Fourth Quarter Report 2018

Contents

Main figures

From the income statement	Jan-Dec 2018 NOKm	2018 % 1)	2017 NOKm	2017 % 1)
Net interest	2,403	1.53	2,225	1.52
Net commission income and other income	2,177	1.39	2,005	1.37
Net return on financial investments	757	0.48	760	0.52
Total income	**5,337**	**3.40**	**4,989**	**3.42**
Total operating expenses	**2,624**	**1.67**	**2,369**	**1.62**
Results before losses	**2,713**	**1.73**	**2,621**	**1.80**
Loss on loans, guarantees etc	263	0.17	341	0.23
Results before tax	**2,450**	**1.56**	**2,279**	**1.56**
Tax charge	509	0.32	450	0.31
Result investment held for sale, after tax	149	0.10	-1	0.00
Net profit	**2,090**	**1.33**	**1,828**	**1.25**
Interest Tier 1 Capital	37		33	
Net profit excl. Interest Tier 1 Capital	2,052		1,795	

Key figures	31 Dec 2018	31 Dec 2017
Profitability		
Return on equity 2)	12.2 %	11.5 %
Cost-income ratio 2)	49 %	47 %
Balance sheet figures		
Gross loans to customers	120,473	112,071
Gross loans to customers incl. SB1 Boligkreditt and SB1 Næringskreditt	160,317	148,784
Deposits from customers	80,615	76,476
Deposit-to-loan ratio excl. SB1 Boligkreditt and SB1 Næringskreditt	67 %	68 %
Deposit-to-loan ratio incl. SB1 Boligkreditt and SB1 Næringskreditt 2)	50 %	51 %
Growth in loans (gross) last 12 months (incl. SB1 Boligkreditt and SB1 Næringskreditt) 2)	7.8 %	8.2 %
Growth in deposits last 12 months	5.4 %	13.9 %
Average total assets	156,992	145,948
Total assets	160,704	153,254
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt		
Impairment losses ratio 2)	0.17 %	0.24 %
Non-performing commitm. as a percentage of gross loans 2)	0.19 %	0.19 %
Other doubtful commitm. as a percentage of gross loans 2)	0.86 %	0.80 %
Solidity		
Capital adequacy ratio	18.5 %	18.6 %
Core capital ratio	16.3 %	16.6 %
Common equity tier 1 ratio	14.6 %	14.6 %
Core capital	16,472	15,707
Net equity and related capital	18,743	17,629
Liquidity Coverage Ratio (LCR)	183 %	164 %
Leverage Ratio	7.4 %	7.2 %
Branches and staff		
Number of branches	48	48
No. Of full-time positions	1,493	1,403

1) Calculated as a percentage of average total assets
2) Defined as alternative performance mesures, see attachment to the quarterly report

Key figures ECC	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
ECC ratio	64.0 %	64.0 %	64.0 %	64.0 %	64.6 %
Number of certificates issued, millions 2)	129.62	129.38	129.64	129.43	129.83
ECC share price at end of period (NOK)	84.20	82.25	64.75	50.50	58.50
Stock value (NOKM)	10,914	10,679	8,407	6,556	7,595
Booked equity capital per ECC (including dividend) 2)	83.87	78.81	73.35	67.39	62.04
Profit per ECC, majority 2)	9.97	8.71	7.93	6.96	8.82
Dividend per ECC	5.10	4.40	3.00	2.25	2.25
Price-Earnings Ratio 2)	8.44	9.44	8.17	7.26	6.63
Price-Book Value Ratio 2)	1.00	1.04	0.88	0.75	0.94

2) Defined as alternative performance measures, see attachement to quarterly report

Report of the Board of Directors

Preliminary annual accounts 2018

(Consolidated figures. Figures in parenthesis refer to the same period of 2017 unless otherwise stated)

Main points for 2018

- Post-tax profit was NOK 2,090m, NOK 262m better than in 2017. The improvement is mainly due to increased operating income and reduced loan losses. In addition, the Group recorded a gain of NOK 144m on the sale of the head office building
- Considerable increase in the customer base and high growth in all product areas
- Proposed dividend: NOK 5.10 (4.40) per equity certificate (EC) and an allocation of NOK 373m to non-profit causes (322m)

Post-tax profit of NOK 2,090m

- Pre-tax profit: NOK 2,450m (2,279m)
- Post-tax profit: NOK 2,090m (1,828m)
- Return on equity: 12.2 per cent (11.5 per cent)
- CET1 ratio: 14.6 per cent (14.6 per cent)
- Growth in lending: 7.8 per cent (8.2 per cent) and in deposits: 5.4 per cent (13.9 per cent)
- Share of lending to the retail market 67 per cent (66 per cent)
- Losses on loans and guarantees: NOK 263m (341m)
- Earnings per EC: NOK 9.97 (8.71). Book value per EC: NOK 83.87 (78.81), incl. dividend proposed for 2018

Fourth quarter 2018

- Pre-tax profit: NOK 513m (678m)
- Post-tax profit: NOK 401m (553m)
- Return on equity: 9.0 per cent (13.4 per cent)
- Losses on loans and guarantees: NOK 67m (78m)
- Earnings per EC: NOK 1.90 (2.63)

Profit growth of NOK 262m in 2018

In 2018 SpareBank 1 SMN achieved a pre-tax profit of NOK 2,450m (2,279m). The post-tax profit was NOK 2,090m (1,828m) and return on equity 12.2 per cent (11.5 per cent).

Overall operating income in 2018 came to NOK 4,580m (4,229m), an increase of NOK 349m from the previous year.

The profit share from SpareBank 1 Gruppen and other related companies was NOK 416m (437m). Dividend and return on financial instruments came to NOK 341m (322m), of which NOK 90m was accounted for by a gain resulting from the merger of Vipps, Bank-Axept and Bank ID.

Operating expenses came to NOK 2,624m (2,369m) in 2018. The growth in costs is largely ascribable to the focus on BN Bolig, capacity expansion at SpareBank 1 Markets and growth at SpareBank 1 Regnskapshuset SMN.

Losses on loans and guarantees totalled NOK 263m (341m), measuring 0.17 per cent (0.24 per cent) of overall lending. The losses are mainly in oil-related activities.

Good growth was posted in lending and deposits in 2018. Lending rose by 7.8 per cent (8.2 per cent) and deposits by 5.4 per cent (13.9 per cent).

As at 31 December 2018 the CET1 ratio was 14.6 per cent (14.6 per cent). The CET1 ratio target is 15.0 per cent.

The price of the bank's equity certificate (MING) at year-end was NOK 84.20 (82.25). A cash dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

Earnings per EC were NOK 9.97 (8.71). The book value per EC was NOK 83.87 (78.81) including the proposed dividend of NOK 5.10. The proposed dividend represents a payout ratio of 50 per cent (50 per cent) of the Group profit.

Proposed distribution of profit

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

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

The annual profit for distribution reflects changes of NOK 29m in the unrealised gains reserve.

The total amount for distribution is accordingly NOK 1,857m.

