a half-yearly report to the board of directors until the position has been wound down. (GRI FS10)

Although new holdings are screened in accordance with the bank's requirements, existing portfolios have yet to undergo a structured screening process. (GRI FS11) Such a process is planned for 2018. Where the subsidiaries are concerned, the bank has a continuous owner dialogue in which the bank also incorporates social or environmental themes. (GRI FS10)

The SpareBank 1 Alliance's companies (not under majority control)

SpareBank 1 SMN holds stakes through the SpareBank 1 SMN Alliance in SpareBank 1 Forsikring, SpareBank 1 Boligkreditt, SpareBank 1 Næringskreditt, BN Bank and SpareBank 1 Gruppen.

The owner dialogue regarding responsible investments is simplified here since the other SpareBank 1 Alliance owners are savings banks with requirements and expectations similar to those of SpareBank 1 SMN. The banks coordinate their positions on social and environmental themes with these companies (GRI FS10), but the Alliance companies are not subject to the bank's own policy.

The savings and investment committee at SpareBank 1 Gruppen carry out a quality assessment of all savings and investment products distributed by SpareBank 1 Gruppen. The committee conducts an annual audit of the product portfolio. The committee will incorporate ESG criteria in the audit in 2018.

Odin Forvaltning

Odin Forvaltning is obliged to comply with the UN's principles for responsible investment. Odin combines ESG analyses with respect to investments with exclusion of companies that produce goods and services not in accordance with generally accepted ethical values. Odin has ongoing screening with the acknowledged research & ratings company, Sustainalytics. At Odin the managers themselves are responsible for integrating corporate social responsibility and corporate governance into investment analyses and investment decisions. Odin's products are included in the audit done by SpareBank 1 Gruppen's savings and investment committee. <https://odinfond.no/om-oss/ansvarlig-forvaltning/>

SpareBank 1 Forsikring

All but two of SpareBank 1 Forsikring's asset managers have signed the UN's principles for responsible investment. The company employs a broad range of instruments to ensure responsible investment of its portfolio. SpareBank 1 Forsikring describes its policy  here .

Investments done by management services mediated through the bank

Odin Forvaltning delivers the bulk of the bank's mutual fund products. This also means that the majority of mutual funds that the bank offers its own customers adhere to Odin Forvaltning's policy for responsible investment, described in the previous chapter. As a distributor, the bank can exert influence on potential mutual fund providers through its negotiating power and through good, close dialogue with its customers. The bank cannot itself steer investment, but has at its disposal several instruments for influencing providers to follow up on their own positions so that the businesses make good choices.

Retail Banking at SpareBank 1 SMN is responsible for following up on mutual fund providers. As from 2018 the bank will oversee to what extent mutual fund providers comply with the bank's guidelines regarding negative screening on social and environmental criteria. This work will be followed up by continuous random checks on asset managers' products to verify compliance. As at 31 December 2017 this work had yet to commence. (GRI FS11)

In actual practice the mutual fund managers of followed up in the manner below:

Consequence	SpareBank 1 cannot recommend or distribute the asset manager's products	SpareBank 1 asks the manager for further documentation of measures and process in order to continue distribution and recommendation	SpareBank 1 can recommend and distribute the asset manager's products, and can point up elements of the company's work on ethics and sustainability	SpareBank 1 can recommend the asset manager's products, and confirm that it operates in keeping with our requirements as to ethics, corporate social responsibility and sustainability
Description	Does not follow the exclusion list or the exclusion process at least at the level of the Government Pension Fund Global ("Oil Fund") and/or has deficient documentation of a screening process and procedures for measures to identify and follow up on possible norm violations. Lacks strict ethical requirements and sustainability requirements in some areas and lacks a strategy on ethics and sustainability. Has outsourced management to sub-suppliers without obtaining and documenting a declaration of conformity from underlying suppliers at least on a par with SpareBank 1's own conformity statement, and is unable to document its own control measures and quality assurance	Follows the "Oil Fund's" exclusion list and/or stricter exclusion principles. Has its own strategy for sustainability and ESG. Publishes its exclusion list, but has some flaws in its procedure for identifying and acting on potential breaches.	Has a clear strategy for ESG and sustainability. Has a clear and documented process for identifying and acting on events and deviations, and can document that ethical guidelines have practical consequences for asset management.	Has ESG and sustainability strategies that cover all areas of SpareBank 1's requirements on ethical and sustainable management
Measures	New distribution of mutual funds under distribution is halted at two months' notice to the asset manager and customers. If the asset manager has not documented completion of measures, all customers with mutual funds bought through our channels are contacted and offered alternative products, and a description is given of the deficiencies that have been uncovered and of our efforts to improve the asset manager's compliance	The asset manager is followed up on with a view to remedying weaknesses in processes and strategy, and is given a reasonable period to make improvements	The asset manager's products can be pointed up in distribution channels as ethical or sustainable choices, with specification of those areas in which the manager has a good strategy on ethics and sustainability. We follow up on the manager to further develop the strategy	The manager's products can be recommended, and are pointed up in distribution channels as ethical <u>and</u> sustainable choices

Taken from  "Our principles with respect to ethics, corporate social responsibility, corporate governance and sustainability in management"

The bank is concerned to manage savings in mutual funds in a sustainable manner. This means that environmental, social and business-ethical (ESG) factors are an important aspect of the bank's asset management. The bank aims to offer a range of sustainable mutual funds in the course of 2018. The diagram below describes the supplier chain of mutual fund products. ODIN and other fund managers put together mutual fund products with investments in selected companies. The mutual fund products are then mediated to customers through the bank.



The bank mediates asset management products to a value of NOK 5.95bn through Odin Forvaltning and NOK 4.5bn through other mutual fund providers. As at 31 December 2017 the bank delivered mutual funds from the following providers: Odin Forvaltning, DNB, Eika, Holberg, Skagen, Storebrand, Delphi, KLP and Alfred Berg. The most important products are Odin Aksje and combination funds from Odin. (GRI 102-9)

In the course of 2017 the bank has brought in the fund managers DNB, Eika, Holberg, Skagen, Storebrand, Delphi, KLP and Alfred Berg, and has not terminated any asset management collaboration. (GRI 102-10)

Investments carried out by SpareBank 1 SMN Utvikling and the gift fund

The foundation SpareBank 1 SMN Utvikling is engaged exclusively in operating appropriate investments in projects designed to support a positive development of society. Initiatives that benefit the common good. SpareBank 1 SMN Utvikling has owner positions worth NOK 60m. (GRI FS11)

The gift fund is financed by the bank's net profit. The fund prioritises projects in the field of innovation, business development, culture, sports, the environment and humanitarian causes. The fund's resources are in an account with the bank, and it annually donates about NOK 60m distributed fairly equally between grassroot sports, culture and business development. (GRI 201-1 aii)

SpareBank 1 SMN Utvikling and the gift fund aim to develop a societal account with indicators in the course of 2018.

Responsible credit processes

The bank aspires to be a leading actor in terms of responsible lending, and to ensure that it fills its role as a guide for the bank's customers based on a regional and global perspective. Responsible credit processes are important in ensuring that customers do not assume commitments they are unable to service, in contributing to the bank's support for energy transition and in providing customers with information on sustainable and competitive solutions.

The bank provides credit both to retail customers and business customers. Its approach to the two customer groups differs slightly.

Retail customers

SpareBank 1 SMN's credit strategy is adopted by the board of directors. The basic principle of sustainable lending to the retail market is enshrined in the bank's overall strategy for sustainability in lending, and in the bank's credit policy with respect to retail customers. The requirements are operationalised through a credit practice manual which describes the bank's specific requirements as regards combating money laundering and the black economy. Together with the bank's product policy, the credit practice manual sets restrictions for non-sustainable lending. By this means the bank helps to ensure that borrowers do not take on excessive debt commitments.

The bank also discourages customers from taking out loans, based on the purpose of the loan. This applies for example to customers who desire a loan in order to send money to unknown recipients, to free up a lottery win or inheritance, or other typical types of fraud.

The credit manager for the personal market is responsible for product development and the associated sustainability. In 2017 the bank adopted a corporate social responsibility strategy which sets requirements on the development of green products, and operates credit procedures giving priority to socially responsible loans.

The bank has well established complaint procedures. Filing a complaint is a simple matter, and all complaints are handled by complaints officers. Complaints officers conduct a review of whether the bank's policies and procedures are complied with in each case. The bank's complaints committee also conducts a quarterly review of lessons to be learned from complaints made. The committee considers any need to revise policy, procedures, marketing or products. The steering system for the product areas is evaluated annually, and is based on complaints and events noted in the preceding year.

Socially sustainable banking services (GRI FS7)

It is particularly important for the bank as a regional bank to take on a social responsibility in the local community. The bank is known for doing this through its investments and gift fund, but it also does so through specific social products.

Access to basic banking services is imperative in a modern society. Even so, there are social groups in Trøndelag which for various reasons fall outside the scope of such services. In response, the bank has developed the product "municipal payout card". The card is a cash card, but functions as an ordinary bank card and can be reloaded with money from one's online bank and directly from municipal support schemes. The system can disburse benefits from the Labour and Welfare Administration (NAV) to social welfare clients, asylum seekers and refugees. Many individuals belonging to this group cannot open an ordinary bank account because they are unable to provide documentary evidence of their identity. Users of the card are spared burdensome and stigmatising trips to the bank to take out cash, often together with a support person who has to confirm their identity. The card is also popular among foreign students. The bank issued 26,548 municipal payout cards in 2017, and 42 per cent of the region's refugees and asylum seekers utilise this service through the bank.

Children are another group that has, and should have, limited access to banking services. That is why the bank has a bank card specifically for children where the bank itself takes responsibility for any claims and for misuse. The bank issued 10,000 such cards in 2017.

The bank collaborates with the Norwegian State Housing Bank on start-up mortgages. Start-up mortgages require smaller down payments than other first-home mortgages and carry low interest. Start-up mortgages are granted to social groups in a vulnerable situation described here. In 2017 the bank granted a total of 130 start-up mortgages worth NOK 276m, corresponding to 8 per cent of the net volume of first-home mortgages.

In collaboration with the housing cooperative TOBB, the bank offers "Rent before Owning". Many have the income needed to buy a home, but lack sufficient funds for the down payment. With "Rent before Owning" the increase in value of the flat during the rental period goes to meeting the required down payment, which is 15 per cent of the flat's value. The value increase up to the 15 per cent requirement accrues to the tenant if the tenant chooses to buy the flat after a period. By this means a tenant has the opportunity to accumulate sufficient equity to buy the flat he/she owns, based on the increase in value of the flat during the rental period. TOBB itself accepts the risk of a house price fall. The bank sold 182 such services in 2017 to a value of NOK 0.5bn, corresponding to 3 per cent of equivalent services provided without a social profile.

SpareBank 1 SMN's guidelines are in addition formulated such that the bank goes a long way to finding solutions other than forced sale of dwellings, and has a 60 per cent lower share of forced sales than its market share in the region would indicate. Further, the bank grants payment relief to employees affected by bankruptcies in the region. The bank granted 90 such reliefs in 2017 to a value of NOK 120,000.

Environmentally sustainable banking services (GRI FS8)

The bank also develops services with an environmental profile. In 2017 offered green loans to solar cell installations in collaboration with the power company North Trøndelag Elektrisitetsverk (NTE). In 2017 the bank granted eight such loans to a total value of NOK 970,000. In 2018 the bank is also launching favourable financing for solar cell installations, secured on residential property.

The bank also has a smart app for environment-friendly driving which reduces car insurance. The bank sold 2,515 such services in 2017 to a value of NOK 16.4m, corresponding to 5 per cent of sales.

Corporate customers

The bank gave the systematic effort to promote responsible lending to business activity a substantial boost in 2017. The board of directors has adopted a new credit strategy and new requirements on sustainability in lending:  "Our requirements on sustainability in lending and owner positions". The bank has also developed an associated guide on how staff should handle credit cases in practice, how they should assess the requirements and how they should implement the requirements in their own work.

Everyone who is involved in lending to business activity or in decisions related to the bank's own investment decisions or those of the SpareBank 1 Alliance are required to be acquainted with the bank's principles. They govern the purposes to which the bank lends money. The principles also govern how the bank is to act and exert its influence in shared investment decisions where the bank itself is not in a dominant position.

The bank does not wish to finance activities or projects that do not operate in keeping with the bank's requirements, and existing corporate clients are expected to take steps to rectify any circumstances that breach these requirements. The bank is bound by loan contracts with existing clients, but any lack of action by clients to comply with the bank's requirements entails increased risk which may result in new pricing for the borrower. The bank has imposed high requirements on sustainability in all lending, but has so far no sustainable products specifically for corporate clients over beyond those offered in the retail market. (GRI FS7 FS8)

Standard credit tools are applied in smaller credit cases. As from 2018 sustainability assessment will be incorporated in the actual credit tool by means of control points linked to sustainability. The authorisation system ensures that documentation of sustainability assessments is quality assured. In credit cases considered by the credit committees, a separate template has been prepared for assessing sustainability in lending. Assessments will also be quality assured when considered by the credit committees.

Documentation of sustainability assessments is included as a theme in the internal audit, with regular reviews of the quality of credit processes. Credit strategy with the associated document "Our requirements on sustainability in lending and owner positions" are part of a review process taking place at least annually.

Responsible marketing of products and services

Good banking requires SpareBank 1 SMN to inform the customer how best to relate to the financial products that are available. The bank accordingly goes to the fore to actively present important themes related to responsible marketing of the bank's products.

SpareBank 1 SMN's strategy is to illuminate challenges related to marketing. This sparks useful discussions and contributes to improvements. A pertinent example is the bank's work on good advice on the use of personal credit and responsible lending practices, for which the bank received the Consumer Council's acknowledgement in 2016.

SpareBank 1 SMN's products and services, and labelling and marketing material, are developed at central level in the SpareBank 1 Alliance. The savings and investment committee in the Alliance conducts a quality assessment of labelling and marketing for the bank. The bank's Markets division has overall responsibility for responsible marketing. The bank has a complaints arrangement readily available to its customers on the Internet, via a dedicated telephone number and the Financial Services Complaints Board. The bank has not received complaints regarding its labelling of products and services. (GRI 417-2)

Before products are launched or distributed by the bank, they are subject to a wide-ranging assessment of their impact on the target group. The bank carries out a systematic risk assessment in which it obtains independent assessments related to law, ethics and the products' intelligibility to the target group.

When the authorities open the way for new financial services, there is a risk of unethical marketing and opportunities for good marketing. In 2017 the bank made a particular effort to promote responsible marketing of the new share saving account facility (aksjesparekonto). The bank saw that its marketing was not in keeping with its guidelines (GRI 417-3). The bank also noted that the industry in general used misleading terms such as tax deduction in relation to the scheme. The bank called for the introduction of a guide for marketing in the industry, drawing attention to the guidance previously given with respect to similar products.

Personal data protection and information security

The bank manages large quantities of customer data. In the bank's view, personal data protection is about securing the necessary confidentiality, integrity and accessibility of all personal data that are owned, processed or managed by the bank. The quantity of information and the possibilities for its use and misuse are growing apace. The trust that we as a bank are dependent on – from customers, supervisory authorities and other stakeholders – will to an ever increasing degree rest on our secure management of customer data. We have accordingly described the bank's commitments in detail and made them available to the bank's stakeholders here.

Further, the bank has a specific policy and overarching guidelines for personal data protection. The guidelines help the bank to comply with requirements on treatment of personal data, both in the current personal data legislation, but also in the EU's new General Data Protection Regulation (*GDPR*) which enters into force in May 2018. The guidelines describe how the bank's treatment of personal data, roles and responsibilities in the field of personal data and how necessary documentation is made available and updated.

The bank completed phase two in the Personal Data Act project in 2017. The project improved compliance with statutory requirements. Through the project the bank established clearer descriptions of roles and responsibilities. In addition the bank put in place a more robust internal control system featuring exceptions handling and control and follow-up activities enabling us to improve our management system over time.

The bank has appointed a personal data officer to assist the Group CEO in matters of compliance with requirements on treatment of personal data. The personal data officer acts as a specialist adviser, and has responsibilities related inter alia to oversight of compliance, handling of exceptions, risk assessment and reporting any unauthorised release of personal data to the Data Protection Authority.

The bank reported one breach of the requirements regarding treatment of personal data to the Data Protection Authority in 2017. In addition the bank reported one case of outsourcing to cloud computing to Finanstilsynet (Norway's Financial Supervisory Authority). The bank has received no complaints of personal data breaches. (GRI 418-1)

Training has been given at various levels of the organisation in 2017, both electronically and in the classroom.

The goal in 2018 is to continue the work on closing identified gaps and to secure involvement, assignment of responsibilities and training across the organisation. In addition preparations continue for the introduction of the General Data Protection Regulation both in the bank and in the SpareBank 1 Alliance. The subsidiaries are also carrying through personal data projects in 2018.

Information security

Developing a security architecture and solutions geared to a more open business model is a challenge facing the entire financial industry. SpareBank 1 SMN accordingly participates in the Alliance's shared security strategy effort in order to address and handle the changes this development entails.

The SpareBank 1 Alliance's Information Security Policy is the basic steering document for all processing of information in the SpareBank 1 Alliance, and builds on the Alliance's overall security policy. The bank has a separate policy for outsourcing IT services as well as a joint security strategy that covers the entire alliance. Important decisions such as outsourcing are also considered by the board. The department of operative information security in the SpareBank 1 Alliance delivers SpareBank 1 SMN's technical solutions, including continuous monitoring of the bank's systems.

The ICT Regulations, compliance with which is overseen by Finanstilsynet, underlies much of the work on information security. SpareBank 1 SMN's internal and external audit functions both review matters regulated by the ICT Regulations and best practice for information security.

A number of technical security measures have been established in this area. Training and raising of awareness are at centre stage. The bank's competence and attitude-moulding programme for information security, Passopp, strengthens the security culture across the entire organisation, and operated again in 2017. Based on internal surveys, the bank conducts analyses and prioritises which areas Passopp will focus on in 2018.

The bank wishes to play its part in promoting safe and secure customer behaviour and in familiarising customers with information security. smn.no offers tips and advice on secure use of the bank.

Staff development

The banking market is changing. Technological progress alters customers' behaviour and opportunities, and the bank is experiencing competition from new actors with new business models. Reorganisation, staff development and recruitment of new skills in order to build the bank for the future have high priority. The Group management team are in no doubt that staff will be the bank's most important resource and the most important factor in marking ourselves out from our competitors. That is why the bank attaches such importance to developing competence and skills. Internal training activities are arranged on a substantial scale, and many of our talented managers and staff are offered opportunities for professional and personal development on external courses and at educational institutions.

Ensuring that the bank accommodates the changes in customer preferences and behaviour is one of the bank's greatest challenges, and at the same time its greatest opportunity. Being a regional bank means that our staff are close to our customers, and capture new preferences, demands and wishes. Increased communication with customers on digital interfaces must maintain the same high quality as traditional advisory services. The bank seeks throughout to ensure good banking, also in its digital channels, and has a focus on developing customer advisers in both the retail and corporate areas.

The bank's intention is to follow their customers' life journey. A journey that at times is secure and calm, but now and then also difficult and turbulent. The bank can in many cases have a role to play in customers' lives in turbulent periods when difficult choices are to be made. The bank plays an important role in major decisions such as buying one's first house, saving for retirement, securing distribution of a deceased's estate or giving advice upon break-up of marriage etc.

For corporate clients the bank is a strategic partner that facilitates establishment, growth, generational shifts and innovation in the region. The bank's social mission is to facilitate economic development as a basis for our common welfare. This will be achieved through sound and sustainable growth. The competence of our staff has a major influence in relation to society, business and industry and private individuals. The bank's ambition and objective is that good advisory practices should guarantee the quality of advice and customer treatment, and create predictability and stability for all stakeholders.

Systems for staff development

The SpareBank 1 Alliance has a shared digital teaching platform (LMS), which makes courses and training programmes available to staff. The bank's own curriculums and the financial industry's authorisation schemes form the basis for the bank's objectives and responsibilities for developing staff competence. Together with good advisory practices, the industry's procedures and rules, and the bank's staff manual, provide the basis for policies, guidelines and commitments. The bank is affiliated to the authorisation scheme for financial advisers which requires certain programmes to be in place for development of the bank's staff. Read more about the scheme here. (GRI 404-2a)

The bank conducts each year the talent development programme Developmental Management, in collaboration with the SpareBank 1 Alliance and the BI Norwegian Business School. Nine of the bank's staff members enrolled in this programme in 2017. (GRI 404-2a)

In 2017 the bank also developed a comprehensive programme of further development for all managers. The programme started in January/February 2018 with a 360 degree evaluation of all managers. The programme includes both plenary gatherings and individual follow up of each manager based on the evaluation made and the individual's development plan. (GRI 404-2a)

Appraisal interviews are an important instrument for assuring follow-up and development of employees. The Group's remuneration policy document, point 4.2.5, establishes that all staff shall have appraisal interviews with their immediate superior on their personal development and performances. This also applies to staff members that are on leave. (GRI 404-3)

In 2017 the bank also worked on a new process and new tools for competence development and competence management. The project New Workday is designed to ensure that the bank, in parallel with its development and implementation of new systems and processes, develops the appropriate competence. All of the bank's development projects utilise the new tools in order to identify competence needs and to develop targeted competence initiatives.

Reorganisation

Major changes are ongoing in the banking industry, creating a major need to revise the bank's competence profile. In the future of the bank will need fewer staff in production, more staff in digital development and more staff in digital sales, analysis and business development. The bank has accordingly carried out a structured staff reduction process over several years, and the proportion of staff that quit in 2017 is therefore significantly higher than the number of new appointments in 2017. Staff that are affected by change, either in the form of reorganisation of work tasks or reduction of capacity, are offered a severance package. A number of employees also built up new competence by participating in development projects that qualify them for other tasks. Those who quit receive financial advice, help in making life path choices and career guidance from well-established external providers in the field. (GRI 404-2b)

The bank ended 64 employment relationships in 2017: 38 women and 26 men. Distributed by age, four were below age 30, 24 between age 30 and 50 and 36 above age 50. Total turnover involving severance packages and pension was 9.9 per cent. (GRI 401-1b) The bank concurrently acquired new competence in 2017, appointing a total of six women and ten men, of whom nine were below age 30 and seven between age 30 and 50. (GRI 401-1a)

Diversity and equal opportunity

SpareBank 1 SMN's aim is that its staff should reflect the region's population structure. The bank has an active focus on recruitment and promotion in order to fill any gaps and redress any imbalances in this diversity.

The industry in which the bank operates has the widest pay discrepancies in Norway between women and men with higher education. In December 2017 Statistics Norway established that women's pay averages 69 per cent of men's pay in the financial and insurance sector. The bank is accordingly particularly concerned to grant women and men equal opportunities for development, pay and career. Activities cover recruitment, pay and employment conditions, promotion, development opportunities and protection against harassment. Parental leave does not affect opportunities for career development or pay rises.

The Group's remuneration policy states that the Group abides by the equal pay principle, i.e. men and women are paid identically for the same work or for work of the same value. The bank employs the digital tool FAKIS to ensure that it assigns positions of the same value to the same pay grade. At the wage settlements in 2017 guides were laid down, and funds made available, for evening out differences in pay levels between women and men. Each year the internal auditor reviews the bank's report on compliance with the remuneration policy. The equal pay principal is also discussed with trade union representatives in connection with the annual local wage settlement.

The bank is nonetheless not satisfied with the results as regards compliance with the equal pay principle. Despite an increased focus over several years, excessive differences persist between women and men. Pay equality will accordingly remain in focus in the years ahead.

The bank's pay differences between women and men break down as follows: (GRI 405-2)

Type of position	Women's share of men's remuneration
Mellomledelse	99 %
Operative management	89 %
Customer advisers	85 %
Direct channel customer service centre	93 %
Production	99 %
Specialists and support functions	87 %
Business development and digitalisation	88 %

Whereas the bank has most women in operative management (12 women and 5 men), men are in the majority in middle management positions (14 women and 29 men), and in the Group management team (1 woman and 5 men). (GRI 405-1). The bank is aware of the gender distribution challenge as regards managerial positions and wishes to increase the proportion of women in higher-level managerial positions. The bank has had a particular focus on increasing the proportion of female managers in recent years, but will continue to give priority to improving the gender balance in middle management and the Group management team.

The bank's key figures for diversity break down as follows: (GRI 405-1) (GRI 102-8)

Type of position	Women				Men				Total
	Below 30 yrs	30-50 yrs	over 50 yrs	Total	Below 30 år	30-50 år	Over 50 yrs	Total	
Management		19	8	41 %	1	17	21	59 %	66
Customer advisers	5	78	77	49 %	12	91	62	51 %	325
Direct channel customer service centre	8	14	3	52 %	8	13	2	48 %	48
Production	1	16	22	72 %		3	12	28 %	54
Specialists and support functions	2	32	30	53 %	2	34	21	47 %	121
Business development and digitalisation	1	8		43 %	2	9	1	57 %	21
Supervisory Board		4	9	41 %		3	16	59 %	32
Board of Directors			4	44 %			5	56 %	9
Permanent staff				324				311	635
Temporary staff				10				5	15
Permanent staff, full-time				300				303	603
Permanent staff, part-time				24				8	32
Contracted staff*				26				52	78

*Covers various groups such as substitutes, on-call staff, expert advisers in development projects and more peripheral advisers from suppliers that need access to the bank's systems.

Cases of discrimination are captured by the systems for the bank's ethical guidelines described in the next chapter. The bank has not recorded cases of discrimination in 2017. (GRI 406-1). 84 per cent of the staff are on wage agreements negotiated under collective bargaining etc. (GRI 102-41)

Ethics and anti-corruption

SpareBank 1 SMN operates in an industry posing a risk of internal illegalities. In light of the nature of the business and the scale of assets that are managed, the inherent risk of internal illegalities in banking is considered to be high.

Internal illegalities may arise in the form of infiltration attempts by criminal elements, pressure exerted by staff and illegalities motivated by personal gain. Hence it is important that the bank has implemented controls to prevent and to identify irregularities. The bank must throughout maintain adequate and appropriate procedures for work sharing, restrictions and limits to authorisations, secure dual controls, satisfactory access controls and sound procedures for handling changes in IT systems.

Ethical guidelines

The bank's ethical guidelines describe the bank's attitudes and values with a basis in four overarching principles: confidentiality, financial independence, loyalty and personal integrity. The banks' employees, business partners and elected officers must have a conscious awareness of the bank's ethical guidelines in their day-to-day decisions. Each manager is duty bound to familiarise his staff with the ethical guidelines and to take up the theme in departmental meetings on a regular basis. The guidelines apply to the entire Group including the subsidiaries and are a feature of the bank's contracts with its suppliers.

The guidelines regulate each staff member's relationship to customers, suppliers, competitors and the world at large. Each staff member must avoid in any way entering into a relationship of dependence with the Group's customers and business connections, and must have a conscious awareness of any of any attempt to corrupt or to offer facilitation payments. The ethical guidelines require zero tolerance of corruption, and staff members may in no circumstance receive gifts in the form of money or cash letter in the course of their work.

All new staff members are required to review the ethical guidelines as part of the introduction programme, and ethics is a theme at seminars for new staff members. The bank's Group management team in particular and employees in general have received coaching in ethics and anti-corruption. 2017 saw the launch of the Group's new values (wholehearted, responsible, likeable and competent) and the bank completed implementation processes in all departments in that connection. Ethics was a main theme connected to the value 'responsible', and various cases were taken up for discussion at department level. (GRI 205-2)

The bank adopted updated ethical guidelines in 2017. The ethical guidelines can be viewed  here .

Whistleblowing

In addition to the ethical guidelines the bank has established a procedure for whistleblowing. This procedure accommodates the requirements of the Working Environment Act as regards notifying censurable circumstances at enterprises. The whistleblowing procedure is designed to reduce the risk of internal illegalities and to ensure employees' right and duty to submit an expression of concern, or to warn about censurable circumstances.

The whistleblowing procedure cites examples of censurable circumstances that may provide a basis for expressions of concern, mentioning circumstances related to for example unprincipled conduct, corruption, illegalities, economic crime, unethical or harmful activity or violations of other ethical norms.

The whistleblowing procedure also enables employees to notify the bank's external reception centre for whistleblowers and to report anonymously if the whistleblower so wishes.

The bank conducts an annual survey of the organisation. The survey gives respondents the opportunity to report cases of bullying and harassment in their own department. Any such instances brought to light in any department will be acted on by the HR department.

Instructions for dealing with conflicts of interest with customers were also revised and approved by the Group executive board in 2017.

Follow-up of quality deviations

The bank's procedure for following up on quality deviations is designed to ensure a uniformity of response, reporting, filing and follow-up of censurable circumstances among employees across business lines.

The bank initiated in 2017 a process to establish a new system of event reporting in collaboration with an external supplier. The new system will be implemented in the first quarter of 2018. The system enables an improved overview of events in all areas and documentation of how the events are responded to.

The sanctions committee is responsible for following up on deviations. The committee consists of the Group legal officer, the head of lending at Corporate Banking, the head of lending at Retail Banking, the head of security and the head of HR. Sanctions are considered based on internal controls carried out in the business areas and on reported and registered deviations in general. The committee meets in principle every quarter, but acute cases can be handled as they arise.

The bank's board of directors, Group management team and all staff have been informed of the bank's policy on anti-corruption and its ethical guidelines. It has not however been on the Supervisory Board's agenda. Business partners have not been specifically informed of the bank's policy, but an annex covering corporate social responsibility accompanies all supplier contracts, and applies to the entire SpareBank 1 Alliance. Read the annex  here. (GRI-2). The bank takes into account ethical issues when it enters into contracts with customers. The bank has in some cases chosen not to establish customer relationships in the real estate industry due to suspicion of social dumping. This is steered by the bank's policy on responsible credit practices described in a separate chapter.

The bank responds in a consistent manner to violations of guidelines, and in 2017 it issued three warnings in writing as a result of two conflicts of interest and one case of sexual harassment. The bank has not witnessed dismissals/resignations, litigation or breaches of contract as a result of corruption or violations of ethical guidelines. (GRI 205-3)

Economic crime

SpareBank 1 SMN works systematically to uncover and combat economic crime. The bank's overarching guidelines on anti-money laundering give clear guidance for SMN's work on this theme, assigning clear-cut roles and responsibilities.

Insight into the bank and the customers' business activities is important in ensuring a risk-based approach to economic crime and in complying with the requirements of legislation. The bank has to know which transactions are customary for the customer to undertake in order to effectively uncover unusual or suspicious transactions. Documentation must also be provided showing that the control measure is appropriate to the risk concerned. Government authorities, customers and competitors must have confidence in the bank's professionalism and integrity.

An increased degree of organised cross-border crime has changed the threat picture where economic crime is concerned. The bank notes an increase in cross-border transactions, a rising number of foreign customers, increased prevalence of virtual currency, as well as new products, new services and new actors in the banking business. In sum, money laundering, fraud and attempted fraud of the bank's customers are becoming more widespread, and more sophisticated, year by year.

The bank seeks to ensure that its products and services are not used to criminal ends, and that its steering systems are evaluated and updated annually in step with the changing risk picture and changes in the anti-money-laundering guidelines. In addition, the bank carries out ongoing checks at various levels ranging from the business lines' internal controls, via ongoing transaction monitoring, to controls carried out by the compliance function. Deviations and improvements are assessed on an ongoing basis, and are reported to the board of directors every quarter.

In 2017 the bank worked on operationalising new procedures and processes from the bank's anti-money laundering project which reached completion in autumn 2016. The bank is increasingly accurate in its identification of transactions that require monitoring, and strengthened the processes for establishing customer relationships and ongoing customer due diligence. For example, the bank enquires into sources of customers' equity capital and income, in particular where the customer has significantly upgraded a dwelling, and wishes to raise a mortgage on the value increase. In such cases the bank asks for information on and documentation of who has done the work and how the refurbishing was financed, with the intention of combating economic crime and undeclared work.

In 2017 a total of 9,191 transactions were captured by the bank's transaction monitoring systems. All the identified transactions were examined by the bank's own anti-money-laundering staff who reported 105 of the suspicious transactions to the National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). (GRI SMN-1).

The bank also established its own clear-up projects. The clear-up projects obtain sufficient information from customer relationships established before the current *know-your-customer* requirements entered into force.

The bank has a focus on training to combat economic crime. All staff members are required at regular intervals to undergo mandatory e-training with respect to money laundering and terrorist financing. In addition, classroom instruction in combating money laundering is provided annually for a large number staff.

The ambition for 2018 is to further strengthen the organisation and assignment of roles and responsibilities related to anti-money laundering. The bank will take steps to ensure continued compliance with laws and guidelines when the EU's fourth anti-money laundering directive enters into force.

In-house environment and responsible procurement

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments and lending. We are duty bound to do all we can to support the UN's sustainability goals, and we are concerned that companies we invest in or lend money to make sustainable choices. This is described in a separate chapter.

SpareBank 1 SMN's environment management system is certified under the 'Environmental Lighthouse' scheme, Norway's most used environmental certification scheme. The bank reports its energy consumption and climate emissions each spring to the *Environmental Lighthouse Foundation* (Stiftelsen Miljøfyrtårn). Certification entails systematic, targeted and continuous improvement in the areas of work environment, procurements, waste, transportation, energy, emissions and aesthetics. The bank thus complies with the sustainable precautionary principle. (GRI 102-11) The bank utilises a modern environmental reporting system with frequent and consistent logging of key figures. Health, environment and safety indicators are assessed against the bank's targets.

Consumption and climate

SpareBank 1 SMN works continuously to reduce its consumption of energy, paper, other resources and resource demanding travel. All technological equipment is handled as special waste and is delivered to an approved e-waste disposal facility. The bank strives throughout to ensure the right procurement of technological equipment and to that end includes energy and environmental requirements as specific assessment criteria. This is set out in a procurement guide and in our Environmental Lighthouse action plans.

The bank has now phased out oil-fired heating, and uses only electric power in its central heating systems, with a location-based emission factor of 0.016 kg CO² per KWh since it is essentially a matter of renewable energy. SpareBank 1 SMN's total energy consumption over the financial year was 5.7 GWh, down from 6.1 GWh in 2016. An express goal is to turn both the office in Steinkjer and the head office in Trondheim into, at minimum, low-energy buildings, contributing to significantly reduced energy consumption.

Norway has a dispersed population, and travel is a natural part of local banks' working day. Travel by road and air accounts for the bulk of the bank's climate emissions. The bank is replacing resource-demanding travel with video conferencing.

SpareBank 1 SMN's own climate emissions arise largely from energy use and transport. The climate emissions are negligible. With emission factors from the UK's Department for Environment, Food and Rural Affairs (Defra), and the Norwegian Water Resources and Energy Directorate's (NVE) location-based power mix, SpareBank 1 SMN has an overall climate emission of 320 tonnes of CO² equivalents.

Responsible procurements

The bank's procurement policy requires all purchase contracts to include documentation of corporate social responsibility. Suppliers must at minimum abide by local, national and international laws, rules and principles (including provisions on matters such as pay, working time, health, environment, safety and anti-corruption). In the case of calls for tender and RFQs, SpareBank 1 SMN requires offerors to provide documentation of approved environmental certification.

Suppliers are subject to a notification obligation and SpareBank 1 SMN can carry out inspections and audits. Suppliers undertake to act in an ethically correct manner in their contracts for deliveries to SpareBank 1 SMN. The same requirements apply to a supplier's sub-suppliers and any partners connected to a contract to supply SpareBank 1 SMN. Any breach of the CSR provisions is regarded as a breach of contract and could provide a basis for contract cancellation. A standard annex on CSR that underlies our procurements applies across the entire SpareBank 1 Alliance. Read the annex  her.

Local business development

SpareBank 1 SMN has traditionally had a strong local footing, and an important part of SpareBank 1 SMN's social mission is to facilitate growth and development as a basis for society's welfare.

Through its core business, SpareBank 1 SMN covers many important needs in society: saving, credit, payment services, insurance, damage prevention, management of assets and investment. The fact that the bank operates this core business on a long-term and sustainable basis is possibly the bank's most important contribution to local business development. Beyond its ordinary banking operations, SpareBank 1 SMN has

many extraordinary initiatives with a view to developing the region in which the bank operates. SpareBank 1 SMN Invest develops local businesses by offering capital directly to new development. SpareBank 1 Invest accordingly invests exclusively in unquoted shares and mutual funds in the bank's geographical area.

The foundation Sparebankstiftelsen SMN is a substantial owner of SpareBank 1 SMN. Its object is to preserve the social aspect of SpareBank 1 SMN's ownership. Read more about Sparebankstiftelsen SMN.

SpareBank 1 SMN Utvikling

SpareBank 1 SMN Utvikling invests in projects designed to support a positive development of society. NOK 60m has been invested in infrastructure projects and seedcorn and venture funds. (GRI 203-1)

In addition, SpareBank 1 SMN has a social commitment that is out of the ordinary, each year supporting more than 1,000 large and small causes through the gift fund. The gift fund distributes resources to grassroot sports, culture and business development.

SpareBank 1 SMN Utvikling and the gift fund aim to put in place a societal account in the course of 2018.

Governance



Group Management

**Finn Haugan (1953)**

Group CEO

Business economist from the Norwegian School of Management (1977).

Joined SpareBank 1 SMN as CEO in 1991. Group CEO from 2010. Chairman of BN Bank and the Norwegian Savings Banks Association, board member of Finance Norway (FNO). Chairman of SpareBank 1 Gruppen from 2017 and chairman of BankAxept.

Chairman of EiendomsMegler 1 Midt-Norge and SpareBank 1 Markets. Board member of Trondheim Stiftelse Til Nevrovitenskaplig Forskning (Kavlistiftelsen). Previously with Fokus Bank for 13 years, his final two years as deputy CEO.

**Vegard Helland (1975)**

Executive director – Corporate Banking

Business economist from the Bodø Graduate School of Business (1999), and authorised financial analyst (AFA) from the Norwegian School of Economics and Business Administration (2007).

Chairman of SpareBank 1 Finans Midt-Norge, SpareBank 1 Factoring, Conecto and SMB Lab. Board member of SpareBank 1 Markets, SpareBank 1 Portefølje, SpareBank 1 SMN Card Solutions and Mavi XV.

Joined SpareBank 1 SMN in 2003, and has focused primarily on major clients. Head of Corporate Banking since August 2010. Has chaired SpareBank 1 SMN's group credit committee since 2007. Previously with KPMG (aquaculture and fisheries).

**Kjell Fordal (1957)**

Executive director – Finance and Strategy

Business economist from the Norwegian School of Management (1981) and Master of Management from the same institution (2004).

Chairman of SpareBank 1 Regnskapshuset SMN, SpareBank 1 SMN Pensjonskasse, SpareBank 1 Næringskreditt, SpareBank 1 Boligkreditt, SpareBank 1 SMN Invest, GMA Invest and Prøven Eiendom. Board member of SpareBank 1 Markets, SpareBank 1 Kredittkort, BN Kreditt and Trondhjems Turistforening. Joined SpareBank 1 SMN in 1982.

**Nelly S. Maske (1975)**

Executive director – Organisation and Development

Master of Science from South Bank University in London 2000, Bachelor's degree in business and administration from Sør-Trøndelag University College (previously TØH) 1998.

Broad experience from the professional services firm Ernst & Young, latterly as director at Ernst & Young Advisory from 2010 to 2013. Board member of BN Bolig and Odin Forvaltning. Joined SpareBank 1 SMN in 2013.

**Svein Tore Samdal (1971)**

Executive director – Retail Banking

Master's degree in Political Science, Norwegian University of Science and Technology (1999).

Held senior positions at Eiendomsmegler 1 Midt-Norge from 2006 to 2013. Previously sports director of the women's national cross-country ski team, Norwegian Ski Federation, 2001-2006. Joined SpareBank 1 SMN in 2013.

**Rolf Jarle Brøske (1980)**

Executive director – Communications and Society

Studies in political science and history at Molde University College and the Norwegian University of Science and Technology (NTNU).

Previously industrial policy director at Det norske Oljeselskap ASA, and on the management team of Danske Bank (Fokus Bank). Adviser to the Minister of Trade and Industry, Børge Brende, and to the Mayor of Trondheim. Has held a number of political positions. Joined SpareBank 1 SMN in October 2016.

Board of Directors



Kjell Bjordal (1953) Board chair

Business economist from the Norwegian School of Economics and Business Administration NHH (1976), law studies and Advanced Management Program at Wharton Business School (1989).

Board member since 2007 and board chair since 2013. Member of the remuneration committee since 2012 and committee chair since 2013.

Self-employed.

Experience as CEO of EWOS Group and head of Cermaq's fish food division. CEO of NorAqua, finance director and CEO of the Glamox Group and director at Trøndelag Theatre.

Board chairman of Axess, Axess Nordlaks Oppdrett, Nordlaks Smolt and Nordlaks produkter. Broodstock Capital Partners, II and Norsk Landbrukskjemi. Deputy board chair of Entra Eiendom and board member of Atlantic Sapphire and Hatleholts Grafiske.

Attended 20 of 20 meetings of the Board of Directors in 2017.



Bård Benum (1962) Deputy board chair

Graduate of the Norwegian University of Science and Technology (NTNU) (1987).

Board member since March 2009, and deputy chair since 2013. Member of the internal audit committee since 2009 and member of the risk committee since 2013.

Group CEO at Powel.

Senior positions at Norsk Hydro, Statoil, Reitan Group. CEO at Cresco (1998-2000) and Vital Forsikring (2001-2007).

Attended 20 of 20 meetings of the Board of Directors in 2017.



Paul E. Hjelm-Hansen (1962)

MBA from the University of Denver, USA (1988), Certified European Financial Analyst (AFA) from the Norwegian School of Economics and Business Administration (1996) and Authorised Portfolio Manager (Norwegian Society of Financial Analysts/Norwegian School of Economics and Business Administration) (2001).

Board member and chairman of the internal audit committee since 2008. Head of the risk committee since 2013.

Private investor and self-employed financial adviser.

Has held positions as financial analyst, as portfolio manager at Christiania Bank og Kreditkasse and Fokus Bank and as head of finance and finance director at, respectively, Bachke & Co and Det norske oljeselskap.

Chairman of Arild og Emilie Bachkes Fond, Trondhjems Kunstforenings legatstyre and Generalkonsul Adolf Øiens Donationsfond. Board member of Bachke & Co.

Attended 19 of 20 meetings of the Board of Directors in 2017.

**Arnhild Holstad (1963)**

Cand.mag. degree and journalist.

Board member since 2010.

Chief executive officer, Namsos municipality.

Communication manager at Statskog (2007-2015). Political adviser at the Ministry of Labour and Social Inclusion (2005-2007). Project manager at Olav Duun Innovasjon (2003-2005). Journalist with the Namdalsavisa newspaper (1991-2003). Refugee advisor, Aukra municipality (1988-1989). Teacher at Oppedgård upper secondary school (1987-1988).

Attended 19 of 20 meetings of the Board of Directors in 2017.

**Aud Skrudland (1959)**

Veterinary doctor, Norwegian School of Veterinary Science (1984). Specialist in fish diseases. Additional training in marketing and public law.

Board member since 2010. Member of the remuneration committee since 2012.

Special inspector on the staff of the director of the mid-Norway region, Norwegian Food Safety Authority.

Experience from the fish farming industry in the fields of fish health and product development, marketing and sale of medicinal products for fish.

Chair of the programme committee on aquaculture at the Research Council of Norway. Former member of the Averøy municipal council and municipal executive board, the board of directors of Romsdals Fellesbank and the control committee and the supervisory board of SpareBank 1 SMN.

