

Report of the Board of Directors

Macroeconomic conditions

International

Moderate growth was seen in the world economy in 2015, and good growth in domestic demand in the industrialised countries. In the euro area the growth is driven by an improvement in the labour market, increased growth in real wages and continued expansionary economic policies. The US saw a strong trend in private consumption. The Federal Reserve has started to raise its base rate and has signalled a further increase in the interest rate level ahead. In Sweden too, growth has been driven by strong domestic demand, while low global demand for investment goods has dampened exports. The export sector in several countries has been burdened by weaker demand from emerging economies.

China accounts for a large portion of the global growth, but shows a subdued rate of growth compared with previously. Growth has subsided in manufacturing production and investments in particular. China's adjustment to a more consumer-driven economy has contributed to lower demand for commodities, which above all has hit commodity exporters.

Growth in the world economy is expected to pick up gradually. But uncertainty about the future, especially as regards developments in China, is substantial.

Norway

The oil price fell sharply in the second half of 2014. After a slight increase at the start of 2015 the oil price continued to fall and stood at USD 36 per barrel at the end of 2015. Market interest rates fell, and the Norwegian krone depreciated. The key policy interest rate was lowered from 1.25 to 0.75 per cent over the course of 2015.

GDP growth in Mainland (non-oil) Norway was 1.0 per cent in 2015, down from 2.3 per cent in 2014. The halving of growth in the Norwegian economy is mainly attributable to falling demand from the petroleum sector. A bifurcation was seen in the Norwegian economy, both regionally and nationally, with the oil-related sector on the one side and the remainder of the country's economy performing quite well on the other.

Growth in house prices slowed throughout the year, and twelve-month growth in December 2015 for the country as a whole was five per cent. However, there are wide regional differences in the price trend and in some regions house prices fell in 2015. A weak trend in the Norwegian economy and rising unemployment may contribute to lower growth in house prices ahead, whereas low interest rates may pull in the opposite direction. Unemployment rose over the year, in particular in South and West Norway. Debt growth was fairly stable over the year. Households' debt burden is high. This creates vulnerability which may intensify the effects of a weaker economic trend in Norway through a sudden shift household demand for goods and services.

Norges Bank's Regional Network reported in autumn 2015 that were signs that the effects of the oil price fall and the decline in oil investment were spreading to sectors where growth has so far been maintained. At the same time consumer confidence has continued to fall, and there are prospects of slightly weaker growth in private consumption. The outlook for the Norwegian economy in 2016 is accordingly weaker than witnessed

in recent years. Increased activity among our trading partners, expansionary monetary policy and a relatively weak Norwegian krone could however dampen the effects of the oil price fall.

Trøndelag and Nordvestlandet

The number of bankruptcies in Sør-Trøndelag declined from 232 to 221 from 2014 to 2015, while the figure for Nord-Trøndelag of 95 showed no change. Møre og Romsdal showed an increase from 204 to 219 from 2014 to 2015. House price growth in the region slowed through 2015, and twelve-month growth in December 2015 was, respectively, 3.8 per cent, 0.1 per cent and 2.9 per cent in Sør-Trøndelag, Nord-Trøndelag and Møre og Romsdal. Unemployment in the Group's market areas as a whole showed no significant increase.

With falling oil investments and a more cooled-down housing market, a brake on activity can be expected in SpareBank 1 SMN's catchment area. However, there are wide differences in industry structure in the region. Greatest uncertainty and risk attaches to developments in Møre og Romsdal, much of whose employment is in petroleum-related industries. The supplier industry is substantial, but much of the activity in the county is also export-oriented. County-wise forecasts prepared by Menon for SpareBank 1 SMN's economic barometer show that both Trøndelag counties will manage fairly well through 2016 with moderate GDP growth, whereas for Møre og Romsdal the forecast shows zero growth and danger of negative growth.

Annual accounts 2015

Consolidated figures. Figures in parentheses refer to the same period of 2014 unless otherwise stated. The Group accounts are presented on the going-concern assumption, and the Board of Directors hereby confirms the basis for continued operation.

Profit of NOK 1,406m after tax

- Profit before tax: NOK 1,776m (2,143m)
- Net profit: NOK 1,406 m (1,782m)
- Return on equity: 10.7 per cent (15.1 per cent)
- CET1 ratio: 13.6 per cent (11.2 per cent)
- Growth in lending 5.8 per cent (7.3 per cent) and deposits 5.6 per cent (8.5 per cent)
- Loan losses: NOK 169m (89m), of which NOK 82m (0m) refers to increased collectively assessed write-downs
- Earnings per equity certificate (EC): NOK 7.02 (8.82). Book value per EC: NOK 67.65 (62.04), incl. recommended dividend for 2015
- Recommended dividend: NOK 2.25 per EC; allocation as gifts to non-profit causes: NOK 40m

Highlights

- Good profit performance from core business
- Profit NOK 376m lower than in the same period of 2014 due to capital losses on the bond portfolio in 2015 and high capital gains on the sale of Nets in 2014
- Low loan losses. Collectively assessed loss write-downs up by NOK 82m
- Low cost growth in line with plan
- Substantially strengthened CET1 capital
- Good growth in lending and deposits

In 2015 SpareBank 1 SMN achieved a pre-tax profit of NOK 1,776m (2,143m), a net profit of NOK 1,406m (1,782m) and a return on equity of 10.7 per cent (15.1 per cent).

