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Note 1 - Accounting principles

SpareBank 1 SMN prepares and presents its quarterly accounts in compliance with the Stock Exchange Regulations, Stock Exchange Rules and International Financial Reporting Standards (IFRS) approved by EU, including IAS 34, Interim Financial Reporting. The quarterly accounts do not include all the information required in a complete set of annual financial statements and should be read in conjunction with the annual accounts for 2017. The Group has in this quarterly report used the same accounting principles and calculation methods as in the latest annual report and accounts, except implementing IFRS 9 as described below.

IFRS 9

IFRS 9 Financial instruments deals with recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 is applicable from 1 January 2018 and is approved by the EU.

Detailed information about the implementation of IFRS 9 in SpareBank 1 SMN can be found in note 2 and 45 in the annual report for 2017.

As allowed in the transition rules in IFRS 9, the bank has chosen not to adjust the comparative figures, and these have been presented in line with previous accounting principles as described in the annual report for 2017. Adjustments in amounts recorded at the transition date 1. January 2018 has been made against equity, and new disclosures in line with IFRS 7 has been presented. Disclosure information using previous principles are the same as presented previous periods.

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. Instruments that should basically be measured at amortised cost or at fair value with changes through OCI can be designated to be measured at fair with changes through profit or loss if this eliminates or significantly reduces an “accounting mismatch".

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 combination 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

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.

Loan impairment write-downs

Under IFRS 9 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 impairment write-down model

Loss estimates are prepared quarterly, and build on data in the data warehouse which has historical accounting and customer data for the entire credit portfolio. The Bank uses three macroeconomic scenarios to consider the non-linear aspects of expected credit losses. The different scenarios are used to adjust the input parameters for calculating expected credit loss, and an probability weighted average expected calculated loss of the scenarios is recorded as the loss.

Loss estimates are 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. This is the basis for preparing good estimates for the future values for PD og 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 previous rules were defined as defaulted and written down.

SpareBank 1 SMN calculates the provision for credit loss for assets in stage 1 and 2 in accordance with IFRS 9 as the net present value of the exposure (EAD) multiplied by probability of default (PD) multiplied by loss given default (LGD). SpareBank 1 SMN has grouped the loans in three portfolios and make projections for a period of five years for each portfolio.

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

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

Pensions

Sparebank1 SMN Group has one pension arrangements; defined contribution plan. For a further description of the pension scheme, see note 24 in the 2017 annual report.

The group's pension liabilities are accounted for under IAS 19R. Estimate variances are therefore directly reflected in equity capital and are presented under other comprehensive income.

It was decided to terminate the defined benefit scheme at a board meeting on 21 October 2016. Employees on this scheme transferred to the defined contribution scheme from 1 January 2017, and received a paid-up policy showing rights accumulated under the defined benefit scheme. Paid-up policies are managed by the pension fund, which has been 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. 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.

A new calculation of the Group's pension liabilities has been carried out as per 31 December 2018:

Actuarial assumptions	**31 Dec 2018**	**1 January 2018**	**31 Dec 2017**
Discount rate	2.60%	2.40%	2.40%
Expected rate of return on plan assets	2.60%	2.40%	2.40%
Expected future wage and salary growth	2.25%	2.25%	2.25%
Expected adjustment on basic amount (G)	2.25%	2.25%	2.25%
Expected increase in current pension	0.00 %	0.00 %	0.00%
Employers contribution	19.10%	19.10%	19.10%

Demographic assumptions:	
Mortality base table	K2013 BE
Disability	IR73
Voluntary exit	2 % to 50 year, 0 % after 50 year

Movement in net pension liability in the balance sheet Group (NOKm)	**Funded**	**Unfunded**	**Total**
Net pension liability in the balance sheet 1.1	-171	24	-147
OCI accounting 1 Jan	0	-	0
OCI accounting 31 December	-18	-2	-19
Net defined-benefit costs in profit and loss account	-4	2	-2
Paid in pension premium, defined-benefit schemes	0	-	0
Paid in pension premium, defined-benefit plan	-	-3	-3
Net pension liability in the balance sheet 31 December 2018	**-193**	**21**	**-172**

Net pension liability in the balance sheet Group (NOKm)	31 Dec 2018	31 Dec 2017
Net present value of pension liabilities in funded schemes	628	651
Estimated value of pension assets	-803	-802
Net pension liability in the balance sheet before employer's contribution	-175	-151
Employers contribution	3	4
Net pension liability in the balance sheet	**-172**	**-147**

Pension cost Group (NOKm)	2018	2017
Present value of pension accumulated in the year	1	1
Net interest income	-4	-5
Net pension cost related to defined plans, incl unfunded pension commitment	-3	-4
Employer's contribution subject to accrual accounting	0	0
Cost of defined contribution pension and early retirement pension scheme	98	83
Total pension cost for the period	**96**	**79**

Investment held for sale

SpareBank 1 SMN's strategy is that ownership duse 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, and is classified as investment held for sale.