Difference between Group - Parent Bank	2018	2017
Profit for the year, Group	**2,090**	**1,828**
Interest hybrid capital (after tax)	-36	- 33
Profit for the year excl interest hybrid capital, group	**2,054**	**1,795**
Profit, subsidiaries	-165	-196
Dividend, subsidiaries	151	364
Profit, associates and joint ventures	-416	-437
Dividend, associates and joint ventures	355	410
Elimination Group	-93	-119
Profit for the year excl interest hybrid capital, Parent bank	**1,887**	**1,817**

Distribution of profit	2018	2017
Profit for the year, Parent bank	1,887	1,817
Transferred to/from revaluation reserve	-29	17
Profit for distribution	**1,857**	**1,800**
Dividends	661	572
Equalisation fund	526	580
Ownerless capital	297	327
Gifts	373	322
Total distributed	**1,857**	**1,800**

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

Earnings per equity certificate were NOK 9.97. Of this, the board of directors recommend the bank's supervisory board to set a cash dividend of NOK 5.10, altogether totalling NOK 661m. This gives the EC holders a payout ratio of 50.4 per cent of the earnings per EC. The board of directors further recommends the supervisory board to allocate NOK 373m as gifts to non-profit causes, also representing a payout ratio of 50.4 per cent. Of this amount it is proposed that NOK 293m be transferred to the foundation Stiftelsen SpareBank 1 SMN and NOK 80m as gifts to non-profit causes. NOK 526m and NOK 297m are transferred to the dividend equalisation fund and the ownerless capital respectively.

After distribution of the profit for 2018, the ratio of EC capital to total equity remains 64.0 per cent.

Increased net interest income

Net interest income rose by NOK 178m to NOK 2,403m (2,225m) in 2018. The increase is mainly down to increased lending to and deposits from both retail and corporate customers, with particularly high growth noted in residential mortgage lending.

The three-month NIBOR averaged 1.07 per cent in 2018 compared with 0.89 per cent in 2017. Despite rising money market rates, the margin on loans to corporates has remained stable, whereas the margin on residential mortgages has narrowed somewhat. Margins were strengthened somewhat by a general increase in residential lending rates in the fourth quarter of 2018. Deposit margins rose in 2018.

Net interest income on loans sold to SpareBank 1 Boligkreditt (residential mortgage company) and SpareBank 1 Næringskreditt (commercial mortgage company) is recognised as commission income. Commission on loans sold to these two companies totalled NOK 366m (370m) in 2018.

Risk pricing and attention to the use of regulatory capital have brought improved margins, and work in this respect continues in 2019. The bank's strong growth shows that its prices are in tune with the market.

Increased other income

Commission income and other operating income rose by NOK 172m to NOK 2.177m (2,005m) in 2018.

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt fell by NOK 5m as a result of some decline in margins on residential mortgages.

Strong income growth at SpareBank 1 Markets and SpareBank 1 Regnskapshuset SMN are the main reason for the increase in other income.

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

Commission income (NOKm)	**2018**	**2017**	**Change**
Payment transfers	207	207	0
Creditcard	60	59	0
Saving products	123	117	6
Insurance	174	172	2
Guarantee commission	61	69	-8
Real estate agency	376	365	11
Accountancy services	421	357	64
Markets	335	214	121
Other commissions	54	75	-21
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	**1,811**	**1,635**	**177**
Commissions SB1 Boligkreditt	350	353	-4
Commissions SB1 Næringskreditt	16	17	-1
Total commissions	**2,177**	**2,005**	**172**

Return on financial investments

Overall return on financial investments was NOK 341m (322m). This breaks down as follows:

- Gain of NOK 103m (67m) on shares of the bank and subsidiaries. Of this, NOK 90m refers to the gain resulting from the merger between Vipps, Bank Axept and Bank ID
- Financial derivatives have yielded gains of NOK 187m (124m). This essentially comprises gains on fixed income instruments. The rise in interest rates in 2018 has brought relatively large gains. This is partly neutralised by losses on fixed income bonds, showing an overall loss of NOK 77m (gain of NOK 58m)
- Other financial instruments measured at fair value include value changes on the bank's portfolio of fixed interest loans and show a gain of NOK 10m (7m)
- Income of NOK 63m (45m) from forex transactions comprises income from currency trading at SpareBank 1 Markets and the result of exchange rate fluctuations on the bank's funding in foreign currencies
- Gains on shares and share derivatives at SpareBank 1 Markets totalled NOK 58m (43m)
- The prices of financial instruments used by the bank for hedging purposes were lowered and the bank has recognised a net loss of NOK 4m (loss of NOK 22m) on hedging instruments

Return on financial investments (NOKm)	2018	2017	Change
Capital gains shares (incl dividends)	103	67	36
Gain/(loss) on derivatives	187	124	63
Gain/(loss) on other financial instruments at fair value (FVO)	10	7	4
Foreign exchange gain/(loss)	63	45	18
Gain/(loss) on sertificates and bonds	-77	58	-135
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	58	43	15
Gain/(loss) on financial instruments related to hedging	-4	-22	18
Net return on financial instruments	**341**	**322**	**19**

Product companies and other related companies

The product companies give the bank's customers access to a broad product range and thus provide the bank with commission income. The product companies also provide the banks with a good return on invested capital. The overall profit of the product companies and other related companies was NOK 416m (437m) in 2018.

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen is 19.5 per cent.

SpareBank 1 Gruppen's post-tax profit in 2018 was NOK 1,480m (1,811m). SpareBank 1 Gruppen's pre-tax profit was impaired by lower financial income of the insurers as a whole and weaker operating profit of the non-life insurance business as a result of higher claims payments. The post-tax profit is heavily affected by changes in the tax rules governing life and non-life insurers. The rule change was adopted in in December with effect for 2018 and resulted in a write-back of deferred tax worth NOK 330m for SpareBank 1 Gruppen in the fourth quarter.

SpareBank 1 SMN's share of the profit for 2018 was NOK 289m (349m).

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt was established by the banks making up the SpareBank 1 Alliance to draw benefit from the market for covered bonds. The banks sell well-secured residential mortgages to the company and achieve reduced funding costs.

As at 31 December 2018 the bank had sold loans totalling NOK 38.1bn (34.9bn) to SpareBank 1 Boligkreditt, corresponding to 35.2 per cent (35.3 per cent) of the Group's overall lending to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt in 2018 was 19.9 per cent, and the bank's share of that company's profit in 2018 was minus NOK 7m (minus 41m).

The new stake as at 31 December 2018 is NOK 20.7 per cent.

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 December 2018, loans worth NOK 1.8bn (1.8bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company in 2018 was 33.5 per cent, and the bank's share of the company's profit for 2018 was NOK 15m (19m). The bank's holding reflects the bank's relative share of commercial property loans sold and the bank's stake in BN Bank. Of aggregate loans residing in SpareBank 1 Næringskreditt, 41 per cent have been sold from BN Bank. The new stake as of 31 December 2018 is 33.0 per cent.

SpareBank 1 Kredittkort

The profit for 2018 was NOK 131m (84m). SpareBank 1 Kredittkort is owned by the SpareBank 1 banks, and SpareBank 1 SMN has a stake of 17.4 per cent. SpareBank 1 SMN's share of the profit for 2018 was NOK 23m (15m), and the bank's share of the portfolio is NOK 923m (845m).

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

SpareBank 1 Kredittkort was commissioned in 2017 to deliver credit products to an expanded Vipps.

BN Bank

SpareBank 1 SMN owns 33.0 per cent of BN Bank as at 31 December 2018.

BN Bank recorded a profit of NOK 278m (298m) in 2018, providing a return on equity of 7.5 per cent (8.3 per cent). SpareBank 1 SMN's share of BN Bank's profit for 2018 was NOK 97m (98m), adjusted for its share of BN Bolig's profit.

Since the decision was made to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 17.6bn, or 56 per cent, since 30 September 2015. This has helped to improve SpareBank 1 SMN's financial solidity and to enhance the profitability of the remaining corporate portfolio of BN Bank.