Overall operating income came to NOK 3,147m in 2015 (3,302m), an increase of NOK 115m.

Return on financial assets was NOK 459m (720m), of which the profit share on owner interests in associates was NOK 448m (527m).

Operating expenses came to NOK 1,931m (1,789m) in 2015. A substantial portion of the cost growth is a consequence of the consolidation of SpareBank 1 Markets as a subsidiary as from the second quarter of 2015. Costs in 2014 include NOK 30m set aside at the parent bank for reorganisation. SpareBank 1 SMN has set a goal of zero growth for the parent bank's operating expenses. Adjusted for the cost of reorganisation and the effect of SpareBank 1 Markets, cost growth at the parent bank was 1.6%.

Net losses on loans and guarantees were NOK 169m (89m), of which NOK 82m (0m) refers to collectively assessed write-downs.

SpareBank 1 SMN achieved a lending growth of 5.8 per cent (7.3 per cent) and a deposit growth of 5.6 per cent (8.5 per cent) in 2015.

CET1 capital adequacy at 31 December 2015 was 13.6 per cent (11.2 per cent).

In recent years considerable work has been put into attaining the targets in the Group's capital plan. In December 2015 the Board of Directors adopted a new CET1 target of 14.5 per cent, to be met by 31 December 2016. At 31 December 2015 the Group had a CET1 ratio of 13.6 per cent. The capital plan is further described in the section on financial position.

At year-end the Bank's EC was priced at NOK 50.50 (58.50). A cash dividend of NOK 2.25 per EC was paid in 2015 for the year 2014.

Earnings per EC were NOK 7.02 (8.82). Book value was NOK 67.65 (62.04) per EC included recommended dividend of NOK 2.25.

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.

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 (NOK million)	2015
Profit for the year, Group	1,406
Profit, subsidiaries	-58
Dividend, subsidiaries	103
Profit from associated companies	-448
Dividend from associated companies	351
Elimination subsidiaries and associated companies	117
Profit for the year, Parent Bank	1,471

Distribution of profit (NOK million)	2015
Profit for the year, Parent Bank	1,471
Transferred to/from revaluation reserve	-66
Profit for distribution	1,405
Dividends	292
Equalisation fund	616
Saving Bank's fund	457
Gifts	40
Total distributed	1,405

Annual profit for distribution reflects changes of minus NOK 66m in the revaluation reserve, leaving the total amount for distribution at NOK 1,405m.

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 64.6 per cent of the distributed profit.

The Board of Directors recommends the Supervisory Board to set a cash dividend of NOK 2.25 per EC, altogether totalling NOK 292m. This represents a payout of 32 per cent of the Group profit to the EC holders. The Board of Directors further recommends the Supervisory Board to allocate NOK 40m as gifts to non-profit causes, representing a payout ratio of 8 per cent. NOK 616m and NOK 457m are added to the dividend equalisation fund and the ownerless capital respectively. The Board of Directors opts to dispense with the principle of equal payout between EC capital and ownerless capital in order to strengthen the financial position and in view of the fact that the price of the bank's EC is below the EC's book value. The proposed distribution reflects the need to increase the bank's CET1 capital. Increasing the payout ratio to the EC holders to 32 per cent (25 per cent) is in keeping with the capital plan.

After distribution of the profit for 2015, the EC-holder ratio (EC holders' share of total equity) is 64.0 per cent.

Strengthened net interest income

Net interest income strengthened compared with 2014, reaching NOK 1,872m (1,790m). The change compared with 2014 is ascribable to:

- Increased lending to, and deposits from, retail and corporate customers alike contributed to higher net interest income
- Reduced margins on home loan mortgages as a result of general interest rate reductions and other price pressures reduced the contribution from lending.
- Reprising of deposits, for both retail and corporate customers, largely compensates for the income shortfall resulting from lower margins on mortgages.

Net interest income on loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt are recorded as commission income. Commissions on loans sold to these two entities in 2015 totalled NOK 334m (427m).

Over the course of 2014 and 2015 five general interest rate reductions were carried out on loans to retail borrowers to adjust the mortgage rate to a falling interest rate level. Deposit rates to retail and corporate customers were also reduced over the same period.

Increased commission income

Commission income and other operating income totalled NOK 1,545m (1,512m) in 2015, an increase of NOK 33m or 2 per cent.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fell by NOK 93m due to reduced margins on retail lending. A uniformly positive trend is noted in other commission income, and overall growth came to NOK 126m or 11.7 per cent. The income increase of NOK 49m from Markets is a consequence of the consolidation of SpareBank 1 Markets.