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, in addition to the progress made in the sale process which makes it highly probable that the sale will be completed in the coming 12 months.

SpareBank 1 SMN accepted a bid at Søndre gate no. 4-10 in Trondheim city centre at November 9, 2017. SpareBank 1 SMN and its subsidiaries will lease back about 70 per cent of the overall area on a 15 year lease with the option of a lease extension. Estimated gross annual rental in 2018 amounts to NOK 36.4 million. The gross property value underlying the bid is NOK 755 million and provided SpareBank 1 SMN with a net gain after an estimated tax rebate and transaction costs of NOK 144 million. The transaction was completed in 2Q 2018.

2018 (NOKm)	Assets	Liabilities	Revenue	Expenses	Profit	Ownership
Mavi XV AS Group	43	1	5	-1	5	100 %
Søndre gate 4-10 AS	-	-	144	-	144	100 %
Total Held for sale	**43**	**1**	**148**	**-1**	**149**	

Note 3 - Account by business line

For the subsidiaries the figures refer to the respective company accounts, while for associates and 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 2018

Profit and loss account (NOKm)	RM	CM	SB1 Markets	EM 1	SB1 Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	1,056	981	-14	-1	275	-0	-	-	105	2,403
Interest from allocated capital	177	129	-	-	-	-	-	-	-306	-
Total interest income	**1,234**	**1,110**	**-14**	**-1**	**275**	**-0**	**-**	**-**	**-201**	**2,403**
Commission income and other income	793	202	460	497	62	444	-	-	-282	2,177
Net return on financial investments **)	0	17	105	-	-	-	289	92	255	757
Total income	**2,027**	**1,329**	**551**	**496**	**337**	**444**	**289**	**92**	**-228**	**5,337**
Total operating expenses	**804**	**373**	**536**	**519**	**155**	**373**	**-**	**-**	**-137**	**2,624**
Ordinary operating profit	**1,223**	**956**	**15**	**-23**	**182**	**71**	**289**	**92**	**-92**	**2,713**
Loss on loans, guarantees etc.	17	212	-	-	34	-	-	-	0	263
Result before tax	**1,206**	**744**	**15**	**-23**	**149**	**71**	**289**	**92**	**-92**	**2,450**
Return on equity*)	**13.2 %**	**11.3 %**								**12.2 %**
Balance										
Loans and advances to customers	112,723	40,548	-	-	7,760	-	-	-	-714	160,317
Adv. of this sold to SB1 Boligkreditt and SB1 Næringskreditt	-38,189	-1,656	-	-	-	-	-	-	0	-39,844
Allowance for credit losses	-103	-594	-	-	-45	-	-	-	-2	-744
Other assets	121	4,261	2,258	1,114	9	394	1,569	1,238	30,012	40,975
Total assets	**74,552**	**42,560**	**2,258**	**1,114**	**7,723**	**394**	**1,569**	**1,238**	**29,296**	**160,704**
Deposits to customers	40,046	39,236	-	-	-	-	-	-	1,333	80,615
Other liabilities and equity	34,506	3,324	2,258	1,114	7,723	394	1,569	1,238	27,963	80,089
Total liabilites and equity	**74,552**	**42,560**	**2,258**	**1,114**	**7,723**	**394**	**1,569**	**1,238**	**29,296**	**160,704**