Attended 20 of 20 meetings of the Board of Directors in 2017.

**Morten Loktu (1960)**

Master of Science, Norwegian University of Science and Technology (1984).

Board member since 2013. Member of the remuneration committee since 2013.

Senior Vice President with responsibility for LEAN & Operational Improvements at Statoil.

Joined Statoil in 1985 and has held various posts including in research and development. Executive director in charge of Statoil's technology organisation (2000-2002). Senior Vice President, research and development at Statoil (2005-2010). Area director, Statoil's production and development activity off Mid-Norway and North Norway (2011-2016).

Group CEO, SINTEF Group (2002-2004).

Attended 16 of 20 meetings of the Board of Directors in 2017.

**Janne Thyø Thomsen (1957)**

Cand. Jur. (law) degree, University of Copenhagen (1981). Graduate Diploma in Business Administration, Copenhagen Business School (1986).

Board member since 2014. Member of the audit and risk committee since 2014.

Consultant and owner at JT Targeting in Denmark.

Previously Senior Vice President at Moody's rating agency (1997–2012). Prior to that with Yamaichi International (Europe) Limited (1987–1995), with the Ministry of Finance, Government Debt Office (1984–1987) and with the Export Credit Council, Ministry of Industry (1981–1984). Board member of Nordic Credit Rating AS.

Attended 20 of 20 meetings of the Board of Directors in 2017.

**Erik Gunnes (1966)**

Three-year business school. Bank-related training at Bankakademiet and BI Norwegian Business School.

Regularly attending alternate member for the employees since 2014-2016. Board member for the employees from 2016.

22 years' experience in various positions with SpareBank 1 SMN.

Board member of the Finance Sector Union in Trøndelag (2010–2012).

Attended 20 of 20 meetings of the Board of Directors in 2017.

**Venche Jonsen (1952)**

Varied education at Bankademiet and at university college level.

Board member 2004-2016.

Alternate member for the employees 2016 – March 2017. Permanent member for the employees from March 2017.

Group employee representative at the Finance Sector Union branch at SpareBank 1 SMN. 32 years' experience in various positions with SpareBank 1 Midt-Norge.

Attended 15 of 15 Board meetings in 2017.

Elected officers

Members elected by the equity certificate holders

	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	13 000
Marit Collin	Trondheim	4 655
Jøran Nyheim	Molde	3965 391
Thor Arne Falkanger	Trondheim	179 255
Torgeir Svae	Oslo	5 000
Knut Solberg	Trondheim	293 887
Therese Bjørstad Karlsen	Trondheim	170
Nina Kleven	Trondheim	1 100
Nils Martin Williksen	Rørvik	10 049
Randi Borghild Dyrnes (chair)	Smøla	1 000
Frithjof Andersen	Trondheim	26 797
Åsmund Skår	Nesbru	1200

Members elected by the depositors

	Residence	No. of equity certificates held*
Anne Lise Aunaas	Trondheim	0
Elin Hagerup	Trondheim	0
Marit Dille	Kolvereid	3 339
Randi Bakken	Trondheim	0
Line Melkild	Sunndalsøra	0
Ragnhild Amundsen	Isfjorden	0
Per Olav Tyldum (deputy chair)	Overhalla	0
Jan-Yngvar Kiel	Bosberg	0
Wollert Krohn-Hansen	Trondheim	0

Members elected by the county councils

	Residence	No. of equity certificates held*
Jan Inge Kaspersen	Stjørdal	0
Stig Klomsten	Bosberg	0
Tove-Lise Torve	Sunndalsøra	0

Members elected by the employees

	Bosted	No. of equity certificates held*
Anders Skrove	Inderøy	981
Linda Leer	Trondheim	2 662
Rolf Bratlie	Trondheim	923
Oddbjørn Kulseth	Stjørdal	3 793
Bjørn Kristian Dyrseth	Molde	2 463
Berit Bøifot	Torvikbukt	4 528
Bjørn Larsen	Trondheim	2 949
Geir Tore Mathisen	Trondheim	523

Board of Directors

	Residence	No. of equity certificates held*
Kjell Bjordal (chair)	Molde	130 000
Bård Benum (deputy chair)	Trondheim	0
Arnhild Holstad	Namsos	0
Aud Skrudland	Averøy	6 765
Morten Loktu	Trondheim	5 000
Paul E. Hjelm-Hansen	Trondheim	49 219
Janne Thyø Thomsen	Danmark	3 000

Erik Gunnes	Trondheim	535
Venche Johnsen	Trondheim	24 716
Oddny Lysberg (alternate)	Grong	939

Election Committee	Residence	No. of equity certificates held*
Lars Bjarne Tvete	Trondheim	13 000
Thor Arne Falkanger	Trondheim	179 255
Marit Dille	Kolvereid	3 339
Tove-Lise Torve	Sunndalsøra	0
Rolf Bratlie	Trondheim	923

* Number of equity certificates held as of 31 December 2017 includes certificates held by the EC holder's related parties, by companies under the EC holder's control and by companies on whose behalf the EC holder is elected.

Corporate governance

Each year the management team and board of directors of SpareBank 1 SMN review its corporate governance policies and how they function across the group. The corporate governance policies and practice are prepared and presented in conformity with the Accounting Act (Regnskapsloven) section 3-3b and the Norwegian Code of Practice for Corporate Governance.

Accounting Act, section 3-3b, second subsection

The following explains how the Accounting Act section 3-3b, second subsection, is complied with at SpareBank 1 SMN. The numbering shows the numbering in the subsection concerned.

1. A statement of recommendations and rules for corporate governance which apply to the company or which it chooses to abide by.

Policies and practice for corporate governance at SpareBank 1 SMN are based on Norwegian law. The group abides by the Norwegian Code of Practice for Corporate Governance. Reference is made to point 1 of the Code of Practice below.

2. Information on where recommendations and rules as mentioned in no. 1 are publicly available.

The Code of Practice for Corporate Governance is available at nues.no.

3. A justification for any deviation from recommendations and rules as mentioned in no. 1.

Any deviations from the recommendation receive comment under the report on compliance with the Code of Practice below.

4. A description of the main elements in the undertaking's and – for entities that are under the obligation to maintain accounting records and that prepare consolidated accounts – in the event also the group's systems for internal control and risk management associated with the financial reporting process.

See the report regarding point 10 of the Code of Practice below.

5. Provisions of articles of association which in whole or in part expand or diverge from provisions of the Public Limited Companies Act chapter 5.

See the report regarding point 6 of the Code of Practice below.

6. The composition of the board of directors, corporate assembly, supervisory board and control committee; any working committees for these bodies, and a description of the main elements of applicable instructions and guidelines for the work of these bodies and any committees.

See the report regarding points 6, 7 and 8 of the Code of Practice below.

7. Provisions of articles of association which regulate the appointment and replacement of board members.

See the report regarding point 8 of the Code of Practice below.

8. Provisions of articles of association and authorisations which empower the board of directors to decide that the company shall repurchase or issue treasury shares or equity certificates.

See the report regarding point 3 of the Code of Practice below.

Norwegian Code of Practice for Corporate Governance

The following explains how the 15 points set out in the current Norwegian Code of Practice for Corporate Governance of 30 October 2014 are complied with at SpareBank 1 SMN.

Point 1: Report on corporate governance

There are no significant divergences between the Code of Practice and compliance with the Code of Practice at SpareBank 1 SMN.

The Code of Practice applies to the extent appropriate to savings banks with equity certificates. Any deviations are explained below.

SpareBank 1 SMN has a distinct corporate governance policy, and will further develop this policy within the framework of applicable laws and in keeping with recommendations emanating from influential sources.

Through its corporate governance policy the bank aims to assure sound management of its assets and to give added assurance that its stated goals and strategies will be attained and realised. Good corporate governance encompasses the values, goals and overarching policies by which the bank is governed and controlled with a view to securing the interests of EC holders, depositors and other stakeholder groups in the bank. The bank adheres to the "Norwegian Code of Practice for Corporate Governance" to the extent appropriate to savings banks with equity certificates. The Code of Practice is available at nues.no.

Through its corporate governance the bank gives special emphasis to:

- a structure assuring targeted and independent management and control
- systems assuring monitoring and accountability
- effective risk management
- full information and effective communication
- non-discrimination of EC holders and a balanced relationship with other stakeholders
- compliance with laws, rules and ethical standards

The staff must be recognised for their high ethical standards. To this end they must display a conduct that is perceived to be confidence inspiring, honest and trustworthy and in compliance with the norms, rules and statutes by which the society is governed. The ethical rules deal inter alia with legal (in)capacity; relationships to customers, suppliers and competitors; securities trading; insider rules and relevant financial circumstances of the individual. This body of rules applies to all employees and elected officers in governing bodies.

All staff and elected officers at SpareBank 1 SMN are obliged to regard knowledge of the group's or a customer's circumstances as confidential. This duty of confidentiality applies not only in respect of third parties but also towards colleagues who have no need for the information in question in their work. Further, no SMN staff member may, via computer systems or by any other means, retrieve information about other colleagues or customers that is not necessary for their work. The bank's ethical rules stipulate that a staff

member must immediately inform his/her superior or other contact persons if he/she learns of circumstances that breach applicable statutes and rules or constitute **significant** violations of internal provisions.

SpareBank 1 SMN wishes to contribute to sustainable social development through responsible business activities which includes safeguarding ethical, environmental and social considerations. A distinct strategy for managing the bank's corporate social responsibility has been established.

Corporate social responsibility is an integral aspect of the bank's operations and is expressed through strategies, measures and activities. Corporate social responsibility is expressed through the way resources are managed and through dialogue with employees, owners, customers, local communities and other stakeholders. Further, a procurement strategy has been established setting out the ethical framework, requirements on suppliers and the criteria applied by the bank when making purchases.

See also the chapter on corporate social responsibility in this annual report.

Deviations from point 1 of the Code of Practice: None

Point 2: Operations

SpareBank 1 SMN's activities are made clear in the company's articles of association. SpareBank 1 SMN's object is to carry on business as a bank and to pursue and participate in activities that the savings bank is entitled to engage in under licences held and legislation in force at any and all times. The articles of association can be found in extenso on the bank's website, and SpareBank 1 SMN's goals and main strategies are set out in this annual report.

Deviations from point 2 of the Code of Practice: None

Point 3: EC capital and dividends

The board of directors continuously assesses the capital situation in light of the group's goals, strategy and desired risk profile. As at 31 December 2017 the tier 1 ratio was 16.9 per cent and the common equity tier 1 (CET1) ratio was 14.9 per cent in SpareBank 1 SMN.

For detailed information on capital adequacy, see the relevant note in this annual report. For a further account of the rules governing capital adequacy and the principles on which SpareBank 1 SMN bases its assessment of capital need, see the Pillar 3 report published at smn.no.

Dividends

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

The net profit for the year will be distributed between the owner capital (the EC 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 one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that one half of the ownerless capital's share of the net profit for the year should be utilised for distribution to non-profit causes or transferred to the foundation

Sparebankstiftelsen SMN. 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, of external framework conditions and of the need for tier 1 capital. The bank's supervisory board sets the annual dividend payout based on the board of directors' recommendation. The dividend policy is published on the bank's website.

Acquisition of treasury equity certificates

SpareBank 1 SMN's board of directors are authorised to buy treasury ECs for up to 10 per cent of the bank's owner capital, and such purchases shall be made by trading on the securities market via the Oslo Stock Exchange. The total volume of ECs held by the bank and/or in which it has a consensual security interest may not exceed 10 per cent of the bank's owner capital. Each EC may be bought at prices between NOK 1 and NOK 200. The authorisation is valid for 13 months as from the adoption of the resolution at the supervisory board's meeting on 28 March 2017.

Increase of capital

Authorisations to the board of directors to increase the bank's EC capital are given for specific and defined purposes. As at 31 December 2017 no authorisation is available to the board of directors to increase the capital of SpareBank 1 SMN.

Deviations from point 3 of the Code of Practice: None

Point 4: Non-discrimination of shareholders and transactions with related parties

SpareBank 1 SMN has one class of ECs. Through the articles of association, and in the work of the board of directors and management team, emphasis is given to equal treatment of all EC holders and equal opportunity for them to exercise influence. All ECs confer an identical voting right. The bank abides by provisions of the Financial Institutions Act 2015 regulating holdings and voting rights insofar as these provisions apply to savings banks with equity certificates.

In the event of an increase of owner capital, existing EC holders have pre-emptive rights unless special circumstances call for deviation from this rule. Any such deviation will be explained. SpareBank 1 SMN has at irregular intervals launched private placings with the employees, and such increases of capital have been designed to strengthen employees' ownership of the bank and interest in the bank's capital instrument. Any exercise of the board of directors' authorisation to acquire treasury certificates shall be by trading on the securities market via the Oslo Stock Exchange.

In order to strengthen the equity certificate as an attractive financial instrument and to increase investors' influence regarding decisions affecting the owner capital, the supervisory board voted in 2017 to amend the bank's articles of association such that a qualified majority of the representatives of the equity certificate holders must vote in favour of amendments concerning the owner capital in addition to a qualified majority of the supervisory board. A list of the matters to which this applies is set out in article 10-1 of the bank's articles of association which can be found on the bank's website.

Transactions with related parties

Under instructions in force for the board of directors, a director is barred from participating in the consideration of, or decision in, any matter whose significance to him/herself or to any related party is such that the director is to be regarded as having, directly or indirectly, a particular personal or financial interest in that matter. The same follows from the group's ethical guidelines. Each director is obliged to personally verify that he or she is not disqualified from participating in the treatment of a matter.

Any agreement between the bank and a director or the group CEO must be approved by the board of directors, as must any agreement between the bank and a third party in which a director or the group CEO has a particular interest. Directors are required to disclose on their own initiative any interest the individual or

related party concerned may have. Unless the director him/herself opts to step back from the consideration of or decision in a matter, the board of directors shall decide whether or not the director shall step back. The board's assessments of legal (in)capacity must be duly recorded.

Deviations from point 4 of the Code of Practice: None

Point 5: Free transferability

The bank's equity certificate is quoted on the Oslo Stock Exchange under the MING ticker symbol and is freely transferable. The articles of association contain no restrictions on transferability.

Deviations from point 5 of the Code of Practice: None

Point 6: General meeting

Supervisory board

A savings bank is basically a 'self-owned' institution. Its governance structure and the composition of its governing bodies differ from those of public limited liability companies; see the Financial Institutions Act 2015 and what bodies a savings bank is required to have. The bank's highest body is the supervisory board comprising EC holders, customers, employees and representatives of the public authorities.

The supervisory board shall see to it that the bank operates in line with its mission and in conformity with law, its articles of association and decisions of the supervisory board.

The supervisory board has 32 members and 30 alternates with the following representation:

- EC holders: 12 members and 10 alternates
- the county councils of Trøndelag and Møre and Romsdal: 3 members and 3 alternates
- customers: 9 members and 9 alternates
- employees: 8 members and 8 alternates

The supervisory board approves the group's annual accounts and management report, including application of profit for the year/distribution of dividend, considers the board of directors' declaration regarding determination of pay and other remuneration to senior employees, and considers the report on good corporate governance. The supervisory board's tasks are further described in the bank's articles of association which are available at smn.no.

The members of the board of directors, the group CEO and the auditor are also summoned to meetings of the bank's supervisory board. They may participate in the proceedings but are not entitled to vote. The supervisory board chair presides over the meeting or, in the latter's absence, the deputy chair.

Notice of meetings of the supervisory board is sent to its members and is available on the bank's website at least 21 days ahead of the meeting. The intention is that proposals for resolutions and case documents that are dispatched should be sufficiently detailed to enable the members of the supervisory board to take a position on the matters to be considered. Minutes of the meetings of the supervisory board are also made available on the bank's website.

A list of supervisory board members can be found at smn.no.

Deviations from point 6 of the Code of Practice: Where the composition of the bank's bodies is concerned, SpareBank 1 SMN abides by laws and provisions that regulate financial institutions.

Point 7: Election committee

The bank shall have an election committee consisting of five members and five alternates who are elected by the supervisory board for a two-year term. The election committee shall mirror the composition of members of the supervisory board and be composed as follows:

- Two members with alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- Two members with two alternates shall be elected from among the members elected by the representatives of the equity certificate holders
- One member with one alternate shall be elected from among the members elected by the representatives of the customers
- One member with one alternate shall be elected from among the members elected by the representatives of the county councils
- One member with one alternate shall be elected from among the members elected by the representatives of the employees

The supervisory board establishes further instructions for the holding of the elections.

The election committee prepares the customers' and the equity certificate holders' election of members to the supervisory board.

The election committee also prepares the election of:

- the chair and deputy chair of the supervisory board
- the chair, deputy chair and other members of the board of directors
- the chair, members and alternates to the election committee as dealt with in this chapter

The directors with alternates to be elected from among the employees shall be nominated solely by the employee representatives on the election committee.

The election committee shall give grounds for its nominations.

The election committee proposes fees for members of the respective bodies.

Deviations from point 7 of the Code of Practice: All members of the election committee for the supervisory board are appointed from among the groups represented on the supervisory board, in accordance with provisions of the articles of association.

Point 8: Supervisory board and board of directors, composition and independence

See point 6 for information about the supervisory board. As of 31 December 2017 the board of directors consists of nine regularly attending members of whom two represent the employees. Four of the nine members of the board of directors are women. Members of the board of directors are appointed for two years at a time and can hold office for a maximum of 20 years, but not more than 12 years continuously in the same position. The group CEO is not a member of the board of directors. None of the members of the board of directors appointed by the supervisory board, with the exception of the two employee representatives, are in any employment relationship or independent contractor relationship with the group beyond their posts as elected officers. The board members' independence has been assessed by the

election committee and the board members are deemed to be independent, with the exception of the board members elected by the employees. The chair and deputy chair are elected by the supervisory board at separate elections for a two-year term.

The composition of the board of directors shall be based on the bank's articles of association. In the election of board members the criteria of competence, capacity and diversity are in focus. The individual director's background is described in this annual report. The board of directors meets at least 11 times each year, and the members' attendance at meetings of the board is described in this annual report. The directors are encouraged to own the bank's equity certificates, and their respective holdings of ECs in SpareBank 1 SMN are shown under the presentation of the board of directors in this annual report and on the bank's website.

Deviations from point 8 of the Code of Practice: None

Point 9: Work of the board of directors

The board of directors' work and procedures are regulated by board instructions, and annual plans are prepared for the work of the board. The board of directors manages the bank's operations in compliance with laws, articles of association and resolutions of the supervisory board. The board of directors is responsible for ensuring that the assets at the bank's disposal are managed in a safe and appropriate manner. The board of directors is also required to ensure that accounting and asset management are subject to satisfactory control. In addition the board of directors adopts the bank's strategy, budget and market and organisational objectives. It is the board of directors that appoints and dismisses the group CEO.

The board of directors receives reports on profit performance and market developments, and on the status regarding the group's risk picture. The board of directors conducts an annual evaluation of its work and its competence. It reviews working method, case handling, meeting structure and prioritising of tasks, and this provides a basis for any changes and measures needed.

The board of directors has established a compensation committee, and an audit committee and a risk committee consisting of members of the bank's board of directors. The members are appointed for a two-year term. The committees are preparatory and advisory working committees to the board of directors, and it is the board of directors that establishes instructions for the committees.

Audit committee

Pursuant to the Financial Institutions Act (2015) section 8-19 the audit committee's tasks are to:

- prepare the board of directors' follow-up of the financial reporting process,
- monitor the internal control and risk management systems and the bank's internal audit and issue an opinion on the election of the auditor,
- have ongoing contact with the bank's appointed auditor regarding the audit of the annual accounts,
- assess and monitor the auditor's independence and objectivity

The audit committee meets at least five times yearly ahead of the board of directors' consideration of quarterly and annual reports.

Risk committee

The risk committee's tasks are regulated in the Financial Institutions Act (2015) section 13-6 (4) and the Financial Institutions Regulations section 13-2. The risk committee's task is to ensure that risk and capital management support the group's strategic development and goal attainment, and at the same time ensure

financial stability and sound asset management. The risk committee shall ensure that the group's management and control arrangements are appropriate to the risk level and volume of the business.

The committee shall inter alia:

- ensure that risk management is in keeping with best practice and the board of directors' level of ambition
- review risk management strategies and policies as preparation for consideration by the board of directors
- ensure that the group's capital adequacy is satisfactory within the adopted group strategy
- ensure that laws and regulations and internal rules that regulate the group are identified, implemented, complied with and overseen.

The risk committee meets at least five times yearly.

Compensation committee

The board of directors has appointed a compensation committee that shall comprise at least three directors. The board chair is a permanent member of the committee and also chairs the committee. The committee members are appointed by the board of directors for a two-year term.

The committee is a preparatory body to the board of directors in matters relating to the design and practice of guidelines and framework for the group's compensation policy. The group's compensation policy is intended to promote sound management and control of the group's risk, discourage excessive risk taking, encourage a long-term perspective, contribute to avoidance of conflicts of interest and be in compliance with applicable law and regulations.

The compensation committee makes a recommendation to the board of directors regarding compensation policy and regarding conditions applying to the group CEO. The committee also establishes limits with regard to variable compensation, and approves compensation arrangements for all business areas and subsidiaries. The committee can also be used as an advisory body to the group CEO in the determination of conditions for the group management.

The committee meets when convened by the chair, but at least once yearly and otherwise as and when required. The attendance of at least two members is required.

The board of directors has established the compensation committee's mandate.

Deviations from point 9 of the Code of Practice: None

Point 10: Risk management and internal control

Sound risk and capital management are central to SpareBank 1 SMN long-term value creation. Internal control aims to ensure efficient operation and proper management of risks of significance for the attainment of business goals.

The group's report on capital requirements and risk management, the Pillar 3 Report, contains a description of risk management, capital management and capital calculation. This report is available at smn.no.

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the bank's financial position. The bank's risk profile is quantified through targets for rating, risk-adjusted return, expected loss, necessary economic capital and regulatory capital adequacy.

The board of directors reviews the group's development in the main risk areas on a quarterly basis and reviews the internal control system on an annual basis. The board of directors of SpareBank 1 SMN has the main responsibility for setting limits to and monitoring the group's risk exposure. The bank's risks are measured and reported in accordance with the principles and policy adopted by the board of directors. Risk management at SpareBank 1 SMN underpins the group's strategic development and goal attainment. Managements at the various companies in the group are responsible for risk management and internal control, and this is intended to ensure:

- targeted, safe, high-quality and cost-effective operations
- reliable and timely reporting
- compliance with applicable laws and regulations as well as internal procedures and policies

The board of directors receives annually from the internal auditor and external auditor an independent assessment of the group's risk and internal control function. The board monitors compliance with adopted frameworks, principles, and quality and risk objectives through:

- quarterly reports from the group CEO and the risk management department
- quarterly reports from the compliance function
- quarterly reports/annual report from the internal auditor

SpareBank 1 SMN utilises the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Framework and the Control Objectives for Information and Related Technology (CobiT) framework as a basis for its policies for internal control and risk management.

Risk management is an integral part of the management's decision processes, and a central element in regard to organisation, procedures and systems. A risk management department has been established at SpareBank 1 SMN.

The risk management department is organised independently of the business units and reports directly to the group CEO. The department is responsible for the group's risk models and for further developing effective risk management systems. The department is responsible for independent risk assessment, risk reporting and overall risk monitoring in the group and reports periodically to the group CEO and the board of directors.

The bank's most important profit objective is to achieve a competitive return on equity. This is done through increased focus on risk-adjusted return. Principles and framework for internal control and risk management are enshrined in a risk management policy. This policy sets out guidelines for the group's overall approach to risk management and is designed to ensure that the group has an effective and appropriate process to that end.

Compliance

The compliance function is organised independently of the business units. The function identifies, assesses and makes recommendations and also monitors and reports under regulatory frameworks that govern

SpareBank 1 SMN. The responsible head of this function reports periodically to the group CEO and board of directors. Business areas and support functions, along with subsidiaries, are required to attend to compliance by operationalising the policy for compliance and identified compliance risks adopted by the board of directors. The function for monitoring compliance with anti-money laundering measures is attended to through the establishment of a position specifically responsible for the operationalisation of anti-money laundering measures.

The responsible head of the compliance function is responsible for reporting compliance risk and any breaches of laws and regulations to which SpareBank 1 SMN is subject. Quarterly compliance reports are prepared.

Internal control in relation to financial reporting

The board of directors of SpareBank 1 SMN has issued guidelines for the group's financial reporting. They apply within the current requirements imposed by the authorities and are designed to ensure relevant, reliable, up to date and simultaneous information to the bank's EC holders and the securities market in general. Group Finance is headed by the finance director and is organised independently of the business areas. The unit attends to financial reporting at both parent-bank and group level, and establishes guidelines for monthly, quarterly and annual reporting from the various business areas and subsidiaries. The finance director assesses the business areas' financial results and goal achievement on a continuous basis, and sees to it that all units perform in keeping with the group's overall financial objectives. The finance director reports directly to the group CEO.

The bank's Accounts Department and Finance Department are organised under Group Finance and prepare financial reports for the group. The departments see to it that reports are made in conformity with applicable legislation, accounting standards, the group's accounting policies and the board of directors' guidelines.

Group Finance has established processes to ensure that financial reporting is quality assured and that any errors and deficiencies are followed up and rectified as and when they occur. A number of control measures have been established to ensure that all financial reporting is correct, valid and complete.

Each quarter the external auditor conducts a limited audit of the group's interim financial statements. A full audit is conducted of the group's annual financial statements.

For further information on risk management and internal control, see note 6 in this annual report concerning financial risk management and the group's report on capital requirements and risk management, the Pillar 3 report, which is available at smn.no.

Internal audit

The internal audit function is a tool used by the board of directors and the administration to oversee that the risk management process is targeted, effective and functions as intended. Internal audit services are delivered by KPMG and these services cover the parent bank and subsidiaries subject to the risk management and internal control regulations. The internal audit function's main task is to confirm that the established internal control system functions as intended, and to ensure that risk management measures are adequate to the bank's risk profile. The internal audit function reports quarterly to the board of directors and the internal audit's reports and recommendations are reviewed and improvements implemented on a continuous basis. The board of directors adopts annual plans and budgets for the internal audit function.

The internal audit function carries out the operational audit of units and business areas, and does not conduct a financial audit of the group. Annual audit plans are prepared which are discussed with the group management, considered by the risk committee and approved by the board of directors. The audit function's risk assessments determine which areas are to be reviewed. Separate audit reports are prepared containing results and proposed improvement measures which are presented to the responsible manager and the group's management team. A summary of the reports is sent quarterly to the risk committee and the board of directors. Any consultancy services are provided within the scope of standards and recommendations applying to internal auditors (Institute of Internal Auditors Norway).

Ethics and whistleblowing

Ethical guidelines have been drawn up for the group and its employees, and ethics is a standard topic at seminars for all new staff members. This helps to ensure that the group's values and ethical guidelines are properly communicated and made known throughout the organisation. Clear-cut guidelines have been established for internal communication should any member of staff learn of circumstances that breach external or internal regulatory provisions or of other circumstances which are likely to harm the group's reputation or financial situation.

Deviations from point 10 of the Code of Practice: None

Point 11: Remuneration to the board of directors

The board members' fees that are recommended by the election committee and adopted by the supervisory board are not performance-related and no options are issued to the directors. The board of directors' chair and deputy chair are remunerated separately, and directors participating in board committees receive additional remuneration for doing so. None of the directors appointed by the supervisory board perform tasks for the group beyond serving on the board of directors. Further information on compensation to the board of directors and board committees is shown in note 22 in the annual report.

Deviations from point 11 of the Code of Practice: None

Point 12: Remuneration to senior employees

The group has established a remuneration policy that is in accordance with the group's overarching objectives, risk tolerance and long-term interests. This policy is designed to promote and incentivise good management and control of the group's risk, to counter excessive or undesired risk-taking, to pre-empt conflicts of interest and to be in accordance with applicable law and regulations. See the requirements of Regulations on remuneration schemes at financial institutions, investment firms and fund management companies. The remuneration policy has special rules for senior employees. These rules also apply to other employees and elected officers with work tasks of material significance for the group's risk exposure and to employees and elected officers with control tasks.

The board of directors has appointed a compensation committee which acts as a preparatory body for the board in cases relating to the assessment of, and compensation to, the group CEO. The committee also recommends to the board of directors guidelines for remuneration to senior employees (the group management). See also the account of the board of directors' compensation committee under point 9.

A description of remuneration to the group CEO and senior employees is given in note 22 to the annual report. A further description of the bank's remuneration scheme is available on the bank's home page.

Deviations from point 12 of the Code of Practice: None

Point 13: Information and communication

The bank's information policy is designed to underpin the relationship of trust between the bank's EC holders, board of directors and management, and to ensure that the bank's stakeholders are at all times able to assess and relate to the bank. The bank's information policy is based on active dialogue in which openness, predictability and transparency are at centre stage.

The open information practice is in conformity with the bank's internal and external guidelines, with such limitations as follow from the duty of confidentiality and stock exchange rules in effect at all times.

Correct, relevant and timely information on the bank's progress and performance aims to instil investor market confidence. Information is communicated to the market via quarterly investor presentations, an investor relations area on the bank's website and stock exchange notices. The group's financial calendar is published on the bank's website. Presentations for international partners, lenders and investors are also arranged on a regular basis. The board of directors has adopted a communications strategy indicating who can make statements on behalf of SpareBank 1 SMN and in what areas.

Deviations from point 13 of the Code of Practice: None

Point 14: Takeover

SpareBank 1 SMN is a partly 'self-owning' institution which cannot be taken over by others through acquisition without consideration of the matter by the bank's bodies. A savings bank's ownership structure is regulated by law and no-one may own more 10 per cent of the bank's owner capital. Finanstilsynet's approval is required for any larger acquisition. A list of the SpareBank 1 SMN's 20 largest EC holders is available on the bank's website at smn.no.

Deviations from point 14 of the Code of Practice: Statutory limit on equity holdings

Point 15: External auditor

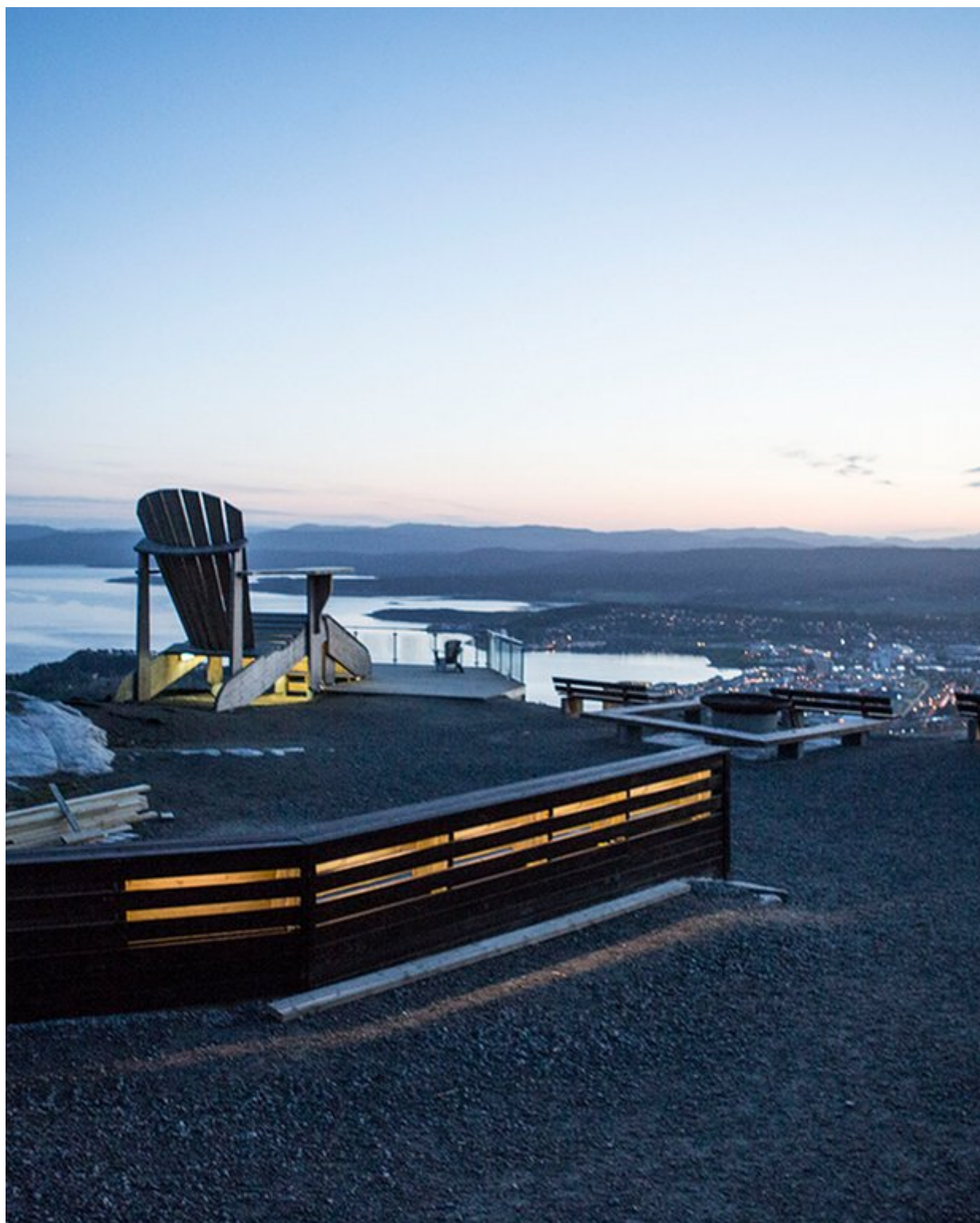
An external auditor is appointed by the supervisory board upon the recommendation of the audit committee and nomination by the board of directors, and the auditor is identical for all companies in the group. The external auditor performs the statutory confirmation of the financial information provided by the companies in their public financial statements. The external auditor presents each year to the audit committee a plan for the audit work. The external auditor attends meetings of the board of directors at which the annual accounts are reviewed and also meetings of the audit committee where the accounts are reviewed.

The board of directors holds at least one meeting each year with the external auditor without the group CEO or others from the day-to-day management team being present. Guidelines have been established for the day-to day management team's right to utilise the external auditor for non-audit services. Any such services from the external auditor must at all times be within the scope of the Auditors Act. The board of directors informs the supervisory board of the external auditor's remuneration for the audit and any other services.

The external auditor provides the audit committee with a description of the main elements of the audit, including whether any significant weaknesses have been identified in the bank's internal control related to financial reporting processes. In addition the auditor confirms his independence and discloses whether any services other than statutory audit have been delivered to the group over the course of the accounting year.

Deviations from point 15 of the Code of Practice: None

MING



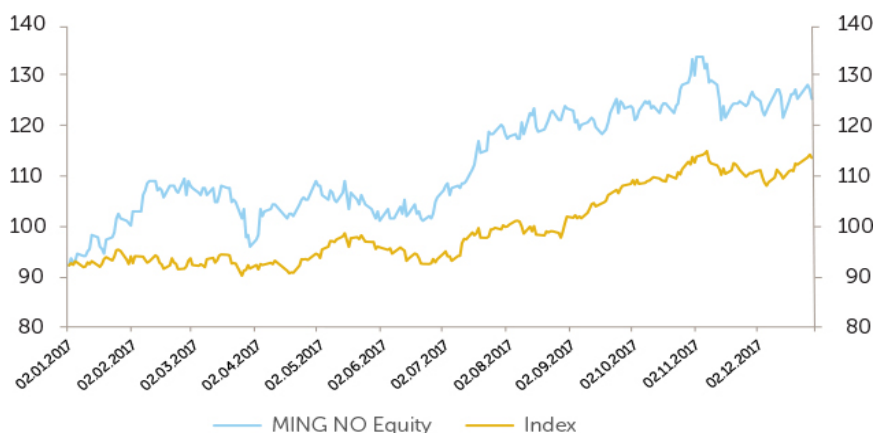
Equity capital certificate

At end-2017 the market price of SpareBank 1 SMN's EC (MING) was NOK 82.25. At end-2016 the price was NOK 64.75. With a cash dividend of NOK 4.40 for 2016, the direct return on the EC is 5.3 per cent.

At the end of 2017 SpareBank 1 SMN's equity certificate (EC) capital totalled NOK 2,597m distributed on 129,836,443 ECs with a nominal value of NOK 20 each. At the turn of the year the bank had a treasury holding of ECs totalling NOK 39,900 distributed on 1995 ECs.

Key figures and ratios	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Quoted price	82.25	64.75	50.50	58.50	55.00	34.80	36.31	49.89	45.06	21.00
No. of ECs issued, million	129.38	129.83	129.83	129.83	129.83	129.83	102.76	102.74	82.78	82.41
Market value (NOKm)	10,679	8,407	6,556	7,595	7,141	4,518	3,731	5,124	3,749	1,750
Dividend per EC	4.4	3.00	2.25	2.25	1.75	1.50	1.85	2.77	2.10	2.77
Book value per EC	78.81	73.26	67.65	62.04	55.69	50.09	48.91	46.17	42.11	38.07
Profit per EC	8.71	7.91	7.02	8.82	6.92	5.21	6.06	5.94	6.37	4.16
Price-Earnings Ratio	9.44	8.19	7.19	6.63	7.95	6.68	5.99	8.40	7.29	5.09
Price-Book Value Ratio	1.04	0.88	0.75	0.94	0.99	0.69	0.74	1.07	1.09	0.57
Payout ratio	50 %	38 %	25 %	25 %	25 %	29 %	30 %	47 %	34 %	34 %
EC fraction	64 %	64.0 %	64.0 %	64.6 %	64.6 %	64.6 %	60.6 %	61.3 %	54.8 %	56.3 %

Stock price compared with OSEBX and OSEEX



OSEBX = Oslo Stock Exchange Benchmark Index (rebased equal to MING, 1 January 2017)

Dividend policy

A new act and regulations on equity certificates, which came into force on 1 July 2009, bring savings banks' ECs more into line with shares. The new legislation entails greater equality of treatment of savings banks' various owner groupings and minimises previous concerns related to dilution of EC holders upon payment of cash dividends.

In response to the new legislation, the following dividend policy was established in December 2009:

- SpareBank 1 SMN aims to manage the Group's resources in such a way as to provide EC 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 EC 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 *about** one half of the owner capital's share of the net profit for the year should be disbursed in dividends and, similarly, that *about** one half of the ownerless 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, of external framework conditions and of any need for CET1 capital.

* The Supervisory Board resolved in 2017 to adjust the dividend policy by removing the cap on dividend payouts. The previous wording was "up to" instead of "about".

Investor policy

The bank attaches importance to correct, relevant and timely information on the bank's progress and financial performance as a means of instilling investor market confidence. Information is communicated to the market via quarterly investor presentations and press releases. Presentations for international partners, lenders and investors are also arranged on a regular basis.

Updated information for investors, the press and brokers is available at all times at smn.no/ir.

Ownership

SpareBank 1 SMN aims for good EC liquidity and to achieve a good spread across EC holders representing customers, regional investors and Norwegian and foreign institutions.

Financial results



Report of the Board of Directors

Macroeconomic conditions

Quickening, but not permanent high growth in the global economy

Growth in the global economy picked up through 2017. The US, the euro zone and many emerging economies provided a positive surprise.

In western countries unemployment has fallen overall and is now lower than normal – and in part very low in many countries. There are signs of quickening wage growth, especially in the US, but price growth remains moderate to low. In the euro zone wage growth is also picking up, but remains low, and price inflation well below target.

Prospects for 2018 are positive, and investment levels are well above the norm in most western countries.

Emerging economies now account for over three-quarters of global economic growth. China and India contribute the most, far more than all wealthy countries in aggregate. Many countries have struggled to adapt to lower commodity prices, but a broad-based turnaround is now in evidence in this part of the global economy. China is likely to be cautiously decelerating, and the risk of an abrupt turnaround is reduced after a substantial decline in investments viewed against overall GDP. A high and still rising debt burden nonetheless poses a risk.

With the fall in unemployment to low levels, central banks have begun to normalise their base rates. The US Federal Reserve raised its base rate four times last year. The European central bank has signalled that bond purchases can be terminated in the third quarter of 2018, but it will probably defer raising the interest rate until 2019.

Although the momentum in the global economy is favourable, there are as always a number of risk factors. The US has adopted a very expansionary fiscal policy, even though the budget deficit is already substantial and unemployment low. This puts more pressure on interest rates. It could also create instability in other sections of the financial market. The US has introduced trade restrictions and threatens more of the same, which could trigger trade wars.

Norwegian economy cruising nicely, prospects are good and interest rate due to rise

Growth in Mainland Norway rose from 1.0 per cent in 2016 to 1.8 per cent in 2017. Employment picked up and unemployment continued to fall. The oil price has more than doubled since bottoming out. Norway is once again witnessing a buoyant upturn. This is reflected in stock markets, including markets for bank shares and equity certificates.

Growth in private consumption and residential investment accelerated last year. At the same time real wage growth remained low. The saving rate consequently fell further and, in as much as residential investments also rose rapidly, households' net borrowing need also rose rapidly. Population growth is also dampened further. In 2018 residential investments will likely fall somewhat, since housing starts were reduced through 2017 due to falling sales of new homes after the decline in house prices. Activity levels in the construction industry, however, remain very high.

House prices fell 2 to 3 per cent from their peak in early spring to year-end. Prices fell by about 10 per cent in Oslo, where they had risen steeply in the two preceding years, whereas a moderate price fall was noted in all the largest towns. At the start of 2017 the government further tightened the lending regulations for residential lending to households by limiting overall debt to five times gross income and imposing tighter requirements on amortisation of large residential mortgages. However, the turnover rate rose over the year and towards year-end the stock of unsold existing homes declined. This indicates that the decline in house prices may now be behind us, in all events this time round. A high and rising debt burden, continued high housing construction and prospects of higher lending rates pose potential threats to housing market stability, in the worst case to general household demand.

Mainland firms' investments rose more than 5 per cent last year and their demand for loans is rising. The level of investment remains low, but is rising, and surveys of firms indicate a further rise this year. Exports rose last year, but the picture were nonetheless mixed. Firms exporting oil-related goods and services continue to struggle, whereas other exports fared better, for one thing because the krone exchange rate is far weaker than it was prior to the oil price fall. Good growth internationally and a lower cost level than previously suggest good prospects for 2018.

Investments in the oil and gas sector fell 35 per cent from their peak in 2013 to the end of last year. This has hit oil-related businesses and regions hard. The situation is now bottoming out. The oil price has recovered well and oil companies will now increase their investments in as much as many development projects have again turned profitable. The order intake to oil-related manufacturing industry has already increased.

Fiscal policy has contributed heavily to maintaining growth in the Norwegian economy in the three preceding years, but since the Oil Fund is not growing as rapidly as previously, it is unreasonable to expect major stimuli in the form of increased transfers from the fund in the years ahead.

The key policy rate was kept unchanged at a record-low 0.5 per cent through 2017. Norges Bank has signalled that it will probably raise its key policy rate in the course of 2018. Unemployment is falling rapidly, price inflation is not far below target, wage growth is likely to increase slightly and demand for credit is good. Probably only a further house price fall or a marked setback in the world economy can prevent a gradual increase on of interest rates in the next few years.

Positive trend for value creation in Mid-Norway

SpareBank 1 SMN's economic barometer shows that Trøndelag achieved high and stable value creation in 2017, whereas Møre and Romsdal struggled with readjustments in offshore services and parts of the maritime industry. There are nonetheless signs of improvement in these lines of business in addition to the fact that a weak Norwegian krone and low interest rates continue to have positive effects for a number of industries throughout the region. The aquaculture industry is performing particularly well.