BN Bank will cater primarily to the retail market in Oslo and south-eastern Norway.

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

SpareBank 1 Betaling (Vipps)

SpareBank 1 Betaling is the SpareBank 1 banks' parent company for payments solutions, including Vipps. A decision to merge Bank ID and Bank Axept with Vipps was adopted in order to compete in the arena for payment solutions for the future, and the merger was carried out in the third quarter of 2018. Vipps aims to take its place as the Nordic region's leading financial technology company, and SpareBank 1 SMN's stake in, and close collaboration with, Vipps will be important with a view to retaining customer relationships after the introduction of PSD2 (Revised Payment Services Directive). Vipps launched a number of new products in 2018 designed to simplify bank customers' everyday life, and has high ambitions to develop this solution further.

SpareBank 1 Betaling posted in 2018 a deficit of NOK 56m which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of this deficit is NOK 12m. In addition SpareBank 1 SMN pays Vipps, annually and under the same principal as the other parent banks, NOK 9.5m in distribution costs.

SpareBank 1 SMN took to income a gain of NOK 90m in the second quarter related to the adopted merger.

Operating expenses

Overall Group operating expenses rose by NOK 255m in 2018 to total NOK 2,624m (2,369m).

Parent bank costs rose by NOK 53m to NOK 1,262m in 2018, of which NOK 11m relates to the sale of the bank's head office building in Trondheim. Excluding this one-time cost, parent bank costs have risen by 3.5 per cent.

Continuous efficiency gains by the bank have enabled lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 178 to 575. Changing customer behaviour and new technology will contribute to further efficiency gains.

Extensive digitalisation creates new opportunities, but also poses threats to the banking industry. The bank has invested heavily in new self-service solutions and a customer-relationship management (CRM) system. Concurrently, increased regulatory requirements bring a need for increased capacity and expertise. The bank devoted substantial resources in 2018 to combating money laundering, and this work will continue.

In 2018 staffing was reduced by 20 FTEs at the same time as the bank has recruited new staff in the areas of data warehousing, digital marketing, technology and compliance. Replacing expertise has brought increased wage growth.

Costs among the subsidiaries came to NOK 1,362m (1,160m), having risen by NOK 202m in 2018. Of this increase, NOK 58m refers to SpareBank 1 Regnskapshuset SMN's company acquisitions, NOK 93m to the build-up of SpareBank 1 Markets and NOK 42m to the BN Bolig undertaking. The subsidiaries maintain a continuous focus on cost control.

SpareBank 1 Regnskapshuset SMN's increased activity provides income growth and profit growth for the company. Capacity expansion has enabled strong income growth and profit improvement at SpareBank 1 Markets, and the potential for further growth is high.

The cost-income ratio was 49 per cent (47 per cent) for the Group, 33 per cent (32 per cent) for the parent bank.

Reduced losses and low defaults

IAS 39 Financial Instruments: Recognition and Measurement was replaced by IFRS 9: Financial Instruments on 1 January 2018. The implementation effect is reflected directly in equity as of 1 January 2018. See notes 2 and 45 in the annual report for 2017, and note 1 in this report, for further details.

Loan losses of NOK 263m (341m) were recorded in 2018. Loan losses measure 0.17 per cent of total outstanding loans (0.24 per cent). Loan losses in the fourth quarter came to NOK 67m (78m).

A loss of NOK 223m (324m) was recorded on loans to corporates in 2018, in all essentials related to loans to oil-related activity.

A loss of NOK 40m (17m) was recorded on loans to retail borrowers in 2018. Of the losses on retail customers, NOK 17m relate to residential mortgages and NOK 23m to car loans and consumer loans at SpareBank 1 Finans Midt-Norge.

Write-downs on loans and guarantees totalled NOK 909m (1,155m) as at 31 December 2018. The net decrease of NOK 246m consists of actual losses of NOK 417m reducing the write-downs, and an increase in the provision for expected credit losses of NOK 171m.

Overall problem loans (defaulted and doubtful) come to NOK 1,682m (1,468m), or 1.0 per cent (0.99 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

Defaults in excess of 90 days totalled NOK 310m (284m). Defaults measure 0.19 per cent (0.19 per cent) of gross outstanding loans including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. Of the overall default volume, NOK 30m is loss provisioned (55m), corresponding to 14 per cent (20 per cent).

Defaults break down to NOK 69m on corporates (75m) and NOK 242m on retail borrowers (209m).

Other doubtful exposures total NOK 1,372m (1,184m). Other doubtful exposures measure 0.86 per cent (0.80 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. NOK 527m (714m), or 52 per cent (60 per cent), has been written down.

Other doubtful exposures break down to NOK 1,018m (1,164m) on corporate borrowers and NOK 40m (21m) on retail borrowers.

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

Total assets of NOK 161bn

The bank's assets totalled NOK 161bn (153bn) as at 31 December 2018, having grown by NOK 8bn or 4.9 per cent in the past year. The increase in total assets is mainly a consequence of a higher lending volume.

As at 31 December 2018 loans worth a total of NOK 40bn (37bn) had been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however take into account loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans rose by NOK 11.5bn (11.2bn) or 7.8 per cent (8.2 per cent) in 2018 to reach NOK 160.3bn (148.8bn) as at 31 December 2018.

- Lending to personal borrowers rose in 2018 by NOK 9.4bn (9.3bn) to NOK 108.1bn (98.7bn). Growth of 9.6 per cent (10.4 per cent)
- Lending to corporates rose in 2018 by NOK 2.1bn (1.5bn) to NOK 52.2bn (50.1bn). Growth of 4.2 per cent (4.1 per cent)

Growth in residential mortgage lending is high and the bank's market shares are rising. There are no indications of higher loss and default levels in the bank's residential mortgage portfolio, and the quality of this portfolio is good.

New loans to corporate borrowers are mainly to farm enterprises and small businesses and are prioritised with a basis in capital limitations and profitability requirements.

SpareBank 1 SMN has in recent years increased the share of its loans going to personal customers, and personal loans accounted for 67 per cent (66 per cent) of total outstanding loans as at 31 December 2018.

(For distribution by sector, see note 5).

Deposits

Customer deposits rose by NOK 4.1bn (9.3bn) in 2018 to reach NOK 80.6bn (76.5bn). This represents a growth of 5.4 per cent (13.9 per cent).

- Personal deposits rose by NOK 1.3bn (2.0bn) or 4.0 per cent (6.8 per cent) to reach NOK 33.1bn
- Corporate deposits rose by NOK 2.9bn (7.3bn) or 6.5 per cent (19.5 per cent) to NOK 47.6bn
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (68 per cent) as at 31 December 2018. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 50 per cent (51 per cent)

Deposit growth at the bank was satisfactory in 2018, both as regards personal and corporate customers.

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 9.8bn (10.0bn) at the end of 2018. The overall decline of NOK 0.3bn on equity funds was driven by the stock exchange decline in the second half of 2018.

Saving products, customer portfolio (NOKm)	2018	2017	Change
Equity funds	5,932	6,235	-303
Pension products	755	840	-85
Active management	3,147	2,989	158
Total	**9,834**	**10,064**	**-230**

Insurance

The bank's insurance portfolio grew by 9.3 per cent in 2018. Good growth was recorded across the various products, and was largest in the case of occupational pensions at 25 per cent.