Group 31 December 2017

Profit and loss account (NOKm)	RM	CM	Markets	EM 1	SB1 Finans MN	SB1 Regnskaps-huset SMN	SB1 Gruppen	BN Bank	Uncollated	Total
Net interest	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	226	760
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**	**-116**	**2,621**
Loss on loans, guarantees etc.	5	318	-	-	18	-	-	-	-0	341
Result before tax	**1,127**	**632**	**2**	**3**	**128**	**61**	**349**	**94**	**-116**	**2,279**
Return on equity*)	**16.6 %**	**10.5 %**								**11.5 %**
Balance										
Loans and advances to customers	103,131	39,482	-	-	6,740	-	-	-	-569	148,784
Adv. of this sold to SpareBank 1 Boligkreditt	-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 liabilites and equity	**68,141**	**41,010**	**2,242**	**612**	**6,724**	**323**	**1,569**	**1,149**	**31,483**	**153,254**

*) 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 2018

**) Specification of net return on financial investments (NOKm)	31 Dec 2018	31 Dec 2017
Dividends	**8**	**6**
Capital gains shares (incl dividends)	96	62
Gain/(loss) on derivatives	187	124
Gain/(loss) on other financial instruments at fair value (FVO)	10	7
Foreign exchange gain/(loss)	63	45
Gain/(loss) on sertificates and bonds	-77	58
Gains/(Loss) on shares and share derivatives at SpareBank 1 Markets	58	43
Gain/(loss) on financial instruments related to hedging ***)	-4	-22
Net return on financial instruments	**334**	**317**
SpareBank 1 Gruppen	289	349
SpareBank 1 Boligkreditt	-7	-41
SpareBank 1 Næringskreditt	15	19
BN Bank	97	98
SpareBank 1 Kredittkort	23	15
SpareBank 1 Betaling	-12	-14
Other companies	12	12
Income from investment in associates and joint ventures	**416**	**437**
Total net return on financial investments	**757**	**760**

***) Specification of gain/loss related to hedge accounting	31 Dec 2018	31 Dec 2017
Changes in fair value on hedging instrument	-46	-214
Changes in fair value on hedging item	42	192
Net Gain or Loss from hedge accounting	**-4**	**-22**

Note 4 - Capital adequacy

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

As of 31 December 2018 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. The total minimum requirement on CET1 capital is accordingly 14.1 per cent. From first quarter 2019 the Pillar 2 requirement is changed to 1.9 per cent for SpareBank 1 SMN.

Countercyclical buffer is calculated using differentiated rates. 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 2018 both the parent bank and the group is below the capital deduction threshold such that the Norwegian rate is applied to all relevant exposures.

Parts of the group's hybrid capital and subordinated debt were issued under earlier rules. This has been subject to a write-down of 50 per cent in 2017 and 60 per cent in 2018. As at 31 December 2018 the bank held hybrid capital worth NOK 450 million subject to write-down.

Parent Bank			Group	
31 Dec 2017	**31 Dec 2018**	**(NOKm)**	**31 Dec 2018**	**31 Dec 2017**
15,372	**16,409**	**Total book equity**	**18,686**	**17,510**
-950	-1,000	Additional Tier 1 capital instruments included in total equity	-1,043	-993
-522	-533	Deferred taxes, goodwill and other intangible assets	-1,079	-984
-893	-1,034	Deduction for allocated dividends and gifts	-1,034	-893
-	-	Non-controlling interests recognised in other equity capital	-637	-565
-	-	Non-controlling interests eligible for inclusion in CET1 capital	366	324
-30	-31	Value adjustments due to requirements for prudent valuation	-44	-41
-350	-268	Positive value of adjusted expected loss under IRB Approach	-286	-333
-	-	Cash flow hedge reserve	5	7
-	-163	Deduction for common equity Tier 1 capital in significant investments in financial institutions	-206	-212
12,627	**13,381**	**Total common equity Tier one**	**14,727**	**13,820**
950	1,000	Additional Tier 1 capital instruments	1,378	1,427
459	367	Additional Tier 1 capital instruments covered by transitional provisions	367	459
14,036	**14,748**	**Total core capital**	**16,472**	**15,707**
		Supplementary capital in excess of core capital		
1,000	1,750	Subordinated capital	2,316	1,615
561	96	Subordinated capital covered by transitional provisions	96	561
-254	-140	Deduction for significant investments in financial institutions	-140	-254
1,307	**1,705**	**Total supplementary capital**	**2,272**	**1,922**
15,343	**16,453**	**Net subordinated capital**	**18,743**	**17,629**