Commission income (NOK million)	2015	2014	Change
Payment transfers	188	188	-1
Credit card	56	50	6
Saving products	61	48	13
Insurance	156	138	18
Guarantee commission	72	57	15
Real estate agency	332	315	17
Accountancy services	183	172	10
Markets	64	14	49
Active management	21	20	1
Rent	50	45	5
Other commissions	28	36	-7
Commissions ex SB1 Boligkreditt og SB1 Næringskreditt	1,211	1,084	126
Commissions SB1 Boligkreditt	326	417	-91
Commissions SB1 Næringskreditt	8	10	-2
Total commissions	1,545	1,512	34

Financial investments

Overall return on financial investments (excluding the bank's share of the profit of associates and joint ventures) was NOK 11m (193m) in 2015. Overall return breaks down as follows:

- Return on the Group's equity portfolios: NOK 62m (202m)
- Net capital loss on bonds and derivatives: NOK 90m (66m). This is largely ascribable to increased credit margins on the liquidity portfolio
- Effect of changed valuation model for fixed rate loans: minus NOK 64m (0m)
- Income on forex and fixed income business: NOK 102m (57m).

Capital gains/dividends, shares (NOK million)	2015	2014	Change
Capital gains/dividends, shares	62	202	-139
Bonds and derivatives	-90	-66	-24
Change in discount factor in fair value model for fixed interest loans	-64	-	-64
SpareBank 1 SMN Markets	102	57	45
Net return on financial investments	11	193	-182
SpareBank 1 Gruppen	251	358	-107
SpareBank 1 Boligkreditt	80	38	42
SpareBank 1 Næringskreditt	30	41	-11
SpareBank 1 Kredittkort	21	2	18
BN Bank	41	93	-51
Companies owned by SpareBank 1 SMN Invest	27	31	-3
Other companies	-2	-34	32
Income from investment in associates and joint ventures	448	527	-80
Total	458	720	-262

SpareBank 1 Gruppen

SpareBank 1 Gruppen's post-tax profit for 2015 was NOK 1,287m (1,849m). The insurance business was the main contributor to the profit performance, but the other product companies also showed satisfactory profit growth. SpareBank 1 Gruppen's profit was lower than in 2014 due to that year's excellent results after recognition of run-off gains in the insurance business. SpareBank 1 SMN's share of the profit for 2015 was NOK 251m (358m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks participating in the SpareBank 1 Alliance to take advantage of the market for covered bonds. The banks sell their best secured home mortgage loans to the company, giving them reduced funding costs. As of 31 December 2015 the bank had sold loans worth a total of NOK 31.9bn (28.3bn) to SpareBank 1 Boligkreditt, corresponding to 39.6 per cent (38.3 per cent) of overall lending to the retail segment.

The bank's stake in SpareBank 1 Boligkreditt in 2015 was 17.7 per cent, and the Group's share of that company's profit in 2015 was NOK 80m (38m). The parent bank's stake reflects the bank's relative share of home mortgage loans sold. The new stake as of 31 December 2015 is 19.0 per cent.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines, and with the same administration, as SpareBank 1 Boligkreditt. As of 31 December 2015, loans worth NOK 1.5bn (1.5bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN owns 33.6 per cent of the company, and the Group's share of the company's profit in 2015 was NOK 30m (41m). The parent bank's stake reflects the bank's relative share of commercial property loans sold and its stake in BN Bank. 79.9 per cent of the loans residing in SpareBank 1 Næringskreditt have been transferred from BN Bank.

BN Bank

SpareBank 1 SMN had a 33.0 per cent stake in BN Bank as of 31 December 2015.

The Board of Directors of BN Bank resolved in 2015 to cultivate the bank as a retail bank and to wind down the corporate business consisting of lending to commercial property. The backcloth to the resolution is capital adequacy rules specific to Norway under which return on equity on this activity is low. This reason is that BN Bank's competitors in this low risk segment were largely foreign actors who set their prices under a more liberal regulatory regime and less stringent requirements on core capital. There is no prospect of any change in Norway's capital adequacy regime.

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

SpareBank 1 SMN's share of the profit of BN Bank in 2015 was NOK 41m (93m), yielding a return on equity of 3.5 per cent. The profit reflects one-time effects related to the scaling back of the corporate portfolio and increased credit margins on the liquidity portfolio.

The bank has in recent years built up a substantial retail market business with satisfactory profits. The Board of Directors of BN Bank sees a major development potential in this business, and will channel all efforts to the retail market. The bank aspires to increased growth and increased profitability.