Unemployment in Trøndelag is low at 1.9 per cent of the labour force, down from about 2.2 per cent in 2016. Unemployment also fell in Møre and Romsdal, by 0.7 percentage points to 2.4 per cent in 2017, in keeping with the improvement in manufacturing industry.

In Trøndelag house prices rose by 2.1 per cent in 2017, a far lower figure than in the preceding years, but better than for Norway as a whole, which showed a decline of 1.1 per cent. The housing market in Trøndelag and in Møre and Romsdal shows wide variation with prices rising by 2.4 per cent in Trondheim, while prices in the Ålesund district rose by 1.1 per cent.

Sentio's corporate expectations barometer shows increased optimism among business leaders both in Trøndelag and in Møre and Romsdal. Continued growth and increasing capacity utilisation is expected in manufacturing, along with falling unemployment and moderate growth in house prices.

Annual accounts 2017

The annual accounts are presented on the going-concern assumption, and the board of directors hereby confirms the basis for continued operation.

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

As from the fourth quarter of 2017 SpareBank 1 SMN has reclassified two hybrid bonds from debt to equity. The bonds were reclassified since they do not meet the definition of financial liability under IAS 32. The bonds are perpetual, and SpareBank 1 SMN is not required to pay interest to investors. The interest is recognised not as an expense through profit and loss, but as a reduction in equity. The change has brought a reduction in interest expenses totalling NOK 44m in 2017 before tax, NOK 33m after tax. Comparatives for 2016 have been restated. See note 3 for further details.

Main points for 2017

- Good profits from banking operations, subsidiaries and product companies
- Profit was NOK 1,828m and NOK 147m better than in 2016. The improvement is mainly due to increased operating income, reduced loan losses and sound profit for SpareBank 1 Gruppen
- Strong financial position
- Considerable increase in customers and high growth in all product areas

Post-tax profit of NOK 1,828m

- Pre-tax profit: NOK 2,279m (2,029m)
- Post-tax profit: NOK 1,828m (1,681m) Return on equity: 11.5 per cent (11.3 per cent)
- CET1 capital ratio: 14.9 per cent (14.9 per cent)
- Growth in lending: 8.2 per cent (8.0 per cent) and in deposits: 13.9 per cent (4.8 per cent)
- Share of lending to the retail market 66 per cent (65 per cent)
- Loan losses: NOK 341m (516m)
- Earnings per equity certificate (EC): NOK 8.71 (7.93). Book value per EC, inclusive dividend proposed for 2017: NOK 78.81 (73.35)
- Proposed dividend: NOK 4.40 per EC and an allocation of NOK 322m to non-profit causes

Profit NOK 147m better than in 2016

In 2017 SpareBank 1 SMN achieved a pre-tax profit of NOK 2,279m (2,029m). The net profit was NOK 1,828m (1,681m) and return on equity was 11.5 per cent (11.3 per cent).

Overall operating income in 2017 came to NOK 4,229m (3,603m), an increase of NOK 626m from the previous year.

Return on financial assets was NOK 760m (944m), of which the profit share from owner interests in related companies accounted for NOK 437m (423m).

Operating expenses came to NOK 2,369m (2,003m) in 2017. The cost growth refers largely to the bank's subsidiaries and is attributable to EiendomsMegler 1 Midt-Norge's involvement in BN Bolig, capacity expansion at SpareBank 1 Markets and company acquisitions by SpareBank 1 Regnskapshuset SMN.

The Group lost NOK 341m (516m) on loans to customers, mainly in oil-related activity. Sound growth was posted in lending and deposits in 2017. Lending rose by 8.2 per cent (8.0 per cent) and deposits by 13.9 per cent (4.8 per cent).

As at 31 December 2017 the CET1 ratio was 14.9 per cent (14.9 per cent). The CET1 target is set at 15.0 per cent.

The price of the bank's equity certificate (MING) at year-end was NOK 82.25 (64.75). A cash dividend of NOK 3.00 per EC was paid in 2017 for the year 2016.

Earnings per EC were NOK 8.71 (7.93). The book value per EC was NOK 78.81 (73.35) inclusive recommended dividend of NOK 4.40. The recommended dividend represents a payout ratio of 50 per cent (37 per cent) of the Group profit.

Proposed distribution of profit

Distribution of the profit for the year is done on the basis of the parent bank's accounts. The parent bank's profit includes dividends from subsidiaries, associates and joint ventures, and is corrected for interest expenses on hybrid capital after tax.

Subsidiaries are fully consolidated in the Group accounts, whereas profit shares from associates and joint ventures are consolidated using the equity method. Dividends are accordingly not included in the Group results.

Difference between Group - Parent Bank	2017	2016
Profit for the year, Group	1,828	1,681
Profit, subsidiaries	- 196	- 280
Dividend, subsidiaries	364	147
Profit, associates and joint ventures	- 437	- 423
Dividend, associates and joint ventures	410	591
Elimination Group	- 119	- 27
Profit for the year, Parent bank	1,850	1,689
Distribution of profit	2017	2016
Profit for the year, Parent bank	1,850	1,689
Transferred to/from revaluation reserve	- 17	95
Interest Tier 1 capital (after tax)	- 33	- 34
Profit for distribution	1,800	1,750
Dividends	572	389
Equalisation fund	580	730
Ownerless capital	327	411
Gifts	322	220
Total distributed	1,800	1,750

The annual profit for distribution reflects changes of NOK 17m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 1,800m.

The profit is distributed between the ownerless capital and the equity certificate (EC) capital in proportion to their relative shares of the bank's total equity, such that dividends and the allocation to the dividend equalisation fund constitute 64.0 per cent of the distributed profit.

Earnings per equity certificate were NOK 8.71. Of this, the board of directors recommend the bank's supervisory board to set a cash dividend of NOK 4.40, altogether totalling NOK 572m. This gives the EC holders a payout ratio of 50 per cent of the earnings per EC. The board of directors further recommends the supervisory board to allocate NOK 322m as gifts to non-profit causes, also representing a payout ratio of 50 per cent. Of this amount it is proposed that NOK 252m be transferred to the foundation Sparebankstiftelsen SMN and NOK 70m as gifts to non-profit causes. NOK 580m and NOK 327m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2017, the ratio of EC capital to total equity remains 64.0 per cent.

Increased net interest income

Net interest income rose by NOK 296m to NOK 2,225m (1,929m) in 2017. The strong increase is attributable to:

- Increased lending to and deposits from both retail and corporate customers
- Increased margins on lending both to retail and corporate customers
- Reduced funding costs

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 2017 totalled NOK 370m (282m).

Risk pricing and attention to the use of regulatory capital have brought improved margins, and work in this respect continues in 2018. The bank's strong growth shows that its prices are in tune with the market.

Increased other income

Commission and other operating income rose by NOK 330m to NOK 2,005m (1,674m) in 2017.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt rose by NOK 88m as a result of growth and improved margins on residential mortgages.

Strengthening of SpareBank 1 Markets and acquisitions by SpareBank 1 Regnskapshuset SMN have contributed significantly to the increase in other income. A positive development is also noted in income from insurance sales, sales of savings products and payment services.

A high number of multi-product customers is important for the bank. It signifies high customer satisfaction and a diversified income flow for the bank.

Commission income (NOK million)	2017	2016	Change
Payment transfers	207	196	11
Creditcard	59	63	-3
Saving products	117	97	20
Insurance	172	159	13
Guarantee commission	69	77	-8
Real estate agency	365	391	-27
Accountancy services	357	213	144
Markets	214	126	88
Other commissions	75	69	6
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	1,635	1,392	242
Commissions SB1 Boligkreditt	353	271	83
Commissions SB1 Næringskreditt	17	12	5
Total commissions	2,005	1,674	330

Good return on financial investments

Overall return on financial investments was NOK 317m (434m). This breaks down as follows:

- A gain of NOK 62m (76m) on the shares of the bank and subsidiaries
- Financial derivatives yielded gains of NOK 148m (280m). This is very largely gains on fixed income instruments
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed-interest loans and show a gain of NOK 7m (26m)
- Income of NOK 45m (51m) on forex transactions refers to income from currency trading at SpareBank 1 Markets and to the result of exchange rate fluctuations on the bank's funding in foreign currencies
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 43m (25m)
- The Group's holding of short-term paper and bonds yielded a gain of NOK 58m (-2m) as a result of improved return on the liquidity portfolio
- Prices of financial instruments used by the bank for hedging purposes declined and the bank recognised a net loss of NOK 46m (21m) on hedging instruments

Capital gains/dividends, shares (NOK million)	2017	2016	Change
Capital gains shares	62	76	-14
Gain/(loss) on derivatives	124	280	-156
<i>of which value adjustment on basis swaps</i>	-50	-8	-42
Gain/(loss) on other financial instruments at fair value (FVO)	7	26	-19
Foreign exchange gain / (loss)	45	51	-6
Gain/(Loss) on certificates and bonds	58	-2	60
Gain/(Loss) on equity instruments in SpareBank 1 Markets	43	25	19
Gain/(loss) on financial instruments related to hedging	-22	-21	-1
Net return on financial instruments	317	434	-117

Product companies and other related companies

Through the product companies, banks have access to a broader product range and hence commission income. The product companies also provide the banks with a good return on invested capital.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1

Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen was unchanged at 19.5 per cent at the end of the fourth quarter of 2017. SpareBank 1 Gruppen's post-tax profit in 2017 was NOK 1,811m (1,575m). SpareBank 1 Forsikring contributes 95 per cent of the profit. The profit growth is explained by:

- A good underlying trend in both the life insurance and non-life insurance business
- High financial earnings
- Positive adjustment of property values

SpareBank 1 SMN's share of the profit for 2017 was NOK 349m (317m), including a correction of minus NOK 4m to the profit for 2016.

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. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As of 31 December 2017 the bank had sold loans totalling NOK 34.9bn (33.1bn) to SpareBank 1 Boligkreditt, corresponding to 35.3 per cent (37.1 per cent) of overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt in 2017 was 19.1 per cent, and the bank's share of that company's profit in 2017 was minus NOK 41m (minus 17m). The profit share in 2017 was weakened by exchange rate losses of NOK 74m (29m) on the company's basis swaps.

The valuation of the company's basis swaps is linked to currency hedging of the company's borrowings. These are valued quarterly and may produce major profit fluctuations from quarter to quarter. Exchange rate losses arise because the market cost of currency hedging is reduced and the effect of the exchange rate loss will be neutralised over the maturity of the currency hedge.

The new stake as of 31 December 2017 is 19.9 per cent.

SpareBank 1 Næringskredit

SpareBank 1 Næringskredit was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2017, loans worth NOK 1.8bn (2.1bn) had been sold to SpareBank 1 Næringskredit.

SpareBank 1 SMN's stake in the company in 2017 was 36.5 per cent, and the bank's share of the company's profit for 2017 was NOK 19m (29m). 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 Næringskredit, 42 per cent have been transferred from BN Bank. The new holding as at 31 December 2017 is 33.5 per cent.

SpareBank 1 Kredittkort

Profit for 2017 was NOK 84m (128m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.9 per cent. SpareBank 1 SMN's share of the profit for 2017 was NOK 15m, and the bank's share of the portfolio is NOK 845m (829m).

SpareBank 1 SMN Kredittkort has since 1 January 2017 managed the credit card programme LOfavør. This agreement expands the business relationship between the Norwegian Confederation of Trade Unions (LO) and the SpareBank 1 Alliance.

In 2017 work on the LOfavør portfolio reflected start-up and one-time costs, but the portfolio will make a positive contribution to the SpareBank 1 Alliance as early as in 2018. At year-end the portfolio consisted of 45,250 accounts overall of which 6,250 were assigned to SpareBank 1 SMN.

On behalf of the alliance, SpareBank 1 Kredittkort was commissioned to deliver credit products to Vipps, a Norwegian mobile payment application. The agreement will be implemented in the course of 2018.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as of 31 December 2017.

BN Bank recorded a profit of NOK 298m (261m) in 2017 providing a return on equity of 8.3 per cent (7.3 per cent). SpareBank 1 SMN's share of the profit of BN Bank was NOK 98m (86m) adjusted for the profit share in BN Bolig and interest on hybrid capital.

After the decision to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 18.7bn or 59 per cent since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial position and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank is to be developed into a digital bank serving the retail market.

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmegler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is intended to strengthen residential mortgage lending for BN Bank. To support the focus on estate agency, the bank's board of directors have also adopted a new focus on funding of housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling (Vipps)

In autumn 2017 the SpareBank 1 Alliance's mobile payments service mCASH was amalgamated with Vipps. Several Norwegian bank groupings joined the company on the owner side, and all Norwegian banks have Vipps as their mobile payments service. BankID and BankAxept are to merge with Vipps to compete in the arena for payment solutions for the future. Vipps aims to take its place as the Nordic region's leading financial technology company, and SpareBank 1 SMN's stake in, and close collaboration with, Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive). In the course of 2018 Vipps will launch a number of services designed to simplify bank customers' everyday life, and its integration of accounts will ensure that costs are kept down.

Operating expenses

Overall Group operating expenses rose by NOK 366m in 2017 to total NOK 2,369m (2,003).

Parent bank costs increased by NOK 58m to NOK 1,209m from 2016 to 2017. The change is explained by:

- Improved efficiency and effectiveness have brought lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 90 to 595 FTEs at the end of 2017

- In 2016 the bank expensed NOK 50m in reorganisation costs related to downstaffing
- The defined benefit pension scheme for employees of the parent bank and subsidiaries was terminated in 2016 and all Group employees were transferred to a defined contribution scheme. The termination brought a gain of NOK 74m at the parent bank
- The introduction of a new tax on financial institutions in 2017 has increased costs by NOK 25m
- Changing customer behaviour and new technology will set the stage for increased efficiency gains in the period ahead
- The focus on new technology has increased costs by NOK 30m.
- The target of zero growth in the parent bank's operating expenses is retained for 2018

Total costs among the subsidiaries came to NOK 1,159m having risen by NOK 308m in 2017. NOK 140m refers to SpareBank 1 Regnskapshuset SMN's acquisitions in Møre and Romsdal, about NOK 130m to the build-up of SpareBank 1 Markets and NOK 45m to costs connected to EiendomsMegler 1 Midt-Norge's investment in BN Bolig. Costs in 2016 were positively affected by one-time effects of NOK 16m related to the termination of the defined benefit pension scheme.

The acquisition of SpareBank 1 Regnskapshuset SMN has provided substantial income growth and profit growth in the company. Increased capacity through new appointments has enabled strong income growth at SpareBank 1 Markets and the potential for further growth is high. The result for BN Bolig reflects start-up costs and is in keeping with plan. Improved results are expected in 2018.

The cost-income ratio was 47 per cent (44 per cent) for the Group, 32 per cent (31 per cent) for the parent bank.

Reduced losses and low defaults

Net loan losses totalled NOK 341m (516m) in 2017. Net loan losses measure 0.23 per cent of total outstanding loans (0.39 per cent).

A net loss of NOK 323m (495m) was recorded on loans to corporates for 2017, in all essentials related to offshore exposures.

A net loss of NOK 18m (21m) was recorded in the retail banking portfolio in 2017.

Individually assessed write-downs on loans and guarantees totalled NOK 769m (638m) at 31 December 2017.

Total problem loans (defaulted and doubtful) come to NOK 1,468m (1,688m), or 0.99 per cent (1.23 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 284m (214m), measuring 0.19 per cent (0.16 per cent) of gross outstanding loans. Of the overall default volume, NOK 55m (39m) is loss provisioned, corresponding to 20 per cent (18 per cent).

Defaults break down to NOK 75m (38m) on corporates and NOK 209m (176m) on retail borrowers.

Other doubtful exposures totalled NOK 1,184m (1,474m), i.e. 0.80 per cent (1.07 per cent) of gross outstanding loans. NOK 714m (599m) or 60 per cent (41 per cent) is written down.

Other doubtful exposures break down to NOK 1,164m (1,455m) on corporates and NOK 21m (19m) on retail borrowers.

Credit quality in the loan portfolio is good. A very large share of the year's loan losses refers to oil-related activity, but the trend is positive in this part of the portfolio too.

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 increased by NOK 9m in 2017. Overall collectively assessed loss write-downs thus total NOK 347m (339m), measuring 0.23 per cent (0.25 per cent) of total loans. Collectively assessed write-downs break down to NOK 104m on retail exposures and NOK 243m on corporates. Of the overall provision of NOK 243m on the corporate portfolio, the provision related to oil-related activity accounts for NOK 60m. The remaining collectively assessed write-downs of NOK 173m on the corporate portfolio are fairly evenly spread across other sectors.

IFRS 9

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement as from 1 January 2018. IFRS 9 deals with the recognition, classification, measurement and derecognition of financial assets and liabilities along with hedge accounting. In collaboration with other SpareBank 1 banks, SpareBank 1 SMN has worked on models and clarifications with regard to valuation and classification in the past two years or so. Our calculations show an increased need for loss provisioning as at 1 January 2018 of NOK 17m for the parent bank, and NOK 20m the Group. See note 2 and note 45 of the Annual Accounts for 2017 for further details.

Total assets of NOK 153bn

The bank's assets totalled NOK 153bn at 31 December 2017 (138bn), having risen by NOK 15bn or 11.0 per cent over the year. The increase in total assets is a consequence of increased lending and a larger liquidity holding.

As at 31 December 2017 loans worth a total of NOK 37bn (35bn) had been sold from 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 residential mortgage lending

Total outstanding loans have risen by NOK 11.2bn (10.2bn) or 8.2 per cent (8.0 per cent) in 2017 to reach NOK 148.8bn (137.5bn) at year-end.

- Loans to personal borrowers rose in 2017 by NOK 9.3bn (8.7bn) to reach NOK 98.7bn (89.4bn). Growth of 10.4 per cent (10.7 per cent)
- Loans to corporates rose in 2017 by NOK 1.9bn (1.5bn) to reach NOK 50.1bn (49.1bn). Growth of 4.1 per cent (3.2 per cent)

- Loans to personal borrowers accounted for 66 per cent (65 per cent) of total loans to customers as at end-2017

The growth in residential mortgage lending is high and the bank's market shares are growing. There are no indications of higher loss and default levels in the bank's residential mortgage portfolio and the quality of this portfolio is excellent.

New loans to corporate borrowers are mainly to small businesses and are prioritised on the basis of capital limitations and profitability requirements.

SpareBank 1 SMN has over the course of recent years increased the share of its loans going to personal borrowers, and at 31 December 2017 personal borrowers accounted for 66 per cent (65 per cent) of total loans.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 9.3bn (3.1bn) in 2017 to reach NOK 76.5bn (67.2bn) as at 31 December 2017. This represents a growth of 13.9 per cent (5.6 per cent).

- Personal customer deposits rose by NOK 2.0bn (1.8bn) or 6.8 per cent (6.9 per cent) to reach NOK 31.8bn
- Corporate deposits rose by NOK 7.3bn (1.6bn) or 19.5 per cent (4.6 per cent) to NOK 44.7bn. The growth in corporate customer deposits has been very high, and is explained by high growth in the majority of segments. As expected, total deposits are somewhat lower at the end of January 2018
- The deposit-to-loan ratio at SpareBank 1 SMN was 68 per cent (66 per cent) at 31 December 2017

The growth in deposits at the bank was highly satisfactory in 2017, from personal and corporate customers alike.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 11.7bn (10.2bn) at 31 December 2017. The increase of NOK 1.5bn is a result of good sales and value increases, especially as regards equity funds and active asset management.

Saving products, customer portfolio (NOK million)	2017	2016	Change
Equity funds	7,870	6,612	1,258
Pension products	840	762	78
Active management	2,989	2,780	209
Total	11,699	10,154	1,545

Insurance

The bank's insurance portfolio showed growth of 5.8 per cent in 2017. Growth was strongest for personal insurance, which grew by 7.9 per cent.

Insurance, premium volume (NOK million)	2017	2016	Change
Non-life insurance	769	738	31
Personal insurance	327	303	24
Occupational pensions	232	214	18
Total	1,328	1,255	73

Retail Banking

Outstanding loans to retail borrowers total NOK 103bn and deposits total NOK 37bn as at 31 December. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 1,926m (1,663m) in 2017 of which net interest income accounted for NOK 1,137m (953m) and commission income for NOK 789m (679m). Operating income has increased mainly due to increased lending and improved lending margins along with increased commission income from other funding income, investment products, payments and insurance. Overall income rose by NOK 293m. Return on capital employed in the retail banking segment was 16.6 per cent (13.8 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin for 2017 was 1.93 per cent (1.75 per cent), while the deposit margin was 0.11 per cent (0.25 per cent) measured against three-month NIBOR. The average three-month NIBOR fell by about 0.30 percentage points over the course of 2017.

In 2017 retail lending and retail deposits grew by 10.0 per cent (10.3 per cent) and 6.7 per cent (3.9 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 residential mortgage portfolio. The portfolio is secured on residential property.

Corporate Banking

Outstanding loans to corporates total NOK 39bn and deposits total NOK 39bn as at 31 December 2017. This is a diversified portfolio of loans to and deposits from corporate customers in Trøndelag and Møre and Romsdal.

Operating income totalled NOK 1,315m (1,205m) in 2017. Net interest income was NOK 1,108m (1,000m), while commission income and return on financial investments totalled NOK 207m (205m). Operating income in the corporate segment has increased due very largely to increased lending and improved lending margins.

Overall net losses recorded in the corporate banking segment have declined and amounted to NOK 318m (490m) in 2017. The losses are in all essentials related to the challenges faced in oil-related activity.

Return on capital employed for the corporate banking segment in 2017 was 10.5 per cent (6.9 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.69 per cent (2.51 per cent) and the deposit margin was minus 0.10 per cent (minus 0.08 per cent) as at end-December 2017.

Lending grew by 1.5 per cent (0.7 per cent) and deposits by 19.5 per cent (6.9 per cent) in 2017.

Subsidiaries

The subsidiaries posted an overall profit of NOK 242.7m (326.8m) before tax.

Pre-tax profit (NOK million)	2017	2016	Change
EiendomsMegler 1 Midt-Norge	2.6	66.7	-64.0
SpareBank 1 Finans Midt-Norge	128.3	103.4	24.9
SpareBank 1 Regnskapshuset SMN	60.3	42.9	17.4
Sparebank 1 Markets (proforma incl. Allegro)	1.9	19.6	-17.8
SpareBank 1 SMN Invest	27.9	73.7	-45.9
Other companies	21.6	20.4	1.2
Total	242.7	326.8	-84.1

EiendomsMegler 1 Midt-Norge leads the field in Trøndelag and in Møre and Romsdal with a very strong market position, Trondheim in particular. The ambition is to continue to strengthen the market share in the region. In collaboration with BN Bank, the company has established BN Bolig in which EiendomsMegler 1 Midt-Norge and BN Bank each hold a 50 per cent stake. This represents a focus on estate agency in the Oslo market which, in addition to enhancing earnings from estate agency, will contribute to stronger residential mortgage lending growth for BN Bank in this market.

EiendomsMegler 1 Midt-Norge's pre-tax profit in 2017 came to NOK 2.6m (66.7m). The profit is weakened by:

- Reduced incomes as a result of fewer dwelling units sold. Dwelling units sold in 2017 totalled 6,719 compared with 7,429 in 2016
- NOK 35m in start-up costs for BN Bolig. EiendomsMegler 1 Midt-Norge consolidates the profit from BN Bolig as a subsidiary

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 128.3m in 2017 (103.4m) and shows positive profit growth as a result of strong growth in income, limited cost growth and good risk management. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The company operates leasing and car loan agreements worth a total of NOK 6.2bn, of which leasing agreements account for NOK 2.8bn (2.3bn) and car loans for NOK 3.4bn (2.7bn). The company also offers consumer loans, and at year-end that portfolio was worth NOK 208m (132m).

The company has seen good growth, particular in car loans with growth of 26 per cent over the last 12 months. The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at end-2017 and Sparebanken Sogn og Fjordane a stake of 7.5 per cent. SpareBank 1 SMN 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 60.3m (42.9m) in 2017. The profit growth is ascribable to sound operations and to the company's substantial expansion in Møre and Romsdal.

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

SpareBank 1 Regnskapshuset SMN acquired all shares of Økonomisenteret Kunderegnskap in Molde along with about 110 employees with effect from 2017. The company now has 360 employees and an annual turnover of NOK 360m. This has contributed to improved profit in 2017 and to a considerable increase in income and expenses alike.

SpareBank 1 SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 27.9m (73.7m) in 2017.

Value changes and realisation of losses or gains on the company's overall holding of shares account for NOK 12.5m of the company's net total income. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in 2017 was NOK 15.4m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. The company is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 132. In the fourth quarter the company acquired the trading desk at SpareBank 1 SR-Bank Markets. SpareBank 1 SR-Bank became co-owner of the company as a result of the transaction.

In 2017 SpareBank 1 Markets also acquired SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage in SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 10bn. The company has a staff of 15.

SpareBank 1 Markets' (including SpareBank 1 Kapitalforvaltning) pre-tax profit in 2017 was NOK 1.9m (19.6m). The Group has seen a positive income trend in the past year, in particular in equity trading and investment banking (corporate).

In 2017 SpareBank 1 Markets made a number of staff appointments which are expected to strengthen earnings in the company once the new staff attain normalised earning power. This has resulted in considerable cost growth in 2017.

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 parent 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 27bn and has the funding needed for 30 months of ordinary operation without fresh external finance.

The government authorities require 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 is calculated at 164 per cent as at 31 December 2017 (129 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 31 December 2017, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 51 per cent (49 per cent).

The bank's funding sources and products are amply diversified. At year-end the proportion of the bank's overall money market funding in excess of 1 year was 80 per cent (88 per cent).

SpareBank 1 Boligkreditt is the bank's most important source of funding, and loans totalling NOK 35bn had been sold by 31 December 2017.

Rating

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

Financial position

The CET1 capital ratio at 31 December 2017 was 14.9 per cent (14.9 per cent). The group's CET1 target is 15.0 per cent. The authorities' CET1 requirement is 14.1 per cent.

Risk weighted assets increased by 5.4 per cent of 2017, but this is offset by an increase in CET1 capital as a result of an excellent profit of NOK 1.8bn in 2017 and retention of 50 per cent of this profit.

The bank increased its lending by 8.2 per cent in 2017, but, as a result of a deliberate shift in the composition of lending, risk-weighted assets increased by only 5.3 per cent. Retained profits enabled a 5.3 per cent increase in CET1 capital in 2017.

The CET1 capital ratio is 0.1 percentage point below the target level. This is considered to be within natural fluctuations. The leverage ratio is 7.2 per cent (7.4 per cent). The board of directors are satisfied with the bank's level of capitalisation.

As of 31 December 2017 the countercyclical capital buffer increased from 1.5 per cent to 2.0 per cent, bringing the CET1 requirement to 12.0 per cent, including combined buffer requirements. Including a Pillar 2 requirement of 2.1 per cent, the overall regulatory requirement is 14.1 per cent.

Finanstilsynet's final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1 per cent in 2015. The add-on relates mainly to owner risk, market risk and concentration risk with regard to credit. This add-on is subject to assessment by Finanstilsynet every second year, and Finanstilsynet will set a new Pillar 2 add-on in the course of 2018. SpareBank 1 SMN aims for a management buffer of about 1 per cent above overall Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk-weighted assets and fluctuations in Group profit. Against this background the Group's capital target stands at 15 per cent.

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

The bank's equity certificate (MING)

The book value of the bank's EC as at 31 December 2017, including a recommended dividend of NOK 4.40, was NOK 78.81 (73.35), and earnings per EC were NOK 8.71 (7.93).

The Price / Income ratio was 9.44 (8.17) and the Price / Book ratio was 1.04 (0.88).

As at 31 December 2017 the EC was priced at NOK 82.25 and dividend of NOK 3.00 per EC was paid in 2017 for the year 2016.

SpareBank 1 SMN's articles of association set no restrictions on investors' trade in ECs.

With regard to placings with employees, the latter are invited to participate under given guidelines. In placings where discounts are granted, a lock-in period applies before any sale can take place. The rights to ECs issued in placings with employees cannot be transferred.

SpareBank 1 SMN is not aware of any agreements between EC holders that limit the opportunity to trade ECs or to exercise voting rights attached to ECs.

See also the chapter Corporate Governance.

Risk factors

The Group's problem loans reflect the changes facing the offshore industry. Loans to oil-related activity account for 3.2 per cent of the Group's overall outstanding loans as at 31 December 2017. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other significant concentrations in defaulted and problem exposures are in evidence.

Positive growth signals are noted both internationally and in Norway. A weaker Norwegian krone has impacted positively on Norwegian export industries, but a certain strengthening of the krone is expected ahead. Real wage growth is expected to increase somewhat. Combined with continued low interest rates, the bank considers the loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively moderate ahead.

Credit growth among Norwegian households remains higher than wage growth and will, over time, be influenced by house price developments. Households' indebtedness has risen from already high levels. Falling house prices and expectations of high interest rates will probably lead to a higher savings rate among Norwegian households, which could result in reduced turnover in parts of Norwegian business and industry.

The bank's profits are affected directly and indirectly by fluctuations in securities markets, and the valuation of basis swaps in particular contributes to volatility. The indirect effect relates very largely to the bank's ownership interest in SpareBank 1 Gruppen where both the insurance business and fund management activities are affected by such 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).

Corporate social responsibility

The four core values wholehearted, responsible, likeable and competent are all connected to corporate social responsibility. However, 'responsible' singles itself out as the most important guide for SpareBank 1 SMN's CSR efforts.

The bank's focus on corporate social responsibility is designed to strengthen competitiveness, reduce risk, attract good customers, investors and skilled staff, boost innovation and contribute to the further

development of the region of which the Group is a part. By this means the bank creates value in a responsible and sustainable manner for all stakeholders.

The bank is now reporting for the first time on the bank's performance in the field of CSR and sustainability under the globally recognised standard, the Global Reporting Initiative (GRI). Read more about the bank's social responsibility in a separate section in the annual report.

In 2017 SpareBank 1 SMN also endorsed the UN's Global Compact, with the commitments this entails.

SpareBank 1 SMN developed a new strategy for corporate social responsibility in 2017. The strategy builds on the bank's values, approved by the board of directors and anchored in the organisation.

The strategy describes concrete objectives under the following themes:

- Responsible products and services
- Communication and openness
- Ethics and anti-corruption
- Environment and climate
- Staff and organisation

SpareBank 1 SMN has seen a good sustainable development in 2017. The bank has established new strategies, policies, guidelines and procedures, and will show the results of its efforts in 2018. The bank will report each year its CSR results under the GRI standard together with its annual report.

Responsible products and services

SpareBank 1 SMN has separate policies for sustainability in lending, the positions and asset management. In addition, the bank is developing its own sustainable products. In day-to-day operations the policies entail inter alia that SMN will:

1. Not take owner positions in or grant loans to companies that do not abide by our principles, and include caveats regarding follow-up and consequences in the event of any deviation (covenants) for funding where the companies concerned operate in industries, countries and regions posing a particularly high risk
2. Exert pressure on customers and companies in which we invest to ensure that they maintain sound procedures and processes for making appropriate ethical, environmental and sustainable choices, and for influencing companies in which they hold owner positions through active governance
3. Require documentation that customers have taken action on circumstances that violate our principles
4. Take the consequence of deviations that are not acted on by not renewing or prolonging loans, or by winding down owner positions.

The bank will also conduct an ESG screening of all the bank's existing mutual fund suppliers in the course of 2018.

Communication and openness

SpareBank 1 SMN's CSR strategy defines how the bank is to engage its stakeholders. The bank endeavours on a continuous basis to identify and engage its own surroundings, and to integrate inputs into important decision processes. The bank endeavours to meet legitimate demands and expectations of the

bank's stakeholders in an open and constructive manner. To this end the bank has an annual process devoted to stakeholder activities, rooted in the board of directors. For example, the strategy states that SpareBank 1 SMN shall:

1. Define stakeholders on a broad and strategic basis and seek opportunities
2. Prioritise stakeholders according to their value to the bank
3. Be open, clear, inquisitive and constructive in dialoguing with stakeholders
4. Seek partnerships and share success stories with the stakeholders
5. Take the stakeholders' views on board in company governance.

In 2017 SpareBank 1 SMN has conducted a series of structured stakeholder interviews as a step in identifying the bank's most significant themes in the field of sustainability.

Ethics and anti-corruption

The bank adopted updated ethical guidelines in 2017. The guidelines regulate each staff member's relationship to customers, suppliers, competitors and the world at large.

In addition to the ethical guidelines, SpareBank 1 SMN has established a procedure for whistleblowing. This procedure covers the requirements of the Working Environment Act for notifying censurable circumstances at enterprises.

The procedure also enables staff members to notify the bank's external reception centre, and to report anonymously if the whistleblower so wishes.

The bank initiated in 2017 a process to establish a new system of event reporting in collaboration with an external supplier. The new system will be implemented in the first quarter of 2018.

Environment and climate

It is particularly important for us as a regional bank to assume a responsibility for sustainability in investments and in lending. SpareBank 1 SMN is duty bound to do what it can to support the UN's sustainability objectives, and the bank is concerned that companies in which it invests or to which it lends money should make sustainable choices.

SpareBank 1 SMN's environment management system is certified under the 'Environmental Lighthouse' standard. The bank reports its energy consumption and climate emissions each spring to the Environmental Lighthouse Foundation (Stiftelsen Miljøfyrtårn). The environment management system ensures continuous improvement of the bank's own environmental performances.

Staff and organisation

Major changes are ongoing in the banking industry, creating a major need to revise the bank's competence profile. In the future the bank will need fewer staff in production, more staff in digital development and more staff in digital sales, analysis and business development.

The SpareBank 1 Alliance has a shared digital teaching platform (LMS), which makes courses and training programmes available to staff. In 2017 the bank also worked on a new process and new tools for competence development and competence management. The project New Workday is designed to ensure that the bank, in parallel with its development and implementation of new systems and processes, develops the appropriate competence. Read more about this and the work environment, gender equality and other staff-related matters in the chapter The People and in note 22 Personnel expenses.

Prospects

SpareBank 1 SMN achieved good results in 2017. Most business lines have posted a strong performance. A high influx of new retail market customers and lower loan losses are highlighted in particular.

The group has a very solid financial position with a leverage ratio of 7.2 per cent. The board of directors is satisfied with a CET1 capital ratio of 14.9 per cent, approximately as targeted after a year of strong growth. The target of a 15 per cent CET1 capital ratio is retained.

There is still in the board's assessment a considerable potential for further digitalisation and optimisation of channel interaction in selling and advisory activities. The bank's customers will primarily meet their needs for financial products, payments and simple advisory services digitally. At the same time competent teams of advisers are retained to attend to more demanding advisory assignments and to the establishment of new customer relationships. The distribution strategy includes relatively numerous, but cost-efficient, offices and first-class self-service customer interfaces. Substantial investments are also being made to standardise and automate processes with a view to improving the efficiency and simplifying compliance with regulatory requirements. At the start of 2018 the Norwegian financial industry faces major changes. The revised Payment Services Directive, PSD2, will be introduced in the course of the year. The bank and the SpareBank 1 Alliance have set an ambitious goal: to exploit this opportunity to offer improved services and create more value for existing and new customers.

The bank will continue its efforts to strengthen its market position among small and medium-sized businesses. In 2018 the bank will launch a digital platform for small and medium-sized firms. The platform combines banking and accounting data and makes for effective and efficient communication between the firm and the bank. This, together with a local presence, will provide the bank with a competitive edge in the market for small and medium-sized businesses.

The economic prospects for Trøndelag and for Møre and Romsdal are good.

Loan losses in recent years have almost exclusively related to oil-related activities. Low losses are anticipated ahead. Virtually all customers in this sector have been restructured and are now seeing increased activity levels due to a higher oil price and thus growing activity on the Norwegian shelf. Through its continued thorough monitoring of customers, the bank is well prepared should a new reduction in the oil price and demand materialise.

The board's assessment is that a certain reduction in demand for housing is likely after a long period of vigorous demand and price growth. Price growth in the region has been lower than in other high pressure areas. The bank has a sound portfolio of residential mortgages and expects any fall in house prices to inflict modest losses on the bank.

The bank's subsidiaries and related companies have shown a sound trend in 2017. This positive picture is expected to continue in 2018.

The Board of Directors is well satisfied with the Group's performance and results in 2017 and expects 2018 to be a good year for SpareBank 1 SMN.

Trondheim, 28 February 2018
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)

Income statement

Parent Bank		(NOK million)	Notes	Group	
2016	2017			2017	2016
3,401	3,571	Interest income	4,19	3,825	3,597
1,672	1,599	Interest expenses	4,19	1,600	1,668
1,730	1,972	Net interest		2,225	1,929
971	1,098	Commission income	4,20	1,390	1,251
85	98	Commission expenses	4,20	168	133
36	38	Other operating income	4,20	783	556
922	1,038	Commission income and other income		2,005	1,674
817	629	Dividends	21,44	6	88
-	-	Income from investment in related companies	4,21,39	437	423
188	146	Net return on financial investments	4,21	317	434
1,006	776	Net return on financial investments		760	944
3,658	3,786	Total income		4,989	4,547
536	575	Staff costs	22,24	1,426	1,159
615	634	Other operating expenses	23,32,33	943	844
1,151	1,209	Total operating expenses		2,369	2,003
2,506	2,577	Result before losses		2,621	2,544
502	323	Loss on loans, guarantees etc.	4,11	341	516
2,004	2,253	Result before tax		2,279	2,029
302	403	Tax charge	25	450	352
-13	-	Result investment held for sale, after tax		-1	4
1,689	1,850	Profit for the year		1,828	1,681
34	33	Attributable to additional Tier 1 Capital holders		33	34
1,058	1,162	Attributable to Equity capital certificate holders		1,128	1,027
597	655	Attributable to the saving bank reserve		636	579
		Attributable to non-controlling interests		32	41
1,689	1,850	Profit for the year		1,828	1,681
Profit/Diluted profit per ECC				8.71	7.93

Other comprehensive income

Parent Bank		(NOK million)			Group	
2016	2017				2017	2016
1,689	1,850		Net profit		1,828	1,681
			Items that will not be reclassified to profit/loss			
-75	-24		Actuarial gains and losses pensions	24	-20	-77
19	6		Tax		5	19
-	-		Share of other comprehensive income of associates and joint venture		4	-1
-56	-18		Total		-11	-58
			Items that will be reclassified to profit/loss			
-52	15		Available-for-sale financial assets	3,31	15	-50
-	-		Share of other comprehensive income of associates and joint venture		4	-7
-	-		Tax		-	-
-52	15		Total		19	-58
1,581	1,847		Total other comprehensive income		1,836	1,565
34	33		Attributable to additional Tier 1 Capital holders		33	34
989	1,160		Attributable to Equity capital certificate holders		1,132	953
558	654		Attributable to the saving bank reserve		638	537
			Attributable to non-controlling interests		32	41
1,581	1,847		Total other comprehensive income		1,836	1,565

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

Statement of Financial Position

Parent Bank		(NOK million)	Notes	Group	
31 Dec 2016	31 Dec 2017			31 Dec 2017	31 Dec 2016
		ASSETS			
315	3,313	Cash and balances with central banks	26,45	3,313	315
8,203	9,543	Deposits with and loans to credit institutions	7,15,26,28,45	4,214	3,892
96,499	104,769	Net loans to and receivables from customers	4,8,9,10,11,12,15,26,28,45	110,959	101,354
17,636	19,895	Fixed-income CDs and bonds	14,26,27,30,45	19,736	17,557
4,812	4,328	Derivatives	14,26,27,30,45	4,351	4,752
248	169	Shares, units and other equity interests	26,27,31,45	1,825	1,542
3,766	3,940	Investments in related companies	39,40,41,44	5,760	5,638
3,005	3,120	Investment in group companies	39,41	-	-
226	82	Investment held for sale	31,39	649	15
470	522	Intangible assets	32	793	639
882	703	Other assets	4,24,25,33,34	1,654	2,376
136,062	150,383	Total assets	13,16,17	153,254	138,080
		LIABILITIES			
10,299	9,047	Deposits from credit institutions	7,26,28,45	9,607	10,509
68,391	77,362	Deposits from and debt to customers	4,26,28,35,45	76,476	67,168
36,317	42,194	Debt created by issue of securities	26,28,36,45	42,194	36,317
3,973	3,341	Derivatives	14,26,27,30	3,343	4,074
731	909	Other liabilities	24,26,27,37	1,923	1,531
-	-	Investment held for sale	39	1	0
2,186	2,159	Subordinated loan capital	26,28,38,45	2,201	2,228
121,896	135,011	Total liabilities	18	135,744	121,827
		EQUITY			
2,597	2,597	Equity capital certificates	43	2,597	2,597
-0	-0	Own holding of ECCs	43	-8	-4
895	895	Premium fund		895	895
4,490	5,079	Dividend equalisation fund		5,072	4,487
389	571	Allocated to dividends		571	389
220	322	Allocated to gifts		322	220
4,499	4,831	Ownerless capital		4,831	4,499
126	126	Unrealised gains reserve		126	139
-	-	Other equity capital		1,547	1,656
950	950	Additional Tier 1 Capital		993	950
		Non-controlling interests		565	425
14,166	15,372	Total equity	5,44	17,510	16,253
136,062	150,383	Total liabilities and equity	16,17	153,254	138,080

Statement of Changes in Equity

Parent Bank (NOK million)	Issued equity			Earned equity					Total equity
	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	
Equity at 1 January 2016	2,597	895	950	4,105	3,790	332	279	-	12,948
Net profit	-	-	34	411	730	609	-95	-	1,689
Other comprehensive income				-	-				
Available-for-sale financial assets	-	-	-	2	3	-	-57	-	-52
Actuarial gains (losses), pensions	-	-	-	-20	-36	-	0	-	-56
Other comprehensive income	-	-	-	-18	-33	-	-57	-	-108
Total other comprehensive income	-	-	34	393	697	609	-152	-	1,581
Transactions with owners									
Dividend declared for 2015	-	-	-	-	-	-292	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-40
Interest payments additional Tier 1 capital	-	-	-34	-	-	-	-	-	-34
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	0
Direct recognitions in equity	-	-	-	1	3	-	-	-	4
Total transactions with owners	0	-	-34	1	3	-332	-	-	-362
Equity at 31 December 2016	2,597	895	950	4,499	4,490	609	126	-	14,166
Equity at 1 January 2017	2,597	895	950	4,499	4,490	609	126	-	14,166
Net profit	-	-	33	327	580	893	17	-	1,850
Other comprehensive income									
Available-for-sale financial assets	-	-	-	-	-	-	-	15	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-	-18	-18
Other comprehensive income	-	-	-	-	-	-	-	-3	-3
Total other comprehensive income	-	-	33	327	580	893	17	-3	1,847
Transactions with owners									
Dividend declared for 2016	-	-	-	-	-	-389	-	-0	-390
To be disbursed from gift fund	-	-	-	-	-	-220	-	-	-220
Interest payments additional Tier 1 capital	-	-	-33	-	-	-	-	-	-33
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	0
Direct recognitions in equity	-	-	-	5	9	-	-17	3	-
Total transactions with owners	0	-	-33	5	9	-609	-17	3	-642
Equity at 31 December 2017	2,597	895	950	4,831	5,079	893	126	-	15,372

Group	Attributable to parent company equity holders									
	Issued equity			Earned equity						
(NOK million)	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2016	2,576	895	950	4,105	3,790	332	290	1,597	318	14,854
Net profit	-	-	34	411	730	609	-95	-49	41	1,681
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	-8	-	-8
Available-for-sale financial assets	-	-	-	2	3	-	-56	-0	-	-50
Actuarial gains (losses), pensions	-	-	-	-20	-36	-	-	-1	-0	-58
Other comprehensive income	-	-	-	-18	-33	-	-56	-9	-0	-116
Total other comprehensive income	-	-	34	393	697	609	-151	-58	41	1,565
Transactions with owners										
Dividend declared for 2015	-	-	-	-	-	-292	-	-	-	-292
To be disbursed from gift fund	-	-	-	-	-	-40	-	-	-	-40
Interest payments additional Tier 1 Capital	-	-	-34	-	-	-	-	-	-	-34
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	-	0
Own ECC held by SB1 Markets*)	17	-	-	-	-3	-	-	-2	-	11
Direct recognitions in equity	-	-	-	1	3	-	-	-12	-	-8
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	132	-	132
Change in non-controlling interests	-	-	-	-	-	-	-	-	66	66
Total transactions with owners	17	-	-34	1	-1	-332	-	118	66	-165
Equity at 31 December 2016	2,593	895	950	4,499	4,487	609	139	1,656	425	16,253

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

(NOK million)	Attributable to parent company equity holders									
	Issued equity			Earned equity						
	EC capital	Premium fund	Additional Tier 1 Capital	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Non-controlling interests	Total equity
Equity at 1 January 2017	2,593	895	950	4,499	4,487	609	139	1,656	425	16,253
Net profit	-	-	33	327	580	893	17	-54	32	1,828
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-	8	-	8
Available-for-sale financial assets	-	-	-	-	-	-	-	15	-	15
Actuarial gains (losses). pensions	-	-	-	-	-	-	-	-16	1	-15
Other comprehensive income	-	-	-	-	-	-	-	7	1	8
Total other comprehensive income	-	-	33	327	580	893	17	-46	32	1,836
Transactions with owners										
Dividend declared for 2016	-	-	-	-	-	-389	-	-0	-	-390
To be disbursed from gift fund	-	-	-	-	-	-220	-	-	-	-220
Interest payments additional Tier 1 capital	-	-	-33	-	-	-	-	-	-	-33
Additional Tier 1 capital issued	-	-	43	-	-	-	-	-	-	43
Purchase and sale of own ECCs	0	-	-	-	0	-	-	-	-	0
Own ECC held by SB1 Markets*)	-4	-	-	-	-4	-	-	-12	-	-21
Direct recognitions in equity	-	-	-	5	9	-	-30	-31	2	-44
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-	-21	-	-21
Change in non-controlling interests	-	-	-	-	-	-	-	-	105	105
Total transactions with owners	-4	-	9	5	5	-609	-30	-63	107	-580
Equity at 31 December 2017	2,588	895	993	4,831	5,072	893	126	1,547	565	17,510

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

Cash flow statement

Parent bank			Group	
2016	2017	(NOK million)	2017	2016
1,689	1,850	Net profit	1,828	1,681
34	50	Depreciations and write-downs on fixed assets	102	98
502	323	Losses on loans and guarantees	341	516
2,225	2,223	Net cash increase from ordinary operations	2,271	2,295
2,310	656	Decrease/(increase) other receivables	480	2,234
-1,586	-455	Increase/(decrease) short term debt	-339	-1,601
-7,405	-8,593	Decrease/(increase) loans to customers	-9,946	-8,454
-2,318	-1,340	Decrease/(increase) loans credit institutions	-322	-1,485
3,299	8,972	Increase/(decrease) deposits to customers	9,308	3,078
2,144	-1,252	Increase/(decrease) debt to credit institutions	-902	2,354
-1,885	-2,259	Increase/(decrease) in short term investments	-2,179	-1,805
-3,215	-2,047	A) Net cash flow from operations	-1,629	-3,384
-26	-100	Increase in tangible fixed assets	383	-52
-	5	Reductions in tangible fixed assets	5	-
-223	-145	Paid-up capital, associated companies	-685	33
36	94	Net investments in long-term shares and partnerships	-249	-67
-213	-146	B) Net cash flow from investments	-546	-86
-324	-27	Increase/(decrease) in subordinated loan capital	-27	-281
0	0	Increase/(decrease) in equity	-21	-
-292	-390	Dividend cleared	-390	-292
-40	-220	To be disbursed from gift fund	-220	-40
-34	-33	Paid interest hybrid capital	-33	-34
1,162	5,860	Increase/(decrease) in other long term loans	5,862	1,162
473	5,191	C) Net cash flow from financial activities	5,173	515
-2,955	2,998	A) + B) + C) Net changes in cash and cash equivalents	2,998	-2,955
3,270	315	Cash and cash equivalents at 1.1	315	3,270
315	3,313	Cash and cash equivalents at end of the year	3,313	315
-2,955	2,998	Net changes in cash and cash equivalents	2,998	-2,955

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Note 1 - General information

Description of the business

See "Business description" presented in the annual report.