		Minimum requirements subordinated capital		
978	967	Specialised enterprises	1,116	1,107
1,098	1,156	Corporate	1,163	1,113
1,370	1,516	Mass market exposure, property	2,098	1,892
90	90	Other mass market	92	91
1,198	1,062	Equity investments	1	1
4,733	**4,790**	**Total credit risk IRB**	**4,470**	**4,205**
3	3	Central government	4	3
80	87	Covered bonds	124	146
431	390	Institutions	246	333
0	-	Local and regional authorities, state-owned enterprises	8	4
25	23	Corporate	221	226
18	73	Mass market	520	405
13	12	Exposures secured on real property	215	193
232	228	Equity positions	366	344
70	57	Other assets	107	166
872	**873**	**Total credit risk standardised approach**	**1,810**	**1,820**
16	30	Debt risk	31	18
-	-	Equity risk	7	22
-	-	Currency risk and risk exposure for settlement/delivery	3	1
341	370	Operational risk	575	510
52	39	Credit value adjustment risk (CVA)	122	117
-	-	Transitional arrangements	1,074	891
6,015	**6,102**	**Minimum requirements subordinated capital**	**8,093**	**7,585**
75,182	**76,274**	**Risk weighted assets (RWA)**	**101,168**	**94,807**
3,383	3,432	Minimum requirement on CET1 capital, 4.5 per cent	4,553	4,266
		Capital Buffers		
1,880	1,907	Capital conservation buffer, 2.5 per cent	2,529	2,370
2,255	2,288	Systemic rick buffer, 3.0 per cent	3,035	2,844
1,504	1,525	Countercyclical buffer, 2.0 per cent	2,023	1,896
5,639	**5,721**	**Total buffer requirements on CET1 capital**	**7,588**	**7,111**
3,605	**4,228**	**Available CET1 capital after buffer requirements**	**2,587**	**2,444**
		Capital adequacy		
16.8 %	17.5 %	Common equity Tier one ratio	14.6 %	14.6 %
18.7 %	19.3 %	Core capital ratio	16.3 %	16.6 %
20.4 %	21.6 %	Capital adequacy ratio	18.5 %	18.6 %
		Leverage ratio		
145,821	153,395	Balance sheet items	216,240	210,764
7,112	7,110	Off-balance sheet items	9,086	9,295
-902	-832	Regulatory adjustments	-1,474	-1,580
152,032	159,673	Calculation basis for leverage ratio	223,853	218,479
14,036	14,748	Core capital	16,472	15,707
9.2 %	**9.2 %**	**Leverage Ratio**	**7.4 %**	**7.2 %**

Note 5 - Distribution of loans by sector/industry

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOKm)	31 Dec 2018	31 Dec 2017
11,305	12,362	Agriculture, forestry, fisheries, hunting	12,686	11,606
1,311	869	Sea farming industries	1,180	1,697
2,850	3,438	Manufacturing	3,787	3,157
2,794	2,947	Construction, power and water supply	3,661	3,419
2,432	2,335	Retail trade, hotels and restaurants	2,621	2,700
4,639	4,227	Maritime sector	4,227	4,639
14,289	15,107	Property management	15,168	14,348
2,510	2,531	Business services	2,162	2,260
3,547	4,145	Transport and other services provision	4,961	4,322
226	44	Public administration	55	240
1,669	1,658	Other sectors	1,679	1,699
47,572	**49,663**	**Gross loans in retail market**	**52,186**	**50,087**
94,984	103,537	Wage earners	108,131	98,697
142,556	**153,200**	**Gross loans incl. SB1 Boligkreditt /SB1 Næringskreditt**	**160,317**	**148,784**
34,885	38,062	of which SpareBank 1 Boligkreditt	38,062	34,885
1,828	1,782	of which SpareBank 1 Næringskreditt	1,782	1,828
105,843	**113,356**	**Gross loans in balance sheet**	**120,473**	**112,071**
	639	- Loan loss allowance on amortised cost loans	686	
	58	- Loan loss allowance on loans at FVOCI	58	
751		- Specified write-downs		765
323		- Collective write-downs		347
104,769	**112,659**	**Net loans to and receivables from customers**	**119,728**	**110,959**

Note 6 - Losses on loans and guarantees

Parent Bank	Jan-Dec			Jan-Dec		
	2018			2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Change in provision for expected credit losses for the period	18	126	144	7	278	285
Actual loan losses on commitments exceeding provisions made	6	86	93	3	41	45
Recoveries on commitments previously written-off	-7	-1	-8	-5	-1	-6
Losses for the period on loans and guarantees	**17**	**212**	**229**	**5**	**318**	**323**