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

The process of winding down the corporate banking business will be carried out in a controlled manner over time. For SpareBank 1 SMN this will in isolation reduce consolidated risk weighted assets, thereby improving

capital adequacy. Of SpareBank 1 SMN's risk weighted balance sheet assets of NOK 89.5bn, about NOK 7.5bn relates to corporate exposures at BN Bank along with BN Bank's exposures sold to SpareBank 1 Næringskreditt. For SpareBank 1 SMN this amounts to about 1.1 percentage points of CET1 capital adequacy once the scaling back is completed. The process of winding down the corporate portfolio is well under way, and in the period September to December 2015 the portfolio was reduced by NOK 5.5bn or 17 per cent. The board of directors of BN Bank aims to have wound down 50 per cent of the corporate banking business by 31 December 2016.

SpareBank 1 Kredittkort

The profit for 2015 was NOK 112m. SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN's stake is 18.4 per cent. SpareBank 1 SMN's share of the profit for 2015 was NOK 21m with a portfolio share of NOK 792m (715m). Since the company was in ordinary operation from 1 July 2014 onwards, no comparable financial statements are available for earlier periods.

Limited cost growth

Overall costs came to NOK 1,931m (1,789m) in 2015 and Group expenses rose by NOK 142m compared with 2014. Of the increase in Group expenses, NOK 122m relates to the consolidation of SpareBank 1 Markets as a subsidiary as from the second quarter of 2015. Excluding the effect of SpareBank 1 Markets, and subtracting the reorganisation cost of NOK 30m in 2014, Group cost growth came to NOK 50m or 2.8 per cent.

The parent bank has reduced costs by NOK 18m over the past 12 months less the above-mentioned cost of reorganisation. With effect from the second quarter of 2015, SpareBank 1 SMN transferred its capital market activities to SpareBank 1 Markets. This represents a cost reduction of NOK 38m for the parent bank in 2015, and, taking this into account, parent bank costs rose by NOK 20m or 1.6 per cent compared with 2014. The reason for the increase is chiefly increased capital tax, write-down of intangible assets in SpareBank 1 Banksamarbeidet, increased sponsor costs and a get-together for staff in Berlin which in aggregate accounted for a cost increase of NOK 25m. Taking one-off costs and reorganisation costs into account, parent bank costs rose by 0.8 per cent.

Wide-ranging efficiency improvement measures have been set in train in the parent bank, with the aim of ensuring zero growth in costs. The number of permanent FTEs was reduced by 75 to 645 in 2015 (plus an additional reduction of 32 FTEs as a result of the transfer of capital market business to SpareBank 1 Markets).

Operating expenses measured 1.50 per cent (1.52 per cent) of average total assets. The Group's cost-income ratio was 50 per cent (44 per cent).

Low losses and low defaults, higher provision for collectively assessed write-downs

Net loan losses came to NOK 169m (89m) for 2015, of which NOK 82m (0m) refers to increased provision for collectively assessed write-downs. This represents 0.14 per cent of total loans (0.08 per cent). Net losses in the fourth quarter in isolation were NOK 56m (34m) of which NOK 51m (0m) refers to increased collectively assessed write-downs.

Net losses of NOK 151m (81m) were recorded on loans to the Group's corporate customers in 2015, including an increase of NOK 82m (0m) in collectively assessed impairment write-downs.

On the retail portfolio a net loss of NOK 18m (8m) was recorded in 2015.

Total individually assessed loan impairment write-downs came to NOK 183m (172m) as of 31 December 2015.

Total problem loans (defaulted and doubtful) came to NOK 604m (486m), or 0.47 per cent (0.40 per cent) of gross loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 205m (270m), measuring 0.16 per cent (0.22 per cent) of gross lending. Of total defaults, NOK 26m (67m) are loss provisioned, corresponding to 13 per cent (25 per cent).

Defaults break down to NOK 50m (114m) on corporate customers and NOK 155m (156m) on retail customers.

Other doubtful exposures totalled NOK 399m (216m), i.e. 0.31 per cent (0.18 per cent) of gross outstanding loans. NOK 157m (105m) or 39 per cent (49 per cent) are loss provisioned.

Other doubtful exposures break down to NOK 350m (201m) to corporate customers and NOK 49m (16m) to retail customers.

Collectively assessed impairment write-downs

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

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

In 2015 a basis was found for increasing collectively assessed impairment write-downs by NOK 82m. The reason was an increased likelihood of loss in oil-related activity owing to a more challenging market situation. The aggregate volume of such write-downs is now NOK 376m (295m), representing 0.30 per cent (0.24 per cent) of total lending. Collectively assessed impairment write-downs break down to NOK 96m on retail customers and NOK 281m on corporate customers.

Total assets of NOK 132bn

The Group's assets totalled NOK 132bn (126bn) at 31 December 2015, having risen by NOK 6bn or 4.7 per cent over the year. The rise in total assets is a consequence of increased lending and larger liquidity reserves.

As of 31 December 2015 loans worth a total of 33bn (30bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as lending in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Good growth in lending to retail segment, reduced growth in lending to corporates

Total outstanding loans rose by NOK 6.9bn (8.1bn) or 5.8 per cent (7.3 per cent) in 2015 to reach NOK 127.4bn (120.4bn) as of 31 December 2015.