The SpareBank 1 SMN Group

SpareBank 1 SMN's head office is in Trondheim, no. 4 Søndre gate. The Bank's market areas are essentially Trøndelag and Nordvestlandet.

The Group accounts for 2017 were approved by the Board of Directors on 28 February 2018.

Note 2 - Accounting principles

Basis for preparing the consolidated annual accounts

The Group accounts for 2017 for SpareBank 1 SMN have been prepared in conformity with International Financial Reporting Standards (IFRS) which have been given effect in Norway. These include interpretations from the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC). The measurement base for both the parent bank and group accounts is historical cost with the modifications described below. The accounts are presented based on IFRS standards and interpretations mandatory for accounts presented as at 31 December 2017.

Implemented accounting standards and other relevant rule changes in 2017

The applied accounting principles are consistent with the principles applied in the preceding accounting period, with the exception of those changes to IFRS which have been implemented by the group in the current accounting period. Below is a list of amendments to IFRS with effect for the 2017 accounts that have been relevant, and the effect they have had on the group's annual accounts.

The following new and amended accounting standards and interpretations were applied for the first time in 2017:

IAS 12 Income taxes - amendment

The amendments clarify how to report assets for deferred tax related to unrealised losses on debt instruments valued at fair value. Specifically, it clarifies that unrealised losses on debt instruments measured at fair value in the accounts, and at cost for tax purposes, result in tax-reducing temporary differences regardless of how the owner expects to recover the capitalised amount. The amendments clarify the accounting treatment for recognition of deferred tax assets to debt instruments that are measured at fair value in certain cases.

The amendments will have effect from 1 January 2017 and has been implemented retrospectively.

IFRS 12 Disclosure of Interests in Other Entities - amendment

The amendments clarify that some of the Notes to the Standard apply to an entity's interests in subsidiaries, joint ventures or associates that are classified as (or included in a disposal group classified as) held for sale.

The amendment has been implemented retrospectively.

IAS 7 Statement of Cash Flows - amendment

IAS 7 has been amended by introducing a disclosure requirement relating to changes in financial liabilities arising from financing activities. The change does not entail any changes in the recognition and measurement of financial liabilities.

Presentation currency

The presentation currency is the Norwegian krone (NOK), which is also the bank's functional currency. All amounts are stated in millions of kroner unless otherwise specified.

Consolidation

The consolidated accounts include the Bank and all subsidiaries which are not due for divestment in the near future and are therefore to be classified as held for sale under IFRS 5. All undertakings controlled by the Bank, i.e. where the Bank has the power to control the undertaking's financial and operational principles with the intention of achieving benefits from the undertaking's activities, are regarded as subsidiaries. Subsidiaries are consolidated from the date on which the Bank has taken over control, and are deconsolidated as of the date on which the Bank relinquishes control. Mutual balance sheet items and all significant profit elements are eliminated.

Upon takeover of control of an enterprise (business combination), all identifiable assets and liabilities are recognised at fair value in accordance with IFRS 3. A positive difference between the fair value of the consideration and the fair value of identifiable assets and liabilities is recorded as goodwill, while any negative difference is taken to income upon purchase. Accounting for goodwill after first-time recognition is described under the section on intangible assets.

All intra-group transactions are eliminated in the preparation of the consolidated accounts. The non-controlling interests' share of the group result is to be presented on a separate line under profit after tax in the income statement. In the statement of changes in equity, the non-controlling interests' share is shown as a separate item.

Associated companies

Associates are companies in which the Bank has substantial influence. As a rule, influence is substantial where the Bank has an ownership interest of 20 per cent or more. Associates are accounted for by the equity method in the consolidated accounts. The investment is initially recognised at acquisition cost and subsequently adjusted for the change in the Bank's share of the associated undertaking's net assets. The Bank recognises its share of the profit of the associated undertaking in its income statement. Associates are accounted for in the parent bank accounts by the cost method. See also note 39 Investments in owner interests.

Joint ventures

Joint ventures may take the form of jointly controlled operations, jointly controlled assets or jointly controlled entities. Joint control entails that the Bank by agreement exercises control together with other participants. The Bank accounts for jointly controlled operations and jointly controlled assets by recognising the Bank's proportional share of assets and liabilities in the Bank's accounts. The governance structure for the SpareBank 1 collaboration is regulated by agreement between the owners. The group classifies its participation in some companies as investments in jointly controlled entities and accounts for them by the equity method. See also note 39 Investments in owner interests.

Loans and loan losses

Loans are measured at amortised cost in accordance with IAS 39. Amortised cost is acquisition cost less repayments of principal, plus or minus cumulative amortisation resulting from the effective interest rate method, with deductions for any value fall or loss likelihood. The effective interest rate is the interest rate which precisely discounts estimated future cash in- or out-payments over the financial instrument's expected lifetime.

Fixed interest loans to customers are recognised at fair value. Gains and losses due to changes in fair value are recognised in the income statement as fair value changes. Accrued interest and premiums/discounts are recognised as interest. Interest rate risk on fixed interest loans is managed through interest rate swaps which are recognised at fair value. It is the group's view that recognising fixed interest loans at fair value provides more relevant information on carrying values.

Write-downs

Amounts recorded on the Bank's statement of financial position are reviewed on the balance sheet date for any indications of value impairment. Should such indications be present, an estimate is made of the asset's recoverable amount. Each year on the balance sheet date recoverable amounts on goodwill, assets with unlimited useful lifetime, and intangible assets not yet available for use, are computed. Write-downs are undertaken when the recorded value of an asset or cash-flow-generating entity exceeds the recoverable amount. Write-downs are recognised in profit/loss. Write-down of goodwill is not reversed. In the case of other assets, write-downs are reversed where there is a change in the estimates used to compute the recoverable amount.

Individual write-downs on financial assets

Impairment on loans is incurred if, and only if, there exists objective evidence of impairment which may entail reduced future cash flow to service the exposure. Impairment must be a result of one or more events occurring after first-time recognition (a loss event), and it must be possible to measure the result of the loss event(s) reliably. Objective evidence of impairment of a financial asset includes observable data which come to the group's knowledge on the following loss events:

- significant financial difficulties on the part of the issuer or borrower
- a not insignificant breach of contract, such as failure to pay instalments and interest
- the group grants the borrower special terms in light of financial or legal aspects of the borrower's situation
- the debtor is likely to start debt negotiation or other financial restructuring
- active markets for the financial asset are closed due to financial problems.

The group assesses first whether individual objective evidence exists that individually significant financial assets have suffered impairment.

Where there is objective evidence of impairment, the size of the impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying value of the asset is reduced through a provision account and the loss is recognised in the income statement.

Assets that are individually tested for impairment, and where impairment is identified, or is still being identified, are not included in an overall assessment of impairment.

Collective write-downs on loans

In the case of financial assets which are not individually significant, the objective evidence of value impairment is assessed on an individual or collective basis. Should the group decide that no objective evidence exists of value impairment of an individually assessed financial asset, significant or not, that asset is included in a group of financial assets sharing the same credit risk characteristics.

In the assessment of collective write-downs account is taken inter alia of the following:

- observable data indicating a measurable reduction in future cash flows from a group of financial assets since first-time recognition, even if the reduction cannot yet be fully identified to an individual financial asset in the group including:
 - an unfavourable development in payment status for borrowers in the group
 - national or local economic conditions correlating with defaults of assets in the group.

Impairment of groups of financial assets is measured by the trend in rating for such groups. This is done by measuring negative migration and change in expected loss over the portfolio's lifetime.

Determining customer migration involves continuous assessment of the creditworthiness of each individual customer in the Bank's credit assessment systems.

In the case of events that have occurred but have yet to be reflected in the Bank's portfolio monitoring systems, the need for impairment write-downs is estimated group-wise using stress test models.

Non-performing/potential problem loans

The overall exposure to a customer is regarded as non-performing once instalment and interest payments are 90 days or more past due or credit lines are overdrawn by 90 days or more. Loans and other exposures which are not non-performing but where the customer's financial situation makes it likely that the group will incur loss, prompting an individually assessed write-down, are classified as potential problem loans.

Impairment of loans recognised at fair value

At each balance sheet date the group assesses whether evidence exists that a financial asset or group of financial assets recognised at fair value is susceptible to impairment. Losses due to impairment are recognised in the income statement in the period in which they arise.

Actual losses

Where the balance of evidence suggests that the losses are permanent, the losses are classified as actual losses. Actual losses covered by earlier specified loss provisions are reflected in such loss provisions. Actual losses not covered by loss provisions, as well as surpluses and deficits in relation to earlier loss provisions, are recognised in the income statement.

Reposessed assets

As part of its treatment of defaulted loans and guarantees, the Bank in a number of cases takes over assets furnished as collateral for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Reposessed assets are carried according to type. Upon final disposal, the deviation from carrying value is reported in profit or loss in accordance with the type of asset as per the accounts.

Non-current assets held for sale and discontinued operations

Assets which the board of directors of the bank has decided to sell are dealt with under IFRS 5 if it is highly likely that the asset will be sold within 12 months. This type of asset comprises for the most part assets taken over in connection with bad loans, and investments in subsidiaries held for sale. In the case of depreciable assets, depreciation ceases when a decision is taken to sell, and the asset is measured at fair value in accordance with IFRS 5. The result of such activity and appurtenant assets and liabilities are presented on a separate line as held for sale.

Leases

Financial leases are entered under the main item 'loans' in the balance sheet and accounted for at amortised cost. All fixed revenues within the lease's expected lifetime are included when computing the contract's effective interest.

Securities and derivatives

Securities and derivatives comprise shares and units, money market instruments and bonds, and derivative currency, fixed income and equity instruments. Shares and units are classified either at fair value through profit/loss or as available for sale. Money market instruments and bonds are classified at fair value through profit/loss, loans and receivables or in the category held to maturity. Derivatives are invariably recognised at fair value through profit/loss unless they are part of a cash flow hedge. However the Bank does not avail itself of cash flow hedges.

All financial instruments classified at fair value through profit/loss are measured at fair value, and any change in value from the opening balance is recognised as revenue from other financial investments. Financial assets held for trading purposes are characterised by frequent trading and by positions being taken with the aim of short-term gain. Other such financial assets classified at fair value through profit/loss are investments defined upon first-time recognition as classified at fair value through profit/loss (fair value option).

Financial derivatives are presented as assets when fair value is positive, and as liabilities when fair value is negative.

Shares and units classified as available for sale are also measured at fair value, but any change in value from the opening balance is recognised in the comprehensive income statement and is accordingly included in the group's other comprehensive income. Shares which cannot be reliably measured are valued at cost price under IAS 39.46 (c). Procedures for ongoing valuation of all equity investments have been established. These valuations are carried out at differing intervals in based on the size of the investment.

Money market instruments and bonds classified as loans and receivables or held to maturity are measured at amortised cost using the effective interest rate method; see the account of this method under the section on loans.

Intangible assets

Intangible assets mainly comprise goodwill in the SpareBank 1 SMN Group. Other intangible assets will be recognised once the conditions for entry in the balance sheet are present. Goodwill arises as the difference between the fair value of the consideration upon purchase of a business and the fair value of identifiable assets and liabilities; see description under Consolidation. Goodwill is not amortised, but is subject to an annual depreciation test with a view to revealing any impairment, in keeping with IAS 36. Testing for value impairment is done at the lowest level at which cash flows can be identified.

Intangible assets acquired separately are carried at cost. Useful economic life is either finite or infinite. Intangible assets with a finite economic life are depreciated over their economic life and tested for impairment upon any indication of impairment. The depreciation method and period are assessed at least once each year.

Property, plant and equipment

Property, plant and equipment along with property used by the owner are accounted for under IAS 16. The investment is initially recognised at its acquisition cost and is thereafter depreciated on a linear basis over its expected useful life. When establishing a depreciation plan, the individual assets are to the necessary extent split up into components with differing useful life, with account being taken of estimated residual value. Property, plant and equipment items which individually are of little significance, for example computers and other office equipment, are not individually assessed for residual value, useful lifetime or value loss, but are assessed on a group basis. Property used by the owner, according to the definition in IAS 40, is property that is mainly used by the Bank or its subsidiary for its own use.

Property, plant and equipment which are depreciated are subject to a depreciation test in accordance with IAS 36 when circumstances so indicate.

Property held in order to earn rentals or for capital appreciation is classified as investment property and is measured at fair value in accordance with IAS 40. The group has no investment properties.

Interest income and expenses

Interest income and expenses related to assets and liabilities which are measured at amortised cost are recognised in profit/loss on an ongoing basis using the effective interest rate method. Charges connected to interest-bearing funding and lending are included in the computation of effective interest rate and are amortised over expected lifetime. In the case of interest-bearing instruments measured at fair value, the market value will be classified as income from other financial investments. In the case of interest-bearing instruments classified as loans and receivables or held to maturity and not utilised in hedging contexts, the premium/discount is amortised as interest income over the term of the contract.

Commission income and expenses

Commission income and expenses are generally accrued in step with the provision of the service. Charges related to interest-bearing instruments are not entered as commission, but are included in the calculation of effective interest and recognised in profit/loss accordingly. Consultancy fees accrue in accordance with a consultancy agreement, usually in step with the provision of the service. The same applies to ongoing management services. Fees and charges in connection with the sale or mediation of financial instruments, property or other investment objects which do not generate balance sheet items in the Bank's accounts are recognised in profit/loss when the transaction is completed. The Bank receives commission from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt corresponding to the difference between the interest on the loan and the funding cost achieved by SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. This shows as commission income in the Bank's accounts.

Transactions and holdings in foreign currency

Transactions in foreign currency are converted to Norwegian kroner at the transaction exchange rate. Gains and losses on executed transactions or on conversion of holdings of monetary items on the balance sheet date are recognised in profit/loss. Gains and losses on conversion of items other than monetary items are recognised in the same way as the appurtenant balance sheet item.

Hedge accounting

The Bank evaluates and documents the effectiveness of a hedge in accordance with IAS 39. The Bank employs fair value hedging to manage its interest rate risk. In its hedging operations the Bank protects against movements in the market interest rate. Changes in credit spread are not taken to account when measuring hedge effectiveness. In the case of fair value hedging, both the hedging instrument and the hedged object are recorded at fair value, and changes in these values from the opening balance are recognised in profit/loss.

Fair value option

The Parent Bank's fixed rate loans are recognised in profit/loss at fair value by using the fair value option, in accordance with IAS 39, and the Bank manages interest rate risk related to these loans through the use of derivatives.

Income taxes

Tax recorded in the income statement comprises tax in the period (payable tax) and deferred tax. Period tax is tax calculated on the

taxable profit for the year. Deferred tax is accounted for by the liability method under IAS 12. Calculation of deferred tax is done using the tax rate in effect at any time. Liabilities or assets are calculated on temporary differences i.e. the difference between balance-sheet value and tax-related value of assets and liabilities. However, liabilities or assets are not calculated in the case of deferred tax on goodwill for which there is no deduction for tax purposes, nor on first-time-recognised items which affect neither the accounting nor the taxable profit.

A deferred tax asset is calculated on a tax loss carryforward. Deferred tax assets are recognised only to the extent that there is expectation of future taxable profits that enable use of the tax asset. Withholding tax is presented as period tax. Wealth tax is presented as an operating expense in the group accounts under IAS 12.

Deposits from customers

Customer deposits are recognised at amortised cost.

Debt created by issuance of securities

Loans not included in hedge accounting are initially recognised at acquisition cost. This is the fair value of the compensation received after deduction of transaction fees. Loans are thereafter measured at amortised cost. Any difference between acquisition cost and settlement amount at maturity is accordingly accrued over the term of loan using the effective rate of interest on the loan. The fair value option is not applied in relation to the group's debt.

Subordinated debt and hybrid capital

Subordinated debt and hybrid capital issued before 2012 are classified as liabilities in the statement of financial position and are measured at amortised cost like other long-term loans. Subordinated debt ranks behind all other debt. Hybrid capital denotes bonds with a nominal interest rate, but the Bank is not obliged to pay interest in a period in which no dividend is paid, nor does the investor subsequently have a right to interest that has not been paid, i.e. the interest does not accumulate. Hybrid Capital issued after 2012 have been classified as equity since these do not satisfy the definition of a financial liability in IAS 32. The bond is perpetual and SpareBank 1 SMN has the right to not pay interest to the investors. The interest will not be presented as an interest expense in the income statement, but as a reduction to equity. See also note 3 for a closer description. The treatment of subordinated debt and hybrid capital in the calculation of the group's capital adequacy is described in note 5 Capital adequacy and capital management.

Contingent liabilities

The Bank issues financial guarantees as part of its ordinary business. Loss assessments are made as part of the assessment of loan losses, are based on the same principles and are reported together with loan losses. Provisions are made for other contingent liabilities where there is a preponderant likelihood that the commitment will materialise and the financial consequences can be reliably measured. Information is disclosed on contingent liabilities which do not meet the criteria for recognition where such commitments are substantial. Restructuring expenses are provisioned in cases where the Bank has a contractual or legal obligation.

Pensions

The SpareBank 1 SMN Group has a pension scheme for its staff that meet the requirements set for mandatory occupational pensions. SpareBank 1 SMN had a defined benefit scheme previously. This was terminated from 1 January 2017. The settlement gain was in accordance with IAS 19 taken to the income statement in 2016 when the decision was made. The Group employees transferred to a defined contribution scheme.

Defined contribution scheme

Under a defined contribution pension scheme the group does not provide a future pension of a given size; instead the group pays an annual contribution to the employees' collective pension savings. The future pension will depend on the size of the contribution and the annual return on the pension savings. The group has no further obligations related to employees' labour contribution after the annual contribution has been paid. There is no allocation for accrued pension obligations under such schemes. Defined contribution schemes are directly expensed. Any pre-paid contributions are recognised as an asset (pension assets) to the extent the contribution can be refunded or reduce future inpayments.

The contributions are made to the pension fund for full-time employees, and the contribution is from 7 per cent from 0-7,1 G and 15 per cent from 7.1 – 12 G. The premium is expensed as incurred. See also note 24 Pensions.

Early retirement pension scheme ("AFP")

The banking and financial industry has established an agreement on an early retirement pension scheme ("AFP"). The scheme covers early retirement pension from age 62 to 67. The Bank pays 100 per cent of the pension paid from age 62 to 64 and 60 per cent of the pension paid from age 65 to age 67. Admission of new retirees ceased with effect from 31 December 2010. The Act on state subsidies in respect of employees who take out contractual pension in the private sector (AFP Subsidies Act) entered into force on 19 February 2010. Employees who take out AFP with effect in 2011 or later will receive benefits under the new scheme. The new AFP scheme represents a lifelong add-on to National Insurance and can be taken out from age 62. Employees accumulate AFP entitlement at an annual rate of 0.314 per cent of pensionable income capped at 7.1G up to age 62. Accumulation under the new scheme is calculated with reference to the employee's lifetime income, such that all previous working years are included in the qualifying basis.

For accounting purposes the new AFP scheme is regarded as a defined benefit multi-employer scheme. This entails that each employer accounts for its pro rata share of the scheme's pension obligation, pension assets and pension cost. If no calculations of the individual components of the scheme and a consistent and reliable basis for allocation are available, the new AFP scheme will be accounted for as a defined-contribution scheme. At the present time no such basis exists, and the new AFP scheme is accordingly accounted for as a defined-contribution scheme. The new AFP scheme will only be accounted for as a defined-benefit scheme once reliable measurement and allocation can be undertaken. Under the new scheme, one-third of the pension expenses will be funded by the State, two-thirds by the employers. The employers' premium will be fixed as a percentage of salary payments between 1G and 7.1G.

In keeping with the recommendation of the Norwegian Accounting Standards Board, no provision was made for the group's de facto AFP obligation in the accounting year. This is because the office that coordinates the schemes run by the main employer and trade union organisations has yet to perform the necessary calculations.

Segment reporting

SpareBank 1 SMN has Retail Banking and Corporate Banking, along with the most important subsidiaries and associates as its primary reporting segments. The group presents a sectoral and industry distribution of loans and deposits as its secondary reporting format. The group's segment reporting is in conformity with IFRS 8.

Dividends and gifts

Proposed dividends on equity certificates and gifts are recognised as equity capital in the period to the declaration of dividends by the bank's supervisory board.

Events after the balance sheet date

The annual accounts are regarded as approved for publication once they have been considered by the board of directors. The supervisory board and regulatory authorities can thereafter refuse to approve the accounts, but not to change them. Events up to the time at which the accounts are approved for publication, and which relate to circumstances already known on the balance sheet date, will be included in the information base for accounting estimates and thus be fully reflected in the accounts. Events concerning circumstances that were not known on the closing date will be illuminated if significant.

The accounts are presented on the going-concern assumption. In the view of the board of directors this assumption was met at the time the accounts were approved for presentation.

The board of directors' proposal for dividends is set out in the directors' report and in the statement of changes in equity.

New or revised accounting standards approved but not implemented in 2017

Those standards and interpretations that have been adopted up to the date of presentation of the consolidated accounts, but whose entry into force is scheduled for a future date, are set out below. The group's intention is implement the relevant changes at the time of their entry into force, on the proviso that the EU approves the changes before presentation of the consolidated accounts.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments – Recognition and Measurement. IFRS 9 deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 will apply as from 1 January 2018 and is approved by the EU. For an overview of the quantitative impact of implementing IFRS 9, see note 45.

A description of new requirements under IFRS 9 and changes from earlier standards is set out below. That is followed by a description of the choices made by SpareBank 1 SMN and of the current status of the implementation project.

Classification and measurement

Financial assets

Under IFRS 9 financial assets are classified in three measurement categories: fair value with changes in fair value reported in profit/loss (FVPL), fair value with changes in fair value reported in other comprehensive income (OCI), and amortised cost. The measurement category is determined upon first-time recognition of the particular asset. For financial assets a distinction is drawn between debt instruments and equity instruments. The classification of financial assets is determined on the basis of contractual terms and conditions for the financial assets and the business model used to manage the portfolio of which the assets are a part.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is to receive contractual cash flows shall in principle be measured at amortised cost. Instruments with contractual cash flows that are only payment of interest and principal on given dates and which are held in a business model whose purpose is both to receive contractual cash flows and sales shall in principle be measured at fair value with changes over OCI, with interest income, currency conversion effects and any write-downs reported in ordinary profit/loss. Fair value changes over OCI shall be reclassified to profit/loss upon the sale or other disposal of the assets.

Other debt instruments shall be measured at fair value with changes reported in profit/loss. This applies to instruments with cash flows that are not only payment of normal interest (time value of money, credit margin and other normal margins related to loans and receivables) and principal, and instruments held in a business model whose main purpose is not that of receiving contractual cash flows. The preliminary assessment is that designation of financial instruments at fair value will be at about the same level as today.

Derivatives and investments in equity instruments

All derivatives shall be measured at fair value with changes reported in profit/loss, but derivatives designated as hedging instruments shall be accounted for in keeping with the principles for hedge accounting. Investments in equity instruments shall be measured in the balance sheet at fair value. Value changes shall as a main rule be reported in ordinary profit/loss, but an equity instrument which is not held for trading purposes and is not a contingent consideration following a business transfer can be designated as measured at fair value with changes reported in OCI. Where equity instruments are designated at fair value with value changes reported in OCI, ordinary proceeds shall be reported in profit/loss, whereas value changes shall not be reported in profit/loss either on an ongoing basis or upon disposal.

Financial liabilities

For financial liabilities the rules are essentially the same as under today's IAS 39. As a main rule financial liabilities shall continue to be measured at amortised cost with the exception of financial derivatives measured at fair value, financial instruments forming part of a trading portfolio and financial liabilities accounted for at fair value with value changes recognised in profit/loss.

Hedge accounting

IFRS 9 simplifies the requirements on hedge accounting in that hedge effectiveness is linked more closely to the management's risk management and gives more scope for assessment. The requirement of hedge effectiveness of 80-125 per cent is removed and replaced with more qualitative requirements, including the requirement of an economic relation between the hedging instrument and the hedged object, and that credit risk shall not dominate the value changes in the hedging instrument. Under IFRS 9 a prospective effectiveness test is sufficient, whereas under IAS 39 hedge effectiveness must be considered both prospectively and retrospectively. Documentation of the hedging relationship is still required. The bank's assessment is that hedge accounting will be continued to approximately the same extent as today.

Loan impairment write-downs

Under current rules, IAS 39, impairment write-downs shall only be made in cases where there is objective evidence that a loss event has occurred since first-time recognition. Under IFRS 9, on the other hand, loss provisions shall be recognised based on expected credit loss (ECL). Measurement of the provision for expected loss depends on whether credit risk has increased significantly since first-time recognition. Upon first-time recognition, and when credit risk has not increased significantly since first-time recognition, provision shall be made for a 12-month expected loss. If credit risk has risen significantly, provision shall be made for expected loss across the entire life. The methodology in the IFRS 9 standard entails somewhat larger volatility in write-downs, and write-downs are expected to be made at an earlier stage than under current practice. This will be particularly noticeable at the start of a cyclical downturn.

Further description of the bank's future impairment write-down model

Loss estimates are to be prepared quarterly, and will build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. Loss estimates will be computed based on 12-month and lifelong probability of default (PD), loss given default (LGD) and exposure at default (EAD). The data warehouse contains historical data for observed PD and observed LGD. In keeping with IFRS 9 the bank groups its loans in three stages.

Stage 1:

This is the starting point for all financial assets covered by the general loss model. All assets that do not have significantly higher credit risk than at first-time recognition receive a loss provision corresponding to 12 months' expected loss. All assets that are not transferred to stage 2 or 3 reside in this category.

Stage 2:

Stage 2 of the loss model encompasses assets that show a significant increase in credit risk since first-time recognition, but where objective evidence of loss is not present. For these assets a provision for expected loss over the entire lifetime is to be made. In this group we find accounts with a significant degree of credit deterioration, but which at the balance sheet date belong to customers classified as performing. As regards delineation against stage 1, the bank defines 'significant degree of credit deterioration' by taking a basis in whether the exposure's calculated probability of default shows a significant increase. SpareBank 1 SMN has decided to utilise both absolute and relative changes in PD as criteria for transfer to stage 2. The most important factor for a significant change in credit risk is the quantitative change in PD on the period end compared to the PD at first time recognition. A change in PD by more than 150 per cent is considered to be a significant change in credit risk. The change will have to be over 0.6 percentage points. In addition, customers with payments 30 days past due will be transferred to stage 2. A qualitative assessment is also done when engagements have been put on watch list.

Stage 3:

Stage 3 of the loss model encompasses assets that show a significant increase in credit risk since loan approval and where there is objective evidence of loss at the balance sheet date. For these assets a provision shall be made for expected loss over the entire lifetime. These are assets which under current rules are defined as defaulted and written down.

IFRS 15 Revenue from Contracts with Customers

The IASB and FASB have published a new converged standard for revenue recognition, IFRS 15 Revenue from Contracts with Customers, which replaces all existing standards and interpretations relating to revenue recognition. The core principle of IFRS 15 is that revenues are recognised in order to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the compensation the company expects to be entitled to in exchange for such goods or services. The standard applies, with a small number of exceptions, to all remunerative contracts with customers and includes a model for recognition and measurement of sales of individual non-financial assets (for example sales of property, plant and equipment).

IFRS 15 will be implemented under either the full retrospective or modified retrospective method. The standard has accounting effect as from 1 January 2018. The standard will not have a significant impact on the group's principles for revenue recognition.

IFRS 16 Leases

The IASB published IFRS 16 in January 2016. The standard requires lessees to recognise assets and liabilities for the majority of leases in the same way as financial leases are accounted for under IAS 17 Leases. The lessee accounts for a "right to use asset" and an associated liability in the balance sheet. The asset is depreciated over the term of the lease, and the liability is measured at amortised cost. For lessors there are small changes relative to today's accounting standard, IAS 17 Leases.

Based on the leases entered into at 31 December 2017, the implementation of IFRS 16 would give a right-to-use asset of approximately NOK 110 million. The sale of SpareBank 1 SMN headquarter which is expected during first quarter of 2018 will result in a reduction of assets by NOK 600 million. The expected lease which will be entered into with the buyer of the property, will give a right to use asset in the balance sheet of approximately NOK 330 million when implementing IFRS 16 at 1 January 2019.

Note 3 - Critical estimates and assessments concerning the use of accounting principles

In the preparation of the Group accounts the management makes accounting estimates, discretionary assessments and assumptions that influence the effect of the application of the accounting principles and hence the amounts booked for assets, liabilities, income and expenses. Estimates and discretionary assessments are evaluated continuously and are based on empirical experience and expectations of events which, as of the balance sheet date, are deemed likely to occur in the future.

Losses on loans and guarantees

The Bank rescores its loan portfolio monthly. Customers in a poor risk class, payment defaults, negative migration or other objective criteria are assessed for individual write-down. Should the Bank's calculations show that the present value of the discounted cash flow based on the effective interest rate at the time of estimation is below the book value of the loan, an individual write-down will be carried out. Impaired loans are reviewed quarterly.

Individual write-down of retail market commitments is calculated based on the same principles. Write-down is considered in the case of exposures larger than NOK 250,000 that are in default, or where the Bank has other relevant objective information. Write-down needs are estimated with a basis in estimated future cash flows. Uncertainty attends these estimates.

Collective write-downs are calculated for groups of commitments subject to rising credit risk but where it is not possible to identify which commitment will entail loss. Calculation is based on increase in expected loss on portfolios which have migrated negatively since the date of approval.

Assessment of individual and group write-downs will invariably be a matter of discretionary judgement. The Bank uses historical data as a basis for estimating the need for write-downs.

In cases where collateral values are tied to specific objects or industries that are in crisis, collateral will have to be realised in illiquid markets, and in such cases assessment of collateral values may be encumbered with considerable uncertainty.

In the case of events that have taken place, but have yet to be reflected in the Bank's portfolio monitoring systems, the need for write-downs is estimated on a group basis using stress test models.

See also note 2 on accounting principles and note 6 on risk factors.

Fair value of equity capital interests

Assets recognised at fair value through profit and loss will mainly be securities traded in an active market. An active market is defined as a market for trading of similar products where willing buyers and sellers are present at all times, and where prices are accessible to the general public. Shares quoted in a regulated market place fit in with the definition of an active market. A market with a large spread between bid and asked prices and where trading is quiet may pose a challenge. Some key shares will be based on in-house valuations, transaction prices or external analyses of the company. Such shares are valued using acknowledged valuation techniques. These include the use of discounted cash flows or comparative pricing where similar, listed, companies are used (multiple pricing) to determine the value of the unlisted company. Such assets could be encumbered with uncertainty. Assets classified as available for sale will also be recognised at fair value through other comprehensive income. Market values will generally be based on valuations or the latest known trade of the share. Shares which cannot be reliably valued will be carried at cost.

Fair value of financial derivatives and other financial instruments

Fair value of derivatives is usually determined using valuation models where the price of the underlying, for example interest rates or exchange rates, is obtained in the market. When measuring financial instruments for which observable market data are not available, the Group makes assumptions regarding what market participants would use as the basis for valuing similar financial instruments. The valuations require application of significant judgment when calculating liquidity risk, credit risk and volatility among others. Changes in these factors would affect the estimated fair value of the Group's financial instruments. For further information, see note 27 Measurement of fair value of financial instruments.

For options, volatilities will either be observed implicit volatilities or estimated volatilities based on historical movements in the price of the underlying instrument. In those cases where the Bank's risk position is approximately neutral, middle rates will be used. "Neutral risk position" is understood to mean for example that interest rate risk within a maturity band is virtually zero. Where market prices that are obtained are based on transactions with lower credit risk, this will be taken into account by amortising the original price difference measured against such transactions over the period to maturity.

Goodwill

The Group conducts tests to assess possible impairment of goodwill annually or in the event of indications of impairment. Assessment is based on the Group's value in use. The recoverable amount from cash flow generating units is established by calculating discounted

future cash flows. The cash flows are based on historical earnings and expectations of future factors and include suppositions and estimates of uncertain factors. The outcome of the impairment tests depends on estimates of discount rates which are set on a discretionary basis based on information available on the balance sheet date.

Regarding goodwill related to Romsdals Fellesbank, the portfolio is regarded as integrated in the Bank's other lending and deposit operations, and, as from 2009, the lowest level for the cash generating unit is the Parent Bank level. A net cash flow is estimated based on earnings in the Bank's loan and deposit portfolio. Earnings are estimated based on average portfolio and margin, and average commission income. Allocated costs are calculated with reference to the Bank's cost ratio in relation to total assets. A five-year average is employed in the calculation since this is considered to provide the best estimate of future cash flows. Expected loss on the loan portfolio is also calculated (0.3 per cent).

The cash flow is calculated over 20 years and is discounted by the risk-free interest rate + risk premium for similar businesses (pre-tax interest rate 10 per cent). Calculations show that the value of discounted cash flows exceeds recognised goodwill by a good margin.

Other goodwill in the Group is calculated based on average earnings in the market area and is discounted at the risk-free interest rate + the risk premium for similar businesses (12-14 per cent).

Acquisition

Acquisition of another company is accounted for by the acquisition method. This method requires a full purchase price allocation (PPA) in which the purchase price is allocated to identified assets and liabilities in the acquired company. Excess values beyond those allocated to identified assets and liabilities are booked as goodwill. Any deficit values are, after careful assessment, recognised as income through profit/loss in the year of the acquisition (badwill). The analyses contain both concrete calculations and use of best judgement in arriving at the fairest possible value of the acquired companies at time of acquisition. Although some uncertainty invariably attends estimation items, they are supported by determinations of expected cash flows, comparable transactions in previous periods etc. See also note 40 on business acquisitions/business combinations.

Non-current assets held for sale (IFRS 5)

SpareBank 1 SMN's strategy is that ownership resulting from defaulted exposures should at the outset be of brief duration, normally not longer than one year. Work on selling such companies is continuously in progress, and for accounting purposes they are classified as held for sale. See also note 39 on investments in owner interests.

Sale of loan portfolios

In the transfer of loan portfolios to Eksportfinans, SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, the Group considers whether the criteria for derecognition under IAS 39 are met. At the end of the accounting year all transferred portfolios were derecognised from the Parent Bank's balance sheet. See also note 9 on derecognition of financial assets.

Classification of hybrid capital

Sparebank 1 SMN issued two hybrid capital instruments in 2013 where the terms satisfy the requirements in CRD-IV to be included in Common Equity Tier One. From 2017 these have been classified as equity in the financial statements since the Bank consider the terms not to fulfill the conditions in IAS 32 to be classified as financial liability. The interest are not presented as an expense in the income statement, but as a reduction to equity. The change has entailed an overall reduction of NOK 44 million in interest expenses in 2017. Comparatives for 2016 are restated as shown below.

Effects of the restatement

	Parent bank			Group		
	Reported previously	Correction Tier 1 capital	Restated	Reported previously	Correction Tier 1 Capital	Restated
2016						
Profit/Loss						
Interest expenses	1,717	-45	1,672	1,714	-45	1,668
Tax expense	290	11	302	341	11	352
Profit after tax	1,655	34	1,689	1,647	34	1,681
Balance sheet						
Subordinated loan capital	3,140	-954	2,186	3,182	-954	2,228
Additional Tier 1 Capital	0	950	950	0	950	950

Note 4 - Segment information

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

Group 31 December 2017

Profit and loss account (NOK million)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1 Regnskaps- huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	993	977	-15	3	228	-1	-	-	38	2,225
Interest from allocated capital	144	131	-	-	-	-	-	-	-274	-
Total interest income	1,137	1,108	-15	3	228	-1	-	-	-236	2,225
Commission income and other income	789	199	369	473	55	377	-	-	-257	2,005
Net return on financial investments **)	0	9	82	-0	-	-	349	94	224	758
Total income	1,926	1,315	437	477	283	376	349	94	-269	4,988
Total operating expenses	794	365	435	474	137	315	-	-	-152	2,369
Ordinary operating profit	1,132	950	2	3	146	61	349	94	-117	2,619
Loss on loans, guarantees etc.	5	318	-	-	18	-	-	-	-0	341
Result before tax including held for sale	1,127	632	2	3	128	61	349	94	-117	2,278
Post-tax return on equity*)	16.6 %	10.5 %								11.5 %
Balance (NOK million)										
Loans and advances to customers	103,131	39,482	-	-	6,740	-	-	-	-569	148,784
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-35,047	-1,666	-	-	-	-	-	-	0	-36,713
Individual allowance for impairment on loan	-22	-729	-	-	-12	-	-	-	-2	-765
Group allowance for impairment on loan	-90	-218	-	-	-24	-	-	-	-15	-347
Other assets	168	4,141	2,242	612	20	323	1,569	1,149	32,070	42,295
Total assets	68,141	41,010	2,242	612	6,724	323	1,569	1,149	31,483	153,254
Deposits to customers	37,182	38,719	-	-	-	-	-	-	574	76,476
Other liabilities and equity	30,959	2,290	2,242	612	6,724	323	1,569	1,149	30,909	76,778
Total liabilities and equity	68,141	41,010	2,242	612	6,724	323	1,569	1,149	31,483	153,254

Group 31 December 2016

Profit and loss account (NOK million)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1- Regnskaps- huset SMN	SB1- Gruppen	BN Bank	Uncollated	Total
Net interest	906	960	-8	4	183	0	-	-	-117	1,929
Interest from allocated capital	47	40	-	-	-	-	-	-	-86	-
Total interest income	953	1,000	-8	4	183	0	-	-	-204	1,929
Commission income and other income	679	196	212	426	-11	234	-	-	-62	1,674
Net return on financial investments (**)	1	9	88	-	-	-	317	86	448	949
Total income	1,633	1,205	292	430	172	235	317	86	182	4,552
Total operating expenses	770	332	282	363	55	191	-	-	11	2,003
Ordinary operating profit	863	873	10	68	117	44	317	86	170	2,549
Loss on loans, guarantees etc.	13	490	0	-	13	-	-	-	1	516
Result before tax including held for sale	850	384	10	68	104	44	317	86	170	2,033
Post-tax return on equity*)	13.8 %	6.9 %								11.3 %
Balance (NOK million)										
Loans and advances to customers	93,757	38,938	-	-	5,430	-	-	-	-590	137,535
Adv. of this to SB1 Boligkreditt and SB1 Næringskreditt	-33,307	-1,903	-	-	-	-	-	-	-0	-35,211
Individual allowance for impairment on loan	-24	-596	-	-	-11	-	-	-	-2	-632
Group allowance for impairment on loan	-90	-228	-	-	-20	-	-	-	-0	-339
Other assets	177	35	1,702	322	16	218	1,476	1,186	31,594	36,726
Total assets	60,514	36,245	1,702	322	5,414	218	1,476	1,186	31,002	138,080
Deposits from and debt to customers	34,856	32,401	-	-	-	-	-	-	-89	67,168
Other liabilities and equity	25,658	3,845	1,702	322	5,414	218	1,476	1,186	31,091	70,912
Total liabilities & Equity	60,514	36,245	1,702	322	5,414	218	1,476	1,186	31,002	138,080

*) Calculation of capital employed in Retail Banking and Corporate Banking is based on regulatory capital. This capital is grossed up to 15.0 percent to be in line with the capital plan per 31 December 2017.