Group	Jan-Dec			Jan-Dec		
	2018			2017		
Losses on loans and guarantees (NOKm)	**RM**	**CM**	**Total**	**RM**	**CM**	**Total**
Change in provision for expected credit losses for the period	23	127	150	11	279	290
Actual loan losses on commitments exceeding provisions made	30	98	127	12	46	58
Recoveries on commitments previously written-off	-13	-1	-15	-6	-1	-7
Losses for the period on loans and guarantees	**40**	**223**	**263**	**17**	**324**	**341**

Note 7 - Losses

Provision for expected credit lossen on loans and guarantees are presented after implementation of IFRS 9 from january 1, 2018. See note 2 and 45 in the annual report for 2017 for detailed information about the implementation effect and transition. Comparative figures have not been restated, and the information about fourth quarter 2017 has been presented below in accordance with previous rules in IAS 32.

Parent Bank (NOKm)	1 January 18	Change in provision	Net write-offs/ recoveries	31 Dec 2018
Loans as amortised cost- CM	1,017	125	-400	742
Loans as amortised cost- RM	32	28	-15	45
Loans at fair value over OCI- RM	65	10	-	75
Provision for expected credit losses on loans and guarantees	**1,114**	**163**	**-415**	**862**
Presented as				
Provision for loan losses	1,027	86	-415	697
Other debt- provisons	68	80	-	148
Other comprehensive income - fair value adjustment	18	-2	-	17

Group (NOKm)	1 January 18	Change in provision	Net write-offs/ recoveries	31 Dec 2018
Loans as amortised cost- CM	1,041	128	-402	766
Loans as amortised cost- RM	49	34	-15	68
Loans at fair value over OCI- RM	65	10	-	75
Provision for expected credit losses on loans and guarantees	**1,155**	**171**	**-417**	**909**
Presented as				
Provision for loan losses	1,068	93	-417	744
Other debt- provisons	68	80	-	148
Other comprehensive income - fair value adjustment	18	-2	-	17

Parent Bank		**2018**		
Total Allowance for Credit Losses (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January	**96**	**256**	**762**	**1,114**
Provision for credit losses				
Transfer to (from) stage 1	32	-32	-0	-
Transfer to (from) stage 2	-6	6	-0	-
Transfer to (from) stage 3	-0	-2	3	-
Net remeasurement of loss allowances	-34	45	158	168
Originations or purchases	55	93	1	148
Derecognitions	-40	-108	-4	-153
Actual loan losses	-	-	-415	-415
Closing balance 31 December	**102**	**257**	**503**	**862**

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Group		2018		
Total Allowance for Credit Losses (NOKm)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance 1 January	**106**	**267**	**782**	**1,155**
Provision for credit losses				
Transfer to (from) stage 1	34	-33	-0	-
Transfer to (from) stage 2	-7	7	-0	-
Transfer to (from) stage 3	-0	-4	4	-
Net remeasurement of loss allowances	-37	47	167	177
Originations or purchases	59	96	3	158
Derecognitions	112	271	526	-163
Actual loan losses	-	-	-417	-417
Closing balance 31 December	**112**	**271**	**526**	**909**

Parent Bank

		31 Dec 2017	
Individual write-downs (NOKm)	**RM**	**CM**	**Total**
Individual write-downs to cover loss on loans and guarantees at 1.1*)	24	602	625
- Actual losses during the period for which provisions for individual impairment losses have been made previously	8	146	155
- Reversal of provisions from previous periods	4	8	13
+ Increased write-downs on provisions previously written down	0	191	191
+ Write-downs on provisions not previously written down	6	100	106
Individual write-downs to cover loss on loans and guarantees at period end	**18**	**738**	**755**

*) 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	
Collective write-downs (NOKm)	**RM**	**CM**	**Total**
Collective write-downs to cover loss on loans, guarantees at 1.1	90	228	318
Period's collective write-downs to cover loss on loans, guarantees etc	-	5	5
Collective write-downs to cover loss on loans and guarantees at period end	**90**	**233**	**323**