Insurance, premium volume (NOKm)	2018	2017	Change
Non-life insurance	812	769	43
Personal insurance	351	327	24
Occupational pensions	289	232	57
Total	**1,452**	**1,328**	**124**

Retail Banking

Outstanding loans to retail borrowers totalled NOK 113bn (103bn) and deposits totalled NOK 40bn (37bn) as at 31 December. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 2,027m (1,926m) in 2018. Net interest income accounted for NOK 1,234m (1,137m) and commission income for NOK 793m (789m). The income growth is mainly due to increased lending and deposit volumes. Overall income rose by NOK 101m. Return on capital employed in the retail banking segment was 13.2 per cent (16.6 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin in 2018 was 1.69 per cent (1.93 per cent), while the deposit margin was 0.27 per cent (0.11 per cent) measured against three-month NIBOR. The average of average three-month NIBOR was 0.18 percentage points higher in 2018 than in 2017.

Retail lending and retail deposits grew by 9.3 per cent (10.0 per cent) and 7.7 per cent (6.7 per cent) respectively in 2018.

Costs in the retail segment increased by NOK 10m to NOK 804m in 2018, and staffing was reduced by 34 FTEs to 316 FTEs over the year. Retail Banking introduced a new CRM system, 'Iver'. Iver has improved, and enhanced the efficiency of, customer treatment and strengthened the interplay between analogue and digital services.

Lending to retail borrowers carries low risk, as reflected in low losses. There are no indications of increased loss and non-performance levels in the bank's residential mortgage portfolio. The mortgages are secured by residential property.

Retail Banking's executive director, Svein Tore Samdal, took over as CEO of BN Bank as from 1 December 2018. Nelly Maske is the new executive director of the retail banking business. She comes from the position of executive director of Organisation and Development.

Corporate Banking

Outstanding loans to corporates totalled NOK 41bn (39bn) and deposits totalled NOK 39bn (39bn) as at 31 December 2018. This is a diversified portfolio of loans to and deposits from corporate clients in the counties of Trøndelag and Møre and Romsdal.

Operating income totalled NOK 1,329m (1,315m) in 2018. Net interest income was NOK 1,110m (1,108m), and commission income came to NOK 219m (207m).

Expenses rose by NOK 8m to NOK 373m in 2018 while staffing was unchanged over the year, standing at 148 FTEs at year-end.

Overall net losses in the corporate banking segment have declined and were NOK 212m (318m) in 2018. The losses are in all essentials related to the challenges faced in oil-related activities.

Return on capital employed for the corporate banking segment was 11.3 per cent in 2018 (10.5 per cent). Capital employed is based on regulatory risk weights and a 15 per cent capital requirement, corresponding to the Group's targeted CET1 ratio.

The lending margin was 2.73 per cent (2.80 per cent) and the deposit margin was minus 0.04 per cent (minus 0.11 per cent) as per the fourth quarter of 2018.

Lending rose by 2.2 per cent (1.5 per cent) and deposits rose by 1.3 per cent (19.5 per cent) in 2018.

Subsidiaries

The bank's subsidiaries posted an overall pre-tax profit of NOK 225.1m in 2018 (258.1m). The figures below are taken from the respective company accounts.

Pre-tax profit (NOKm)	2018	2017	Change
EiendomsMegler 1 Midt-Norge	-22.9	2.6	-25.5
SpareBank 1 Finans Midt-Norge	148.5	128.3	20.2
SpareBank 1 Regnskapshuset SMN	70.4	60.3	10.0
Sparebank 1 Markets	15.1	1.9	13.3
SpareBank 1 SMN Invest	8.0	43.3	-35.3
Other companies	6.0	21.6	-15.7
Total	**225.1**	**258.1**	**-33,1**

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

EiendomsMegler 1 recorded a deficit of NOK 22.9m in 2018 (plus 2.6m). The profit performance is weakened mainly by:

- A profit of NOK 20.2m for EiendomsMegler 1 (37.4m) due to cost growth, and reduced incomes. Incomes fell as a result of fewer dwelling units sold and lower income per unit. 6,633 dwelling units were sold in 2018 compared with 6,712 in 2017
- A negative pre-tax profit of NOK 40.7m (negative profit of NOK 32.3m) at BN Bank. EiendomsMegler 1 Midt-Norge consolidates BN Bolig's results as a subsidiary. BN Bolig has built capacity to take a position in the real estate brokerage market in Oslo

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 148.5m in 2018 (128.3m). The good profit growth is due to high growth in income and limited growth in costs. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The portfolio of leasing and car loan agreements is worth a total of NOK 7.5bn, of which leasing agreements account for NOK 2.9bn (2.8bn) and car loans for NOK 4.6bn (3.7bn). The company also offers consumer loans, and at year-end that portfolio was worth NOK 0.3bn (0.2bn).

The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at 31 December 2018 while Sparebanken Sogn og Fjordane held a stake of 7.5 per cent. The remaining shares are held by SpareBank 1 SMN.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 70.4m (60.3m) in 2018. The profit growth is ascribable to sound operations and to the fact that the company has undergone substantial expansion, mainly through the acquisition of accounting firms in Trøndelag and in Møre and Romsdal. The company has 450 employees and an annual turnover of NOK 445m. 10,000 businesses avail themselves of Regnskapshuset, which has offices in 40 locations and a market share of 26 per cent.

The company caters to the SMB segment with its technologically modern platform and broad range of services.

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a net profit of NOK 8.0m in 2018 (43.3m).

Value changes and realisation of losses or gains on the company's overall holding of shares account for minus NOK 0.9m of the company's total income. The company has in addition ownership interests in the property company Grilstad Marina, and its share of the latter's profit in 2018 was NOK 13.4m.

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. Other owners are SpareBank 1 Nord-Norge, SpareBank 1 SR Bank, SpareBank 1 Østlandet and the SamSpar banks. SpareBank 1 Markets is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 143.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage of SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 16bn. The company has a staff of 17.

SpareBank 1 Markets' consolidated pre-tax profit as per 31 December 2018 was NOK 15.1m (1.9m). A strong income trend is noted, particularly in income from equity and bond issues, share trading and forex/interest rate derivatives compared with the previous year.

DeBank AS

SpareBank 1 SMN has, with effect from first January 2019, acquired the shares in DeBank, which is head quartered in Trondheim and has 18 employees. As at first half year 2018 the company had lending capital of NOK 90 million, revenues of NOK 6,0 million and pretax profit of minus 13,2 million. No employees will be laid off as a consequence of the acquisition. DeBank will until further continue its operations as a subsidiary of SpareBank 1 SMN. SpareBank 1 SMN has increased focus on small and medium sized businesses and will by this acquisition strengthen its offering in the area of financing receivables, a rapidly growing market.

Søndre gate 4-10 AS

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.

Satisfactory funding and good liquidity

The bank has a conservative liquidity strategy which 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 26bn and has the funding needed for 25 months of ordinary operation without fresh external finance.

The government authorities require all credit institutions to maintain sufficient liquidity buffers to withstand periods of limited access to market funding. The liquidity coverage ratio (LCR) measures the size of banks' liquid assets relative to net liquidity outflow 30 days ahead given a stressed situation. The LCR is calculated at 183 per cent as at 31 December 2018 (164 per cent). The requirement is 100 per cent.

The Group's deposit-to-loan ratio at 31 December 2018, including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt, was 50 per cent (51 per cent).

The bank's funding sources and products are amply diversified. At end-December 2018 the proportion of the bank's overall money market funding in excess of 1 year was 89 per cent (80 per cent).