**) Specification of net return on financial investments incl. Investment held for sale (NOK million)			
	31 Dec 2017	31 Dec 2016	
Dividends	6	88	
Capital gains shares	62	76	
Gain/(loss) on derivatives	124	280	
Gain/(loss) on other financial instruments at fair value (FVO)	7	26	
Foreign exchange gain/(loss)	45	51	
Gain/(Loss) on certificates and bonds	58	-2	
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	43	25	
Gain/(loss) on financial instruments related to hedging ***)	-22	-21	
Net return on financial instruments	317	434	
SpareBank 1 Gruppen	349	317	
SpareBank 1 Boligkreditt	-41	-17	
SpareBank 1 Næringskreditt	19	29	
BN Bank adjusted for the profit share in BN Bolig	98	86	
SpareBank 1 Kredittkort	15	24	
SpareBank 1 Mobilbetaling	-14	-27	
Other companies	10	15	
Income from investment in associates and joint ventures	436	427	
Total net return on financial investments	758	949	
***) Fair value hedging			
	31 Dec 2017	31 Dec 2016	
Changes in fair value on hedging instrument	-215	-302	
Changes in fair value on hedged item	192	281	
Net Gain or Loss from hedge accounting	-22	-21	

Note 5 - Capital adequacy and capital management

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 December 2017 the capital conservation buffer requirement is 2.5 per cent, the systemic risk requirement is 3.0 per cent and the Norwegian countercyclical buffer is 2.0 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 12.0 per cent. In addition the financial supervisory authority has set a Pillar 2 requirement of 2.1 per cent for SpareBank 1 SMN, effective as from the fourth quarter of 2016. The total minimum requirement on CET1 capital is accordingly 14.1 per cent.

The countercyclical buffer increased from 1.5 per cent to 2.0 per cent with effect from 31 December 2017.

SpareBank 1 SMN has in fourth quarter 2017 reclassified two additional Tier 1 capital bonds from liabilities to equity, and the comparable figures has been restated. For further details, see note 1.

As from the fourth quarter of 2016 differentiated rates came into force for the countercyclical buffer. For exposures in other countries the countercyclical buffer rate set by the authorities in the country concerned is applied. If that country has not set a rate, the same rate as for exposures in Norway is applied unless the Ministry of Finance sets another rate. For the fourth quarter of 2017 the parent bank is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures. For the group, the risk-weighted countercyclical capital buffer is 2.0 per cent.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This will be subject to a write-down of 40 per cent in 2016 and 50 per cent in 2017. The write-down will increase by another 10 per cent per year thereafter. As at 31 Desember 2017 the bank held hybrid capital worth NOK 450 million subject to write-down. For subordinated debt the figure was NOK 659 million.

Parent Bank			Group	
31 Dec 2016	31 Dec 2017	(NOK million)	31 Dec 2017	31 Dec 2016
14,166	15,372	Total book equity	17,510	16,253
-950	-950	Additional Tier 1 capital instruments included in total equity	-993	-950
-470	-522	Deferred taxes, goodwill and other intangible assets	-984	-741
-	-	Part of reserve for unrealised gains, associated companies	117	117
-609	-893	Deduction for allocated dividends and gifts	-893	-609
-	-	Non-controlling interests recognised in other equity capital	-565	-425
-	-	Non-controlling interests eligible for inclusion in CET1 capital	324	220
-29	-30	Value adjustments due to requirements for prudent valuation	-41	-48
-190	-350	Positive value of adjusted expected loss under IRB Approach	-333	-248
-	-	Cash flow hedge reserve	7	-
-	-	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-212	-337
11,917	12,627	Total common equity Tier one	13,938	13,233
950	950	Additional Tier 1 capital instruments	1,427	1,358
483	459	Additional Tier 1 capital instruments covered by transitional provisions	459	483
13,350	14,036	Total core capital	15,824	15,073
		Supplementary capital in excess of core capital		
1,000	1,000	Subordinated capital	1,615	1,698
673	561	Subordinated capital covered by transitional provisions	561	673
-256	-254	Deduction for significant investments in financial institutions	-254	-256
1,418	1,307	Total supplementary capital	1,922	2,116
14,768	15,343	Net subordinated capital	17,746	17,189

		Minimum requirements subordinated capital		
1,065	978	Specialised enterprises	1,107	1,206
1,064	1,098	Corporate	1,113	1,102
1,270	1,370	Mass market exposure, property	1,892	1,753
85	90	Other mass market	91	88
1,223	1,198	Equity investments	1	3
4,707	4,733	Total credit risk IRB	4,205	4,153
5	3	Central government	3	5
73	80	Covered bonds	146	130
426	429	Institutions	331	340
5	0	Local and regional authorities, state-owned enterprises	4	7
45	44	Corporate	245	253
0	1	Mass market	388	179
13	13	Exposures secured on real property	193	342
245	232	Equity positions	344	338
86	70	Other assets	166	178
898	872	Total credit risk standardised approach	1,820	1,772
35	16	Debt risk	18	36
-	-	Equity risk	22	5
-	-	Currency risk	1	1
334	341	Operational risk	510	479
51	52	Credit value adjustment risk (CVA)	117	84
-	-	Transitional arrangements	784	574
6,026	6,015	Minimum requirements subordinated capital	7,478	7,103
75,325	75,182	Risk weighted assets (RWA)	93,474	88,786
3,390	3,383	Minimum requirement on CET1 capital, 4.5 per cent	4,206	3,995
		Capital Buffers		
1,883	1,880	Capital conservation buffer, 2.5 per cent	2,337	2,220
2,260	2,255	Systemic risk buffer, 3.0 per cent	2,804	2,664
1,130	1,504	Countercyclical buffer, 2.0 per (1.5 per cent)	1,869	1,332
5,273	5,639	Total buffer requirements on CET1 capital	7,011	6,215
3,255	3,605	Available CET1 capital after buffer requirements	2,721	3,022
		Capital adequacy		
15.8 %	16.8 %	Common equity Tier one ratio	14.9 %	14.9 %
17.7 %	18.7 %	Core capital ratio	16.9 %	17.0 %
19.6 %	20.4 %	Capital adequacy ratio	19.0 %	19.4 %
		Leverage ratio		
133,514	145,821	Balance sheet items	210,764	194,324
8,234	7,112	Off-balance sheet items	9,295	10,068
-690	-902	Regulatory adjustments	-1,580	-1,388
141,058	152,032	Calculation basis for leverage ratio	218,479	203,005
13,350	14,036	Core capital	15,824	15,073
9.5 %	9.2 %	Leverage Ratio	7.2 %	7.4 %

Note 6 - Risk factors

Risk Management

SpareBank 1 SMN aims to maintain a moderate risk profile and to apply risk monitoring of such high quality that no single event will seriously impair the Group's financial position. The Group's risk profile is quantified through targets for rating, concentration, risk-adjusted return, loss ratios, expected loss, necessary economic capital, regulatory capital adequacy, and expected liquidity related regulatory requirements.

The principles underlying SpareBank 1 SMN's Risk Management are laid down in the risk management policy. The Group gives much emphasis to identifying, measuring, managing and monitoring central risks in such a way that the Group progresses in line with its adopted risk profile and strategies.

Risk management within the Group is intended to support the Group's strategic development and target attainment. The risk management regime is also designed to ensure financial stability and prudent asset management. This will be achieved through:

- A strong organisation culture featuring high risk-management awareness
- A sound understanding of the risks that drive earnings and risk costs, thereby creating a better basis for decision-making
- Striving for an optimal use of capital within the adopted business strategy
- Avoiding unexpected negative events which could be detrimental to the Group's operations and reputation in the market

The Group's risk is quantified by calculating expected loss and the need for risk-adjusted capital (economic capital) needed to meet unexpected losses.

Expected loss is the amount which statistically can be expected to be lost in a 12-month period. Risk-adjusted capital is the volume of capital the Group considers it needs to meet the actual risk incurred by the Group. The board has decided that the risk-adjusted capital should cover 99.9 per cent of all possible unexpected losses. Statistical methods are employed to compute expected loss and risk-adjusted capital, but the calculation requires expert assessments in some cases. In the case of risk types where no recognised methods of calculating capital needs are available, the Group defines risk management limits to ensure that the likelihood of an event occurring is extremely low. For further details see the Group's Pillar III reporting which is available on the Parent Bank's website.

The Group's overall risk exposure and risk trend are followed up through periodic risk reports to the administration and the board of directors. Overall risk monitoring and reporting are carried out by Risk Management which is independent of the Group's business areas.

Credit risk

Credit risk is the risk of loss resulting from the inability or unwillingness of customers or counterparties to honour their commitments to the Group.

The Group is exposed to credit risk through all customer and counterparty receivables. The main exposure is through ordinary lending and leasing activities, but the Group's credit risk also has a bearing on the liquidity reserve portfolio through counterparty risk arising from interest rate and foreign exchange derivatives.

Credit risk associated with the Group's lending activity is the largest area of risk facing the Group.

Through its annual review of the Parent Bank's credit strategy, the Board of Directors concretises the Group's risk appetite by establishing objectives and limits for the Parent Bank's credit portfolio. The Parent Bank's credit strategy and credit policy are derived from the Parent Bank's main strategy, and contain guidelines for the risk profile, including maximum expected loss (EL) for the retail market and corporate market divisions respectively, maximum portfolio default probability (PD) and maximum regulatory capital (UL) allocated to the credit business.

Concentration risk is managed by distribution between Retail Banking and Corporate Banking, limits on the size of loan and loss ratio on single exposures, limits on maximum exposure to sectors, and limits on regulatory risk weighted assets for Retail Banking and Corporate Banking.

Compliance with credit strategy and limits adopted by the Board of Directors is monitored on a continual basis by Risk Management and reported quarterly to the Board of Directors.

The Parent Bank has approval to use internal models in its risk management and capital calculation (IRB), and in February 2015 was given permission to apply the advanced IRB approach.

The Parent Bank's risk classification system is designed to enable the Parent Bank's loan portfolio to be managed in conformity with the Parent Bank's credit strategy and to secure the risk-adjusted return. The Board of Directors delegates lending authorisation to the Group CEO. The Group CEO can further delegate authorisations to levels below executive director level. Lending authorisations are graded by size of commitment and risk profile.

The Parent Bank has a division dedicated to credit support which assists in or takes over dealings with customers who are clearly unable, or are highly likely to become unable, to service their debts unless action is taken beyond ordinary follow-up.

The Group uses credit models for risk classification, risk pricing and portfolio management. The risk classification system builds on the following main components:

1. Probability of Default (PD)

The Group's credit models are based on statistical computations of probability of default. The calculations are based on scoring models that take into account financial position and behavioural data. The models are partly point-in-time oriented, and reflect the probability of default in the course of the next 12 months under current economic conditions. The Bank has also developed a cashflow based PD-model used for exposures in rental of commercial property. The Bank has engaged in a dialogue with Finanstilsynet to be able to use this model in the calculation of capital requirements (IRB).

Customers are assigned to one of nine risk classes based on PD, in addition to two risk classes for exposures in default and/or subject to individual impairment write down.

The models are validated on an ongoing basis and at least once per year both with respect to their ability to rank customers and to estimate PD levels. The validation results confirm that the models' accuracy meets internal criteria and international recommendations.

2. Exposure at Default (EAD)

EAD is an estimation of the size of an exposure in the event of, and at the time of, a counterparty's default. For drawing rights, a conversion factor (CF) is used to estimate how much of the present unutilised credit ceiling will have been utilised at a future default date. For guarantees, CF is used to estimate what portion of issued guarantees will be brought to bear upon default. CF is validated monthly for drawing rights in the retail market and corporate market. The Group's EAD model takes account of differences both between products and customer types.

3. Loss Given Default (LGD)

The Group estimates the loss ratio for each loan based on expected recovery rate, realisable value of the underlying collateral, recovery rate on unsecured debt, as well as direct costs of recovery. Values are determined using standard models, and actual realised values are validated to test the models' reliability.

Estimated loss ratio shall take into account possible economic downturn. With limited downturn data, the Bank has entered significant margins in its calculations to ensure conservative estimates when calculating capital requirements.

The three above-mentioned parameters (PD, EAD and LGD) underlie the Group's portfolio classification and statistical calculation of expected loss (EL) and need for economic capital/risk-adjusted capital (UL).

Counterparty risk

Counterparty risk in derivatives trading is managed through ISDA and CSA contracts set up with financial institutions that are the Group's most used counterparties. ISDA contracts regulate settlements between financial counterparties. The CSA contracts limit maximum exposure through market evaluation of the portfolio and margin calls when the change in portfolio value exceeds the maximum agreed limit or threshold amount. The Group will continue to enter CSA contracts with financial counterparties to manage counterparty risk. See note 14 Financial Instruments and offsetting for further description of these contracts.

Counterparty risk for customers is hedged through use of cash depots or other collateral which, at all times, have to exceed the market value of the customer's portfolio. Specific procedures have been established for calling for further collateral or to close positions if market values exceed 80 per cent of the collateral.

SpareBank 1 Markets clears ordinary share trades executed at Oslo Børs through CCP settlements. The company is a direct clearing member of SIX X-Clear, and the counterparty risk is against SIX X-Clear.

Market risk

Market risk is a generic term for the risk of loss and reduction of future incomes as a result of changes in observable rates or prices of financial instruments. Market risk arises at SpareBank 1 SMN mainly in connection with the Group's investments in bonds, CDs and shares, including funding. SpareBank 1 SMN has outsourced customer trading in fixed income and foreign currency instruments to

SpareBank 1 Markets. This customer activity, and SpareBank 1 Markets' use of the Parent Bank's balance sheet, also affect the Group's market risk.

Market risk is managed through limits for investments in shares, bonds and positions in the fixed income and currency markets. The Group's strategy for market risk lays the basis for management reporting, control and follow-up of compliance with limits and guidelines.

The Group defines limits on exposure to equity instruments with a basis in stress tests employed in Finanstilsynet's (Financial Supervisory Authority of Norway) models. Limits are reviewed at least once a year and adopted yearly by the Group's Board of Directors. Compliance with the limits is monitored by Risk Management and exposures relative to the adopted limits are reported monthly.

Interest rate risk is the risk of loss due to changes in interest rates in financial markets. The risk on all interest rate positions can be viewed in terms of the change in value of interest rate instruments resulting from a rate change of 1 basis point (0.01 percentage point). The Group utilises analyses showing the effect of this change for various maturity bands, with separate limits applying to interest rate exposure within each maturity band and across all maturity bands as a whole. Interest rate lock-ins on the Group's instruments are essentially short, and the Group's interest rate risk is low to moderate.

Spread risk is the risk of loss as a result of changes in market value/fair value of bonds due to general changes in credit spreads. The bond portfolio is managed based on an evaluation of the individual issuers. In addition, the Group has a separate limit for overall spread risk for all bonds. The Group calculates spread risk based on Finanstilsynet's module for market and credit risk. The loss potential for the individual credit exposure is calculated with a basis in rating and duration.

Exchange rate risk is the risk of loss resulting from exchange rate movements. The Group measures exchange rate risk on the basis of net positions in the various currencies. Limits on exchange rate risk are expressed in limits for the maximum aggregate foreign exchange position in individual currencies.

Equity risk is the risk of loss on positions as a result of changes in share prices. This risk is linked to positions in equity instruments as the underlying. Shares in subsidiaries and shares forming part of a consolidated or strategic assessment are not included.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to refinance its debt or unable to finance increases in its assets.

The Group's most important source of finance is customer deposits. At end-2017 the Group's ratio of deposits to loans was 51 per cent, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, compared with 49 per cent at end-2016 (Group).

The Group reduces its liquidity risk by diversifying funding across a variety of markets, funding sources, maturities and instruments, and by employing long-term funding. Excessive concentration of maturities heightens vulnerability with regard to refinancing. The Group seeks to mitigate such risk by applying defined limits.

The Parent Bank's finance division is responsible for the Group's financing and liquidity management. Compliance with limits is monitored by Risk Management which reports monthly to the Board of Directors. The Group manages its liquidity on an overall basis by assigning responsibility for funding both the Parent Bank and the subsidiaries to the finance division.

Governance is based in the Group's overall liquidity strategy which is reviewed and adopted by the board at least once each year. The liquidity strategy reflects the Group's moderate risk profile. As a part of the strategy, emergency plans have been drawn up both for the Group and the SpareBank 1 Alliance to handle the liquidity situation in periods of turbulent capital markets. These take into account periods of both bank-specific and system-related crisis scenarios as well as a combination of the two. An aim of the Group is to survive for 12 months of ordinary operation without fresh external funding. This assumes that the Parent Bank can continue to sell eligible loans to SpareBank 1 Boligkreditt, and that there will at all times be sufficient capacity in the stock of loans to cover a house price fall of up to 30 per cent and thus to maintain funding through the mortgage credit company. It also intends to succeed in surviving for 30 days under the most extreme crisis scenario. In such a scenario only the Parent Bank's holding of highly liquid assets may be utilised.

Access to capital has been satisfactory throughout 2017.

The Group's liquidity situation as of 31 December 2017 is considered satisfactory.

Operational risk

Operational risk can be defined as the risk of loss resulting from:

- People: Breaches of routines/guidelines, inadequate competence, unclear policy, strategy or routines, internal irregularities
- Systems: Failure of IT- and other systems
- External causes: Criminality, natural disaster, other external causes

Operational risk is a risk category that captures the great majority of costs associated with quality lapses in the Group's current activity.

Management of operational risk has acquired increased importance in the financial industry in recent years. Contributory factors are internationalisation, strong technological development and steadily growing demands from customers, public authorities and other interest groups. Many substantial loss events in the international financial industry have originated in failures in this risk area.

Identification, management and control of operational risk are an integral part of managerial responsibility at all levels of SpareBank 1 SMN. Managers' most important aids in this work are professional insight and leadership skills along with action plans, control routines and good follow-up systems. A systematic programme of risk assessments also contributes to increased knowledge and awareness of current needs for improvement in one's own unit. Any weaknesses and improvements are reported to higher levels in the organisation.

SpareBank 1 SMN attaches importance to authorisation structures, good descriptions of procedures and clear definition of responsibilities in supply contracts between the respective divisions as elements in a framework for handling operational risk.

Management consider the Bank's IT –systems to be central for the operation, accounting and reporting of transactions in addition to providing the support for important estimates and calculations. The IT- systems are mainly standardised, and the management and operation has been outsourced to a service provider.

The Parent Bank has put to use a registration and monitoring tool (Risk Information System) for better structure and follow up of risk, events and areas for improvement in the Group.

Operational losses are reported to the Board of Directors. The Board of Directors receives each year from the internal audit and the statutory auditor an independent assessment of the Group's risk and of whether the internal control functions in an appropriate and adequate manner. The Board's assessment of the operational risk is moderate, including the risk related to the accounting and reporting process.

For further information see the Bank's Pillar III-report available at <https://www.sparebank1.no/en/smn/about-us/investor/financial-info/capital-adequacy.html> and notes:

Note 13: Maximum credit risk exposure

Note 14: Financial instruments and offsetting

Note 16: Market risk related to interest rate risk

Note 17: Market risk related to currency exposure

Note 7 - Credit institutions - loans and advances

Parent Bank		Loans and advances to credit institutions (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
7,066	6,903	Loans and advances without agreed maturity or notice of withdrawal	1,575	2,756
1,136	2,639	Loans and advances with agreed maturity or notice of withdrawal	2,639	1,136
8,203	9,543	Total	4,214	3,892
Specification of loans and receivables on key currencies				
1,466	231	EUR	231	1,466
101	7	GBP	7	101
25	7	JPY	7	25
6,059	9,074	NOK	3,747	1,749
365	68	USD	68	365
148	119	SEK	119	148
38	36	Other	34	38
8,203	9,543	Total	4,214	3,892
1.9 %	1.5 %	Average rate credit institutions *)	0.9 %	1.8 %

31 Dec 2016	31 Dec 2017	Deposits from credit institutions (NOK million)	31 Dec 2017	31 Dec 2016
7,378	7,729		8,289	7,588
2,920	1,318	Deposits with agreed maturity or notice of withdrawal	1,318	2,920
10,299	9,047	Total	9,607	10,509
Specification of deposits on key currencies				
2,859	2,098	EUR	2,098	2,859
7,421	6,919	NOK	7,479	7,631
13	19	USD	19	13
19	29	Other	29	19
10,299	9,047	Total	9,607	10,509
0.6 %	0.6 %	Average rate credit institutions *)	0.6 %	0.6 %

31 Dec 2016	31 Dec 2017	Other commitments to credit institutions (NOK million)	31 Dec 2017	31 Dec 2016
5,000	2,288		2,288	5,000
55	55	Financial guarantees	55	55
5,055	2,344	Total	2,344	5,055

Deposits from and loans to credit institutions with mainly floating interest.

*) The average interest rate is calculated based on the interest income/expense of the holding accounts' average balance for the given year. This is, however, limited to holdings in NOK denominated accounts.

Note 8 - Loans and advances to customers

Parent Bank		Loan and advances to customers (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
97,437	105,843	Gross loans to and receivables from customers	112,071	102,325
-620	-751	Specified write-downs	-765	-632
-318	-323	Collectively assessed write-downs	-347	-339
96,499	104,769	Net loans to and advances to customers	110,959	101,354
Additional information				
33,142	34,885	Loans sold to SpareBank 1 Boligkreditt	34,885	33,142
779	615	Of which loans to employees	956	1,167
2,069	1,828	Loans sold to SpareBank 1 Næringskreditt	1,828	2,069
32	48	Subordinated loan capital other financial institutions	48	32
631	648	Loans to employees *)	1,149	1,123

*) Interest rate subsidies on loans to employees are included in net interest income. The lending rate for employees is 75 per cent of the best mortgage rate for other customers

Loans and other commitments specified by type

Parent Bank		Loans and commitments specified by type (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
		Gross loans and advances		
-	-	Financial lease	2,839	2,421
11,635	12,797	Bank overdraft and operating credit	12,330	11,635
3,313	4,186	Construction loans	4,185	3,313
82,489	88,860	Amortizing loan	92,716	84,956
97,437	105,843	Total gross loans to and receivables from customers	112,071	102,325
		Other commitments		
5,409	4,210	Financial guarantees, of which:	4,210	5,409
776	714	<i>Payment guarantees</i>	714	776
1,167	1,286	<i>Performance guarantees</i>	1,286	1,167
3,249	1,994	<i>Loan guarantees</i>	1,994	3,249
81	84	<i>Guarantees for taxes</i>	84	81
135	132	<i>Other guarantee commitments</i>	132	135
1,061	1,018	Unutilised guarantee commitments	1,018	1,061
12,337	11,677	Unutilised credits	11,688	12,420
1,720	1,896	Loans approvals (not discounted)	2,148	1,957
82	62	Documentary credits	62	82
20,609	18,863	Total other commitments	19,126	20,929
118,046	124,706	Total loans and commitments	131,197	123,253

Loans and other commitments specified by sector and industry

Parent Bank (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Wage earners	60,099	6,193	66,292	53,371	6,057	59,428
Public administration	226	855	1,081	273	898	1,171
Agriculture, forestry, fisheries and hunting	11,305	1,002	12,307	10,290	1,048	11,338
Sea farming industries	1,311	978	2,289	1,599	536	2,135
Manufacturing	2,850	1,625	4,475	2,701	1,975	4,676
Construction, power and water supply	2,794	1,398	4,193	2,980	2,481	5,461
Retail trade, hotels and restaurants	2,432	2,399	4,830	2,288	1,641	3,929
Maritime sector and offshore	4,639	1,510	6,149	4,983	1,675	6,657
Property management	12,462	1,203	13,665	11,619	1,706	13,324
Business services	2,510	797	3,307	2,442	1,013	3,455
Transport and other services provision	3,547	593	4,140	3,220	998	4,218
Other sectors	1,669	310	1,978	1,670	582	2,252
Total	105,843	18,863	124,706	97,437	20,609	118,046

Group (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Wage earners	63,812	6,332	70,144	56,260	6,183	62,443
Public administration	240	855	1,095	288	898	1,186
Agriculture, forestry, fisheries and hunting	11,606	1,013	12,619	10,499	1,057	11,556
Sea farming industries	1,697	992	2,689	1,985	553	2,538
Manufacturing	3,157	1,637	4,794	2,985	1,988	4,973
Construction, power and water supply	3,419	1,421	4,841	3,532	2,506	6,038
Retail trade, hotels and restaurants	2,700	2,409	5,109	2,510	1,650	4,161
Maritime sector and offshore	4,639	1,510	6,149	4,983	1,675	6,657
Property management	12,521	1,205	13,726	11,675	1,708	13,383
Business services	2,260	811	3,070	2,072	1,089	3,161
Transport and other services provision	4,322	630	4,951	3,836	1,040	4,875
Other sectors	1,699	310	2,010	1,700	583	2,282
Total	112,071	19,126	131,197	102,325	20,929	123,253

Loans and other commitments specified by geographic area

Parent Bank (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	70,137	12,106	82,243	62,003	13,117	75,120
Møre og Romsdal	22,319	5,078	27,397	20,832	5,522	26,354
Sogn og Fjordane	608	333	941	665	188	853
Nordland	1,216	37	1,253	956	35	991
Oslo	5,037	653	5,690	4,700	1,067	5,767
Rest of Norway	6,070	615	6,685	5,804	677	6,481
Abroad	456	42	498	2,476	4	2,480
Total	105,843	18,863	124,706	97,437	20,609	118,046

Group (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	73,017	12,227	85,243	64,211	13,279	77,490
Møre og Romsdal	23,670	5,128	28,798	21,930	5,586	27,516
Sogn og Fjordane	981	347	1,328	889	201	1,090
Nordland	1,295	40	1,334	1,031	40	1,071
Oslo	4,710	658	5,368	4,788	1,072	5,861
Rest of Norway	7,942	685	8,627	6,998	747	7,745
Abroad	456	42	498	2,476	4	2,480
Total	112,071	19,126	131,197	102,325	20,929	123,253

Gross loans sold to SpareBank 1 Boligkreditt

(NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	25,483	1,934	27,418	23,776	2,168	25,943
Møre og Romsdal	5,645	439	6,084	4,917	462	5,379
Sogn og Fjordane	317	21	339	297	16	313
Nordland	124	7	131	111	12	123
Oslo	1,270	47	1,317	1,113	61	1,174
Rest of Norway	1,997	89	2,087	1,756	98	1,854
Abroad	48	1	49	1,172	108	1,280
Total	34,885	2,539	37,424	33,142	2,925	36,067

Gross loans sold to SpareBank 1 Næringskreditt

(NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Trøndelag	1,164	-	1,164	1,171	-	1,171
Møre og Romsdal	158	-	158	541	-	541
Sogn og Fjordane	0	-	0	0	-	0
Nordland	87	-	87	50	-	50
Oslo	366	-	366	250	-	250
Rest of Norway	52	-	52	56	-	56
Abroad	0	-	0	0	-	0
Total	1,828	-	1,828	2,069	-	2,069

Loans to and claims on customers related to financial leases (NOK million)

Group (NOK million)	31 Dec 2017	31 Dec 2016
Gross advances related to financial leasing		
- Maturity less than 1 year	233	195
- Maturity more than 1 year and less than 5 years	2,105	1,602
- Maturity more than 5 years	581	624
Total gross claims	2,919	2,421
Received income related to financial leasing, not yet earned	80	73
Net investments related to financial leasing	2,839	2,348
Net investments in financial leasing can be broken down as follows:		
- Maturity less than 1 year	185	179
- Maturity more than 1 year and less than 5 years	2,081	1,559
- Maturity more than 5 years	573	610
Total net claims	2,839	2,348

Loans and other commitments to customers specified by risk group

The Bank calculates default probabilities for all customers in the loan portfolio at the loan approval date. This is done on the basis of key figures on earnings, financial strength and behaviour. Default probability is used as a basis for risk classification of the customer. Further, risk classification is used to assign each customer to a risk group. See note 12 on credit risk exposure for each internal risk rating.

Customers are rescored in the Bank's portfolio system on a monthly basis.

Exposures are monitored with a basis in the exposure's size, risk and migration. Risk pricing of business exposures is done with a basis in expected loss and economic capital required for each exposure. Expected annual average net loss is calculated for the next twelve months. Expected loss is within the limits set for maximum expected loss by the Board of Directors, NOK 408m (326m) in the parent bank and NOK 445m (356m) in the group as of 31 December 2017.

Collectively assessed write-downs are calculated with a basis in customers who have shown negative migration since the loan approval date but for whom no individual write-down has been assessed.

The Bank uses macro-based stress tests to estimate write-downs required as a result of objective events that were not reflected in portfolio quality at the time of measurement.

Risk group default and written down consist of customers default by over 90 days and individual write-downs.

Parent Bank (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	69,528	10,852	80,379	66,543	11,340	77,882
Low risk	16,855	3,693	20,548	10,973	3,441	14,413
Medium risk	12,676	3,294	15,970	14,652	4,690	19,342
High risk	2,507	419	2,926	1,931	793	2,723
Highest risk	2,708	478	3,185	1,873	58	1,931
Default and written down	1,570	128	1,698	1,466	288	1,754
Total	105,843	18,863	124,706	97,437	20,609	118,046

Group (NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	69,415	10,868	80,283	66,909	11,356	78,265
Low risk	18,307	3,750	22,057	12,298	3,539	15,837
Medium risk	15,696	3,413	19,109	16,512	4,824	21,336
High risk	3,532	460	3,991	2,557	835	3,393
Highest risk	3,470	508	3,978	2,522	87	2,609
Default and written down	1,651	128	1,779	1,527	288	1,815
Total	112,071	19,126	131,197	102,325	20,929	123,253

Gross loans and commitments sold to SpareBank 1 Boligkreditt

(NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	30,082	2,523	32,604	29,122	2,871	31,993
Low risk	3,556	12	3,568	2,940	42	2,982
Medium risk	865	2	868	831	7	838
High risk	227	1	228	121	3	123
Highest risk	147	0	147	124	0	125
Default and written down	8	1	9	5	1	6
Total	34,885	2,539	37,424	33,142	2,925	36,067

Gross loans and commitments sold to SpareBank 1 Næringskreditt

(NOK million)	31 Dec 2017			31 Dec 2016		
	Gross loans	Other commitments	Total loans and commitments	Gross loans	Other commitments	Total loans and commitments
Lowest risk	1,465	-	1,465	1,795	-	1,795
Low risk	96	-	96	273	-	273
Medium risk	267	-	267	-	-	-
High risk	-	-	-	-	-	-
Highest risk	-	-	-	-	-	-
Default and written down	-	-	-	-	-	-
Total	1,828	-	1,828	2,069	-	2,069

Note 9 - Derecognition of financial assets

In its ordinary business the Bank undertakes transactions that result in the sale of financial assets. The Bank transfers such financial assets mainly through sales of customers' home mortgage loans to SpareBank 1 Boligkreditt or commercial property loans to SpareBank 1 Næringskreditt.

Payment received for loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt corresponds to book value and is deemed to equal the loans' fair value at the time of sale.

In accordance with the management agreement with the above mortgage companies, the Bank is responsible for management of the loans and maintains customer contact. The Bank receives payment in the form of commission for the obligations ensuing from management of the loans.

The above mortgage companies can sell the loans bought from the Bank, while the Bank's right to service the customers and receive commission continues to apply. Should the Bank be unable to service customers, its right to service and commission may lapse. The Bank may have the option to repurchase the loans under given conditions.

If the mortgage companies incur losses on purchased loans, they have a certain right to settle such loss against commissions from all banks that have sold the loans. Hence a limited residual involvement exists related to sold loans in the event of a possible limited settlement of loss against commission. However, this opportunity of settlement is not considered to be of such a nature as to alter the conclusion that the great majority of risk and advantages is transferred. The Bank's maximum exposure to loss is represented by the highest amount reimbursable under the agreements.

The Bank has considered the accounting implications such that great majority of risk and advantages related to the sold loans is transferred to the mortgage companies. This entails full derecognition of sold loans. The Bank recognises any right and obligations that are created or retained in connection with the sale separately as assets or liabilities. No such assets or liabilities has been recognised as of 31 December 2017.

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt AS is owned by savings banks participating in the SpareBank 1 Alliance. The Bank has a stake of 19.85 per cent as of 31 December 2017 (19.09 per cent as of 31 December 2016). SpareBank 1 Boligkreditt AS acquires loans secured on dwellings and issues covered bonds within the applicable rules that were established in 2007. Loans sold to SpareBank 1 Boligkreditt are secured on dwellings at up to 75 per cent of property valuation. Sold loans are legally owned by SpareBank 1 Boligkreditt and the Bank has, over and above the right to be responsible for management and receipt of commission and the right to take over written-down loans in whole or in part, no right to make use of the loans. The Bank is responsible for management of the sold loans and receives commission based on the net of the return on the loans that the Bank has sold and the mortgage company costs.

In 2017 mortgage loans were bought and sold to a net value of NOK 1.7bn (1.2bn in 2016) to SpareBank 1 Boligkreditt. In total, mortgage loans to SpareBank 1 Boligkreditt were derecognised in an amount of NOK 34.9bn at the end of the financial year (NOK 33.1bn in 2016).

Liquidity facility

SpareBank 1 SMN has, together with the other owners of SpareBank 1 Boligkreditt, entered an agreement for the establishment of a liquidity facility for SpareBank 1 Boligkreditt. Under this agreement the Banks undertake to purchase covered bonds issued by the mortgage company limited to the overall value of amounts falling due over the next 12 months at SpareBank 1 Boligkreditt.

The liability is limited to the mortgage company's obligation to redeem issued covered bonds after the company's own holding of liquidity at the due date is subtracted. Each owner is liable principally for its share of the need, subsidiarily for twice the primary liability under the same agreement. The bonds may be deposited in Norges Bank and therefore entail no significant increase in risk for the Bank. Under its liquidity strategy, SpareBank 1 Boligkreditt holds liquidity in compliance with the Net Stable Funding Ratio requirements. This liquidity reserve is taken into account in assessing the Banks' liability. Hence it is only in cases where the company no longer has sufficient liquidity to meet amounts falling due over the next 12 months that the Bank will report any exposure in this regard.

Financial strength

Together with the other owners of SpareBank 1 Boligkreditt, SpareBank 1 SMN has also entered an agreement to ensure that SpareBank 1 Boligkreditt has at all times a common equity Tier 1 capital ratio of at least 9 per cent. The shareholders are required to supply sufficient core capital within 3 months of receiving a written request to do so, unless other initiatives are taken to reduce the capital need.

The shareholders' undertaking to supply such core capital is on a pro rata rather than a solitary basis, and is based on each shareholder's pro rata portion of the shares of SpareBank 1 Boligkreditt. Each owner is liable principally for its share of the need, subsidiarily for twice the primary liability under the same agreement. At year-end the company has about 16.7 per cent own funds, of which about 14.5 per cent

is core capital. Viewed in light of the mortgage company's very low risk profile, the Bank considers it unlikely that capital will be called up under this agreement and has opted not to maintain reserves to that end.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt AS is owned by savings banks in the SpareBank 1 Alliance. The Bank has a stake of 33.53 per cent as at 31 December 2017 (36.47 per cent). SpareBank 1 Næringskreditt AS acquires loans secured on dwellings and issues covered bonds within the applicable rules that were established in 2007. Loans sold to SpareBank 1 Næringskreditt are secured on commercial property at up to 60 per cent of property valuation. Sold loans are legally owned by SpareBank 1 Næringskreditt and the Bank has, over and above the right to be responsible for management and receipt of commission, and the right to take over written-down loans in whole or in part, no right to make use of the loans. The Bank is responsible for management of the sold loans and receives commission based on the net of the return on the loans that the Bank has sold and the mortgage company costs.

Commercial property loans sold to SpareBank 1 Næringskreditt were reduced by NOK 241m in 2017 (increased by NOK 608m in 2016). In total, mortgage loans to SpareBank 1 Næringskreditt were derecognised in an amount of NOK 1.8bn by the end of the financial year (NOK 2.1bn in 2016).

Liquidity facility

As described above with regard to SpareBank 1 Boligkreditt, a similar agreement has been entered with SpareBank 1 Næringskreditt.

Financial strength

An agreement to secure a core capital ratio of at least 9 per cent at SpareBank 1 Næringskreditt has been similarly entered into. See the above account concerning SpareBank 1 Boligkreditt.

Note 10 - Age breakdown of contracts fallen due but not written down

The table shows amounts fallen due on loans and overdrafts on credits/deposits by number of days past due date not caused by payment service delays. The entire loan exposure is included where parts of the exposure have fallen due.

Parent bank

31 Dec 2017 (NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	1,415	256	42	124	1,836
- Corporate market	307	11	4	8	331
Total	1,721	267	46	132	2,167

31 Dec 2016 (NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	942	220	53	100	1315
- Corporate market	134	8	2	2	147
Total	1,076	229	56	102	1,463

Of the total amount of gross loans fallen due but not written down, the realisable value of the associated collateral at 31 December 2017 was NOK 1,844 million (1,307 million).

Group

31 Dec 2017 (NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	1,420	290	51	162	1,924
- Corporate market	311	37	9	51	409
Total	1,732	328	60	213	2,333

31 Dec 2016 (NOK million)	Up to 30 days	31 - 60 days	61 - 90 days	Over 91 days	Total
Loans to and receivables from customers					
- Retail market	946	244	61	130	1380
- Corporate market	139	38	6	33	217
Total	1,085	282	67	163	1,597

Of the total amount of gross loans fallen due but not written down, the realisable value of the associated collateral at 31 December 2017 was NOK 1,943 million (1,381 million).

Note 11 - Losses on loans and guarantees

Parent bank

Losses on loans and guarantees (NOK million)	2017			2016		
	RM	CM	Total	RM	CM	Total
Period's change in individual write-downs	-2	127	125	0	449	450
Period's change in collective write-downs	-	5	5	-	-40	-40
Actual losses on loans previously written down	8	146	155	8	34	42
Confirmed losses on loans not previously written down	3	41	45	10	49	59
Recoveries on previously written down loans, guarantees etc.	-5	-1	-6	-6	-3	-8
Total	5	318	323	13	490	502

Individual write-downs (NOK million)	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Individual write-downs to cover loss on loans, guarantees etc. at 01.01.	24	602	625	28	148	176
- Confirmed losses in the period on loans, guarantees etc. previously subject to individual write down	8	146	155	8	34	42
- Reversal of previous years' write-downs	4	8	13	3	36	39
+ Increase in write-downs of commitments previously subject to individual write down	0	191	191	2	6	8
+ Write-downs of loans not previously subject to individual write down	6	100	106	4	518	523
Individual write-downs to cover loss on loans, guarantees etc at 31 Dec *)	18	738	755	24	602	625

*) Individually assessed impairment write-downs on guarantees, totalling NOK 4.2m (5.6 million), are shown in the balance sheet as a liability under 'Other liabilities'

Collective write-downs (NOK million)	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Collective write-downs to cover loss on loans, guarantees at 01.01	90	228	318	90	268	358
Period's collective write-downs to cover loss on loans, guarantees etc	-	5	5	-	-40	-40
Collective write-downs to cover loss on loans and guarantees at 31 Dec	90	233	323	90	228	318

Losses and write-downs specified by sector and industry (NOK million)	Losses		Individual- and collective write-downs	
	2017	2016	31 Dec 2017	31 Dec 2016
Agriculture, forestry, fisheries and hunting	-2	6	5	9
Fish farming	-	-	-	-
Industry and mining	4	15	14	17
Building and construction, power and water supply	7	6	13	11
Wholesale and retail trade, hotel og restaurant industry	3	9	23	21
Other transport and communication	258	490	617	520
Financing, property management and business services	37	16	58	23
Private sector	11	1	20	19
Undistributed *)	5	-40	323	318
Total	323	502	1,074	938

*) Undistributed is in its entirety linked to group write-downs. See separate table for segment breakdown of group write-downs.

	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Total defaults (NOK million)						
Loans in default for more than 90 days	170	50	220	144	29	173
- Individual write-downs	12	39	50	17	18	36
Net defaults	159	11	170	127	11	138
Provision rate	7 %	77 %	23 %	12 %	62 %	21 %
Problem loans (not in default)	21	1,146	1,167	19	1,435	1,453
- Individual write-downs	6	699	705	6	584	590
Net problem loans	15	448	462	13	851	863
Provision rate	29 %	61 %	60 %	33 %	41 %	41 %

Interest taken to income on defaulted and doubtful exposures totals NOK 32.1 million for the parent bank (NOK 57.8 million).

The realisable value of the collateral backing individually written-down loans totals NOK 528.0 million (NOK 844.2 million) for the Parent bank at 31 December 2017.

Group

	2017			2016		
	RM	CM	Total	RM	CM	Total
Losses on loans and guarantees (NOK million)						
Period's change in individual write-downs	-2	129	127	0	454	454
Period's change in collective write-downs	5	4	9	4	-42	-38
Actual losses on loans previously written down	8	146	155	8	36	44
Confirmed losses on loans not previously written down	13	45	58	14	50	64
Recoveries on previously written down loans, guarantees etc.	-6	-1	-7	-6	-3	-9
Total	18	323	341	21	495	516

	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Individual write-downs (NOK million)						
Individual write-downs to cover loss on loans, guarantees etc. at 01.01.	27	611	638	31	153	184
- Confirmed losses in the period on loans, guarantees etc. previously subject to individual write down	9	147	157	8	36	44
- Reversal of previous years' write-downs	5	9	14	3	36	39
+ Increase in write-downs of commitments previously subject to individual write down	0	191	191	2	6	8
+ write-downs of loans not previously subject to individual write down	7	104	111	4	523	528
Individual write-downs to cover loss on loans, guarantees etc at 31.12	20	750	769	27	611	638

*) Individually assessed impairment write-downs on guarantees, totalling NOK 4.2m, are shown in the balance sheet as a liability under 'Other liabilities'

	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Collective write-downs (NOK million)						
Collective write-downs to cover loss on loans, guarantees at 01.01	100	239	339	96	281	376
Period's collective write-downs to cover loss on loans, guarantees etc	5	4	9	4	-42	-38
Collective write-downs to cover loss on loans and guarantees at 31.12	104	243	347	100	239	339

Losses and write-downs specified by sector and industry (NOK million)	Losses		Individual- and collective write-downs	
	2017	2016	31 Dec 2017	31 Dec 2016
Agriculture, forestry, fisheries and hunting	-2	6	6	10
Fish farming	-	-	-	-
Industry and mining	7	15	16	18
Building and construction, power and water supply	8	7	15	12
Wholesale and retail trade, hotel og restaurant industry	4	9	25	23
Other transport and communication	259	492	624	525
Financing, property management and business services	37	17	58	23
Private sector	18	5	20	21
Undistributed *)	9	-37	347	339
Total	341	516	1,112	971

*) Undistributed is in its entirety linked to group write-downs. See separate table for segment breakdown of group write-downs.

Total defaults (NOK million)	31 Dec 2017			31 Dec 2016		
	RM	CM	Total	RM	CM	Total
Loans in default for more than 90 days	209	75	284	176	38	214
- Individual write-downs	14	42	55	20	19	39
Net defaults	195	33	229	156	18	174
Provison rate	7 %	55 %	20 %	12 %	51 %	18 %
Problem loans (not in default)	21	1,164	1,184	19	1,455	1,474
- Individual write-downs	6	708	714	6	592	599
Net problem loans	15	456	470	13	863	875
Provison rate	29 %	61 %	60 %	33 %	41 %	41 %

Interest taken to income on defaulted and doubtful exposures totals NOK 37.2 million(NOK 65.7 million) for the Group.