Group

		31 Dec 2017	
Individual write-downs (NOKm)	**RM**	**CM**	**Total**
Individual write-downs to cover loss on loans and guarantees at 1.1*)	27	611	638
- Actual losses during the period for which provisions for individual impairment losses have been made previously	9	147	157
- Reversal of provisions from previous periods	5	9	14
+ Increased write-downs on provisions previously written down	0	191	191
+ Write-downs on provisions not previously written down	7	104	111
Individual write-downs to cover loss on loans and guarantees at period end	**20**	**750**	**769**

*) 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	
Collective write-downs (NOKm)	**RM**	**CM**	**Total**
Collective write-downs to cover loss on loans, guarantees at 1.1	100	239	339
Period's collective write-downs to cover loss on loans, guarantees etc	5	4	9
Collective write-downs to cover loss on loans and guarantees at period end	**104**	**243**	**347**

Note 8 - Gross loans

Parent Bank	Loans subject to impairment			Fixed interest	
Gross loan (NOKm)	Stage 1	Stage 2	Stage 3	loans at FV	Total
Balance at 1 January 2018	**91,074**	**9,931**	**1,560**	**3,278**	**105,843**
Transfer to stage 1	2,230	-2,230	0	-	-
Transfer to stage 2	-2,637	2,644	-7	-	-
Transfer to stage 3	-458	-31	489	-	-
Net increase/decrease amount excisting loans	-5,487	-65	11	-148	-5,689
New loans	46,099	2,067	72	2,269	50,507
Derecognitions	-33,363	-2,428	-581	-933	-37,305
Balance at 31 December 2018	**97,458**	**9,888**	**1,543**	**4,467**	**113,356**

Group	Loans subject to impairment			Fixed interest	
Gross loan (NOKm)	Stage 1	Stage 2	Stage 3	loans at FV	Total
Balance at 1 January 2018	**96,286**	**10,855**	**1,652**	**3,278**	**112,071**
Transfer to stage 1	2,439	-2,391	-48	-	-
Transfer to stage 2	-2,957	2,970	-13	-	-
Transfer to stage 3	-464	-71	536	-	-
Net increase/decrease amount excisting loans	-6,397	-260	89	-148	-6,716
New loans	48,841	2,283	89	2,269	53,483
Derecognitions	-34,253	-2,556	-622	-933	-38,365
Balance at 31 December 2018	**103,494**	**10,829**	**1,682**	**4,467**	**120,473**

Note 9 - Distribution of customer deposits by sector/industry

Parent Bank			Group	
31 Dec 2017	**31 Dec 2018**	**(NOKm)**	**31 Dec 2018**	**31 Dec 2017**
3,061	3,066	Agriculture, forestry, fisheries, hunting	3,066	3,061
1,021	742	Sea farming industries	742	1,021
2,736	1,696	Manufacturing	1,696	2,736
3,046	3,541	Construction, power and water supply	3,541	3,046
4,152	4,663	Retail trade, hotels and restaurants	4,663	4,152
1,269	996	Maritime sector	996	1,269
4,595	4,949	Property management	4,644	4,405
6,429	6,883	Business services	6,883	6,429
5,846	6,572	Transport and other services provision	6,210	5,414
11,284	12,202	Public administration	12,202	11,284
2,127	3,083	Other sectors	2,917	1,863
45,565	**48,393**	**Total**	**47,561**	**44,678**
31,797	33,055	Wage earners	33,055	31,797
77,362	**81,448**	**Total deposits**	**80,615**	**76,476**

Note 10 - Net interest income

Parent bank Jan-Dec 2017	Parent bank Jan-Dec 2018	(NOKm	Group Jan-Dec 2018	Group Jan-Dec 2017
		Interest income		
137	166	Interest income from loans to and claims on central banks and credit institutions	62	44
3,150	3,275	Interest income from loans to and claims on customers	3,676	3,476
284	295	Interest income from money market instruments, bonds and other fixed income securities	291	281
-	0	Other interest income	28	23
3,571	**3,737**	**Total interest income**	**4,057**	**3,825**
		Interest expense		
133	142	Interest expenses on liabilities to credit institutions	154	137
654	749	Interest expenses relating to deposits from and liabilities to customers	734	636
668	615	Interest expenses related to the issuance of securities	615	668
95	84	Interest expenses on subordinated debt	86	97
-0	0	Other interest expenses	15	13
49	50	Guarantee fund levy	50	49
1,599	**1,640**	**Total interest expense**	**1,655**	**1,600**
1,972	**2,097**	**Net interest income**	**2,403**	**2,225**