SpareBank 1 Boligkreditt is an important funding source, and residential mortgages totalling NOK 38bn had been sold as at 31 December 2018.

Rating

The bank has a rating of A1 (outlook negative) with Moody's and a rating of A- (outlook stable) with Fitch Ratings. Moody's revised in July 2017 its outlook for SpareBank 1 SMN and other Norwegian banks from a stable to a negative outlook. The change was triggered by the implementation of the EU's bank recovery and resolution directive (BRRD) in Norwegian legislation.

Financial soundness

The CET1 ratio at 31 December 2018 was 14.6 per cent (14.6 per cent). The Group's CET1 ratio target is 15.0 per cent. The government's CET1 ratio requirement is 14.1 per cent.

Risk weighted assets increased by 6.7 per cent in 2018 in all essentials due to high growth in residential mortgage lending and an increased capital requirement related to the transitional arrangement under the capital requirements framework. CET1 capital rose by 7.0 per cent due to a good profit performance again in 2018.

The leverage ratio is 7.4 per cent (7.2 per cent at the turn of the year).

The CET1 requirement including combined buffer requirements is 12 per cent. When a Pillar 2 requirement of 2.1 per cent is added, the government authorities' overall CET1 requirement comes to 14.1 per cent.

Finanstilsynet's (Norway's FSA) final assessment of the add-on for risks not adequately covered by Pillar 1 was set at 2.1 per cent in 2015. The add-on relates mainly to owner risk, market risk and concentration risk with regard to credit. SpareBank 1 SMN aims for a management buffer of about 1 per cent above overall Pillar 1 and Pillar 2 requirements in order to absorb fluctuations in risk-weighted assets and fluctuations in Group profit. In light of this, the Group's capital target at the end of 2018 is 15 per cent. In the fourth quarter of 2018 Finanstilsynet reduced the Pillar 2 add-on to 1.9 per cent, however not below NOK 1,794m, with effect from 2019.

Finanstilsynet recommended on 18 October 2018 by letter to the Ministry of Finance that SpareBank 1 SMN, as one of several regional banks, should be defined as systemically important (SIFI). If Finanstilsynet's view is upheld, SpareBank 1 SMN will need to meet a SIFI buffer requirement of 2 percentage points. This will bring the overall CET1 requirement to 16.1 per cent, given the present level of the countercyclical buffer and the current Pillar 2 add-on.

The CET1 capital ratio without transitional rules is 16.9 per cent as of 31 December 2018. The increased buffer requirement is offset by the effect SpareBank 1 SMN will achieve once the specifically Norwegian capital requirement connected to the transitional measures no longer applies.

The bank's equity certificate (MING)

The book value of the equity certificate (EC) at 31 December 2018 (including a recommended dividend of NOK 5.10) was NOK 83.87 (78.81) and earnings per EC were NOK 9.97 (8.71).

The Price / Income ratio was 8.44 (9.44) and the Price / Book ratio was 1.00 (1.04).

At quarter-end the EC was priced at NOK 84.20, and dividend of NOK 4.40 per EC was paid in 2018 for the year 2017.

Risk factors

The Group's problem loans reflect the challenges related to the offshore industry. As at 31 December 2018, loans to oil-related activity accounted for 2.6 per cent of the Group's overall lending. The credit quality of the bank's wider loan portfolio is satisfactory. There have been no contagion effects from oil-related activity to other sectors and no other concentrations in non-performing and problem exposures are in evidence.

Positive growth signals are noted both internationally and in Norway, but there is increased uncertainty related to trade conflicts. The Norwegian krone has appreciated somewhat during 2018, but was weakening towards the end of the year. It remains at a relatively weak level, which is favourable for Norwegian export industries. Some strengthening of the krone is expected ahead. Real wage growth is expected to increase somewhat. Combined with a continued low interest rate level, the bank considers loss risk in the bank's retail market portfolio to be low. Unemployment has declined in the bank's market area, and the bank expects the level of unemployment to remain relatively low ahead.

Credit growth among Norwegian households continues to outstrip household wage growth, but the rate of growth has declined through 2018. Interest rate increases could impact negatively on house prices, which will probably dampen credit demand. Falling house prices and expectations of higher interest rates are likely to prompt a higher savings rate among Norwegian households, potentially resulting in reduced turnover for parts of Norwegian business and industry.

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

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

Insurance merger

SpareBank 1 Gruppen AS and DNB ASA signed on 24 September 2018 an agreement to amalgamate their insurance businesses. The merger was approved by Finanstilsynet on 21 December and entered into force with effect from 1 January 2019. The merged entity's name is Fremtind Forsikring AS. As part of the transaction, the plan is to demerge the individual personal risk insurances from SpareBank 1 Forsikring AS (life company) and DNB Life Insurance, and the company-paid personal risk insurances from SpareBank 1 Forsikring AS, to the merged company. This part of the transaction is planned to be carried out in the course of the first quarter of 2019.

The transaction agreement incorporates a swap ratio of 80 per cent for SpareBank 1 Gruppen AS and 20 per cent for DNB ASA. This swap ratio is based on the negotiated market value of the two non-life-insurers, including the value of the personal risk products in the planned demerger. DNB ASA will thereafter acquire a 35 per cent stake in the company. DNB has in addition secured an option to purchase a stake of up to 40 per cent.

In the transaction the new non-life company is valued at NOK 19.75bn, including the value of personal risk products. Fremtind, without the personal risk products, is valued at NOK 13.5bn. Based on figures as at 31 December 2017 and pro forma consolidated accounts, the merger and DNB's acquisition from a 20 to a 35 per cent stake, will in aggregate entail an increase of about NOK 4.7bn in SpareBank 1 Gruppen's equity at group level. The majority's (the SpareBank 1 banks and the Trade Union Confederation) share of this increase is about NOK 2.5bn. SpareBank 1 SMN's share of this increase (19.5 per cent) is about NOK 488m. However, this brings virtually no change in the Group's CET1 ratio, the reason being that the increased book value of the stake in SpareBank 1 Gruppen AS increases the deduction from CET1 capital and increases risk weighted assets. Overall this virtually neutralises the effect of increased book values.

SpareBank 1 Gruppen AS (parent company) will, before the effect of any transfer of personal risk products is taken into account, receive a tax-free gain of about NOK 1.71bn as a result of the disinvestment to DNB ASA. SpareBank 1 Gruppen AS's basis for dividend payment increases by the same amount. SpareBank 1 SMN's share of any dividend comes to NOK 334m. The dividend payment will reduce the value of the Group's investment in SpareBank 1 Gruppen, thereby also reducing both the deduction from CET1 capital and the size of risk-weighted assets (see preceding paragraph). The Group's capital adequacy ratio will accordingly rise. Based on the Group's accounting figures as at 31 December 2018, the increase in the Group's CET1 ratio will be an estimated 0.3-0.4 percentage points. Any dividend from SpareBank 1 Gruppen AS will be conditional upon the capital situation and decisions of the company's governing bodies and cannot be implemented until the second quarter of 2019 at the earliest.

Outlook

The economic prospects for Trøndelag and Møre and Romsdal are good. The bank's expectations barometer shows increased optimism in business and industry.

The board of directors is pleased with the bank's continued strengthening of its position in the retail market, as reflected in the expanded customer base and strong growth in residential mortgage lending. This confirms that the strategy of being a digital bank with a personal and local signature is a strategy that works. The bank expects a lending growth in excess of market growth again in 2019.