The realisable value of the collateral backing individually written-down loans totals NOK 540.0 million (NOK 853.6 million) for the Group at 31 December 2017.

Note 12 - Credit risk exposure for each internal risk rating

The Bank uses a special classification system for monitoring credit risk in the portfolio. Risk classification is based on each individual exposure's probability of default. In the table below this classification is collated with corresponding rating classes at Moody's.

Historical default data are Parent Bank figures showing the default ratio (DR) per credit quality step. The figures are an unweighted average of customers with normal scores in the period 2011-2017.

Collateral cover represents the expected realisation value (RE value) of underlying collaterals. The value are determined using fixed models, and actual realisation value are validated to test their reliability of the model. In accordance with the capital requirements regulations the estimates are downturn estimates. Based on the collateral cover (RE value / EAD) the exposure is classified to one of seven classes, the best of which has a collateral cover above 120 per cent, and the lowest has a collateral cover below 20 per cent.

Credit quality step	Probability of default		Moody's	Historical default	Default 2017	Collateral cover		
	From	To				Collateral class	Lower limit	Upper limit
A	0.00 %	0.10 %	Aaa-A3	0.01 %	0.02 %	1	120	
B	0.10 %	0.25 %	Baa1-Baa2	0.04 %	0.02 %	2	100	120
C	0.25 %	0.50 %	Baa3	0.07 %	0.08 %	3	80	100
D	0.50 %	0.75 %	Ba1	0.25 %	0.37 %	4	60	80
E	0.75 %	1.25 %	Ba2	0.36 %	0.39 %	5	40	60
F	1.25 %	2.50 %		0.92 %	1.24 %	6	20	40
G	2.50 %	5.00 %	Ba2-B1	2.20 %	1.88 %	7	0	20
H	5.00 %	10.00 %	B1-B2	4.45 %	4.50 %			
I	10.00 %	99.99 %	B3-Caa3	11.08 %	11.62 %			
J	Default							
K	Written down							

The Bank's exposures are classified into risk groups based on credit quality step.

Credit quality step	Risk groups
A - C	Lowest risk
D - E	Low risk
F - G	Medium risk
H	High risk
I	Highest risk
J - K	Default and written down

Parent Bank (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Lowest risk	9.5 %	80,379	12.3 %	77,882
Low risk	9.9 %	20,548	21.3 %	14,413
Medium risk	12.2 %	15,970	15.7 %	19,342
High risk	8.6 %	2,926	15.5 %	2,723
Highest risk	4.2 %	3,185	11.3 %	1,931
Default and written down	32.0 %	1,698	40.4 %	1,754
Total		124,706		118,046

Group (NOK million)	Averaged unhedged exposure	Total exposure	Averaged unhedged exposure	Total exposure
	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Lowest risk	9.5 %	80,283	12.2 %	78,265
Low risk	9.2 %	22,057	19.2 %	15,837
Medium risk	10.2 %	19,109	14.2 %	21,336
High risk	6.3 %	3,991	12.3 %	3,393
Highest risk	3.4 %	3,978	8.3 %	2,609
Default and written down	30.5 %	1,779	40.4 %	1,815
Total		131,197		123,253

The realisation value of furnished collateral is determined such that they, on a conservative assessment, reflect the presumed realisation value in an economic downturn.

Note 13 - Maximum credit risk exposure

The table below shows maximum exposure to credit risk for balance sheet components, including derivatives. Exposures are shown on a gross basis before collateral and permitted set-offs.

Parent Bank

31 Dec 2017 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	3,231	-	-	-
Loans and advances to credit institutions	9,543	-	-	-
Loans and advances to customers	104,769	83,692	1,620	15,910
Securities - designated at fair value through profit/loss	20,014	-	-	10,092
Derivatives	4,328	-	-	2,408
Securities - available for sale	50	-	-	-
Earned income, not yet recieved	61	-	-	-
Accounts receivable, securities	35	-	-	-
Total assets	142,032	83,692	1,620	28,409
Liabilities				
Guarantee commitments and documentary credits	5,346	-	-	-
Unutilised credits	13,965	4,817	47	2,010
Loan approvals	1,896	-	-	-
Other exposures	579	-	-	-
Total liabilities	21,786	4,817	47	2,010
Total credit risk exposure	163,817	88,509	1,667	30,420

31 Dec 2016 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	236	-	-	-
Loans and advances to credit institutions	8,203	-	-	-
Loans and advances to customers	96,499	74,519	1,595	15,426
Securities - designated at fair value through profit/loss	17,861	-	-	9,809
Derivatives	4,812	-	-	3,363
Securities - available for sale	24	-	-	-
Earned income, not yet recieved	37	-	-	-
Accounts receivable, securities	20	-	-	-
Total assets	127,692	74,519	1,595	28,597
Liabilities				
Guarantee commitments and documentary credits	6,607	-	-	-
Unutilised credits	17,337	4,917	213	1,919
Loan approvals	1,720	-	-	-
Other exposures	2,034	-	-	-
Total liabilities	27,698	4,917	213	1,919
Total credit risk exposure	155,390	79,436	1,807	30,516

Group

31 Dec 2017 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	3,231	-	-	-
Loans and advances to credit institutions	4,214	-	-	-
Loans and advances to customers	110,959	83,692	1,620	22,614
Securities - designated at fair value through profit/loss	21,494	-	-	10,092
Derivatives	4,351	-	23	2,408
Securities - available for sale	66	-	-	-
Earned income, not yet recieved	104	-	-	-
Accounts receivable, securities	322	-	84	203
Total assets	144,741	83,692	1,726	35,316
Liabilities				
Guarantee commitments and documentary credits	5,346	-	-	-
Unutilised credits	13,976	4,817	47	2,021
Loan approvals	2,148	-	-	251
Other exposures	764	-	63	-
Total liabilities	22,233	4,817	110	2,272
Total credit risk exposure	166,974	88,509	1,836	37,589

31 Dec 2016 (NOK million)	Maximum exposure to credit risk	Collateral in property	Collateral in securities	Other collateral *)
Assets				
Balances with central banks	236	-	-	-
Loans and advances to credit institutions	3,892	-	-	-
Loans and advances to customers	101,354	74,519	1,595	20,312
Securities - designated at fair value through profit/loss	19,039	-	-	9,809
Derivatives	4,752	-	18	3,363
Securities - available for sale	60	-	-	-
Earned income, not yet recieved	63	-	-	-
Accounts receivable, securities	220	-	33	167
Total assets	129,616	74,519	1,645	33,651
Liabilities				
Guarantee commitments and documentary credits	6,607	-	-	-
Unutilised credits	17,420	4,917	213	1,949
Loan approvals	1,957	-	-	-
Other exposures	2,211	-	-	-
Total liabilities	28,195	4,917	213	1,949
Total credit risk exposure	157,810	79,436	1,858	35,600

*) Other collateral includes cash, movables, ship and guarantees received. For covered bonds the cover pool comprises loans to customers in the company that has issued the bond.

The Bank's maximum credit exposure is shown in the above table. SpareBank 1 SMN provides wholesale banking services to BN Bank and the Samspær banks. In this connection a guarantee agreement has been established which assures full settlement for exposures connected to these agreements.

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. Customers furnish cash deposits and/or assets as collateral for their trade in power and salmon derivatives at NASDAQ OMX Oslo ASA and Fish Pool ASA. See note 37, Other debt and liabilities, for a closer description of NASDAQ.

The collateral is measured at fair value, limited to maximum credit exposure for the individual counterparty.

Credit risk exposure related to financial assets distributed by geographical area

Parent Bank			Group	
31 Dec 2016	31 Dec 2017	(NOK million)	31 Dec 2017	31 Dec 2016
		Bank activities		
89,046	90,076	Trøndelag	87,759	87,092
26,704	27,073	Møre og Romsdal	28,483	27,867
851	939	Sogn og Fjordane	1,324	1,087
997	1,248	Nordland	1,334	1,084
5,990	8,953	Oslo	8,987	6,399
6,475	7,895	Rest of Norway	9,925	7,796
2,631	3,241	Abroad	3,251	2,636
132,693	139,424	Total	141,062	133,960
		Financial instruments		
15,931	16,988	Norge	18,485	17,145
1,922	3,065	Europe/Asia	3,065	1,922
13	5	Oseania	5	13
19	7	North Amerika	7	19
4,812	4,328	Derivatives	4,351	4,752
22,697	24,393	Total	25,912	23,851
155,390	163,817	Total distributed by geographical area	166,974	157,810

Note 14 - Financial instruments and offsetting

In the financial statement the group has no financial instruments that are entered on a net basis.

SpareBank 1 SMN enters into standardised and mainly bilateral ISDA agreements on netting of derivatives with financial institutions as counterparties. Additionally the Bank has entered into supplementary agreements on provision of collateral (CSA) with the most central counterparties. As of 31 December 2016 the Bank has about 25 active ISDA agreements. As from 1 March 2017 was required under EMIR to have in place a CSA with daily exchange of margin collateral etc. with all financial counterparties with which the bank deals domiciled (inter alia) in an EU member state. 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. More about collateral and encumbrances in note 37 Other debt and liabilities.

31 Dec 2017 (NOK million)	a) Gross amount for asset in balance sheet	b) Gross amount of debt that can be netted	c (a-b) Net amount of assets in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments *)	Cash collateral received	
Derivatives assets	1,638	0	1,638	-835	-581	222

	a) Gross amount for debt in balance sheet	b) Gross amount of assets that can be netted	c (a-b) Net amount of debt in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments *)	Cash collateral furnished	
Derivatives liabilities	1,076	0	1,076	-835		242

31 Dec 2016 (NOK million)	a) Gross amount for asset in balance sheet	b) Gross amount of debt that can be netted	c (a-b) Net amount of assets in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments *)	Cash collateral received	
Derivatives assets	1,678	0	1,678	-928	-526	225

	a) Gross amount for debt in balance sheet	b) Gross amount of assets that can be netted	c (a-b) Net amount of debt in balance sheet	d) Amount that is not netted		e (c-d) Net exposure
				Financial instruments *)	Cash collateral furnished	
Derivatives liabilities	1,216	0	1,216	-928		288

*) Recognised financial instruments that do not meet some or all the criteria for net presentation under IAS 32 or contingent offsetting rights that can only be enforced and exercised in case of default, insolvency or bankruptcy on the part of the individual counterparties.

Note 15 - Credit quality per class of financial assets

The Bank handles the credit quality of financial assets by means of its internal guidelines for credit ratings. See section entitled credit risk under note 6 Risk factors.

The table below shows credit quality per class of assets for loan-related assets in the balance sheet, based on the Bank's own credit rating system. The entire loan exposure is included when parts of the exposure are defaulted. Non-performance is defined in the note as default of payment of NOK 1,000 or more for more than 90 days.

Parent Bank

31 Dec 2017 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	9,543	-	-	-	-	-	9,543
Loans to and claims on customers	8							
Retail market		55,734	6,917	3,485	822	923	233	68,115
Corporate market		13,793	9,939	9,190	1,685	1,784	1,336	37,728
Total		69,528	16,855	12,676	2,507	2,708	1,570	105,843
Financial investments	29							
Quoted government and government guaranteed bonds		4,339	-	-	-	-	-	4,339
Quoted other bonds		10,056	263	640	-	-	-	10,959
Unquoted government and government guaranteed bonds		53	-	-	-	-	-	53
Unquoted other bonds		4,545	-	-	-	-	-	4,545
Total		18,993	263	640	-	-	-	19,895
Total		98,063	17,118	13,315	2,507	2,708	1,570	135,281

Parent Bank

31 Dec 2016 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	8,203	-	-	-	-	-	8,203
Loans to and claims on customers	8							
Retail market		48,506	6,557	3,547	761	915	220	60,507
Corporate market		18,037	4,415	11,105	1,169	958	1,245	36,930
Total		66,543	10,973	14,652	1,931	1,873	1,466	97,437
Financial investments	29							
Quoted government and government guaranteed bonds		4,220	-	-	-	-	-	4,220
Quoted other bonds		9,056	700	485	26	-	-	10,267
Unquoted government and government guaranteed bonds		1,783	-	-	-	-	-	1,783
Unquoted other bonds		1,240	105	21	-	-	-	1,366
Total		16,300	805	506	26	-	-	17,636
Total		91,045	11,778	15,158	1,956	1,873	1,466	123,276

Group

31 Dec 2017 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	4,214	-	-	-	-	-	4,214
Loans to and claims on customers	8							
Retail market		55,855	7,773	5,477	1,142	1,366	269	71,882
Corporate market		13,560	10,533	10,219	2,389	2,105	1,382	40,189
Total		69,415	18,307	15,696	3,532	3,470	1,651	112,071
Financial investments	29							
Quoted government and government guaranteed bonds		4,339	-	-	-	-	-	4,339
Quoted other bonds		10,056	263	640	-	-	-	10,959
Unquoted government and government guaranteed bonds		53	-	-	-	-	-	53
Unquoted other bonds		4,385	-	-	-	-	-	4,385
Total		18,833	263	640	-	-	-	19,736
Total		92,463	18,569	16,336	3,532	3,470	1,651	136,021

31 Dec 2016 (NOK million)	Notes	Neither defaulted nor written down					Defaulted or written down *)	Total
		Lowest risk	Low risk	Medium risk	High risk	Highest risk		
Loans to and claims on credit institutions	7	3,892	-	-	-	-	-	3,892
Loans to and claims on customers	8							
Retail market		48,607	7,320	5,181	994	1,236	250	63,588
Corporate market		18,302	4,978	11,331	1,563	1,287	1,276	38,737
Total		66,909	12,298	16,512	2,557	2,522	1,527	102,325
Financial investments	29							
Quoted government and government guaranteed bonds		4,220	-	-	-	-	-	4,220
Quoted other bonds		9,056	700	485	26	-	-	10,267
Unquoted government and government guaranteed bonds		1,783	-	-	-	-	-	1,783
Unquoted other bonds		1,160	105	21	-	-	-	1,286
Total		16,220	805	506	26	-	-	17,557
Total		87,020	13,103	17,018	2,583	2,522	1,527	123,774

*) Guarantees furnished by the Guarantee Institute for Export Credit are not taken into account

Note 16 - Market risk related to interest rate risk

This note is a sensitivity analysis based on relevant balance sheet items as of 31. December 2017. The Bank's interest rate risk is calculated by simulating a parallel interest rate shift for the entire interest rate curve of one percentage on all balance sheet items.

Interest rate risk has been low throughout 2017 and below the maximum limit of 600,000 set by the Board of Directors. For further details regarding interest rate risk, please refer to Note 6 Risk Factors.

Basis risk Group (NOK million)	Interest rate risk, 1 % change	
	2017	2016
<i>Currency</i>		
NOK	-39	-34
EUR	-8	2
USD	-1	-1
CHF	-1	-1
Other	-3	0
Total interest rate risk, effect on result before tax	-52	-34

Total interest rate risk suggests that the Bank will have losses from an increase in the interest rate in 2017. This is the same effect as in 2016.

The table below shows the effect of an interest rate curve shift on various time intervals and the associated gains and losses within the respective maturities.

Interest rate curve risk, Group (NOK million)	Interest rate risk, 1 % change	
	2017	2016
<i>Maturity</i>		
0 - 1 month	-17	-11
1 - 3 months	9	7
3 - 6 months	-12	-11
6 - 12 months	-8	10
1 - 2 years	-5	-1
2 - 3 years	-3	-6
3 - 4 years	15	-5
4 - 5 years	-27	-5
5 - 7 years	2	8
7 - 10 years	-5	-19
Total interest rate risk, effect on result before tax	-52	-34

Note 17 - Market risk related to currency exposure

Foreign exchange risk arises when there are differences between the Group's assets and liabilities in a given currency. Currency trading must at all times be conducted within adopted limits and authorisations. The Group's limits define quantitative measures for maximum net foreign currency exposure, measured in Norwegian kroner.

The Group has established limits for net exposure in each individual currency, as well as for aggregate net foreign currency exposure (expressed as the highest of the sum of long and short positions). Overnight exchange rate risk for spot trading in foreign currency must not, on a net basis, exceed NOK 127.5 million per individual currency or NOK 150.0 million on an aggregate basis.

Foreign exchange risk has been low throughout the year. For further details see note 6 on risk factors.

Parent Bank		Net foreign exchange exposure NOK (NOK million)	Group	
2016	2017		2017	2016
-15	-8	EUR	-8	-15
-4	-0	USD	-0	-4
-11	-19	SEK	-19	-11
-4	-32	Other	-32	-4
-34	-59	Total	-59	-34
100	150	Overall currency limit	150	100
85	128	Total per currency	128	85
1.0	1.8	Result effect of 3 % change	1.8	1.0

Note 18 - Liquidity risk

Liquidity risk is the risk that the group will be unable to refinance its debt or unable to finance increases in its assets. See note 6 on risk factors for a detailed description.

Group						
At 31 Dec 2017 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Cash flows related to liabilities						
Debt to credit institutions	8,288	737	-	491	90	9,607
Deposits from and debt to customers	62,284	6,783	2,171	5,238	-	76,476
Debt created by issuance of securities	-	3,922	5,668	28,753	3,644	41,987
Derivatives - contractual cash flow out	-	4,334	3,139	29,475	2,607	39,555
Other commitments	2	1,210	554	153	5	1,924
Subordinated debt *)	-	10	659	1,157	250	2,076
Total cash flow, liabilities	70,574	16,996	12,191	65,267	6,596	171,624
Contractual cash flows out	-	4,334	3,139	29,475	2,607	39,555
Contractual cash flows in	-	-3,597	-2,646	-29,587	-2,804	-38,633
Net contractual cash flows	-	737	494	-112	-197	922

Group						
At 31 Dec 2016 (NOK million)	On demand	Below 3 months	3-12 months	1 - 5 yrs	Above 5 yrs	Total
Cash flows related to liabilities						
Debt to credit institutions	7,588	2,138	-	682	100	10,509
Deposits from and debt to customers	56,804	5,376	1,581	3,406	-	67,168
Debt created by issuance of securities	-	2,561	3,783	26,041	3,479	35,863
Derivatives - contractual cash flow out	-	783	7,216	21,313	2,389	31,701
Other commitments	2	886	524	120	-	1,532
Subordinated debt *)	-	14	1,000	1,154	-	2,168
Total cash flow, liabilities	64,394	11,759	14,104	52,716	5,969	148,941
Contractual cash flows out	-	783	7,216	21,313	2,389	31,701
Contractual cash flows in	-	-363	-6,704	-21,181	-2,406	-30,654
Net contractual cash flows	-	420	512	132	-17	1,047

Does not include value adjustments for financial instruments at fair value

*) For subordinated debt the call date is used for cash settlement

Note 19 - Net interest income

Parent bank			Group	
2016	2017	(NOK million)	2017	2016
		Interest income		
124	137	Interest income from loans to and claims on central banks and credit institutions	44	48
2,986	3,150	Interest income from loans to and claims on customers	3,476	3,240
292	284	Interest income from money market instruments, bonds and other fixed income securities	281	289
-	-	Other interest income	23	19
3,401	3,571	Total interest income	3,825	3,597
		Interest expense		
152	133	Interest expenses on liabilities to credit institutions	137	153
652	654	Interest expenses relating to deposits from and liabilities to customers	636	636
708	668	Interest expenses related to the issuance of securities	668	708
99	95	Interest expenses on subordinated debt *)	97	101
2	-0	Other interest expenses	13	13
58	49	Guarantee fund levy	49	58
1,672	1,599	Total interest expense	1,600	1,668
1,730	1,972	Net interest income	2,225	1,929

*) SpareBank 1 SMN has as from the fourth quarter of 2017 reclassified two debt hybrids from debt to equity. The change has brought a reduction totalling NOK 44m in interest expenses for 2017 and NOK 45m for 2016. Comparatives for 2016 have been restated. See note 3 for further details.

Note 20 - Net commission income and other income

Parent Bank		(NOK million)	Group	
2016	2017		2017	2016
		Commission income		
78	82	Guarantee commission	80	76
-	-	Broker commission	223	247
48	56	Portfolio commission, savings products	115	74
271	353	Commission from SpareBank 1 Boligkreditt	353	271
12	17	Commission from SpareBank 1 Næringskreditt	17	12
362	369	Payment transmission services	362	355
159	172	Commission from insurance services	172	159
42	49	Other commission income	67	57
971	1,098	Total commission income	1,390	1,251
		Commission expenses		
82	83	Payment transmission services	103	96
3	16	Other commission expenses	65	37
85	98	Total commission expenses	168	133
		Other operating income		
31	31	Operating income real property	47	29
-	-	Property administration and sale of property	118	121
0	0	Income from financial advice (Corporate)	0	-6
0	-0	Securities trading	227	149
-	-	Accountant's fees	342	202
4	6	Other operating income	49	62
36	38	Total other operating income	783	556
922	1,038	Total net commission income and other operating income	2,005	1,674

Note 21 - Net return on financial investments

Parent Bank		(NOK million)	Group	
2016	2017		2017	2016
		Valued at fair value through profit/loss		
- 122	- 49	Value change in interest rate instruments	62	0
		Value change in derivatives/hedging		
- 1	- 22	Net value change in hedged bonds and derivatives	-22	-59
26	7	Net value change in hedged fixed rate loans and derivatives	7	26
245	117	Other derivatives	167	33
		Income from equity instruments		
-	-	Income from owner interests	437	423
738	626	Dividend from owner instruments	-	-
-36	48	Value change and gain/loss on owner instruments	30	-11
79	3	Dividend from equity instruments	6	88
25	3	Value change and gain/loss on equity instruments	31	392
955	733	Total net income from financial assets and liabilities at fair value through profit/loss	718	893
		Valued at amortised cost		
- 2	- 4	Value change in interest rate instruments held to maturity	- 4	- 2
- 2	- 4	Total net income from financial assets and liabilities at amortised cost	- 4	- 2
		Valued at fair value - available for sale		
		Income from equity instruments		
3	1	Gain/loss on realisation of financial assets	1	3
3	1	Total net income from financial assets available for sale	1	3
51	45	Total net gain from currency trading	45	51
1,006	776	Total net return on financial investments	760	944

Note 22 - Personnel expenses and emoluments to senior employees and elected officers

All compensation arrangements at SpareBank 1 SMN are formulated in accordance with the Financial Institutions Act and with the Securities Trading Act with associated regulations concerning compensation arrangements at financial institutions, investment firms and mutual fund management companies.

The compensation committee conducts an annual review of compensation arrangements, and a written report is forwarded to the Board of Directors for scrutiny and approval. The compensation committee is required to ensure that the practising of the compensation arrangements is examined at least once yearly by independent control functions.

The Board of Directors is charged with approving and maintaining the compensation arrangements, and with ensuring that the documentation underlying decisions is safekept. The Board of Directors also approves any material change in or exception from the compensation arrangements.

The Group's guidelines for variable compensation are designed to assure that employees, groups and the business as a whole are compliant with the risk management strategies, processes and tools that the Group has put in place to protect assets and values. The compensation arrangements are formulated in such a way as to ensure that neither individuals nor the organisation take unacceptable risk in order to maximise the variable compensation. This entails inter alia that the basis for variable remuneration related to the entity's performance shall be a period of one year, and the earning period shall not be less than one year. SpareBank 1 SMN has no compensation arrangements for customer facing units that would be likely to encourage conduct which challenges the Bank's risk tolerance, ethical guidelines or which may contribute to conflicts of interest. The Bank has no compensation arrangements for control functions that would be likely to encourage conduct which challenges competence.

SpareBank 1 SMN's compensation arrangements also contain special rules for senior employees. For these groups the basis for variable remuneration related to undertaking's risk adjusted result is a period of at least two years. A minimum of 50 per cent of the variable remuneration is allocated in the form of equity certificates, which are tied and allocated in portions of one-third per year over three years.

An assessment has been made of whether other employees with compensation corresponding to that of the above groups should be subject to special rules under the above criteria. Reduction clauses have been introduced for instances where breaches of applicable rules or guidelines are brought to light. Reduction has its basis in the Group's sanction system

Parent Bank			Group	
2016	2017	(NOK million)	2017	2016
534	501	Wages	1,284	1,137
-30	40	Pension costs (Note 24)	79	-22
32	35	Social costs	62	43
536	575	Total personnel expenses	1,426	1,159
680	656	Average number of employees	1,405	1,313
630	595	Number of man-labour years as at 31 December	1,399	1,254
675	637	Number of employees as at 31 December	1,482	1,328

Emoluments to Top Management
2017 (thousands of NOK)

Name and title	Salary and other short-term benefits	Of which bonuses	Pension contribution for salaries above 12G	Of which share-based bonus payment	Current value of pension liability	Pension rights accrued in past year ¹⁾	Loans at 31 Dec	No. of equity capital certificates
Finn Haugan Group CEO	7,041	-	2,297	-	12,653	115	3,693	200,521
Kjell Fordal Executive Director Group Finance	3,269	-	424	-	11,304	115	8,925	244,945
Vegard Helland Executive Director Corporate	2,822	-	246	-	1,338	115	1,254	33,835
Svein Tore Samdal Executive Director Retail	2,936	-	275	-	-	115	7,344	23,141
Nelly Maske Executive Director Business Operation and Development	2,377	-	171	-	-	115	6,864	20,305
Rolf Jarle Brøske Executive Director Communication and Society	1,960	-	137	-	-	115	9,937	5,305

2016 (thousands of NOK)

Name and title	Salary and other short-term benefits	Of which bonuses	Pension contribution for salaries above 12G	Of which share-based bonus payment	Current value of pension liability	Pension rights accrued in past year ¹⁾	Loans at 31 Dec	No. of equity capital certificates
Finn Haugan Group CEO	6,542	-	2,297	-	14,788	165	8,883	200,658
Kjell Fordal Executive Director Group Finance	3,385	-	812	-	9,279	872	6,890	244,640
Vegard Helland Executive Director Corporate	2,705	-	328	-	1,228	151	1,969	33,530
Svein Tore Samdal Executive Director Retail	2,916	-	366	-	-	83	8,551	22,836
Nelly Maske Executive Director Business Operation and Development	2,198	-	227	-	-	85	6,000	20,000
Rolf Jarle Brøske Executive Director Communication and Society	461	-	-	-	-	-	3,585	5,000

¹⁾ Defined-contribution pension scheme, pension rights accrued is paid amount for the year.

Until 30 June 2017 SpareBank 1 SMN has had an individual top pension scheme for employees with salaries above 12G and these employees receive pension add-on of 16 per cent of salary above 12G. The pension add-on will go to pension saving in products delivered by SpareBank 1 and can not be predisposed until retirement (62 years). To ensure equality with the phased-out scheme, compensation will be provided for tax on this pension add-on. This arrangement was closed 30. June 2017.

From 1 July 2017 a new pension scheme was established for employees with salaries above 12G. These employees receive pension add-on of 15 per cent of salary above 12G on an individual retirement account in SpareBank 1 Forsikring. Employees can decide investment profile and the savings are locked up until retirement age.

An early retirement agreement has been entered with the CEO in the event of his stepping down before reaching age 67, entailing a pension equal to 68 percent of pensionable income. This agreement is effective until the end of the month the CEO reaches 67 years. The

Bank's group occupational pension is included in the Bank's pension obligation to the Group CEO. The Group CEO also has an agreement on a dependants' benefit.

Executive directors has established early retirement agreements of up to 12 months. The size of these agreements will be in accordance with the compensation arrangements. An early retirement agreement has been established with one of the executive directors, granting this person the right to retire on reaching age 62. The pension is 68 per cent of pensionable income. The benefit associated with this arrangement is included in the basis for accumulated pension entitlement in the table above.

The number of equity capital certificates includes equity capital certificates owned by related parties and companies over which the individual exercises substantial influence.

**Emoluments to the Board of Directors and the Supervisory Board
2017 (thousands of NOK)**

Name	Title	Fee	Fees to audit, risk and remuneration committee	Other benefits	Loans as of 31 December	No. of equity capital certificates
Kjell Bjordal	Board chairman	442	34	5	-	130,000
Bård Benum	Deputy chair	234	79	-	8,578	-
Aud Skrudland	Board member	203	23	1	-	6,765
Arnhild Holstad	Board member	203	-	2	2,229	-
Paul E. Hjelm-Hansen	Board member	203	105	0	-	49,219
Janne Thyø Thomsen	Board member	203	79	-	-	3,000
Morten Loktu	Board member	203	23	-	-	5,000
Venche Johnsen ²⁾	Board member, employee representative	154	-	757	577	24,716
Erik Gunnes ²⁾	Board member, employee representative	203	-	787	966	535
Oddny Lysberg ²⁾	Board member, employee representative	49	-	540	2,515	939

²⁾ Other emoluments include salary in employment relationships

2016 (thousands of NOK)

Name	Title	Fee	Fees to audit, risk and remuneration committee	Other benefits	Loans as of 31 December	No. of equity capital certificates
Kjell Bjordal	Board chairman	425	32	6	-	110,000
Bård Benum	Deputy chair	225	75	6	4,000	-
Aud Skrudland	Board member	195	22	6	-	4,765
Arnhild Holstad	Board member	195	-	6	2,962	-
Paul E. Hjelm-Hansen	Board member	195	100	5	-	49,219
Janne Thyø Thomsen	Board member	195	75	1	-	3,000
Morten Loktu	Board member	195	22	6	-	5,000
Venche Johnsen ²⁾	Board member, employee representative	48	-	667	-	24,716
Erik Gunnes ²⁾	Board member, employee representative	178	-	760	1,025	230
Oddny Lysberg ²⁾	Board member, employee representative	146	-	512	2,605	634
Terje Lium ³⁾	Chair, Control Committee	40	-	1	-	-
Anders Lian ³⁾	Deputy Chair, Control Committee	27	-	1	-	1,500
Terje Ruud ³⁾	Member, Control Committee	27	-	1	-	-

²⁾ Other emoluments include salary in employment relationships

³⁾ The Control committee was discontinued in March 2016

The Board chairman has neither a bonus agreement nor any agreement on post-employment salary. The number of equity capital certificates includes certificates owned by related parties and companies over which the individual exerts substantial influence.

**Fees to the Supervisory Board
(thousands of NOK)**

	2017	2016
Randi Dyrnes, Supervisory Board Chair	81	78
Other members	277	288

Note 23 - Other operating expenses

Parent Bank			Group	
2016	2017	(NOK million)	2017	2016
197	203	IT costs	266	252
18	17	Postage and transport of valuables	22	22
55	50	Marketing	104	98
34	50	Ordinary depreciation (note 32 og 33)	102	98
124	118	Operating expenses, real properties	118	109
70	77	Purchased services	139	108
116	118	Other operating expense	192	156
615	634	Total other operating expenses	943	844
Audit fees (NOK 1000)				
850	877	Financial audit	2,028	1,911
173	62	Other attestations	204	248
4	8	Tax advice	239	250
56	29	Other non-audit services	580	76
1,084	976	Total incl. value added tax	3,051	2,485

Note 24 - Pension

Defined benefit scheme

This pension scheme is administered by a pension fund conferring entitlement to specific future pension benefits from age 67. The schemes include children's pension and disability pension under further rules. The Group's defined benefit pension scheme assures the majority of employees a pension of 68 percent of final salary up to 12G. The defined benefit scheme is closed to new members.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme will transfer to the defined contribution scheme as from 1 January 2017, and will receive a paid-up policy showing rights accumulated under the defined benefit scheme. The termination resulted in reduced pension obligations, which has been treated as a settlement gain and reduced the pension expense for 2016.

Paid-up policies are managed by the pension fund, which becomes a paid-up pension fund as from 1 January 2017. A framework agreement has been established between SpareBank 1 SMN and the pension fund which covers funding, asset management etc. In view of the responsibility still held by SpareBank 1 SMN, future liabilities will need to be incorporated in the accounts. At yearend 2017 the scheme is overfunded by NOK 171 million.

The board of the pension fund is required to be composed of representatives from the Group and participants in the pension schemes in accordance with the articles of association of the pension fund. In addition to the pension obligations covered by the pension fund, the group has unfunded pension liabilities which can not be funded by the assets in the collective arrangements. The obligations entails employees not registered as member of the pension fund, additional pensions above 12 G, early retirement pension schemes and contractual early retirement schemes in new arrangement (AFP Subsidies Act).

For further details of the Group's pension schemes see Note 2 on accounting principles and Note 22 on personnel expenses and emoluments to senior employees and elected officers.

Actuarial assumptions	2017		2016	
	Costs	Commitment	Costs	Commitment
Discount rate	2.6%	2.4%	2.7%	2.6%
Expected rate of return on plan assets	2.6%	2.4%	2.7%	2.6%
Expected future wage and salary growth	2.3%	2.3%	2.3%	2.3%
Expected adjustment of basic amount (G)	2.3%	2.3%	2.3%	2.3%
Expected increase in current pension	0%/2.25%	0%/2.25%	0%/2.25%	0%/2.25%
Employers contribution	14.1%	14.1%	14.1%	14.1%
Expected voluntary exit before/after 50 yrs	2/0 %	2/0 %	2/0 %	2/0 %
Estimated early retirement outtake at age 62/64	25/50 %	25/50 %	25/50 %	25/50 %
Mortality base table	K2013BE			
Disability	IR73			

Parent Bank			Group	
31 Dec 2016	31 Dec 2017	Net pension liability in the balance sheet (NOK million). Financial position 1 January	31 Dec 2017	31 Dec 2016
662	602	Net present value of pension liabilities in funded schemes	641	711
-753	-789	Estimated value of pension assets	-842	-797
-12	11	Opening balance adjustment	15	-11
-103	176	Net pension liability	-186	-97
3	4	Employer's contribution	4	4
-2	-	Settlement	0	-2
-100	-172	Net pension liability in the balance sheet	-182	-96

Distribution of liability between unfunded and funded pension scheme, Group 1 January

Group	31 Dec 2017			31 Dec 2016		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Present value of pension liability in funded schemes	619	22	641	689	22	711
Fair value of pension assets	-842	-	-842	-797	-	-797
Opening balance adjustment	15	0	15	-11	-	-11
Net pension liability in the balance sheet before employer's contribution	-208	22	-186	-119	22	-97
Employer's contribution	0	4	4	1	3	4
Settlement	0	0	0	-2	0	-2
Net pension liability in the balance sheet after employer's contribution	-208	26	-182	-121	25	-96

2016	2017	Pension cost for the year	2017	2016
20	1	Present value of pension accumulated in the year	1	23
-2	-5	Net Interest Income	-5	-2
17	-4	Net defined-benefit pension cost without employer's contribution	-4	21
6	0	Employer's contribution - subject to accrual accounting	0	6
-74	0	Settlement	-	-90
-51	-4	Net pension cost related to defined benefit plans	-4	-63
7	7	Early retirement pension scheme, new arrangement	10	9
13	37	Cost of defined contribution pension	74	31
-30	40	Total pension cost	79	-22

Actuarial gains and losses over other comprehensive income for the period

	2017			2016		
	Unfunded	Funded	Total	Unfunded	Funded	Total
Change in discount rate	0	18	18	0	9	9
Change in other economic assumptions	-	-	-	0	0	-
Change in mortality table	-	-	-	-	-	-
Change in other demographic assumptions	-	-	-	-	-	-
Changing other factors, DBO	-2	3	1	0	4	5
Change in other factors, pension assets	-	-15	-15	-	11	11
Actuarial gains and losses over other comprehensive income for the period	-2	6	4	0	24	24

31 Dec 2016	31 Dec 2017	Movement in net pension liability in the balance sheet	31 Dec 2017	31 Dec 2016
-100	-172	Net pension liability in the balance sheet 1 January	-182	-94
23	24	Actuarial gains and losses for the year	21	24
-51	-4	Net defined-benefit costs in profit and loss account incl. Curtailment/settlement	-4	(63)
-1	-1	Paid-in pension premium, defined-benefit schemes	-1	-1
-	36	Transfer to defined contribution scheme	36	0
-44	-17	Paid-in pension premium, defined-benefit plans	-17	-48
-172	-134	Net pension liability in the balance sheet 31 December	-147	-182
31 Dec 2016	31 Dec 2017	Financial status 31 December	31 Dec 2017	31 Dec 2016
602	611	Pension liability	651	641
-778	-749	Value of pension assets	-803	-827
-176	-138	Net pension liability before employer's contribution	-151	-186
4	4	Employer's contribution	4	4
-172	-134	Net pension liability after employer's contribution*	-147	-182

* Presented gross in the Group accounts

Distribution of financial status between unfunded and funded pension scheme, Group

Group	31 Dec 2017			31 Dec 2016		
	Funded	Unfunded	Total	Funded	Unfunded	Total
Pension liability	631	20	651	619	22	641
Value of pension assets	-803	-	-803	-827	-	-827
Net pension liability before employer's contribution	-171	20	-151	-208	22	-186
Employer's contribution	0	4	4	0	4	4
Net pension liability after employer's contribution	-171	24	-147	-208	26	-182

Fair value of pension liability, Group	31 Dec 2017	31 Dec 2016
OB pension liability (PBO)	641	711
Present value of pension accumulated in the year	1	23
Payout/release from scheme	-26	-29
Interest costs of pension liability	16	18
Curtailement/ Settlement	0	-94
Actuarial gain or loss	19	12
CB pension liability (PBO)	651	641

Fair value of pension assets, Group	31 Dec 2017	31 Dec 2016
OB pension assets	842	797
Paid in	1	43
Payout/release from fund	-62	-29
Expected return	22	21
Curtailement/ Settlement	0	-6
Actuarial changes	0	0
CB market value of pension assets	803	827

Sensitivity, Group	Discount rate		Salary adjustment		Pension adjustment
	+ 1 pp	- 1 pp	+1 pp	- 1 pp	+ 1 pp
2017					
Change in accumulated pension rights in course of year	0	0	0	0	0
Change in pension liability	-83	104	0	0	105
2016					
Change in accumulated pension rights in course of year	-4	6	4	-3	3
Change in pension liability	-82	103	0	0	105

2016	2017	Members	2017	2016
779	764	Numbers of persons included in pension scheme	799	815
265	253	of which active	286	298
514	511	of which retirees and disabled	513	517

Investment of pension assets in the pension fund	2017	2016
Current bonds	31 %	21 %
Bonds held to maturity	10 %	19 %
Money market	20 %	26 %
Equities	33 %	29 %
Real estate	7 %	6 %
Total	100 %	100 %

The pension scheme arrangement is located in its own pension fund, which has a long-term horizon on the management of its capital. The pension fund seeks to achieve as high a rate of return as possible by composing an investment portfolio that provides the maximum

risk-adjusted return. The pension fund seeks to spread its investments on various issuers and asset classes in order to reduce company-specific and market-specific risk. The portfolio thus comprises equity investments in Norwegian and foreign shares. The bond portfolio is essentially invested in Norwegian bonds. Bank deposits are placed in Norwegian Banks.

Note 25 - Income tax

Parent Bank			Group	
2016	2017	(NOK million)	2017	2016
1,945	2,236	Result before tax	2,269	1,983
-858	-630	+/- permanent differences	-242	-703
-24	-215	+/- change in temporary differences as per specification	-	236
-	-	+ deficit to be brought forward	45	-
1,063	1,391	Year's tax base/taxable income	2,073	1,516
266	348	Tax payable on profit for the year	378	319
-	-	Tax effect reflected in equity	1	0
25	55	+/- change in deferred tax	72	22
290	403	Tax charge for the year	450	341
Change in net deferred tax liability				
25	55	Deferred tax shown through profit/loss	72	22
-19	-2	Deferred tax shown through equity	1	-19
-	-	Deferred tax assets acquired in business combination	-	1
6	54	Total change in net deferred tax liability	72	4

Deferred tax in balance sheet		Composition of deferred tax in the balance sheet (NOK Million)	Deferred tax in balance sheet	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
-	6	Temporary differences:		
-	-	- Business assets	199	212
172	134	- Leasing items	250	198
24	221	- Pension liability	148	186
359	79	- Securities	225	24
-	-	- Hedge derivatives	79	359
-	-	- Other temporary differences	5	1
556	440	Total tax-increasing temporary differences	906	979
139	110	Deferred tax	226	245
-6	-2	Temporary differences:		
-	-	- Business assets	-14	-16
-107	-28	- Pension liability	-	-
-494	-267	- Securities	-28	-111
-58	-55	- Hedge derivatives	-267	-494
-	-	- Other temporary differences	-111	-454
-	-	- Deficit carried forward	-867	-561
-665	-352	Total tax-decreasing temporary differences	-1,288	-1,636
-166	-88	Deferred tax asset	-322	-408
-27	21	Net deferred tax (-asset)	-97	-162

The above table comprises temporary differences from all consolidated companies shown gross. At the company level tax-increasing and tax-reducing temporary differences are shown net. At the group level recognition is on a gross basis in conformity with IAS 12 with each company being presented separately in the calculation of the Group's tax benefit and deferred tax:

	2017	2016
Tax benefit recorded 31 Dec	178	196
Deferred tax recorded 31 Dec	-81	-33

Recognised in income statement		Composition of deferred tax recognised in the income statement (NOK Million)	Recognised in income statement	
2016	2017		2017	2016
		Temporary differences:		
4	-12	- Business assets	13	-161
-	-	- Leasing items	-52	-49
-148	37	- Pension liability	10	-157
-17	-280	- Securities	-200	101
-295	-236	- Hedge derivatives	280	225
31	-20	- Other temporary differences	-4	0
-424	-511	Total tax-increasing temporary differences	47	-40
-106	-128	Change in deferred tax	11	-10
		Temporary differences:		
-	-	- Business assets	-	-4
-	-	- Pension liability	-	-6
101	4	- Securities	-83	-13
225	288	- Hedge derivatives	-227	-295
-	-	- Other temporary differences	-202	221
-	-	- Deficit carried forward	124	53
326	293	Total tax-decreasing temporary differences	-345	-43
82	73	Change in deferred tax asset	-83	-11
-	-	Change in tax rate from 28 % to 27 %	0	-1
-25	-55	Net	-72	-22

2016	2017	Reconciliation of tax charge for the period recognised against profit and loss to profit before tax	2017	2016
498	559	25 % of profit before tax	639	496
-215	-158	Non-taxable profit and loss items (permanent differences) *	-191	-176
19	2	Tax effect of issue cost reflected in equity	-	20
-	-	Change in tax rate from 25 % to 24 %	1	1
290	403	Tax for the period recognised in the income statement	450	341
15 %	18 %	Effective tax rate	20 %	17 %

* Includes non-deductible costs and and deduction for profit share related to associates and joint ventures (profit shares are taken out having already been taxed at the respective companies).