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Note 11 - Operating expenses

Parent bank Jan-Dec			Group Jan-Dec	
2017	**2018**	**(NOKm)**	**2018**	**2017**
203	217	IT costs	293	266
17	12	Postage and transport of valuables	17	22
50	53	Marketing	106	104
50	66	Ordinary depreciation	99	102
118	108	Operating expenses, real properties	153	118
77	93	Purchased services	151	139
118	134	Other operating expense	221	192
634	**685**	**Total other operating expenses**	**1,040**	**943**

Note 12 - Other assets

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOKm)	31 Dec 2018	31 Dec 2017
-	-	Deferred tax asset	175	178
115	97	Fixed assets	234	263
61	67	Earned income not yet received	86	104
35	7	Accounts receivable, securities	277	322
158	179	Pensions	179	171
333	384	Other assets	737	615
703	**733**	**Total other assets**	**1,687**	**1,654**

Note 13 - Other liabilities

Parent Bank			Group	
31 Dec 2017	31 Dec 2018	(NOKm)	31 Dec 2018	31 Dec 2017
21	84	Deferred tax	147	81
337	389	Payable tax	448	367
9	10	Capital tax	10	9
70	30	Accrued expenses and received, non-accrued income	413	444
108	115	Provision for accrued expenses and commitments	115	108
4	148	Losses on guarantees and unutilised credits	148	4
24	21	Pension liabilities	21	24
88	97	Drawing debt	97	88
16	11	Creditors	66	82
0	699	Debt from securities	809	162
-	-	Equity Instruments	31	244
232	288	Other liabilities	366	311
909	**1,892**	**Total other liabilites**	**2,670**	**1,923**

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

Group

Change in securities debt (NOKm)	31 Dec 2017	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2018
Certificate, nominal value	-	391	-	-	391
Bond debt, nominal value	41,663	12,390	9,815	-775	43,463
Value adjustments	207	-	-	-49	158
Accrued interest	324	-	-	-68	256
Total	**42,194**	**12,781**	**9,815**	**-891**	**44,269**

Change in subordinated debt and hybrid equity (NOKm)	31 Dec 2017	Issued	Fallen due/ Redeemed	Other changes	31 Dec 2018
Ordinary subordinated loan capital, nominal value	1,701	750	470	-189	1,793
Hybrid equity, nominal value	450	-	-	-	450
Value adjustments	40	-	-	-27	13
Accrued interest	10	-	-	3	12
Total	**2,201**	**750**	**470**	**-213**	**2,268**

Note 15 - Measurement of fair value of financial instruments

Financial instruments at fair value are classified at various levels.

Level 1: Valuation based on quoted prices in an active market
Fair value of financial instruments that are traded in the active markets is based on market price on the balance sheet date. A market is considered active if market prices are easily and regularly available from a stock exchange, dealer, broker, industry group, price-setting service or regulatory authority, and these prices represent actual and regularly occurring market transactions at an arm's length. This category also includes quoted shares and Treasury bills.

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

Level 3: Valuation based on other than observable data
If valuation data are not available for level 1 and 2, valuation methods are applied that are based on non-observable information.

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2018:

Assets (NOKm)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
- Derivatives	1	4,117	-	4,119
- Bonds and money market certificates	2,786	17,563	-	20,348
- Equity instruments	1,195	128	550	1,873
- Fixed interest loans	-	43	4,425	4,467
Financial assets through other comprehensive income				
- Loans at fair value through other comprehensive income	-	-	61,295	61,295
Total assets	**3,982**	**21,850**	**66,269**	**92,102**

Liabilities	Level 1	Level 2	Level 3	Total
Financial liabilities through profit/loss				
- Derivatives	4	2,977	-	2,982
- Equity instruments	31	-	-	31
Total liabilities	**36**	**2,977**	**-**	**3,013**

The following table presents the Group's assets and liabilities measured at fair value at 31 December 2017:

Assets (NOKm)	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 avaliable 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 changes in the instruments classified in level 3 as at 31 December 2018:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Loans at fair value through OCI	Equity instruments through OCI	Total
Closing balance 31 December	419	3,236	-	66	3,722
Implementation effect IFRS 9	66	-	56,743	-66	56,743
Opening balance 1 January	**486**	**3,236**	**56,743**	**-**	**60,464**
Investment in periode	76	2,269	18,147	-	20,492
Disposals in the periode	-20	-1,079	-13,596	-	-14,694
Expectged credit loss	-	-	-2	-	-2
Gain or loss on financial instruments	8	-2	2	-	8
Closing balance	**550**	**4,425**	**61,294**	**-**	**66,269**