Lending to retail customers rose in 2015 by NOK 6.6bn (5.5bn) or 9.0 per cent (8.0 per cent) to reach NOK 80.7bn (74.1bn).

Growth in lending to corporates in 2015 was NOK 0.3bn (2.7bn) or 0.7 per cent (6.1 per cent). Overall loans to corporates totalled NOK 46.7bn (46.3bn) as of 31 December 2015. Loans to retail customers accounted for 63 per cent (62 per cent) of ordinary loans to customers at the end of 2015.

(For distribution by sector, see Note 8).

Deposits

Customer deposits rose in 2015 by NOK 3.4bn (4.8bn) to reach NOK 64.1bn (60.7bn) at 31 December 2015. This represents a growth of 5.6 per cent (8.5 per cent).

Retail customer deposits rose by NOK 1.8bn (2.6bn) or 6.9 per cent (10.9 per cent) to reach NOK 28.3bn, while deposits from corporates rose by NOK 1.6bn (2.1bn) or 4.6 per cent (6.7 per cent) to NOK 35.8bn.

The deposit-to-loan ratio at SpareBank 1 SMN was 68 per cent as of 31 December 2015 (67 per cent).

(For distribution by sector, see Note 35).

Portfolio of investment products

The customer portfolio of off-balance sheet investment products totalled NOK 6.6bn (6.2bn) at 31 December 2015. Compared with the previous year, values on equity funds are reduced, while active management has increased substantially.

Saving products, customer portfolio (NOK million)	2015	2014	Change
Equity funds	3,680	4,002	-322
Pension products	683	597	86
Active management	2,197	1,611	586
Total	6,560	6,210	350

Insurance

The Group's insurance portfolio showed growth of 5.6 per cent in the last 12 months. Non-life insurance delivered 2.5 per cent growth, personal insurance 9.8 per cent while growth in the occupational pensions portfolio came to 12.1 per cent.

Insurance, premium volume (NOK million)	2015	2014	Change
Non-life insurance	724	706	18
Personal insurance	269	245	24
Occupational pensions	195	174	21
Total	1,188	1,125	63

Retail Banking

Operating income for 2015 was at about the same level as in 2014, totalling in aggregate NOK 1,663m with net interest income at NOK 948m and commission income at NOK 715m. Return on capital employed in the private banking segment was 15.8 per cent. Economic capital of 13.5 per cent is used as capital employed, corresponding to the CET1 target the Group intends to reach by 30 June 2016.

The lending margin in 2015 was 2.07 per cent (2.39 per cent), while the deposit margin was -0.14 per cent (-0.42 per cent) measured against three-month NIBOR. Average three-month NIBOR was reduced by about 30 basis points over the course of 2015.

In the last 12 months, lending to retail customers rose by 8.4 per cent and deposits from the same segment by 6.2 per cent.

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

Corporate Banking

Operating income totalled NOK 1,164m in 2015, having increased by 6% from 2014. Net interest income was NOK 971m, while other income totalled NOK 193m.

Return on capital employed for the corporate banking segment was 12.4 per cent for 2105. Economic capital of 13.5 per cent is used as capital employed, corresponding to the CET1 target the Group intends to reach by 30 June 2106.

The lending margin was 2.68 per cent (2.90 per cent) and the deposit margin was -0.29 per cent (-0.55 per cent) in 2015.

Growth in loans and deposits respectively in 2015 was 0.9 per cent and 6.9 per cent in the last 12 months.

Subsidiaries

The subsidiaries posted an aggregate pre-tax profit of NOK 130.7m (124.6m) in 2015. The results are from the companies' financial statements.

Pre-tax profit (NOK million)	2015	2014	Change
EiendomsMegler 1 Midt-Norge	47.0	50.9	-3.9
SpareBank 1 Finans Midt-Norge	83.1	67.9	15.1
SpareBank 1 Regnskapshuset SMN	34.8	40.5	-5.7
Allegro Kapitalforvaltning	1.4	2.6	-1.2
SpareBank 1 SMN Invest	38.6	1.7	36.9
SpareBank 1 Markets (from second quarter 2015)	-84.1	-	-84.1
Other companies	9.8	-39.0	48.8
Total	130.7	124.6	6.1

Eiendomsmegler 1 Midt-Norge leads the field in Trøndelag and in Møre og Romsdal with a market share of 40 per cent, and in Trondheim about 50 per cent. The company's pre-tax profit of NOK 47.0m (50.9m) for 2015 is satisfactory. A total of 6,615 dwelling units were sold in 2015 compared with 6,381 in 2014.

SpareBank 1 Finans Midt-Norge posted a pre-tax profit of NOK 83.1m (67.9m) in 2015, and shows positive profit growth due to increased incomes both from car loans and leasing. At year-end the company managed leases and car loan agreements worth a total of NOK 4.3bn of which leases accounted for NOK 2.1bn and car loans for NOK 2.2bn. In the first half-year the SpareBank 1 banks in Møre og Romsdal held a 9.1 per cent stake in SpareBank 1 Finans Midt-Norge. The other SamSpar banks became co-owners in June 2015. The SamSpar banks now hold a stake of 27.9 per cent in SpareBank 1 Finans Midt-Norge. This brings a substantial increase in the company's distributive power.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 34.8m (40.5m) in 2015. The 2014 profit contains gains on share disposals, such that the underlying profit growth is positive.