The bank is strengthening its position as the leading bank for small businesses through its broad product range, good digital solutions and skilled advisers. The acquisition of DeBank expands the range of products available to corporate clients. The growth in lending to corporate clients is primarily in the area of small and medium-sized businesses. This is expected to continue.

Losses in 2018 are lower than in 2017, and are in all essentials within oil-related activities. A positive trend is noted in the bank's exposure within this portfolio. Losses in the bank's portfolio of other loans remain very small. Loan losses are at a low level, and the bank expects that losses in 2019 will not be higher than in 2018.

The financial industry faces major changes. The Revised Payment Services Directive, PSD2, provides large potentials for improving the customer experience. The bank and the SpareBank 1 Alliance have set themselves the ambitious goal of offering better services and adding more value for existing and new customers.The investments will increase as a result of this, but the ambition of zero growth in the the parent bank expenses has not changed.

SpareBank 1 Gruppen and DNB's merger of their non-life insurance businesses confirms the value of the banks' distribution model, brings greater effectiveness and efficiency and a further strengthening of competitive power in the insurance market. The bank will post a substantial gain in 2019 as a result of the transaction.

The CET1 ratio stands at 14.6 per cent and is slightly below the Group's objective. The leverage ratio of 7.4 per cent shows that the bank is financially very solid. The bank will continue to focus on capital efficiency and effectiveness with a view to strengthening its profitability and safeguarding its financial soundness. The board of directors expect the Group's capital target to be met through management of capital-intensive activities. In the fourth quarter of 2018 Finanstilsynet lowered the bank's Pillar 2 requirement by 0.2 percentage points to 1.9 per cent, with effect from 2019.

CEO Finn Haugan will step down from his position in spring 2019, after 28 years. Jan Frode Jansson takes over as CEO from the same point in time.

The board of directors is well satisfied with the Group's achievements and financial results in 2018 and expects 2019 to be another good year featuring strengthened banking operations, sound growth and improved solidity.

Trondheim, 6. february 2019
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal (chair)	Bård Benum (deputy chair)	Paul E. Hjelm-Hansen
Mette Kamsvåg	Tonje Eskeland Foss	Morten Loktu
Janne T. Thomsen	Erik Gunnes (employee rep.)	Venche Johnsen (employee rep.)
		Finn Haugan (Group CEO)

Income statement

Parent bank						Group			
		Jan-Dec				Jan-Dec			
4Q 17	4Q 18	2017	2018*	(NOKm)	Note	2018*	2017	4Q 18	4Q 17
920	995	3,571	3,737	Interest income		4,057	3,825	1,082	989
	501		1,902	Of which interest income at amortised cost		2,226		589	
403	434	1,599	1,640	Interest expenses		1,655	1,600	438	400
517	**561**	**1,972**	**2,097**	**Net interest**	**10**	**2,403**	**2,225**	**644**	**589**
291	280	1,098	1,102	Commission income		1,387	1,390	343	372
28	23	98	92	Commission expenses		168	168	42	49
12	9	38	32	Other operating income		958	783	242	206
275	**266**	**1,038**	**1,042**	**Commission income and other income**		**2,177**	**2,005**	**543**	**529**
22	2	629	516	Dividends		8	6	2	0
-	-	-	-	Income from investment in related companies	3	416	437	130	147
49	-52	146	152	Net return on financial investments	3	334	317	-37	108
71	**-50**	**776**	**668**	**Net return on financial investments**		**757**	**760**	**95**	**256**
862	**777**	**3,786**	**3,807**	**Total income**		**5,337**	**4,989**	**1,282**	**1,374**
126	129	575	577	Staff costs		1,584	1,426	391	362
169	198	634	685	Other operating expenses		1,040	943	311	255
295	**327**	**1,209**	**1,262**	**Total operating expenses**	**11**	**2,624**	**2,369**	**701**	**618**
567	**451**	**2,577**	**2,546**	**Result before losses**		**2,713**	**2,621**	**580**	**756**
72	58	323	229	Loss on loans, guarantees etc.	6.7	263	341	67	78
495	**393**	**2,253**	**2,316**	**Result before tax**	**3**	**2,450**	**2,279**	**513**	**678**
116	102	403	456	Tax charge		509	450	104	122
-	-18	-	62	Result investment held for sale, after tax	2, 3	149	-1	-8	-4
379	**273**	**1,850**	**1,922**	**Net profit**		**2,090**	**1,828**	**401**	**553**
8	9	33	36	Attributable to additional Tier 1 Capital holders		37	33	9	8
237	169	1,162	1,207	Attributable to Equity capital certificate holders		1,291	1,128	247	341
134	95	655	680	Attributable to the saving bank reserve		727	636	139	192
-	-	-	-	Attributable to non-controlling interests		34	32	6	12
379	**273**	**1,850**	**1,922**	**Net profit**		**2,090**	**1,828**	**401**	**553**
				Profit/diluted profit per ECC	17	9.97	8.71	1.90	2.63

*The income statement for the period January to December 2018 reflect IFRS 9 implementation from 1 January 2018. For further information about the transition, see note 2 and 45 in the annual report for 2017. Comparative figures have not been restated.

Other comprehensive income

Parent bank					Group			
		Jan-Dec			Jan-Dec			
4Q 17	**4Q 18**	**2017**	**2018**	**(NOKm)**	**2018**	**2017**	**4Q 18**	**4Q 17**
379	273	1,850	1,922	Net profit	2,090	1,828	401	553
				Items that will not be reclassified to profit/loss				
-24	18	-24	18	Actuarial gains and losses pensions	18	-20	-	-20
6	-6	6	-6	Tax	-6	5	-	5
-	-	-	-	Share of other comprehensive income of associates and joint venture	1	4	0	5
-18	**12**	**-18**	**12**	**Total**	**13**	**-11**	**0**	**-10**
				Items that will be reclassified to profit/loss				
9	-7	15	-	Fair value change on financial assets through other comprehensive income	-	15	-7	9
-	-0	-	-2	Value changes on loans measured at fair value	-2	-	-0	2
-	-	-	-	Share of other comprehensive income of associates and joint venture	-38	4	-3	-
-	-	-	-	Tax	-	-	0	-
9	**-7**	**15**	**-2**	**Total**	**-40**	**19**	**-9**	**12**
-8	**6**	**-3**	**11**	**Net other comprehensive income**	**-27**	**8**	**-9**	**1**
371	**278**	**1,847**	**1,933**	**Total other comprehensive income**	**2,063**	**1,836**	**392**	**554**
8	9	33	36	Attributable to additional Tier 1 Capital holders	37	33	9	8
232	172	1,160	1,213	Attributable to Equity capital certificate holders	1,274	1,132	241	341
131	97	654	684	Attributable to the saving bank reserve	718	638	136	192
				Attributable to non-controlling interests	34	32	6	13
371	**278**	**1,847**	**1,933**	**Total other comprehensive Income**	**2,063**	**1,836**	**392**	**554**