The following table presents the changes in the instruments classified in level 3 as at 31 December 2017:

(NOKm)	Equity instruments through profit/loss	Fixed interest loans	Equity instruments available for sale	Total
Opening balance 1 January	524	3,783	60	4,367
Investment in periode	20	304	-	323
Disposals in the periode	-157	-849	-20	-1,026
Gain or loss on financial instruments	33	-2	27	57
Closing balance	**419**	**3,236**	**66**	**3,722**

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:

Fixed interest 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.

Loans at fair value through other comprehensive income (level 3)

Property Loans at floating interest classified at fair value over other comprehensive income is valued based on nominal amount reduced by expected credit loss. Loans with no significant credit risk detoriation since first recognition is assessed at nominal amount. For loans with a significant increase in credit risk since first recognition or objective evidence of loss, the calculation of expected credit losses over the life of the asset is in line with loan losses for loans at amortised cost. Estimated fair value is the nominal amount reduced by expected lifetime credit loss. If the likelihood of the worst case scenario in the model is doubled, fair value is reduced by NOK 5 million.

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 311 million in Private Equity investments, property funds, hedge funds and unquoted shares through the company SpareBank SMN 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.

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 as at 31 December 2018:

(NOKm)	Book value	Effect from change in reasonable possible alternative assumtions
Fixed interest loans	4,425	-12
Equity instruments through profit/loss	550	-
Loans at fair value through other comprehensive income	61,295	-5

* As described above, the information to perform alternative calculations are not available

Note 16 - Liquidity risk

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

The group mitigates liquidity risk by diversifying its funding across different markets, funding sources, maturities and instruments and through the use of long-term funding. Contingency plans exist both for the group and the SpareBank 1 alliance for managing the liquidity situation in periods of capital market turbulence. These plans address both bank-specific and systemic crises and a combination of the two. The group's objective is to survive twelve months of ordinary operations without access to fresh external funding while housing prices fall 30 per cent. In the same period minimum requirements to LCR shall be fulfilled.

The average residual maturity on the portfolio of senior bonds and covered bonds at the end of the third quarter was 2.67 years. The overall LCR at the same point was 183 per cent and the average overall LCR in the third quarter was 162 per cent. The LCR in Norwegian kroner at quarter-end was 176 per cent and for euro there is net cash flows in.

Note 17 - Earnings per EC

ECC owners share of profit have been calculated based on net profit allocated in accordance to the average number of certificates outstanding in the period. There is no option agreements in relation to the Equity Capital certificates, diluted net profit is therefore equivalent to Net profit per ECC.

	Jan-Dec	
(Nokm)	**2018**	**2017**
Adjusted Net Profit to allocate between ECC owners and Savings Bank Reserve 1)	2,018	1,763
Allocated to ECC Owners 2)	1,291	1,128
Issues Equity Captial Certificates adjusted for own certificates	129,411,807	129,487,830
Earnings per Equity Captial Certificate	**9.97**	**8.71**

	Jan-Dec	
Adjusted Net Profit 1)	**2018**	**2017**
Net Profit for the group	2,090	1,828
Adjusted for non-controlling interests share of net profit	-34	-32
Adjusted for Tier 1 capital holders share of net profit	-37	-33
Adjusted Net Profit	**2,018**	**1,763**

Equity capital certificate ratio (parent bank) 2)

(NOKm)	**31 Dec 2018**	**31 Dec 2017**
ECC capital	2,597	2,597
Dividend equalisation reserve	5,602	5,079
Premium reserve	895	895
Unrealised gains reserve	99	81
Other equity capital	-	-
A. The equity capital certificate owners' capital	**9,193**	**8,652**
Ownerless capital	5,126	4,831
Unrealised gains reserve	56	45
Other equity capital	-	-
B. The saving bank reserve	**5,182**	**4,877**
To be disbursed from gift fund	373	322
Dividend declared	661	571
Equity ex. profit	**15,409**	**14,422**
Equity capital certificate ratio A/(A+B)	**63.95 %**	**63.95 %**
Equity capital certificate ratio for distribution	**63.95 %**	**63.95 %**