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

Allegro Kapitalforvaltning is an active management company that manages portfolios for clients primarily in SpareBank 1 SMN and the SamSpar banks. These banks are Allegro's distribution channel. The company posted a pre-tax profit of NOK 1.4m in 2015 (2.6m). The company manages a portfolio of NOK 5.4bn including management of the bank's pension fund worth NOK 0.7bn.

SpareBank 1 SMN Invest's purpose is to invest in shares, mainly in regional businesses. The company posted a pre-tax profit of NOK 38.6m in 2015 (1.7m). This figure is a consequence of value changes and realisation of losses or gains on the company's overall shareholding and accounts for NOK 11.5m of the profit. The company held owner interests in the property companies Grilstad Marina and Hommelvik Sjøside in 2015 which delivered a profit share of NOK 27.1m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with effect from the second quarter of 2015, and was consolidated into the Group accounts on a par with the other subsidiaries as of 1 April 2015. SpareBank 1 SMN's capital market activities at the parent bank were transferred to SpareBank 1 Markets as part of the transaction. SpareBank 1 SMN's stake is 73.4 per cent. SpareBank 1 Markets has its head office in Oslo and divisions in Trondheim and Ålesund. It has 109 employees.

SpareBank 1 Markets AS is an investment firm offering a complete range of products. The company aspires to be a profitable capital market operation which in collaboration with its owner banks can deliver all capital market services. Both customer trading and own account trading are carried out in fixed income and forex instruments, bonds, equities and equity derivatives. Advisory services and facilitating internal and external equity finance for clients are also important product areas.

The company's post-tax profit in 2015 was minus NOK 102m (including the result for the first quarter). The substantial deficit in 2015 is mainly due to a capital loss of NOK 76m related to increased credit margins on the bond portfolio. After profitability-enhancing measures taken in 2015, SpareBank 1 Markets strengthened its customer base and the basis for earnings on both customer trading and own account trading. The company's income from underlying operations improved over the course of 2015.

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

Other companies show an overall profit of NOK 9.8m (deficit of 39.0m). These are mainly property companies that lease premises to SpareBank 1 SMN and other tenants.

mCASH

The SpareBank 1 banks announced on 15 October the acquisition of the Norwegian arm of mCASH, thereby acquiring 100,000 users, more than 600 retailers and technological platform. The intention is to strengthen the bank's position as regards new mobile interfaces such as friend-to-friend payments and mobile payments in stores and on the Internet in addition to simplify payment solutions for clubs and associations. With this acquisition SpareBank1 banks are well positioned to meet the digitalisation and change in customer behavior.

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 21bn and thus has the funding needed for 24 months of ordinary operation without fresh external finance.

The bank's funding sources and products are amply diversified. At year-end the proportion of money market funding in excess of 1 year was 86 per cent (87 per cent). The supply of funding in the market is satisfactory. However, the marginal cost of senior funding in the market was on the rise towards year-end.

SpareBank 1 Boligkreditt is the bank's chief source of funding, and as of 31 December 2015 loans totalling NOK 32bn had been sold to SpareBank 1 Boligkreditt.

Rating

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

Financial position

The CET1 capital ratio was 13.6 per cent (11.2 per cent) at 31 December 2015. In 2015 the CET1 ratio rose by 2.4 percentage points.

Key reasons for improvements in 2015:

- Introduction of the advanced IRB approach
- Retention of profit for 2015
- An unrealised gain at Visa Norge FLI as a result of the sale of Visa Europa to Visa Inc. (See note 2)
- Actuarial gains in the calculation of pensions
- Wind-down of BN Bank's corporate portfolio

On the other hand the CET1 ratio is weakened by growth in risk weighted assets related to the transitional rules in the capital requirements regulations (the 'floor').

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

The Board of Directors of SpareBank 1 SMN reviews the capital situation and future capital requirements on an ongoing basis.

SpareBank 1 SMN is engaged in a regular dialogue with Finanstilsynet (Norway's FSA) regarding its capital level. Finanstilsynet has communicated to the bank a capital expectation of 14.5 per cent CET1 capital by 31 December 2016. This was considered by the Board of Directors in December and a new target of minimum 14.5 per cent by 31 December 2016 was set. Finanstilsynet will establish individual Pillar 2 add-ons for SpareBank 1 SMN when implementing the SREP (Supervisory Review and Evaluation Process) in 2016.

The assumption and expectation of SpareBank 1 SMN's Board of Directors is that implementing the bank's capital plan will ensure that the bank attains the capital requirements expected of it by the market and set by the authorities without carrying out a stock issue.