Note 26 - Categories of financial assets and financial liabilities

Group	Financial instruments at fair value				Total
	Held for trading in acc with IAS 39	Designated as such upon initial recognition	Available for sale	Financial instruments measured at amortised cost	
31 Dec 2017 (NOK million)					
Assets					
Cash and receivables from central banks	-	-	-	3,313	3,313
Deposits with and loans to credit institutions	-	-	-	4,214	4,214
Loans to and receivables from customers	-	3,278	-	107,680	110,959
Shares, units and other equity interests	1,202	557	66	-	1,825
Fixed-income CDs and bonds	-	19,736	-	-	19,736
Derivatives	-	4,351	-	-	4,351
Total financial assets	1,202	27,921	66	115,207	144,397
Liabilities					
Deposits from credit institutions	-	-	-	9,607	9,607
Deposits from and debt to customers	-	-	-	76,476	76,476
Debt created by issue of securities	-	-	-	42,194	42,194
Derivatives	3,343	-	-	-	3,343
Subordinated loan capital	-	-	-	2,201	2,201
Equity instruments	244	-	-	-	244
Total financial liabilities	3,586	-	-	130,478	134,064

	Financial instruments at fair value			Financial instruments measured at amortised cost	Total
31 Dec 2016 (NOK million)	Held for trading in acc with IAS 39	Designated as such upon initial recognition	Available for sale		
Assets					
Cash and receivables from central banks	-	-	-	315	315
Deposits with and loans to credit institutions	-	-	-	3,892	3,892
Loans to and receivables from customers	-	3,826	-	97,528	101,354
Shares, units and other equity interests	878	605	60	-	1,542
Fixed-income CDs and bonds	-	17,557	-	-	17,557
Derivatives	-	4,752	-	-	4,752
Total financial assets	878	26,739	60	101,735	129,412
Liabilities					
Deposits from credit institutions	-	-	-	10,509	10,509
Deposits from and debt to customers	-	-	-	67,168	67,168
Debt created by issue of securities	-	-	-	36,317	36,317
Derivatives	4,074	-	-	-	4,074
Subordinated loan capital	-	-	-	2,228	2,228
Equity instruments	181	-	-	-	181
Total financial liabilities	4,255	-	-	116,221	120,476

Note 27 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

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

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

Level 2: Valuation based on observable market data

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

Level 3: Valuation based on other than observable data

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

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2017:

Assets (NOK million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	16	4,334	-	4,351
Bonds and money market certificates	2,547	17,189	-	19,736
Equity instruments	1,339	-	419	1,759
Fixed interest loans	-	43	3,236	3,278
Financial assets available for sale				
Equity instruments	-	-	66	66
Total assets	3,902	21,566	3,722	29,190
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
Derivatives	14	3,328	-	3,343
Equity instruments	239	4	-	244
Total liabilities	254	3,332	-	3,586

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

Assets (NOK million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Derivatives	44	4,708	-	4,752
Bonds and money market certificates	2,511	15,046	-	17,557
Equity instruments	959	-	524	1,483
Fixed interest loans	-	43	3,783	3,826
Financial assets available for sale				
Equity instruments	-	-	60	60
Total assets	3,514	19,796	4,367	27,676
Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
Derivatives	48	4,026	-	4,074
Equity instruments	173	8	-	181
Total liabilities	221	4,034	-	4,255

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

(NOK million)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 2017	3,783	524	60	4,367
Investment in periode	304	20	-	323
Disposals in the periode	-849	-157	-20	-1,026
Gain or loss on financial instruments	-2	33	27	57
Closing balance 31 December 2017	3,236	419	66	3,722

During the reporting periode there has been no migration between the levels due to changes in valuation

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

(NOK million)	Fixed interest loans	Equity instruments through profit/loss	Equity instruments available for sale	Total
Opening balance 1 January 2016	4,405	574	108	5,087
Investment in periode	770	28	1	799
Disposals in the periode	-1,347	-66	-	-1,413
Gain or loss on financial instruments	-44	-13	-50	-106
Closing balance 31 December 2016	3,783	524	60	4,367

Valuation method

The valuation method applied is adapted to each financial instrument, and is intended to utilise as much of the information that is available in the market as possible.

The method for valuation of financial instruments in level 2 and 3 is described in the following:

Loans to customers (level 3)

The loans consist for the most part of fixed interest loans denominated in Norwegian kroner. The value of the fixed interest loans is determined such that agreed interest flows are discounted over the term of the loan by a discount factor that is adjusted for margin requirements. The discount factor is raised by 10 points when calculating sensitivity.

Short-term paper and bonds (level 2 and 3)

Valuation on level 2 is based for the most part on observable market information in the form of interest rate curves, exchange rates and credit margins for the individual credit and the bond's or certificate's characteristics. For paper valued under level 3 the valuation is based on indicative prices from a third party or comparable paper.

Equity instruments (level 3)

Shares that are classified to level 3 include essentially investments in unquoted shares. Among other a total of NOK 365 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank 1 Invest. The valuations are in all essentials based on reporting from managers of the funds who utilise cash flow based models or multiples when determining fair value. The Group does not have full access to information on all the elements in these valuations and is therefore unable to determine alternative assumptions. Determination of fair value for the shares of Polaris Media is based on valuation undertaken by SpareBank 1 Markets. The latter is based on value-adjusted equity capital.

The owner interest in Visa Norge FLI is considered to be a financial asset and is classified to the category 'available for sale'. SpareBank 1 SMN has calculated the fair value of its portion of Visa Norge FLI at NOK 31.5 million. Sensitivity at level 3 measurement: Since the estimated value of Visa Norge is calculated by the association we do not have access to all significant inputs, but SpareBank 1 SMN has taken into account a liquidity discount on the shares of Visa Inc. of 20 per cent. Had this been adjusted to 25 per cent, the fair value measurement would have been 1.6 million lower.

Financial derivatives (level 2)

Financial derivatives at level 2 include for the most part currency futures and interest rate and exchange rate swaps. Valuation is based on observable interest rate curves. In addition the item includes derivatives related to FRAs. These are valued with a basis in observable

prices in the market. Derivatives classified to level 2 also include equity derivatives related to SpareBank 1 Markets' market-making activities. The bulk of these derivatives refer to the most sold shares on Oslo Børs, and the valuation is based on the price of the actual/underlying share and observable or calculated volatility.

Sensitivity analyses, level 3

(NOK million)	Book value	Effect from change in reasonable possible alternative assumptions
Fixed interest loans	3,236	-7
Equity instruments through profit/loss ^{*)}	419	-
Equity instruments available for sale	66	-2

^{*)} As described above, the information to perform alternative calculations are not available

Note 28 - Fair value of financial instruments at amortised cost

Financial instruments measured at amortised cost

Financial instruments that are not measured at fair value are recognised at amortised cost or are in a hedging relationship. For further details, see note 2 Accounting principles. Amortised cost entails valuing balance sheet items after initially agreed cash flows, adjusted for impairment.

Amortised cost will not always be equal to the values that are in line with the market assessment of the same financial instruments. This is due to different perceptions of market conditions, risk and discount rates.

Methods underlying the determination of fair value of financial instruments that are measured at amortised cost are described below:

Loans to and claims on customers

Current-rate loans are exposed to competition in the market, indicating that possible excess value in the portfolio will not be maintained over a long period. Fair value of current-rate loans is therefore set to amortised cost. The effect of changes in credit quality in the portfolio is accounted for through collectively assessed impairment write-downs, therefore giving a good expression of fair value in that part of the portfolio where individual write-down assessments have not been made.

Individual write-downs are determined through an assessment of future cash flow, discounted by effective interest rate. Hence the discounted value gives a good expression of the fair value of these loans.

Bonds held to maturity

Change to fair value is calculated by reference to a theoretical valuation of market value based on interest rate and spread curves.

Loans to and claims on credit institutions, debt to credit institutions and debt to customers

For loans to and claims on credit institutions, as well as debt to credit institutions and deposits from customers, fair value is estimated equal to amortised cost.

Securities debt and subordinated debt

The calculation of fair value in level 2 is based on observable market values such as on interest rate and spread curves where available.

Parent Bank		31 Dec 2017		31 Dec 2016	
(NOK million)	Level 1)	Book value	Fair Value	Book value	Fair Value
Assets					
Loans to and claims on credit institutions	2	9,543	9,543	8,203	8,203
Loans to and claims on customers at amortised cost	3	101,490	101,490	92,673	92,673
Total financial assets at amortised cost		111,033	111,033	100,876	100,876
Liabilities					
Debt to credit institutions	2	9,047	9,047	10,299	10,299
Deposits from and debt to customers	2	77,362	77,362	68,391	68,391
Securities debt at amortised cost	2	11,003	11,040	10,689	10,700
Securities debt, hedging	2	31,191	31,472	25,627	25,307
Subordinated debt at amortised cost	2	1,102	1,104	1,103	1,100
Subordinated debt, hedging	2	1,057	1,060	1,083	1,075
Total financial liabilities at amortised cost		130,762	131,085	117,192	116,872

Group		31 Dec 2017		31 Dec 2016	
(NOK million)		Book value	Fair Value	Book value	Fair Value
Assets					
Loans to and claims on credit institutions	2	4,214	4,214	3,892	3,892
Loans to and claims on customers at amortised cost	3	107,680	107,680	97,528	97,528
Total financial assets at amortised cost		111,894	111,894	101,420	101,420
Liabilities					
Debt to credit institutions	2	9,607	9,607	10,509	10,509
Deposits from and debt to customers	2	76,476	76,476	67,168	67,168
Securities debt at amortised cost	2	11,003	11,040	10,689	10,700
Securities debt, hedging		31,191	31,472	25,627	25,307
Subordinated debt at amortised cost	2	1,144	1,148	1,145	1,143
Subordinated debt, hedging	2	1,057	1,060	1,083	1,075
Total financial liabilities at amortised cost		130,478	130,802	116,221	115,902

¹⁾ Fair value is determined by using different methods in three levels. See note 27 for a definition of the levels.

Note 29 - Money market certificates and bonds

Bonds and money market instruments are classified in the category fair value through profit/loss at 31 December 2017.

Parent Bank		Money market certificates and bonds by issuer sector (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
		State		
2,260	1,974	Nominal value	1,974	2,260
2,375	2,520	Book value	2,520	2,375
		Other public sector		
2,856	4,940	Nominal value	4,940	2,856
2,962	4,955	Book value	4,955	2,962
		Financial enterprises		
11,089	10,753	Nominal value	10,598	11,011
12,132	12,327	Book value	12,168	12,053
		Non-financial enterprises		
91	20	Nominal value	20	91
95	30	Book value	30	95
16,295	17,686	Total fixed income securities, nominal value	17,531	16,218
72	63	Accrued interest	62	71
17,636	19,895	Total fixed income securities, booked value	19,736	17,557

Note 30 - Financial derivatives

All derivatives are booked at fair value through profit and loss. Gains are carried as assets and losses as liabilities. This applies both to derivatives used for hedging purposes and held for trading purposes. The Bank does not employ cash flow hedging.

The contract amount shows absolute values for all contracts.

For a description of counterparty risk and market risk, see note 6 on risk factors. For further details concerning market risk linked to interest rate risk, see note 16 on market risk related to interest rate risk, and for market risk related to currency exposure, see note 17 on market risk related to currency exposure.

Parent Bank

Fair value through profit and loss (NOK million)	31 Dec 2017			31 Dec 2016		
	Contract amount	Fair value Assets	Liabilities	Contract amount	Fair value Assets	Liabilities
Currency instruments						
Foreign exchange derivatives (forwards)	3,661	86	-51	3,176	21	0
Currency swaps	11,654	321	-70	15,100	163	-5
FX-options	59	0	-0	36	0	-0
Total currency instruments	15,375	407	-122	18,312	184	-5
Interest rate instruments						
Interest rate swaps (including cross currency)	178,023	2,532	-2,463	170,417	3,213	-3,282
Short-term interest rate swaps (FRA)	9,000	2	-1	50,423	101	-110
Other interest rate contracts	-	-	-	124	-0	0
Total interest rate instruments	187,023	2,534	-2,464	220,964	3,314	-3,393
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	246	60	-60	109	14	-14
Total commodity-related contracts	246	60	-60	109	14	-14
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	33,623	780	-230	25,249	807	-127
Total interest rate instruments	33,623	780	-230	25,249	807	-127
Total						
Total interest rate instruments	220,645	3,314	-2,693	246,213	4,121	-3,520
Total currency instruments	15,375	407	-122	18,312	184	-5
Total commodity-related contracts	246	60	-60	109	14	-14
Accrued interest		548	-466		493	-434
Total financial derivatives	236,266	4,328	-3,341	264,634	4,812	-3,973

Group

Fair value through profit and loss (NOK million)	31 Dec 2017			31 Dec 2016		
	Contract amount	Fair value Assets	Liabilities	Contract amount	Fair value Assets	Liabilities
Currency instruments						
Foreign exchange derivatives (forwards)	3,661	896	-51	3,176	21	0
Currency swaps	11,654	321	-70	15,100	163	-5
FX-options	59	0	-0	36	0	-0
Total currency instruments	15,375	407	-122	18,312	184	-5
Interest rate instruments						
Interest rate swaps (including cross currency)	178,023	2,532	-2,463	170,094	1,137	-3,282
Short-term interest rate swaps (FRA)	9,000	2	-1	50,423	101	-110
Other interest rate contracts	-	-	-	124	-0	0
Total interest rate instruments	187,023	2,534	-2,464	220,640	3,239	-3,393
Equity instruments						
Equity options	37	12	-13	32	17	-14
Equity forwards/futures	1,535	10	11	909	1	-87
Total equity instruments	1,573	23	-2	940	18	-101
Commodity-related contracts						
Stock-exchange-traded standardised forwards and futures contracts	246	60	-60	109	14	-14
Total commodity-related contracts	246	60	-60	109	14	-14
Hedging						
Interest rate instruments						
Interest rate swaps (including cross currency)	33,623	780	-230	25,249	807	-127
Total interest rate instruments	33,623	780	-230	25,249	807	-127
Total						
Total interest rate instruments	220,645	3,314	-2,693	245,890	4,046	-3,520
Total currency instruments	15,375	407	-122	18,312	184	-5
Total equity instruments	1,573	23	-2	940	18	-101
Total commodity-related contracts	246	60	-60	109	14	-14
Accrued interest		548	-466		490	-434
Total financial derivatives	237,839	4,351	-3,343	265,251	4,752	-4,074

Note 31 - Shares, units and other equity interests

The Group classifies shares in the categories fair value through profit or loss and available for sale. Securities that can be reliably measured, and which are reported internally at fair value, are recognised at fair value through profit and loss. Other shares are classified as available for sale.

Parent bank		Shares and units (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
225	119	At fair value through profit or loss	1,758	1,483
43	73	Listed	1,492	1,109
182	46	Unlisted	266	373
23	50	Available for sale	67	60
23	50	Unlisted	67	60
248	169	Total shares and units	1,825	1,542
		Business held for sale - of which shares		
226	82	Unlisted	49	15
226	82	Total shares held for sale (see note 39)	49	15
43	73	Total listed companies	1,492	1,109
431	178	Total unlisted companies	382	447

Specification of Parent Bank

Listed companies	Principle *)	Stake over 10 %	Our holding (no.)	Acquisition cost (NOK 1000)	Market value/ book value (NOK 1000)
Visa Inc. C-shares	FV		63,536	6,750	59,872
Total quoted shares				6,750	59,872
SpareBank 1 Nordvest	FV		69,423	7,455	7,880
SpareBank 1 Søre Sunnmøre	FV		48,070	4,999	4,999
Total quoted credit institutions				12,454	12,879
Unlisted companies					
Eksportfinans	FV		1,857	16,406	41,060
Molde Kunnskapspark	FV		2,000	2,030	2,083
Spama	FV		2,305	-	1,563
Swift Eur	FV		38	589	1,280
Trondheim Spektrum	AFS		1,067	-	1,608
Visa Norge	AFS		-	-	47,701
Others				1,120	1,122
Total unquoted shares and units				20,146	96,417
Total shares, units and equity capital certificates, parent bank				39,350	169,168

Specification of Group

Listed companies	Principle *)	Stake over 10 %	Our holding (no.)	Acquisition cost (NOK 1000)	Market value/ book value (NOK 1000)
Aker BP	FV		184,406	13,641	37,217
Aker Solutions	FV		446,773	19,214	20,636
Austevoll Seafood	FV		201,150	15,000	13,728
Axactor	FV		12,802,844	36,297	36,744
B2Holding	FV		3,500,000	51,612	73,150
Bonheur	FV		1,245,500	87,167	111,784
Frontline	FV		500,000	23,352	19,050
Kongsberg Gruppen	FV		417,797	54,336	63,087
Link Mobility Group	FV		810,000	94,384	117,045

Marine Harvest	FV	178,481	24,797	24,809
Norway Royal Salmon	FV	1,263,267	78,737	169,909
Norwegian Air Shuttle	FV	329,600	75,115	58,010
Norwegian Property	FV	1,300,000	12,948	13,780
Olav Thon Eiendomsselskap	FV	343,700	56,600	56,023
Polaris Media	FV	11.4	5,584,508	153,457
Sevan Marine	FV	4,116,987	55,514	58,379
Solstad Farstad	FV	5,729,026	39,473	34,489
Storebrand	FV	168,825	10,607	11,294
Subsea 7	FV	348,212	43,394	42,830
Thin Film Electronics	FV	4,137,500	10,167	10,261
Torghatten	FV	210,000	16,640	16,590
Webstep	FV	401,000	9,825	10,226
Yara International	FV	160,393	60,546	60,420
Others			66,697	61,511
Total quoted shares			1,109,521	1,266,170
Helgeland Sparebank	FV	120,000	10,590	10,560
Komplett Bank	FV	27,000	500	513
Norwegian Finans Holding	FV	133,208	12,356	12,255
Pareto Bank	FV	200,000	7,999	7,860
Sbanken	FV	350,000	20,505	28,350
SpareBank 1 BV	FV	722,988	24,682	24,509
SpareBank 1 Nord-Norge	FV	21,901	900	1,363
SpareBank 1 Ringerike Hadeland	FV	35,859	6,873	6,903
SpareBank 1 Sr-Bank	FV	36,904	2,673	3,211
SpareBank 1 Østfold Akershus	FV	58,727	10,878	11,276
SpareBank 1 Østlandet	FV	516,600	40,541	46,752
Total quoted credit institutions			138,496	153,552
Unlisted companies				
Avexxin	FV	67,786	4,731	3,084
Crayo Nano	FV	10,138	5,432	5,432
Granåsen Utvikling	FV	10.0	2,160	1,681
Herkules Capital III	FV	1	35,785	29,943
Moldekraft	AFS	10,545	11,600	14,837
Norsk Innovasjonskapital III	FV	600	10,200	19,372
North Bridge Nordic Property II	FV	51,340	1,996	2,153
Novelda	FV	18,280	6,143	5,814
Numascale	FV	3,382,117	5,320	5,320
Real Estate Central Europe	FV	3,000	5,500	4,000
Salvesen & Thams	FV	199	21,290	34,814
Sintef Venture	FV	13,830	7,056	7,056
Vectron Biosolutions	FV	220,000	6,000	6,000
Viking Venture II	FV	250,972	19,123	2,535
Viking Venture II B	FV	30,000	2,495	1,140
Viking Venture III	FV	17.0	862,878	43,337
Wellcem	FV	40,036	1,361	2,965
Others			17,521	13,682
Total unquoted shares and units			206,571	236,431
Total shares, units and equity capital certificates, Group			1,493,938	1,825,321

*) Explanation of accounting principle: FV - fair value through profit or loss, AFS - available for sale

Note 32 - Intangible assets

31 Dec 2017

Parent Bank				Group		
Other intangible assets	Goodwill	Total	(NOK million)	Total	Goodwill	Other intangible assets
59	447	506	Cost of acquisition at 1 January	737	573	164
70	-	70	Additions	239	108	131
-0	-	-0	Disposals	-2	-	-2
-	-	-	Subsidiaries disposal	-39	-	-39
128	447	575	Cost of acquisition at 31 December	935	681	254
36	-	36	Accumulated depreciation and write-downs as at 1 January	97	7	90
18	-	18	Current period's depreciation	24	-	24
-	-	-	Current period's write-down	1	1	-
-0	-	-0	Disposals	-0	-	-0
-	-	-	Subsidiaries' acquisitions	19	19	-
54	-	54	Accumulated depreciation and write-down as at 31 December	141	28	113
75	447	522	Book value as at 31 December	793	653	141

31 Dec 2016

Parent Bank				Group		
Other intangible assets	Goodwill	Total	(NOK million)	Total	Goodwill	Other intangible assets
44	447	491	Cost of acquisition at 1 January	636	530	106
24	-	24	Acquisitions	118	43	75
-9	-	-9	Disposals	-17	-	-17
59	447	506	Cost of acquisition at 31 December	737	573	164
25	-	25	Accumulated depreciation and write-downs as at 1 January	74	2	72
15	-	15	Current period's depreciation	21	-	21
-	-	-	Current period's write-down	8	5	3
-4	-	-4	Disposals	-6	-	-6
36	-	36	Accumulated depreciation and write-down as at 31 December	97	7	90
23	447	470	Book value as at 31 December	639	565	74

NOK 447m of the parent bank's balance sheet value refers to excess value in connection with the purchase of 100 per cent of Romsdals Fellesbank in 2005. The amount at group level refers to the parent bank's purchase of Romsdals Fellesbank as described above, the merger and acquisition of estate agencies from EiendomsMegler 1 Midt-Norge, and SpareBank 1 Regnskapshuset SMN's acquisitions of accounting firms. The year's increase of NOK 108m at group level relates to further acquisitions undertaken in 2017.

Goodwill items are valued annually and written down if impairment tests imply reduction in value. EiendomsMegler 1 Midt-Norge made a write down of goodwill of NOK 1.2m in 2017.

See note 3 - Critical estimates and assessments concerning the use of accounting principles - for a description of the valuation model for goodwill.

Note 33 - Property, plant and equipment

31 Dec 2017

Parent Bank			(NOK million)	Group		
Buildings and other real property	Machinery, inventory and vehicles	Total		Total	Machinery, inventory and vehicles	Buildings and other real property
117	198	315	Cost of acquisition at 1 January	1,431	266	1,164
-	-	-	Cost of acq. as a result of business combination	191	11	180
-	-	-	Reclassification to held for sale	-854	-9	-845
5	24	29	Acquisitions	55	50	5
-8	-34	-42	Disposals	-223	-40	-182
-2	-0	-2	Corrections	-2	0	-2
112	188	300	Cost of acquisition at 31 December	598	277	320
54	140	194	Accumulated depreciation and write-downs as at 1 January	525	198	327
-	-	-	Acc. depreciations as a result of business combinations	76	27	49
-	-	-	Reclassification to held for sale	-211	-	-211
8	19	27	Current period's depreciation	44	25	19
3	1	4	Current period's write-down	4	1	3
-4	-34	-38	Disposals	-101	-53	-48
-2	-0	-2	Reversal of accumulated depreciation and write-downs	-2	-0	-2
60	126	186	Accumulated depreciation and write-down as at 31 December	335	197	137
52	63	115	Book value as at 31 December	263	79	183

31 Dec 2016

Parent Bank			(NOK million)	Group		
Buildings and other real property	Machinery, inventory and vehicles	Total		Total	Machinery, inventory and vehicles	Buildings and other real property
117	205	322	Cost of acquisition at 1 January	1,503	252	1,251
4	23	27	Acquisitions	49	43	6
-4	-30	-34	Disposals	-121	-31	-91
-	-	-	Corrections	-	2	-2
117	198	315	Cost of acquisition at 31 December	1,431	266	1,164
50	139	189	Accumulated depreciation and write-downs as at 1 January	474	182	292
8	20	29	Current period's depreciation	78	26	53
-	-	-	Current period's write-down	2	0	2
-3	-20	-23	Disposals	-39	-20	-19
-	-	-	Reversal of accumulated depreciation and write-downs	10	10	-
55	140	194	Accumulated depreciation and write-down as at 31 December	525	198	327
63	59	121	Book value as at 31 December	906	69	837

Depreciation

With a basis in acquisition cost less any residual value, assets are depreciated on a straight-line basis over expected lifetime as follows:

- Technical installations 10 yrs
- Machinery 3 - 5 yrs
- Fixtures 5 - 10 yrs
- IT equipment 3 yrs
- Means of transport 10 yrs
- Buildings and other real property 25 - 33 yrs

Collateral

The Group has not provided security or accepted any other infringements on its right of disposal of its fixed tangible assets with the exception of SpareBank 1 Markets which has pledged inter alia business assets to DNB in connection with banking services related to the securities settlement.

Acquisition cost of depreciated assets

The acquisition cost of fully depreciated assets still in use in the Bank in 2017 is NOK 119 million (NOK 127 million).

Gross value of non-current assets temporarily out of operation

The Group has no significant non-current assets out of operation as at 31 December 2017.

Note 34 - Other assets

Parent Bank		(NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
27	-	Deferred tax asset	178	196
121	115	Fixed assets *)	263	906
37	61	Earned income not yet received	104	63
20	35	Accounts receivable, securities	322	220
198	158	Pensions	171	207
479	333	Other assets	615	785
882	703	Total other assets	1,654	2,376

* The buildings in SpareBank 1 SMN Kvartalet has been reclassified to "held for sale" and explains a reduction in fixed assets of 600 million from December 31, 2016. See further description in note 39.

Note 35 - Deposits from and liabilities to customers

Parent Bank		Deposits from and liabilities to customers (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
58,027	63,180	Deposits from and liabilities to customers without agreed maturity	62,293	56,804
10,364	14,182	Deposits from and liabilities to customers with agreed maturity	14,182	10,364
68,391	77,362	Total deposits from and liabilities to customers	76,476	67,168
1.0 %	0.9 %	Average interest rate	0,9 %	1.0 %

Fixed interest deposits account for 4.4 per cent (2.7 per cent) of total deposits.

31 Dec 2016	31 Dec 2017	Deposits specified by sector and industry	31 Dec 2017	31 Dec 2016
29,769	31,797	Wage earners	31,797	29,769
8,627	11,284	Public administration	11,284	8,627
2,791	3,061	Agriculture, forestry, fisheries and hunting	3,061	2,791
420	1,021	Sea farming industries	1,021	420
1,727	2,736	Manufacturing	2,736	1,727
2,416	3,046	Construction, power and water supply	3,046	2,416
4,067	4,152	Retail trade, hotels and restaurants	4,152	4,067
1,740	1,269	Maritime sector	1,269	1,740
4,387	4,595	Property management	4,405	4,153
5,550	6,429	Business services	6,429	5,550
4,848	5,846	Transport and other services provision	5,414	4,339
2,048	2,127	Other sectors	1,863	1,569
68,391	77,362	Total deposits from customers broken down by sector and industry	76,476	67,168

31 Dec 2016	31 Dec 2017	Deposits specified by geographic area	31 Dec 2017	31 Dec 2016
43,913	49,685	Trøndelag	48,822	42,885
14,028	14,898	Møre og Romsdal	14,898	14,028
1,657	2,067	Sogn og Fjordane	2,067	1,657
486	563	Nordland	563	486
5,109	5,876	Oslo	5,853	4,914
2,470	3,449	Other counties	3,449	2,470
728	824	Abroad	824	728
68,391	77,362	Total deposits broken down by geographic area	76,476	67,168

Note 36 - Debt securities in issue

Parent Bank			Group	
31 Dec 2016	31 Dec 2017	(NOK million)	31 Dec 2017	31 Dec 2016
36,317	42,194	Bond debt	42,194	36,317
36,317	42,194	Total debt securities in issue	42,194	36,317
1.8 %	1.5 %	Average interest, bond debt	1.5 %	1.8 %

31 Dec 2016	31 Dec 2017	Securities debt specified by maturity*)	31 Dec 2017	31 Dec 2016
6,336	-	2017	-	6,336
9,414	9,266	2018	9,266	9,414
5,642	5,983	2019	5,983	5,642
3,956	9,386	2020	9,386	3,956
6,739	7,600	2021	7,600	6,739
375	5,785	2022	5,785	375
1,682	2,075	2023	2,075	1,682
482	-	2024	-	482
237	-	2025	-	237
400	498	2029	498	400
273	295	2031	295	273
-	246	2032	246	-
-	255	2035	255	-
-	275	2044	275	-
31	20	Currency agio	20	31
422	187	Premium and discount, market value of structured bonds	187	422
328	324	Accrued interest	324	328
36,317	42,194	Total securities debt	42,194	36,317

*) Less own bonds. Total nominal own holding in 2017 comes to NOK 505 m (NOK 369 m)

31 Dec 2016	31 Dec 2017	Securities debt distributed on significant currencies	31 Dec 2017	31 Dec 2016
14,237	13,683	NOK	13,683	14,237
18,955	25,360	EUR	25,360	18,955
602	1,114	USD	1,114	602
2,522	2,037	Other	2,037	2,522
36,317	42,194	Total securities debt	42,194	36,317

Parent Bank and Group

	31 Dec 2017	Issued	Fallen due/ redeemed	Other changes	31 Dec 2016
Change in securities debt					
Bond debt, nominal value	41,663	11,490	6,332	970	35,535
Adjustments	207	-	-	-246	453
Accrued interest	324	-	-	-4	328
Total	42,194	11,490	6,332	720	36,317

	31 Dec 2016	Issued	Fallen due/ redeemed	Other changes	31 Dec 2015
Change in securities debt					
Bond debt, nominal value	35,535	8,158	5,492	-1,145	34,014
Adjustments	453	-	-	-322	775
Accrued interest	328	-	-	-37	365
Total	36,317	8,158	5,492	-1,504	35,154

Note 37 - Other debt and liabilities

Parent Bank		Other debt and recognised liabilities (NOK million)	Group	
31 Dec 2016	31 Dec 2017		31 Dec 2017	31 Dec 2016
3	16	Creditors	82	39
90	88	Drawing debt	88	90
0	0	Debt from securities	162	147
-	21	Deferred tax	81	33
266	337	Payable tax	367	319
8	9	Capital tax	9	8
26	24	Pension liabilities	24	26
118	112	Provisions	112	118
73	70	Accruals	444	367
-	-	Equity instruments	244	181
146	232	Other	311	203
731	909	Total other debt and recognised liabilities	1,923	1,531
		Other liabilities, not recognised		
2,034	579	Credit limits, trading	731	2,170
-	-	Other commitments	33	41
2,034	579	Total other commitments	764	2,211
2,765	1,488	Total commitments	2,686	3,742

Collateral

As from 1 March 2017 the bank is required under the European market infrastructure regulation (EMIR) to have in place a CSA with daily exchange of margin collateral etc. with all financial counterparties with which the bank deals domiciled (inter alia) in an EU member state. The Emir regulation regulates OTC derivatives and entails inter alia that SpareBank 1 SMN will be entitled to clear certain derivatives transactions through a central counterparty. This applies to interest rate derivatives in the major currencies (euro, US dollar, British pound and Japanese yen) along with Norwegian kroner, Swedish kronor and Polish zloty. Derivatives are cleared through London Clearing House as central counterparty where cash is the only collateral at present. SpareBank 1 SMN is not a direct member of London Clearing House, but has entered an agreement with Commerzbank as clearing broker. The bank has also entered an agreement with SEB as clearing broker number two, and plans to merge with them in the course of 2018.

SpareBank 1 SMN is registered as a GCM member of NASDAQ OMX Clearing AB. The bank offers 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 towards 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 other assets.

SpareBank 1 Markets clears ordinary share trades executed at Oslo Børs through CCP settlements. The company is a direct clearing member of SIX X-Clear. The company furnishes cash as collateral for the daily margin payments.

Parent Bank		Pledged assets	Group	
Cash deposit	Total		Total	Cash deposit
1,157	1,157	Pledged assets 31 Dec 2017	1,204	1,204
1,226	1,226	Relevant liabilities 31 Dec 2017	1,273	1,273
1,264	1,264	Pledged assets 31 Dec 2016	1,291	1,291
1,264	1,264	Relevant liabilities 31 Dec 2016	1,291	1,291

Ongoing lawsuits

The Group is not involved in legal disputes considered to be of substantial significance for the Group's financial position. No provision for loss has been made as of 31 December 2017.

Operational leases

The group has entered a number of different lease agreements regarding premises, car park, alarm systems, IT systems and software. Most of the agreements include a lease extension option.

Lease costs comprised:

Parent Bank			Group	
2016	2017	(NOK million)	2017	2016
98	92	Ordinary lease payments	83	75
28	28	Payment received from sub-lease	44	26
70	64	Total lease costs	39	49

Future minimum lease payments related to non-cancellable lease agreements fall due as follows:

(NOK million)	Parent Bank	Group
Within 1 year	85	106
1-5 years	342	387
Above 5 years	414	473
Total	841	965

Provisions

The group has made provisions for pension liabilities, see note 24, specified losses on guarantees, see note 11, restructuring and gifts. The provision for restructuring is made based on the downsizing plan. Provision on gifts is the part of previous year's profit to be allocated to non-profit causes. More on this topic in the section corporate social responsibility.

Parent Bank/Group (NOK million)	Pension liabilities	Specified losses on guarantees	Restructuring provision	Gifts
Provisions at 1 Jan	26	6	59	54
Additional provisions in the period	2	-	-	60
Amounts used in the period	-1	-	-20	-44
Amounts unused reversed in the period	-2	-2	-	-
Provisions at 31 Dec	24	4	39	69

Note 38 - Subordinated debt and hybrid capital issue

SpareBank1 SMN has in 2017 reclassified two additional Tier1 Capital Bonds from liabilities to equity. Comparable figures has been restated. For further details, see note 3.

Parent bank			Group	
31 Dec 2016	31 Dec 2017	(NOK million)	31 Dec 2017	31 Dec 2016
		Dated subordinated debt		
1,000	-	2022 3 month Nibor + 2.75 % (Call 2017)	-	1,000
662	659	2036 fixed rate 2.94 %, JPY (Call 2018) *)	659	662
-	-	2026 SpareBank 1 Finans Midt-Norge 16/26	43	43
-	150	2027 floating rate NOK (Call 2022)	150	-
-	600	2027 floating rate NOK (Call 2022)	600	-
-	250	2029 floating rate NOK (Call 2024)	250	-
22	11	Premium/discount/market value	11	22
9	4	Currency agio debt	4	9
2	1	Accrued interest	1	2
1,695	1,676	Total dated subordinated debt	1,718	1,737
		Hybrid Capital		
350	350	Hybrid capital10/99, fixed rate 8.25 % NOK (Call 2020) *)	350	350
100	100	Hybrid captial 10/99, floating rate NOK (Call 2020)	100	100
33	25	Discount perpetual hybrid equity	25	33
8	8	Accrued interest	8	8
491	483	Total hybrid capital	483	491
2,186	2,159	Total subordinated loan capital and hybrid capital	2,201	2,228
5.0 %	4.5 %	Average rate NOK	4.5 %	5.0 %
4.2 %	4.2 %	Average rate JPY	4.2 %	4.2 %

*) Fixed rate funding changed to floating rate by means of interest rate swaps

Group					
Changes in subordinated debt and hybrid capital issue	31 Dec 2017	Issued	Fallen due/ redeemed	Other changes	31 Dec 2016
Ordinary subordinated debt, NOK	1,000	1,000	1,000	-	1,000
Ordinary subordinated debt, Currency	701	-	-	-3	704
Hybrid capital loan, NOK	450	-	-	-	450
Adjustments	40	-	-	-24	64
Accrued interest	10	-	-	-1	10
Total subordinated debt and hybrid capital issue	2,201	1,000	1,000	-27	2,228
Changes in subordinated debt and hybrid capital issue	31 Dec 2016	Issued	Fallen due/ redeemed	Other changes	31 Dec 2015
Ordinary subordinated debt, NOK	1,000	-	-	-	1,000
Ordinary subordinated debt, Currency	704	43	-	2	660
Perpetual subordinated debt, NOK	-	-	300	-	300
Hybrid capital loan, NOK	450	-	-	-	450
Adjustments	64	-	-	-26	89
Accrued interest	10	-	-	0	10
Total subordinated debt and hybrid capital issue	2,228	43	300	-24	2,509

Note 39 - Investments in owner interests

Subsidiaries, associates, joint ventures and companies held for sale.

Company	Company number	Registered office	Stake in per cent
Investment in subsidiaries			
EiendomsMegler 1 Midt-Norge AS	936159419	Trondheim	87.0
SpareBank 1 Regnskapshuset SMN AS	936285066	Trondheim	95.4
SpareBank 1 Invest AS	990961867	Trondheim	100.0
SpareBank 1 Finans Midt-Norge AS	938521549	Trondheim	64.6
SpareBank 1 Bygget Steinkjer AS	934352718	Trondheim	100.0
SpareBank 1 Card Solution AS	990222991	Trondheim	100.0
St. Olavs Plass AS	999263380	Trondheim	100.0
SpareBank 1 Bilplan AS	979945108	Trondheim	100.0
Jernbanegata 19 AS	912514005	Trondheim	100.0
SpareBank 1 Markets AS	992999101	Oslo	66.7
Shares owned by subsidiaries and sub-subsidiaries			
GMA Invest AS	994469096	Trondheim	100.0
Sentrumsgården AS	975856828	Leksvik	24.0
Aqua Venture AS	891165102	Trondheim	37.6
BrainImage AS	917956146	Trondheim	34.5
Omega-3 Invest AS	996814262	Namsos	33.6
Tjeldbergodden Utvikling AS	979615361	Aure	35.3
Grilstad Marina AS	991340475	Trondheim	35.0
GMN 6 AS	994254707	Trondheim	35.0
GMN 51 AS	996534316	Trondheim	30.0
GMN 52 AS	996534413	Trondheim	30.0
GMN 53 AS	996534502	Trondheim	30.0
BN Bolig AS	917463069	Oslo	50.0
Brauten Eiendom AS	917066221	Trondheim	100.0
SpareBank 1 Kapitalforvaltning AS	980300609	Trondheim	100.0
SpareBank 1 Capital Markets Inc		New York	100.0
Leksvik Regnskapskontor AS	980491064	Leksvik	50.0
Investment in joint ventures			
SpareBank 1 Gruppen AS	975966372	Tromsø	19.5
SpareBank 1 Banksamarbeidet DA	986401598	Oslo	18.0
SpareBank 1 Betaling AS	919116749	Oslo	19.7
Investment in associates			
SpareBank 1 Boligkreditt AS	988738387	Stavanger	19.9
BN Bank AS	914864445	Trondheim	33.0
SpareBank 1 Næringskreditt AS	894111232	Stavanger	33.5
Bjerkeløkkja AS	998534976	Oppdal	40.7
SpareBank 1 Kredittkort AS	975966453	Trondheim	17.9
SMB Lab AS	917143501	Trondheim	20.0
Proaware AS	995756080	Tromsø	20.0
Investment in companies held for sale			
SpareBank 1 SMN Kvartalet AS	990283443	Trondheim	100.0
Mavi XV AS	890899552	Trondheim	100.0
Mavi XI AS	990899568	Trondheim	100.0
Mavi XXV AS	999239242	Trondheim	100.0
Mavi XXVIII AS	999239455	Trondheim	100.0
Byscenen Kongengsgt 19 AS	992237899	Trondheim	90.0

Shares in subsidiaries, Parent Bank

Recorded at acquisition cost in the Parent Bank. Full consolidation in the Group accounts. Total costs include tax charge. The booked value of subsidiaries in the tables below is the Parent Bank's booked value. Profit or loss show the company's net profit.

2017 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 1000's)	Assets	Liabilities	Equity	NCI of equity *)	Total income	Total expenses	Profit or loss	NCI of profit or loss *)	Book value 31.12
SpareBank 1 Finans												
Midt-Norge AS	612,590	61,259	10.0	6,724	5,745	-	304	392	295	96	34	499
Total investments in credit institutions												499
EiendomsMegler 1 Midt-Norge AS	57,803	4,788	10.5	281	91	3	28	395	367	27	- 8	120
SpareBank 1 SMN Kvartalet AS **)	326,160	30,200	10.8	869	-	-	-	78	64	14	-	994
SpareBank 1 Regnskapshuset SMN AS	17,850	238	75.0	323	110	0	10	377	315	62	2	154
SpareBank 1 Invest AS	457,280	457,280	1.0	854	49	-	-	48	5	43	-	739
SpareBank 1 Bygget Steinkjer AS	6,100	100	61.0	49	1	-	-	4	3	1	-	53
SpareBank 1 Card Solution AS	200	2,000	0.1	7	1	-	-	5	4	1	-	9
St. Olavs Plass AS	10,000	100,000	0.1	77	1	-	-	6	6	0	-	75
SpareBank 1 Bilplan AS	5,769	41,206	0.1	32	28	-	-	112	112	0	-	9
Jernbanegata 19 AS	1,000	10,000	0.1	10	0	-	-	-	0	0	-	13
SpareBank 1 Markets AS	529,221	3,168,991	0.2	2,242	1,573	- 0	223	452	440	12	4	456
Total investments in other subsidiaries												2,621
Total investments in Group companies, Parent Bank												3,120

*) Non-controlling interests

**) Parts of the company's assets are classified as held for sale

2016 (NOK million)	Company's share capital (NOK 000's)	No. Of shares	Nominal value (NOK 000's)	Assets	Liabilities	Equity	NCI of equity *)	Total income	Total expenses	Result	NCI of profit or loss *)	Book value 31.12
SpareBank 1 Finans Midt-Norge AS	534,290	53,429	10.0	5,414	4,651	-5	270	313	234	78	28	448
Total investments in credit institutions												448
SpareBank 1 SMN Invest AS	457,280	457,280	1.0	869	49	-	-	77	3	74	-	739
EiendomsMegler 1 Midt-Norge AS	57,803	4,788	10.5	322	112	0	27	426	377	49	6	120
SpareBank 1 SMN Kvartalet AS	326,160	30,200	10.8	765	92	-	-	44	34	10	-	919
SpareBank 1 Regnskapshuset SMN AS	17,136	238	72.0	216	59	-	-	235	192	43	-	121
Allegro Kapitalforvaltning ASA	6,000	6,000	1.0	50	14	-	4	63	54	10	1	11
SpareBank 1 Bygget Steinkjer AS	6,100	100	61.0	48	1	-	-	4	3	1	-	53
SpareBank 1 Bygget Trondheim AS	94,236	100,000	0.9	193	8	-	-	31	27	4	-	75
SpareBank 1 SMN Card Solutions AS	200	2,000	0.1	7	1	-	-	6	5	1	-	9
St. Olavs Plass 1 SMN AS	10,000	100,000	0.1	77	1	-	-	7	6	0	-	75
SpareBank 1 Bilplan AS	5,769	41,206	0.1	32	28	-	-	123	123	0	-	9
Jernbanegata 19 SMN AS	1,000	10,000	0.1	10	0	-	-	2	3	-1	-	13
SpareBank 1 Markets AS	378,347	2,265,553	167.0	1,702	1,234	0	124	306	282	25	7	363
SMB Lab AS	5,000	50,000	0.1	51	2	-	-	1	2	-1	-	50
Total investments in other subsidiaries												2,557
Total investments in Group companies, Parent Bank												3,005

Shares in associates and joint ventures

Associates and joint ventures are recorded at acquisition cost in the Parent Bank. Group figures are presented by the equity method.

Parent Bank			Group		
31 Dec 2016	31 Dec 2017	(NOK million)	31 Dec 2017	31 Dec 2016	
3,624	3,766	As at 1 January	5,638	5,522	
156	104	Acquisition/sale	104	186	
-14	70	Reclassification	64	-3	
-	-	Equity capital changes	-74	101	
-	-	Profit share	437	423	
-	-	Dividend paid	-410	-591	
3,766	3,940	Book value as at 31 December	5,760	5,638	

Specification of current year's change, Group	Additions/ disposal	Equity change
SpareBank 1 Gruppen AS	-	-28
SpareBank 1 Banksamarebeidet AS	0	5
SpareBank 1 Boligkreditt AS	163	-1
SpareBank 1 Næringskreditt AS	-54	-3
SpareBank 1 Kredittkort AS	-3	-0
BN Bank ASA	-	-6
SMB Lab AS	-5	0
Property development companies owned by SpareBank 1 SMN Invest AS	-	-42
Proaware AS	3	-
Sum	104	-74

Property development companies owned by SpareBank 1 SMN Invest

Activity levels in 2017 were high at the property development companies Grilstad Marina AS, Grilstad Energi AS, GMN 51 AS, GMN 52 AS, GMN 53 AS and GMN 6 AS.