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

Balance sheet

Parent bank				Group	
31 Dec 2017	31 Dec 2018	(NOKm)	Note	31 Dec 2018	31 Dec 2017
3,313	883	Cash and receivables from central banks		883	3,313
9,543	11,178	Deposits with and loans to credit institutions		5,074	4,214
104,769	112,659	Net loans to and receivables from customers	5	119,728	110,959
19,895	20,428	Fixed-income CDs and bonds	15	20,348	19,736
4,328	3,914	Derivatives	15	4,119	4,351
169	391	Shares, units and other equity interests	15	1,873	1,825
3,940	4,309	Investment in related companies		6,098	5,760
3,120	2,610	Investment in group companies		-	-
82	82	Investment held for sale	2	43	649
522	533	Intangible assets		851	793
703	733	Other assets	12	1,687	1,654
150,383	**157,720**	**Total assets**		**160,704**	**153,254**
9,047	8,546	Deposits from credit institutions		9,214	9,607
77,362	81,448	Deposits from and debt to customers	9	80,615	76,476
42,194	44,269	Debt created by issue of securities	14	44,269	42,194
3,341	2,933	Derivatives	15	2,982	3,343
909	1,892	Other liabilities	13	2,670	1,923
-	-	Investment held for sale	2	1	1
2,159	2,224	Subordinated loan capital	14	2,268	2,201
135,011	**141,311**	**Total liabilities**		**142,018**	**135,744**
2,597	2,597	Equity capital certificates		2,597	2,597
-0	-0	Own holding of ECCs		-4	-8
895	895	Premium fund		895	895
5,079	5,602	Dividend equalisation fund		5,594	5,072
571	661	Recommended dividends		661	571
322	373	Provision for gifts		373	322
4,831	5,126	Ownerless capital		5,126	4,831
126	155	Unrealised gains reserve		155	126
-	-	Other equity capital		1,608	1,547
950	1,000	Additional Tier 1 Capital		1,043	993
		Non-controlling interests		637	565
15,372	**16,409**	**Total equity capital**		**18,686**	**17,510**
150,383	**157,720**	**Total liabilities and equity**		**160,704**	**153,254**

Cash flow statement

Parent bank Jan-Dec			Group Jan-Dec	
2017	**2018**	**(NOKm)**	**2018**	**2017**
1,850	1,922	Net profit	2,090	1,828
50	66	Depreciations and write-downs on fixed assets	98	102
323	229	Losses on loans and guarantees	263	341
2,223	**2,218**	**Net cash increase from ordinary operations**	**2,451**	**2,271**
656	366	Decrease/(increase) other receivables	170	480
-455	575	Increase/(decrease) short term debt	387	-339
-8,593	-8,138	Decrease/(increase) loans to customers	-9,059	-9,946
-1,340	-1,636	Decrease/(increase) loans credit institutions	-860	-322
8,972	4,086	Increase/(decrease) deposits to customers	4,140	9,308
-1,252	-501	Increase/(decrease) debt to credit institutions	-393	-902
-2,259	-533	Increase/(decrease) in short term investments	-613	-2,179
-2,047	**-3,563**	**A) Net cash flow from operations**	**-3,778**	**-1,629**
-100	-60	Increase in tangible fixed assets	-126	383
-145	140	Paid-up capital, associated companies	232	-685
94	-222	Net investments in long-term shares and partnerships	-47	-249
-146	**-141**	**B) Net cash flow from investments**	**59**	**-546**
-27	66	Increase/(decrease) in subordinated loan capital	66	-27
0	0	Increase/(decrease) in equity	15	-21
-390	-571	Dividend cleared	-571	-390
-220	-322	To be disbursed from gift fund	-322	-220
-33	14	Increase/(decrease) in Additional Tier 1 capital	13	-33
5,860	2,087	Increase/(decrease) in other long term loans	2,088	5,862
5,191	**1,274**	**C) Net cash flow from financial activities**	**1,289**	**5,173**
2,998	**-2,430**	**A) + B) + C) Net changes in cash and cash equivalents**	**-2,430**	**2,998**
315	3,313	Cash and cash equivalents at 1.1	3,313	315
3,313	883	Cash and cash equivalents at end of quarter	883	3,313
2,998	**-2,430**	**Net changes in cash and cash equivalents**	**-2,430**	**2,998**

Change in equity

Parent Bank	Issued equity		Earned equity						
(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Additional Tier 1 Capital	Total equity
Equity at 1 January 2017	**2,597**	**895**	**4,499**	**4,490**	**609**	**126**	**-**	**950**	**14,166**
Net profit	-	-	327	580	893	17	-	33	1,850
Other comprehensive income									
Financial assets through OCI	-	-	-	-	-	-	15	-	15
Actuarial gains (losses), pensions	-	-	-	-	-	-	-18	-	-18
Other comprehensive income	-	-	-	-	-	-	-3	-	-3
Total other comprehensive income	-	-	327	580	893	17	-3	33	1,847
Transactions with owners									
Dividend declared for 2016	-	-	-	-	-389	-	-0	-	-390
To be disbursed from gift fund	-	-	-	-	-220	-	-	-	-220
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-33	-33
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Direct recognitions in equity	-	-	5	9	-	-17	3	-	-
Total transactions with owners	0	-	5	9	-609	-17	3	-33	-642
Equity at 31 December 2017	**2,597**	**895**	**4,831**	**5,079**	**893**	**126**	**-**	**950**	**15,372**

Parent Bank	Issued equity		Earned equity						
(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Additional Tier 1 Capital	Total equity
Equity at 31 December 2017	**2,597**	**895**	**4,831**	**5,079**	**893**	**126**	**-**	**950**	**15,372**
Implementation effect IFRS 9	-	-	-	-	-	-	-17	-	-17
Equity at 1 January 2018	**2,597**	**895**	**4,831**	**5,079**	**893**	**126**	**-17**	**950**	**15,355**
Net profit	-	-	297	526	1,034	29	-	36	1,922
Other comprehensive income									
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	12	-	12
Other comprehensive income	-	-	-	-	-	-	11	-	11
Total other comprehensive income	-	-	297	526	1,034	29	11	36	1,933
Transactions with owners									
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-322
Additional Tier 1 Capital issued	-	-	-	-	-	-	-	1,000	1,000
Buyback additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-950
Interest payments additional Tier 1 capital	-	-	-	-	-	-	-	-36	-36
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	0
Direct recognitions in equity	-	-	-2	-4	-	-	6	-	-0
Total transactions with owners	0	-	-2	-4	-893	-	6	14	-879
Equity at 31 December 2018	**2,597**	**895**	**5,126**	**5,602**	**1,034**	**155**	**-**	**1,000**	**16,409**

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

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

(NOKm)	EC capital	Premium fund	Ownerless capital	Equalisation fund	Dividend and gifts	Unrealised gains reserve	Other equity	Additional Tier 1 Capital	Non-controlling interests	Total equity
	Attributable to parent company equity holders									
	Issued equity		Earned equity							
Equity at 31 December 2017	**2,588**	**895**	**4,831**	**5,072**	**893**	**126**	**1,547**	**993**	**565**	**17,510**
Implementation effect IFRS 9	-	-	-	-	-	-	-24	-	-	-24
Equity at 1 January 2018	**2,588**	**895**	**4,831**	**5,072**	**893**	**126**	**1,523**	**993**	**565**	**17,486**
Net profit	-	-	297	526	1,034	29	131	37	34	2,090
Other comprehensive income										
Share of other comprehensive income of associates and joint ventures	-	-	-	-	-	-	-38	-	-	-38
Value changes on loans measured at fair value	-	-	-	-	-	-	-2	-	-	-2
Actuarial gains (losses), pensions	-	-	-	-	-	-	13	-	-	13
Other comprehensive income	-	-	-	-	-	-	-27	-	-	-27
Total other comprehensive income	-	-	297	526	1,034	29	105	37	34	2,063
Transactions with owners										
Dividend declared for 2017	-	-	-	-	-571	-	-	-	-	-571
To be disbursed from gift fund	-	-	-	-	-322	-	-	-	-	-322
Additional Tier 1 capital issued	-	-	-	-	-	-	-	1,000	-	1,000
Buyback additional Tier 1 Capital issued	-	-	-	-	-	-	-	-950	-	-950
Interest payments additional Tier 1 capital	-	-	-	-	0	-	-	-37	-	-37
Purchase and sale of own ECCs	0	-	-	0	-	-	-	-	-	0
Own ECC held by SB1 Markets*)	4	-	-	0	-	-	11	-	-	15
Direct recognitions in equity	-	-	-2	-4	-	-	-5	-	-	-12
Share of other transactions from associates and joint ventures	-	-	-	-	-	-	-24	-	-	-24
Change in non-controlling interests	-	-	-	-	-	-	-	-	38	38
Total transactions with owners	4	-	-2	-4	-893	-	-19	13	38	-863
Equity at 31 December 2018	**2,592**	**895**	**5,126**	**5,594**	**1,034**	**155**	**1,608**	**1,043**	**637**	**18,686**