The Board is accordingly planning for a CET1 capital ratio of 13.5 per cent by 30 June 2016 (including a countercyclical buffer of 1.5 per cent) and a further increase to at least 14.5 per cent by end-2016.

As of 31 December 2015 BN Bank's commercial property portfolio accounts for about NOK 7.5bn of SpareBank 1 SMN's risk weighted assets. Further winding down this portfolio will boost SMN's CET1 ratio by about 1.1 percentage point. As of 31 December 2015 SpareBank 1 SMN's share of BN Bank's risk weighted assets had been reduced by NOK 1.5bn in the period since August 2015.

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

- Continued sound banking operation through efficiency enhancements and prioritisation of profitable segments
- The dividend policy to entail an effective payout ratio of 25–35 per cent of the Group profit
- Moderate growth in the bank's asset-intensive activities, with priority given to lending to households

The bank's equity certificate (MING)

The book value of the bank's EC as of 31 December 2015 including a recommended dividend of NOK 2.25 was NOK 67.65 (62.04), and earnings per EC were NOK 7.02 (8.82).

The Price / Income ratio was 7.19 (6.63), and the Price / Book ratio was 0.74 (0.94).

At year-end the EC was priced at NOK 50.50, and dividend of NOK 2.25 per EC was paid in 2015 for the year 2014.

SpareBank 1 SMN's articles of association do not impose trading restrictions on its EC holders.

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 credit quality of the Group's loan portfolio is satisfactory, loss and default levels are low, and there are no concentrations in defaulted or problem exposures.

The Group anticipates a falling GDP growth rate as a result of reduced oil investment. A weaker Norwegian krone has had a beneficial effect on Norwegian export industry, and will partially offset some of these effects. The Group expects low growth in lending to mid-Norwegian business and industry ahead due to a limited level of investment.

Real wage growth will be low but, assuming persistent low interest rates, the Group considers that the risk of loss in the bank's retail market portfolio will be low. The main uncertainty is unemployment. The bank expects a slight increase in unemployment, but that unemployment will be relatively moderate in the bank's market areas as a whole.

Credit demand from Norwegian households has declined somewhat, but remains higher than wage growth and will to a large extent be affected by the trend in house prices. The Group expects losses on home mortgage loans to remain low. Should house prices stagnate, or fall, there will be a risk of a higher household saving rate, bringing reduced sales for parts of Norwegian business and industry.

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

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

Corporate social responsibility

SpareBank 1 SMN wishes to contribute to society's value creation by assuring profitable and sound banking, prudent capital allocation and sustainable management of inputs. Healthy growth provides the 'lift' that enables the Group to attract good customers and skilled staff and to contribute to the further development of the region of which the Group is a part.

SpareBank 1 SMN aims to balance financial growth against the need for rational use of inputs and resources consumed by the bank. Consideration for society is integrated in all aspects and at all levels of the Group's business, extending to matters touched on in the Accounting Act section 3-3c which deals with human rights, employee rights, social conditions, external environment and the combating of corruption. This ensures that ethics, the environment and important social issues are on the agenda throughout.

SpareBank 1 SMN has established a strategy for its corporate social responsibility that brings together three themes: finance, social responsibility and environment. Under each main theme, important areas are defined and clear targets are set for the bank's contribution to responsible development.

This is further described in the chapter Corporate Social Responsibility in this annual report, which includes meeting the requirements of the Accounting Act section 3-3c.

HR and competence

SpareBank 1 SMN is a competence-intensive business. This means that the individual staff member's, department's and the organisation's combined competence are key inputs for securing sound value creation at all levels. The bank's advisers are the core of the business and are the most important competitive advantage in combination with the values 'close at hand' and 'capable'.

Knowledge, skills and mindsets

SpareBank 1 SMN makes heavy demands on its advisers to ensure that customers experience the best the market has to offer in terms of personal financial and corporate financial advice. The bank has developed good training arenas for its advisers and has a continual focus on professional development, improvement of customer processes and a high standard of ethics among all members of staff. The SpareBank 1 Alliance has jointly developed a comprehensive certification programme for advisers and is thus well placed to adapt to new industry requirements. At the end of 2015 all the bank's advisers that provide personal guidance regarding customers' financial assets, and advisers that sell and provide advice on non-life insurance, were approved under the Authorisation Scheme. New staff members or advisers who intend to

provide advisory services undergo authorisation and/or learning trajectories under the Authorisation Scheme. Eighteen advisers became authorised under the Authorisation Scheme for financial advisers in the course of 2015. Eighteen advisers gained authorisation under the Authorisation Scheme for sellers and advisers in non-life insurance.

Attractive employer

Vacancy announcements and the Group's company presentations have attracted much interest, and recruitment agencies report unequivocally that the Group has a positive reputation in the labour market. The Group is continuously engaged in developing and improving its appointment policy to ensure the recruitment of staff with the right knowledge, skills and mindsets and to come across as an attractive employer in the labour market.

The Group collaborates with relevant educational institutions in our market area and participates both in company presentations and as a mentor enterprise for certain lines of study.