Grilstad Energi AS was sold in third quarter 2017.

The above property development companies are booked in the Group accounts with the value of 67.2 NOK million at 31 December 2017.

Dividends from investments in associates and joint ventures:

Dividends from (NOK million)	Parent Bank	
	2017	2016
SpareBank 1 Gruppen AS	228	486
SpareBank 1 Boligkreditt AS	22	19
BN Bank ASA	132	56
SpareBank 1 Næringskreditt AS	29	30
Total income from associates and joint ventures	410	591

Company information on the Group's stakes in associates and joint ventures

The tables below contain company or Group accounting figures on a 100 per cent share basis, except for profit share which is stated as the SMN Group's share. Badwill and amortisation effects related to acquisitions are included in the profit share. Booked value is the consolidated value in the SMN Group.

2017 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31 Dec	Ownership share	No. of shares
SpareBank 1 Gruppen AS	70,650	62,385	17,911	15,703	349	1,569	19.5 %	381,498
BN Bank ASA	26,168	22,285	646	363	98	1,147	33.0 %	4,658,389
SpareBank 1 Boligkreditt AS	262,196	250,924	3,529	3,709	-41	2,003	19.9 %	13,039,586
SpareBank 1 Næringskreditt AS	12,479	10,426	274	213	19	629	33.7 %	4,895,248
SpareBank 1 Kredittkort AS	5,972	4,806	1,049	965	15	209	17.9 %	517,253
Other companies					-2	202		
Total					437	5,760		

2016 (NOK million)	Assets	Liabilities	Total income	Total costs	Profit share	Book value 31 Dec	Ownership share	No. of shares
SpareBank 1 Gruppen AS	63,089	55,300	14,077	12,479	317	1,476	19.5 %	364,728
BN Bank ASA	27,797	24,202	591	330	86	1,186	33.0 %	4,658,389
SpareBank 1 Boligkreditt AS	252,251	241,198	3,798	3,981	-17	1,904	19.1 %	12,081,960
SpareBank 1 Næringskreditt AS	13,642	11,559	353	269	29	696	36.5 %	5,325,271
SpareBank 1 Kredittkort AS	5,401	4,323	1,020	853	24	197	18.3 %	532,205
Other companies					-16	178		
Total					423	5,638		

Companies held for sale

SpareBank 1 SMN owns 100 per cent of Maxi XV AS due to defaulted loans. SpareBank 1 SMN's strategy is that ownership due to defaulted exposures should at the outset be of brief duration, normally not longer than one year. Investments are recorded at fair value in the Parent Bank's accounts. In the Group accounts one-line consolidation is undertaken.

Assets and liabilities related to the property in Søndre Gate 4-10 in Trondheim City Centre (SpareBank 1 Kvartalet AS) has been reclassified as held for sale from Q4 2017 based on the approval from management and board of Directors for selling the property. SpareBank 1 SMN accepted a bid at Søndre Gate 4-10 at November 9, 2017. The transaction is expected to reach completion in the course of the first quarter of 2018 in the form of a real property company share disposal.

The tables below contain company or Group accounting figures on a 100 per cent share basis.

2017 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share	No. of shares
Mavi XV AS Group	-1	92	6	-7	-1	100 %	60,000
SpareBank 1 Kvartalet AS	600	-	6	7	0	100 %	30,200

2016 (NOK million)	Assets	Liabilities	Total income	Total costs	Company's result of the year	Ownership share	No. of shares
Mavi XV AS Group	15	249	1	-2	-1	100 %	60,000
Brannstasjonen SMN AS	-	-	1	-3	-2	100 %	100,000

Note 40 - Business acquisitions/business combinations

General

Upon acquisition of businesses a purchase price analysis is prepared in accordance with IFRS 3 where identifiable assets and liabilities are recognised at fair value on the acquisition date.

Acquisition of accounting firms

SpareBank 1 Regnskapshuset SMN has in 2017 acquired SpareBank 1 Regnskapshuset Brekstad (prev. Fosen Rådgivning) and Økonomisenteret Kunderegnskap. These businesses are fully integrated into SpareBank 1 Regnskapshuset SMN in 2018.

SpareBank 1 Regnskapshuset Hareid, SpareBank 1 Regnskapshuset Ørsta, SpareBank 1 Regnskapshuset Volda, Areto Solutions, Datainformasjon og PR Regnskap has been merged into Sparebank1 Regnskapshuset SMN in 2017.

Purchase price allocations have been prepared in accordance with IFRS 3 in which identifiable assets and liabilities are recognised at fair value on the acquisition date. The difference between the group's acquisition cost and book value of net assets is allocated to goodwill. Effective from January 1, 2018 an agreement to acquire Tinde Økonomi, Rauma Regnskapsservice and Aktiva Regnskap has been made.

Acquisitions in SpareBank1 Markets

In 2017 SpareBank 1 Markets acquired Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning. The companies have been merged to SpareBank 1 Kapitalforvaltning, and is a subsidiary of SpareBank1 Markets. The company will spearhead SpareBank 1 Markets' asset management business with combined assets under management of NOK 10 billion. The company has 15 employees.

Purchase price allocations have been prepared in accordance with IFRS 3 in which identifiable assets and liabilities are recognised at fair value on the acquisition date. The difference between the group's acquisition cost and book value of net assets is allocated to client portfolio. The excess value allocated to Allegro Kapitalforvaltning has been eliminated in the group since this was already a subsidiary prior to the acquisition.

During fourth quarter the company acquired the trading table in SpareBank 1 SR-Bank Markets. The acquisition was financed by a share issue (176.341 shares at NOK 167, and premium of MNOK 37). In this transaction SpareBank 1 SR-Bank became share holders. The purchase price has been allocated to the client portfolio.

	Allegro Kapital- forvaltning	SNN Kapital- forvaltning	Trading Table i SR-Bank
Assets			
Fair value of client portfolio	34	15	37
Net identifiable assets and liabilities at fair value	17	3	0
Purchase price	50	18	37
Shares issued, at fair value	-	-	37
Cash	50	18	-
Purchase price	50	18	37

Note 41 - Significant transactions with related companies

In this context 'related parties' means subsidiaries, associated companies, joint ventures and companies held for sale over which the Bank exercises substantial influence, as well as SpareBank 1 SMN Pensjonskasse (pension fund) and companies owned by the Bank's personal related parties. The Bank's outstanding accounts with employees and members of the Board of Directors are shown in note 8 on loans and advances to customers and note 22 on personnel expenses and emoluments to senior employees and elected officers. The opening balance may differ from the previous year's closing balance due to changes in which companies classified as related parties of the Bank during the period.

Loans (NOK million)	Subsidiaries		Other related companies	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Outstanding loans as at 1 Jan	4,780	3,951	4,049	4,541
Loans issued in the period	1,445	894	515	37
Repayments	317	65	3	431
Outstanding loans as at 31 Dec	5,909	4,780	4,561	4,147
Interest rate income	119	71	121	150
Bonds and subordinated loans as at 31 Dec	2,033	79	4,759	1,315
Deposits (NOK million)				
Deposits as at 1 Jan	1,158	1,079	3,950	1,932
Contribution received during the period	30,304	30,162	53,459	45,542
Withdrawals	30,514	29,827	55,346	43,643
Deposits as at 31 Dec	947	1,413	2,063	3,831
Interest rate expenses	14	21	14	9
Securities trading	25	-15	468	-213
Commission income SpareBank 1 Boligkreditt	-	-	322	250
Commission income SpareBank 1 Næringskreditt	-	-	17	12
Issued guarantees and amount guaranteed	110	110	89	91

Loans and deposits

All loans and deposits for related parties are booked in the Parent Bank.

Securities trading

SpareBank 1 SMN's treasury department and subsidiary SpareBank 1 Markets, through outsourced business, carry out a large number of transactions with the Bank's related companies. Transactions are executed on a ongoing basis in the fixed income and forex area, payments transmission, bond trading etc. These transactions are part of ordinary bank operations and all agreements are contracted on market terms. Numbers above includes net investments in derivatives, bond transactions and deposits.

Other transactions

SpareBank 1 SMN has signed supply agreements with several related companies in order to safeguard ordinary banking operations and further development of the SpareBank 1 Alliance. This includes development of data-technical solutions for alliance collaboration, commission from insurance and savings and investment products, administrative services, leasing of premises etc. The agreements are considered to be on market terms. In addition the Bank participates in increases of capital in related companies; see note 39 on investment in owner interests.

Note 42 - ECC capital and ownership structure

ECC capital

The Bank's ECC capital totals NOK 2,596,728,860 distributed on 129,836,443 equity capital certificates (ECCs), each with a face value of NOK 20. As at 31 December 2017 there was 8,788 ECC holders (8,498 as at 31 December 2016).

ECC capital has been raised by the following means:

Year	Change	Change in ECC capital (NOK)	Total ECC capital (NOK)	No. of ECCs
1991	Placing	525,000,000	525,000,000	5,250,000
1992	Placing	75,000,000	600,000,000	6,000,000
2000	Employee placing	5,309,900	605,309,900	6,053,099
2001	Employee placing	4,633,300	609,943,200	6,099,432
2002	Employee placing	4,862,800	614,806,000	6,148,060
2004	Bonus Issue	153,701,500	768,507,500	7,685,075
2005	Placing	217,424,200	985,931,700	9,859,317
2005	Employee placing	23,850,000	1,009,781,700	10,097,817
2005	Split	-	1,009,781,700	40,391,268
2005	Rights issue	252,445,425	1,262,227,125	50,489,085
2007	Dividend issue	81,752,950	1,343,980,075	53,752,203
2007	Employee placing	5,420,000	1,349,400,075	53,976,003
2008	Dividend issue	90,693,625	1,440,093,700	57,603,748
2008	Employee placing	6,451,450	1,446,545,150	57,861,806
2009	Bonus issue	289,309,025	1,735,854,175	69,434,167
2010	Employee placing	12,695,300	1,748,549,475	69,941,979
2010	Rights issue	624,082,675	2,372,632,150	94,905,286
2011	Rights issue	625,000	2,373,257,150	94,930,286
2012	Reduction in nominal value	-474,651,430	1,898,605,720	94,930,286
2012	Rights issue	569,543,400	2,468,149,120	123,407,456
2012	Employee placing	16,220,200	2,484,369,320	124,218,466
2012	Placing	112,359,540	2,596,728,860	129,836,443

20 largest ECC holders at 31 Dec 2017	No. of ECCs	Holding
VPF Nordea Norge Verdi	6.572.299	5,06 %
State Street Bank and Trust CO (nominee)	4.013.854	3,09 %
Sparebankstiftelsen SMN	3.965.391	3,05 %
VPF Odin Norge	3.726.686	2,87 %
VPF Danske Invest Norske Aksjer Inst. II	3.334.265	2,57 %
Verdipapirfondet DNB Norge (IV)	2.961.197	2,28 %
JP Morgan Chase Bank (nominee)	2.669.005	2,06 %
VPF Pareto Aksje Norge	2.356.459	1,81 %
State Street Bank and Trust CO (nominee)	2.203.038	1,70 %
Morgan Stanley And Co Intl plc	2.098.751	1,62 %
VPF Alfred Berg Gambak	1.924.604	1,48 %
Pareto AS	1.821.202	1,40 %
VPF Danske Invest Norske Aksjer Inst. I	1.772.092	1,36 %
Forsvarets Personellservice	1.717.046	1,32 %
JP Morgan Chase Bank (nominee)	1.714.638	1,32 %
MP Pensjon PK	1.568.771	1,21 %
VPF Nordea Kapital	1.423.991	1,10 %
VPF Nordea Avkastning	1.289.111	0,99 %
VPF Storebrand Norge I	1.208.665	0,93 %
JP Morgan Chase Bank (nominee)	1.163.440	0,90 %
The 20 largest ECC holders in total	49.504.505	38,13 %
Others	80.331.938	61,87 %
Total issued ECCs	129.836.443	100,00 %

Note 43 - Earnings per ECC

Equity certificate (EC) holders' share of the profit is calculated as after-tax profit distributed in relation to the average number of ECs in the financial year. No options contracts are attached to the ECs so that diluted profit is consistent with earnings per EC. Upon presentation of accounts for 2016, earnings per EC were incorrectly stated as NOK 8.11. This has now been corrected in the comparative figures.

(NOK million)	31 Dec 2017	31 Dec 2016
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	1,763	1,606
Allocated to ECC Owners 2)	1,128	1,027
Issues Equity Capital Certificates adjusted for own certificates	129,507,851	129,534,387
Earnings per Equity Capital Certificate	8.71	7.93

1) Adjusted Net Profit	31 Dec 2017	31 Dec 2016
Net Profit for the group	1,828	1,681
adjusted for non-controlling interests share of net profit	-32	-41
Adjusted for Tier 1 capital holders share of net profit	-33	-34
Adjusted Net Profit	1,763	1,606

2) Equity capital certificate ratio (parent bank) (NOK million)	31 Dec 2017	31 Dec 2016
ECC capital	2,597	2,597
Dividend equalisation reserve	5,079	4,490
Premium reserve	895	895
Unrealised gains reserve	81	81
Other equity capital	-	-
A. The equity capital certificate owners' capital	8,652	8,063
Ownerless capital	4,831	4,499
Unrealised gains reserve	45	45
Other equity capital	-	-
B. The saving bank reserve	4,877	4,545
To be disbursed from gift fund	322	220
Dividend declared	571	389
Equity ex. hybrid capital	14,422	13,216
Equity capital certificate ratio A/(A+B)	63.95 %	63.95 %
Equity capital certificate ratio for distribution	63.95 %	63.95 %

Note 44 - Dividends from subsidiaries

Dividends (NOK million)	2017	2016
Dividends received from:		
SpareBank 1 Finans Midt-Norge	51	45
EiendomsMegler 1 Midt-Norge	42	29
SpareBank 1 Regnskapshuset SMN	30	26
Allegro Kapitalforvaltning	20	1
MAVI XV	148	-
SpareBank 1 SMN Invest	58	39
SpareBank 1 SMN Card Solutions	1	1
SpareBank 1 SMN Kvartalet	10	4
Sparebank 1 Bygget Trondheim	4	3
Sparebank 1 Bygget Steinkjer	1	1
Total dividends	364	147
Distributions (NOK million)	2017	2016
Profit for the year for distribution, Parent Bank	1,800	1,750
Allocated to dividends	572	389
Allocated to gifts	322	220
Transferred to equalisation fund	580	730
Transferred to ownerless capital	327	411
Total distributed	1,800	1,750

Note 45 - Transition disclosure IFRS 9

The following table shows changes in classification of financial instruments as a result of adopting IFRS 9

Group		Amount		Amount
Financial instruments	Category IAS 39	IAS 39	Category IFRS 9	IFRS 9
Cash and balances with central banks	Loans and receivables	3,313	Amortised cost	3,313
Deposits with and loans to credit institutions	Loans and receivables	4,214	Amortised cost	4,214
Net loans to and receivables from customers	Loans and receivables	107,681	Fair value over other comprehensive income	60,600
			Amortised cost	47,060
	Fair value through profit & loss (FVO)	3,278	Fair value through profit & loss	3,278
Fixed-income CDs and bonds	Fair value through profit & loss (FVO)	19,736	Fair value through profit & loss	19,736
Derivatives	Fair value through profit & loss	4,351	Fair value through profit & loss	4,351
Shares, units and other equity interests	Available for sale	66	Fair value through profit & loss	1,825
	Fair value through profit & loss (FVO)	557		
	Fair value through profit & loss	1,202		
Deposits from and debt to credit institutions	Amortised cost	9,607	Amortised cost	9,607
Deposits from and debt to customers	Amortised cost	76,476	Amortised cost	76,476
Debt created by issue of securities	Amortised cost	42,194	Amortised cost	42,194
Derivatives	Fair value through profit & loss	3,343	Fair value through profit & loss	3,343
Subordinated loan capital	Amortised cost	2,201	Amortised cost	2,201

The following table show the effects of adopting ifrs 9

Group

Financial assets	Note	Carrying amount under IAS 39 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 1 January 2018
Amortised cost					
Cash and balances with central banks		3,313	-	-	3,313
Deposits with and loans to credit institutions		4,214	-	-	4,214
Net loans to and receivables from customers	A	107,680	-60,561	-59	47,060
total amortised cost		115,207	-60,561	-59	54,587
Fair value over profit & loss					
Net loans to and receivables from customers		3,278	-	-	3,278
Fixed-income CDs and bonds	C	19,736	-	-	19,736
Derivatives		4,351	-	-	4,351
Shares, units and other equity interests	B	1,759	66	-	1,825
Total fair value over profit & loss		29,124	66	-	29,190
Fair value over OCI- with recycling					
Net loans to and receivables from customers	A	-	60,561	39	60,600
Shares, units and other equity interests	B	66	-66	-	-
Total fair value over OCI- with recycling		66	60,495	39	60,600
Total financial assets	D	144,397	0	-20	144,378
Financial liabilities					
Amortised cost					
Deposits from credit institutions		9,607	-	-	9,607
Deposits from and debt to customers		76,476	-	-	76,476
Debt created by issue of securities		42,194	-	-	42,194
Subordinated loan capital		2,201	-	-	2,201
total amortised cost		130,478	-	-	130,478
Fair value over profit & loss					

Derivatives	3,343	-	-	3,343
Equity instruments	244	-	-	244
Total fair value over profit & loss	3,586	-	-	3,586
Total Financial liabilities	134,064	-	-	134,064

Note A

SpareBank 1 SMN utilises co-owned bond-issuing residential mortgage companies as funding tools. This entails that when the bank grants a mortgage secured on residential property that meets given criteria, it can be sold to the residential mortgage company either at once or at a later point in time. Sale of the loan to SpareBank 1 Boligkreditt entails derecognition of the mortgage at SpareBank 1 SMN and recognition of the mortgage at SpareBank 1 Boligkreditt. Mortgages carrying floating interest are measured under IAS 39 at amortised cost. Under IFRS 9 only debt instruments forming part of a business model that entails holding the instruments in order to receive contractual cash flows shall be measured at amortised cost. Mortgages forming part of a business model that entails that the instruments are held both in order to receive contractual cash flows and for sale shall be measured at fair value with value changes over OCI. Interest income and write-downs shall be reflected in profit/loss, and value changes entered against OCI shall be reclassified to profit/loss upon sale or the disposal (derecognition) of the mortgages.

SpareBank1 SMN has therefore reclassified all residential mortgages from amortisert cost to fair value over OCI from 1 January 2018.

Note B

The "Available- for-sale" category under IAS 39 no longer exists under IFRS 9. Equity instruments classified as available for sale under IAS 39 has been reclassified to fair value over profit & loss.

Note C

Short-term money market paper and bonds constitute parts of the bank's liquidity reserve. The portfolio is managed and measured on a fair value basis and shall under IFRS 9 be classified at fair value with value changes over profit/loss.

Note D

The impact of adopting IFRS 9 as at 1 January 2018 will be taken to equity net after tax. Total change in equity due to adopting IFRS 9 as a result of changed loss provision is NOK -15 million.

	Loan loss provision under IAS 39 31 December 2017	Reclassification	Remeasurement	Expected credit losses under IFRS 9 1 January 2018
Change in impairment allowances				
Loans and receivables and instruments held to maturity under IAS 39 to be measured at amortised cost under IFRS 9	-1,113	112	8	-993
Debt instruments measured at amortised cost under IFRS 9	-1,113	112	8	-993
Loans and receivables and instruments held to maturity under IAS 39 to be measured at fair value over OCI under IFRS 9	-	-112	39	-73
Debt instruments measured at FVOCI under IFRS 9	-	-112	39	-73
Financial guarantees	-4	-	-58	-63
Loan commitments	-	-	-7	-7
Letters of credit for customers	-	-	-1	-1
Total Guarantees, loan commitments and letters of credit	-4	-	-66	-70
Total changes in impairment allowances	-1,117	-	-20	-1,137

	31 Dec 2017							
	Stage 1	Stage 2	Stage 3	POCI	Total	Individual	Collective	Total
Loan loss provision at 1. January 2018	-74	-217	-776	-	-1,067	-765	-347	-1,113
Guarantees, loan commitments and letters of credit	-13	-52	-6	-	-70	-4	-	-4
Total	-86	-269	-782	-	-1,137	-769	-347	-1,117

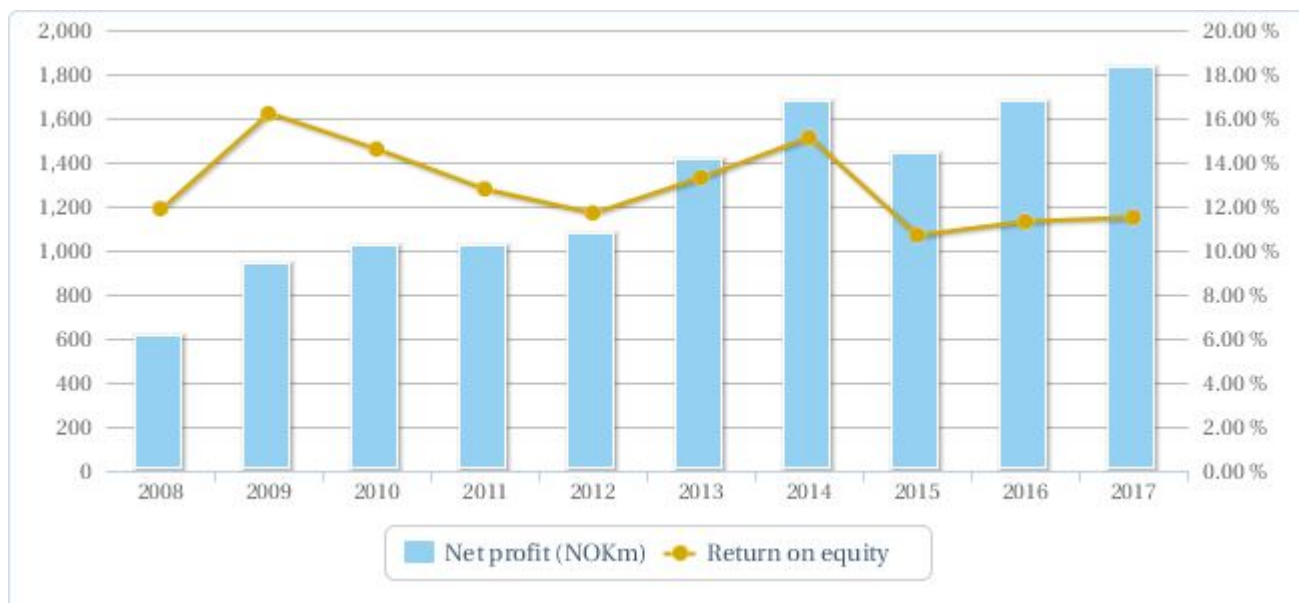
Financial summary (Group)

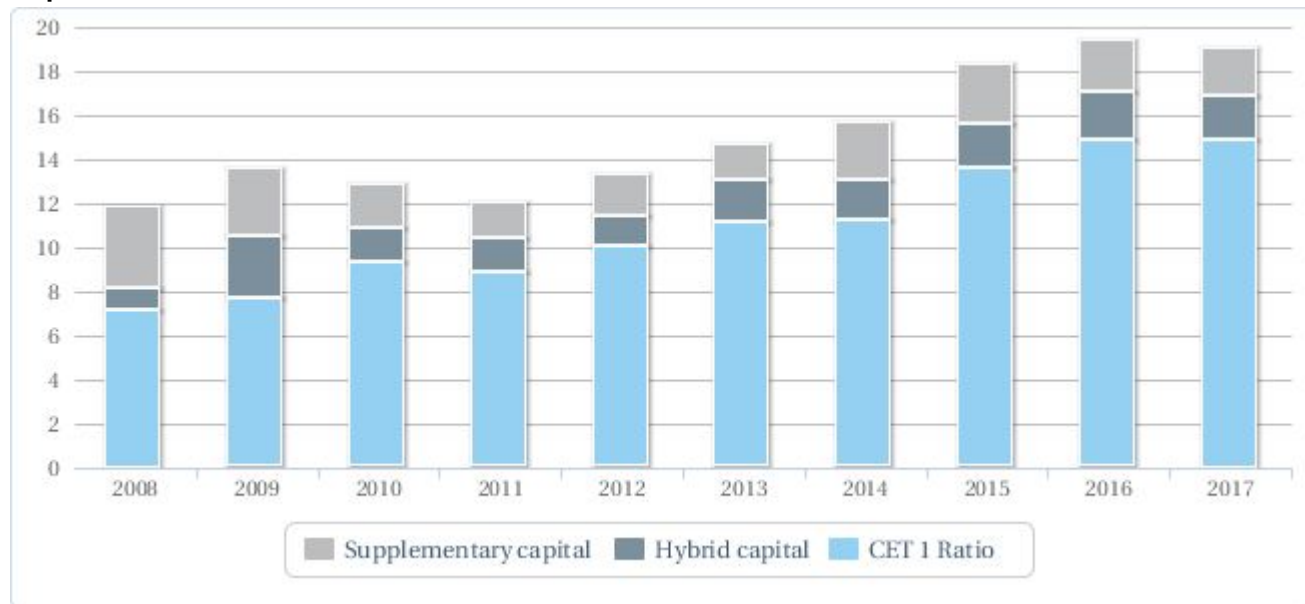
Income statement NOKm	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Interest income	3,825	3,597	4,031	4,265	4,118	3,928	3,891	3,422	3,462	4,827
Interest expenses	1,600	1,668	2,111	2,424	2,483	2,451	2,499	2,105	2,137	3,477
Net interest and credit comission income	2,225	1,929	1,920	1,841	1,635	1,477	1,392	1,317	1,325	1,350
Commision and fee income	2,005	1,674	1,545	1,512	1,463	1,139	919	855	756	610
Income from investment in related companies	437	423	448	527	355	244	248	276	349	393
Return on financial investements	322	521	11	193	147	207	186	133	247	-186
Total income	4,989	4,547	3,924	4,073	3,599	3,067	2,746	2,582	2,677	2,167
Salaries, fees and other personnel costs	1,426	1,159	1,093	1,002	914	924	810	583	725	623
Other operating expenses	943	844	838	787	807	730	672	557	528	571
Total costs	2,369	2,003	1,931	1,789	1,722	1,654	1,482	1,140	1,253	1,194
Operating profit before losses	2,621	2,544	1,993	2,284	1,877	1,413	1,264	1,441	1,424	975
Losses on loans and guarantees	341	516	169	89	101	58	27	132	277	202
Operating profit	2,279	2,029	1,824	2,195	1,776	1,355	1,236	1,309	1,147	773
Taxes	450	352	383	376	393	295	255	260	210	156
Held for sale	-1	4	-1	0	30	16	43	-27		
Profit of the year	1,828	1,681	1,441	1,819	1,413	1,077	1,024	1,022	937	617
Dividend	571	389	292	292	227	195	190	285	201	116

Balance sheet NOKm										
Cash and loans to and claims on credit institutions	7,527	4,207	5,677	5,965	5,984	4,091	4,075	2,532	1,260	4,548
CDs, bonds and other interest-bearing securities	31,672	29,489	30,282	27,891	26,358	25,614	21,485	22,948	19,302	2,035
Loans before loss provisions	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847	61,782	64,016
- Specified loan loss provisions	765	632	183	172	173	144	172	222	219	215
- Unspecified loan loss provisions	347	339	376	295	295	295	290	290	289	245
Other assets	3,096	3,030	2,540	2,080	2,938	3,766	3,251	3,182	2,704	4,540
Total assets	153,254	138,080	131,914	126,047	115,360	107,975	101,455	97,997	84,541	84,649
Debt to credit institutions	9,607	10,509	8,155	9,123	6,581	7,410	9,118	13,062	11,310	9,000
Deposits from and debt to customers	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786	37,227	35,280
Debt created by issuance of securities	45,537	40,390	40,569	39,254	36,806	33,121	31,306	29,625	24,070	29,680
Other debt and accrued expences etc.	1,924	1,532	1,734	1,095	1,485	2,070	2,122	1,922	1,876	2,045
Subordinated debt	2,201	2,228	2,509	2,417	2,365	3,040	2,690	2,756	3,875	3,156
Total equity	17,510	16,253	14,258	13,478	12,197	10,082	8,348	7,846	6,183	5,518
Total liabilities and equity	153,254	138,080	131,914	126,047	115,360	107,975	101,455	97,997	84,541	84,679
Key figures										
Total assets	153,254	138,080	131,914	126,047	115,360	107,919	101,455	97,997	84,541	84,679
Average total assets	145,948	137,060	128,355	117,794	111,843	105,500	98,465	91,317	86,679	75,820
Gross loans to customers	112,071	102,325	93,974	90,578	80,548	74,943	73,105	69,847	61,782	64,016
Gross loans to customers incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt	148,748	137,535	127,378	120,435	112,283	104,925	95,232	87,665	77,429	71,317
Gross loans in retail market	98,697	89,402	80,725	74,087	68,591	62,587	55,034	49,619	45,157	42,679
Gross loans in corporate market	50,087	48,133	46,653	46,348	43,692	42,322	40,198	38,046	32,272	28,638
Deposits from and debt to customers	76,476	67,168	64,090	60,680	55,927	52,252	47,871	42,786	37,227	35,280
Deposits from retail market	31,797	29,769	28,336	26,496	23,891	22,279	20,860	19,052	17,898	17,566
Deposits from corporate market	44,678	37,398	35,754	34,184	32,036	29,973	27,011	23,734	19,330	17,715

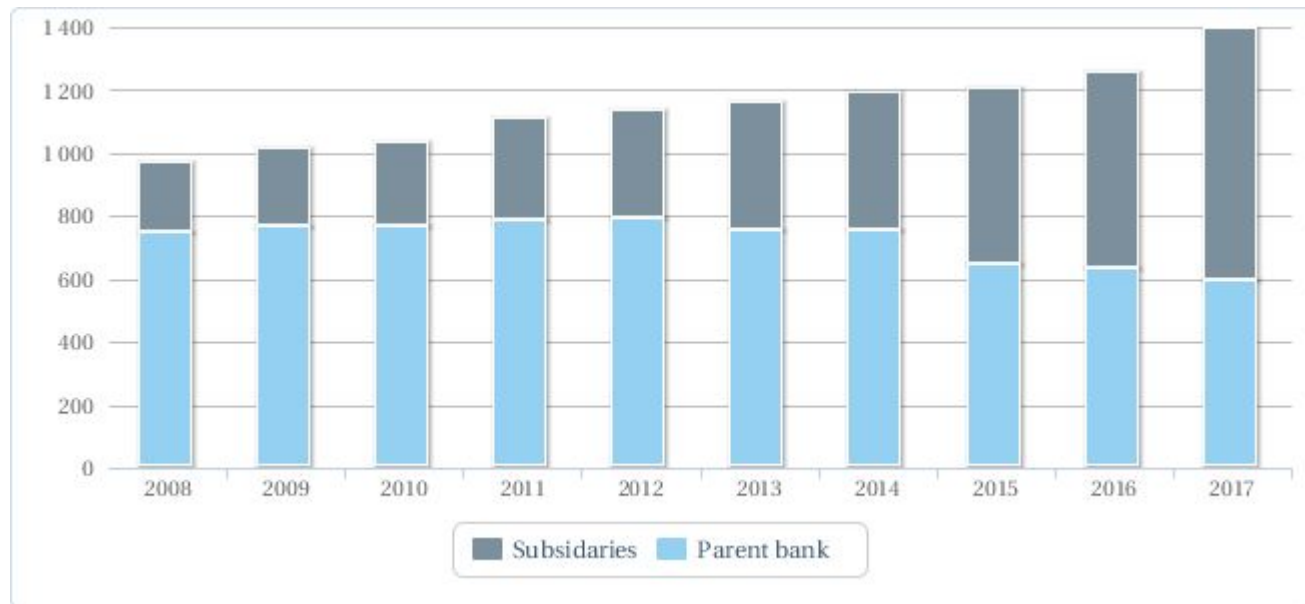
Ordinary lending financed by ordinary deposits	68 %	66 %	68 %	67 %	69 %	70 %	65 %	61 %	60 %	55 %
Ordinary lending incl. SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt financed by ordinary deposits	51 %	49 %	50 %	50 %	50 %	50 %	50 %	49 %	48 %	49 %
Capital adequacy										
CET1 Capital	13,938	13,229	12,192	10,679	9,374	8,254	6,687	6,177	4,938	4,356
Core capital	15,824	15,069	13,988	12,382	10,989	9,357	7,856	7,286	6,730	4,967
Primary capital	17,746	17,185	16,378	14,937	12,417	10,943	9,055	8,646	8,730	7,312
Risk weighted volume	93,474	88,788	89,465	95,317	84,591	82,446	75,337	66,688	64,400	61,538
Minimum requirements										
subordinated capital	7,478	7,103	7,157	7,625	6,767	6,596	6,027	5,335	5,152	4,923
CET 1 Ratio	14.9 %	14.9 %	13.6 %	11.2 %	11.1 %	10.0 %	8.9 %	9.3 %	7.7 %	7.1 %
Core capital ratio	16.9 %	16.9 %	15.6 %	12.9 %	12.9 %	11.3 %	10.4 %	10.9 %	10.4 %	8.1 %
Capital ratio	18.9 %	19.4 %	18.3 %	15.6 %	14.7 %	13.3 %	12.0 %	12.9 %	13.5 %	11.9 %
Leverage ratio	7.24 %	7.42 %	6.69 %	6.03 %						
Cost/income ratio	47 %	44 %	50 %	44 %	48 %	54 %	53 %	44 %	47 %	55 %
Losses on loans	0.23 %	0.39 %	0.14 %	0.08 %	0.09 %	0.06 %	0.03 %	0.16 %	0.31 %	0.21 %
ROE	11.5 %	11.3 %	10.7 %	15.1 %	13.3 %	11.7 %	12.8 %	14.6 %	16.2 %	11.9 %
Growth in lending (gross)	8.2 %	8.0 %	5.8 %	7.3 %	7.0 %	10.2 %	8.6 %	13.2 %	8.6 %	15.2 %
Growth in deposits	13.9 %	4.8 %	5.6 %	8.5 %	7.0 %	9.2 %	11.9 %	14.9 %	5.5 %	8.8 %
Number of staff	1,328	1,328	1,298	1,273	1,238	1,216	1,153	1,117	1,108	1,062
Number of FTEs	1,403	1,254	1,208	1,192	1,159	1,135	1,109	1,035	1,017	973
Number of branches	48	48	49	49	50	51	54	54	55	56

Net profit and return on equity

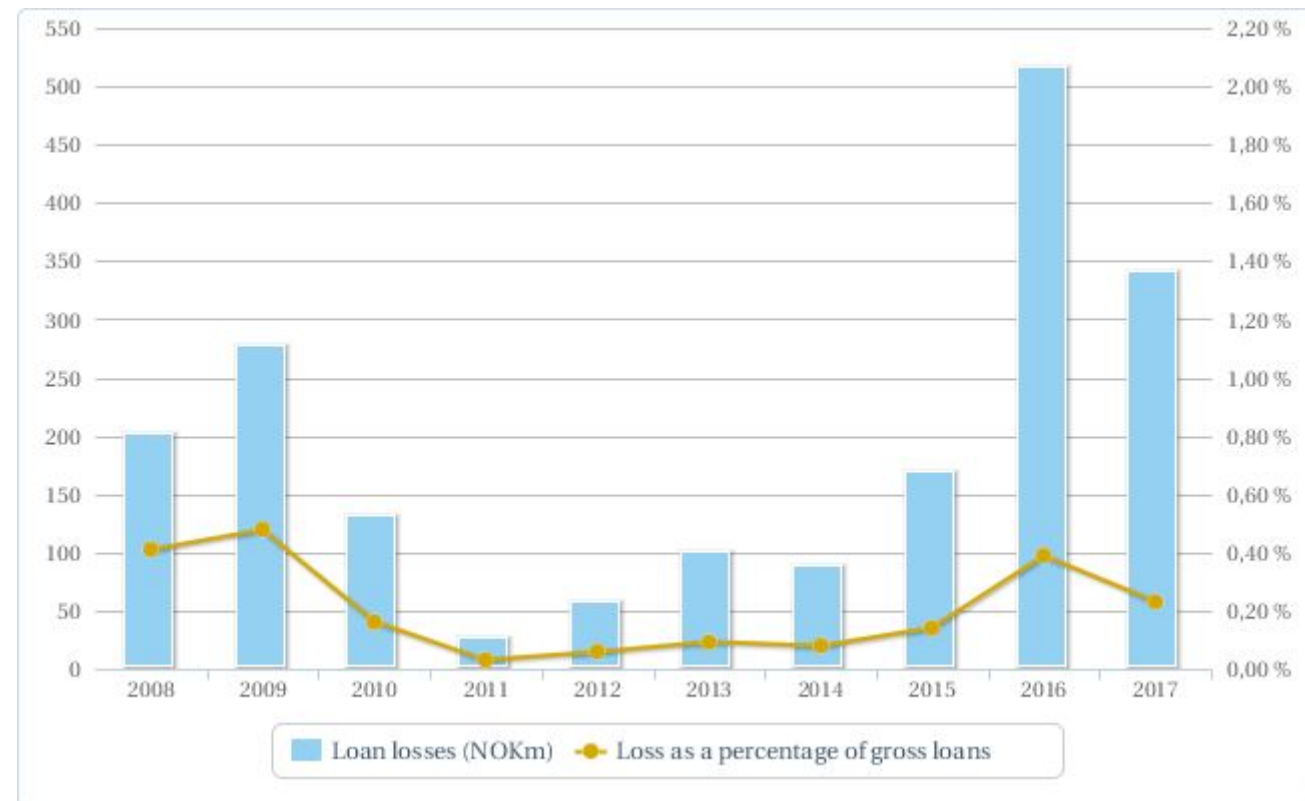


Capital ratio**Loans and deposits (NOKbn)**

FTEs



Loan losses



Dividend and profit per ECC (NOK)



Statement in compliance with the securities trading act, section 5-5

Statement by the Board of Directors and the Group CEO

We hereby declare that to the best of our knowledge

- the financial statements for 2017 for the Parent Bank and the Group have been prepared in conformity with IFRS as determined by the EU, with such additional information as required by the Accounting Act.
- the accounting information gives a true and fair view of the assets, liabilities, financial position and profit/loss of the Parent Bank and the Group taken as a whole, and that
- the Directors' report gives a fair review of developments, profit/loss and position of the Parent Bank and the Group, together with a description of the principal risks and uncertainties facing the Group.

Trondheim, 28 February 2018
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Paul E. Hjelm-Hansen
Aud Skrudland	Morten Loktu	Janne Thyø Thomsen
Arnhild Holstad	Erik Gunnes (employee rep.)	Venche Johnsen (employee rep.)
		Finn Haugan (Group CEO)

To the Supervisory Board of SpareBank 1 SMN

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 SMN. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2017, and income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Procedures for key audit matters
IT- systems and controls relevant to financial reporting	
SpareBank 1 SMN's IT systems are essential for accounting and reporting of completed transactions. It provides the basis for important estimates and calculations and provides relevant additional information. The IT systems are standardized, and the management and operations are to a great extent outsourced to external service providers. For a more detailed description of the development, management and operation of IT systems in SpareBank 1 SMN, see note 6 in the financial statements. Proper management and control of IT systems both at SpareBank 1 SMN and their service providers are essential to ensure accurate, complete and reliable financial reporting. This area is therefore a key audit matter.	SpareBank 1 SMN has established internal control activities related to their IT systems. We have obtained an understanding of SpareBank 1 SMN's IT environment relevant to financial reporting. We assessed and tested the design of internal control activities related to IT systems and control activities which are relevant to the financial reporting, including selected controls related to operations, change management, and information security. We tested the operating effectiveness for a sample of these controls in the reporting period. We assessed and tested the design of a sample of automated controls related to, among others, computations, reconciliations and the settlement of transactions. For a sample of these controls we tested the operating effectiveness in the reporting period. We assessed the assurance report (ISAE 3402 report) issued by the independent auditor for SpareBank 1 SMN's service providers to assess whether they had adequate internal controls in areas that may be significant for SpareBank 1 SMN's financial reporting. We have engaged Deloitte's IT specialists in the work to understanding the overall governance model for IT and in the evaluation and testing of internal control activities related to IT.
Impairment losses on loans within the corporate market	
Loan to customers at 31 December 2017 amounts to MNOK 112.071, individual write-downs amounts to MNOK 765 and group write-downs amounts to MNOK 347. See Note 7-15 for a discussion of credit risk and impairment losses on loans and guarantees. There is considerable judgement in the Bank's evaluation of the size of the write-downs, both for individual loans and groups of loans within the corporate market. As a result of the current market situation for oil-related activity there is a significant uncertainty related to impairment losses within this industry. Judgement is related to the evaluation of the probability of default and loss given default.	SpareBank 1 SMN has established internal control activities related to write-downs on loans and provisions for losses on guarantees within segment industry. We assessed and tested the design of a sample of key control activities related to the process for write-downs of loans within the corporate market. The control activities were related to the identification of loans with indicators of value impairment and the assessment of cash flows for these loans. We tested the operating effectiveness for a sample of these controls in the reporting period. For a sample of loans with individual write-downs, we tested whether the loss event was timely identified and assessed the cash flows that management had estimated, including

Assumptions and estimates used in these evaluations are essential for the size of the write-downs and impairments in the corporate market, including oil-related activities. It is therefore a key audit matter.	that value of collateral was based on external appraisals. For write-downs on loans calculated using models we tested the models' technical calculations by recalculating a sample of the calculations. We further tested the accuracy of a sample of the input data used in the calculations by comparing it to the information from the bank's IT systems. We also assessed material assumptions used in the models by comparing it to our own expectations based on general knowledge of the market and the Bank's operations. We also considered whether the notes to the financial statements about write-downs on loans and guarantees in the segment business were adequate.
Note information on capital requirement	
SpareBank 1 SMN is subject to the regulations on capital requirement in Financial Enterprises Act and associated regulations. The accounting regulations for banks require information on capital requirement in the notes to the financial statements. Note 5 to the financial statements provides information on, among other methods used, net capital, total calculation base and capital requirement. With the exception of engagements with governments and central banks, SpareBank 1 SMN utilizes internal measurement methods (IRB) for assessing credit risk. The use of IRB imposes wide-ranging requirement on the bank's organizational set-up, competence, risk models risk, management systems. SpareBank 1 SMN is required to comply, and at all times, satisfy the minimum capital requirement on entity and group level. The fact that compliance with the minimum capital requirement ratio is a condition for the Bank's operations and that the calculations are complex and based on a number of assumptions and estimates, makes it a key audit matter.	SpareBank 1 SMN has established internal control activities related to the calculation of net subordinated capital, total calculation base and capital requirement. We have assessed and tested the design of the internal control activities that we deemed most significant. The internal control activities we tested were related to the completeness of the data transfer and the calculation of the risk-weighted calculation base. We tested the operating effectiveness for a sample of these controls in the reporting period. We assessed SpareBank 1 SMN's interpretations of the capital adequacy regulations on selected areas against the capital adequacy regulations and industry practice. Furthermore, we tested the accuracy of calculation of selected items included in regulatory capital. We also assessed whether other information in the note on capital requirement was adequate.

Other information

Management is responsible for the other information. The other information comprises the Annual Report of 2017, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Trondheim, 28 February 2018
Deloitte AS

Mette Estenstad
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.