The Group's internal labour market

Job changes are facilitated across business areas and subsidiaries to stimulate circulation of competencies and experience in the organisation, and career development for our staff. Twenty-one staff members went to new jobs within the Group in 2015.

Internal career models have been established for the various business areas. This lends clarity to requirements and expectations in various roles and indicates possibilities for professional career development.

The overarching objective of the internal recruiting processes is to get the right person into the right job and to offer interesting development opportunities for our staff. Inherent in this objective is a clear-cut aim of a good gender balance at all levels of the organisation. A healthy gender equality perspective is a precept of the Bank's HR policy.

Planned reduction of FTEs at the parent bank

Wide-ranging efficiency improvement measures have been set in train at the parent bank in order to strengthen competitive power. The aim is zero growth in costs. The number of permanent FTEs at the parent bank was reduced by 75 to 645 in 2015, of which 29 were new retirees. Plans have been made for a further reduction to 600 FTEs in the course of 2016.

Sickness absence

Overall rate of sickness absence was 4.2 per cent in 2015 compared with 3.2 per cent in 2014. The Group makes an active effort to keep sickness absence as low as possible. Initiatives at various levels have been important and are viewed as key explanations for our relatively moderate rate of sickness absence.

Corporate initiatives

- 'Better Shape' workout/activities programme
- Close cooperation with the corporate health service
- Targeted health follow-up (ergonomics, work environment, health)
- Organisation surveys

Initiatives aimed at the individual

- More and more staff turning to healthful leisure activities
- Substantial support for company sports activities
- Close follow-up of staff on sick leave

Main figures, parent bank	2015	2014
No. of FTEs 31 Dec	645	753
No. of staff 31 Dec	689	789
Share of female managers	36.0 %	32.0 %
New staff	10	53
Average age	46 yrs	46 yrs
Sickness absence rate	4.2 %	3.2 %

Demographic data for the parent bank

Non-discrimination

SpareBank 1 SMN works to prevent discrimination in spheres including recruitment, pay and employment conditions, promotion, career development, and protection against harassment. SpareBank 1 SMN's aim is that its workforce should reflect the population structure in the region.

The Group's remuneration policy

All remuneration arrangements at SpareBank 1 SMN are formulated in accordance with the Financial Institutions Act, and with the Securities Trading Act with associated Regulations on Remuneration Arrangements at Financial Institutions, Investment Firms and Fund Management Companies.

The Group's guidelines for variable remuneration 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 remuneration arrangements are formulated in such a way as to ensure that neither individuals nor the organisation will take unacceptable risk in order to maximise the variable remuneration.

For further information, see note 22 Personnel expenses and emoluments to senior employees and elected officers.

Prospects

The directors are satisfied with the performance for 2015. This is despite the decline in profit from 2014 which is mainly due to substantial extraordinary revenues in 2014. The Group achieved good growth in a highly competitive retail market and strengthened its market position. Reduced loan demand from the corporate segment in combination with a stronger focus on risk has enabled the bank to reduce lending growth in keeping with the assumptions of the capital plan. Subsidiaries and associates are on satisfactory trend at the start of 2016.

The economic climate at the start of 2016 is marked by a low oil price and challenging market conditions for oil-price-dependent manufacturing. At the end of 2015 the problems in the oil/offshore segment have however not brought signs of increased non-performance in the Group's loan portfolios. Unemployment in the Group's market areas as a whole has not risen significantly. Continued low oil prices mean that uncertainty regarding the Group's exposure to oil-related activity in Sunnmøre in particular is greater at the start of 2016 than one year ago. Defaults are at a very low level, which is the main explanation for very low

individually assessed impairment write-downs. The uncertainty caused the bank to increase its collectively assessed impairment write-downs in the second half-year by NOK 80m earmarked for this sector.

The target of a CET1 ratio of 13.5 per cent by 30 June 2016 was attained as of 31 December 2015. The Board of Directors has adopted a new target of 14.5 per cent to be attained by 31 December 2016. The Board assumes and expects the target to be met with the instruments in the bank's capital plan. Chief among these are good current earnings, reduced growth in the corporate segment in particular, along with the wind-down of the loan portfolio at BN Bank. The bank has the space for action needed to meet government requirements without carrying out a stock issue. The board anticipates a gradual increase in dividends ahead.

The banks adaption to changed customer behavior is a prioritised task. The bank has therefore started a number of initiatives in the areas of digitalisation, distribution and work processes. This will increase the efficiency of banking operations and improve the customer experiences.

Even with weakened outlook for the Norwegian economy, the Board of Directors expects 2016 to be another year of satisfactory earnings for SpareBank 1 SMN.

Trondheim, 7 March 2016

The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
Chair

Bård Benum
Deputy Chair

Paul E. Hjelm-Hansen

Aud Skrudland

Morten Loktu

Janne Thyø Thomsen

Arnhild Holstad

Venche Johnsen
Employee representative

Finn Haugan
Group CEO