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

Notes

Contents

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**

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**

SpareBank 1 SMN

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			Group Jan-Dec	
2017	**2018**	**(NOKm**	**2018**	**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**

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 31 Dec 2017	Parent Bank 31 Dec 2018	(NOKm)	Group 31 Dec 2018	Group 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**

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:

	Equity instruments through	**Fixed**	**Loans at fair**	**Equity**

(NOKm)	profit/loss	interest loans	value through OCI	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 %**

Results from quarterly accounts

Group (NOKm)	4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016
Interest income	1,082	1,025	989	962	989	959	945	931	917
Interest expenses	438	414	408	394	400	389	413	398	413
Net interest	**644**	**610**	**581**	**568**	**589**	**570**	**532**	**533**	**504**
Commission income	343	344	361	339	372	360	349	308	300
Commission expenses	42	45	45	36	49	46	38	35	35
Other operating income	242	186	291	239	206	168	227	182	149
Commission income and other income	**543**	**486**	**607**	**542**	**529**	**482**	**538**	**455**	**414**
Dividends	2	0	4	2	0	1	3	1	1
Income from investment in related companies	130	105	102	79	147	126	94	71	74
Net return on financial investments	-37	77	195	99	108	108	35	66	153
Net return on financial investments	**95**	**182**	**300**	**180**	**256**	**235**	**131**	**138**	**228**
Total income	**1,282**	**1,277**	**1,488**	**1,290**	**1,374**	**1,287**	**1,202**	**1,126**	**1,146**
Staff costs	391	376	413	403	362	357	362	345	251
Other operating expenses	311	240	248	241	255	225	236	227	231
Total operating expenses	**701**	**616**	**661**	**645**	**618**	**582**	**598**	**571**	**482**
Result before losses	**580**	**661**	**827**	**645**	**756**	**705**	**604**	**555**	**664**
Loss on loans, guarantees etc.	67	69	78	48	78	88	86	89	99
Result before tax	**513**	**592**	**748**	**596**	**678**	**617**	**518**	**466**	**565**
Tax charge	104	119	156	131	122	118	111	99	102
Result investment held for sale, after tax	-8	6	150	1	-4	-0	3	-0	7
Net profit	**401**	**480**	**743**	**466**	**553**	**500**	**409**	**367**	**470**

Key figures from quarterly accounts

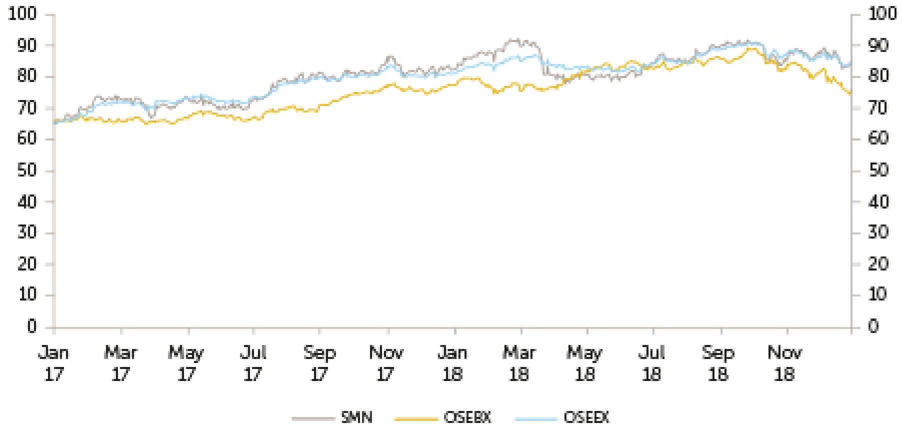
Group (NOKm)	4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016
Profitability									
Return on equity per quarter 1)	9.0%	11.1%	17.9%	11.2%	13.4%	12.5%	10.5%	9.4%	12.2%
Cost-income ratio 1)	55 %	48 %	44 %	50 %	45 %	45 %	50 %	51 %	42 %
Balance sheet figures									
Gross loans to customers	120,473	118,044	115,787	113,174	112,071	110,695	107,358	104,117	102,325
Gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt	160,317	157,825	154,790	151,065	148,784	147,146	143,800	140,038	137,535
Deposits from customers	80,615	77,529	80,343	75,937	76,476	73,086	75,559	70,176	67,168
Total assets	160,704	159,337	159,584	152,083	153,254	146,913	149,449	142,042	138,080
Quarterly average total assets	160,021	159,460	155,833	152,668	150,083	148,181	145,746	140,061	138,948
Growth in loans incl. SB1 Boligkreditt and SB1 Næringskredtt last 12 months 1)	7.8 %	7.3 %	7.6 %	7.9 %	8.2 %	9.4 %	8.5 %	8.1 %	8.0 %
Growth in deposits last 12 months	5.4 %	6.1 %	6.3 %	8.2 %	13.9 %	10.3 %	12.7 %	9.9 %	4.8 %
Losses and defaults in % of gross loans incl. SB1 Boligkreditt and SB1 Næringskreditt									
Impairment losses ratio 1)	0.17 %	0.18 %	0.20 %	0.13 %	0.22 %	0.24 %	0.24 %	0.26 %	0.28 %
Non-performing commitm. as a percentage of gross loans 1)	0.19 %	0.18 %	0.18 %	0.19 %	0.19 %	0.18 %	0.18 %	0.15 %	0.16 %
Other doubtful commitm. as a percentage of gross loans 1)	0.86 %	0.86 %	0.95 %	0.90 %	0.80 %	0.83 %	0.80 %	0.77 %	1.07 %
Solidity									
Common equity tier 1	14.6 %	14.9 %	15.0 %	14.6 %	14.6 %	14.6 %	14.9 %	14.7 %	14.8 %
Core capital ratio	16.3 %	16.7 %	17.0 %	16.3 %	16.6 %	16.6 %	16.8 %	16.7 %	16.8 %
Capital adequacy ratio	18.5 %	19.2 %	19.0 %	18.2 %	18.6 %	19.0 %	19.0 %	18.9 %	19.2 %
Core capital	16,472	16,542	16,488	15,697	15,707	15,718	15,526	15,149	14,956
Net equity and related capital	18,743	18,969	18,418	17,518	17,629	18,004	17,552	17,183	17,072
Liquidity Coverage Ratio (LCR)	183 %	150 %	150 %	162 %	164 %	124 %	160 %	136 %	129 %
Leverage Ratio	7.4 %	7.5 %	7.4 %	7.3 %	7.2 %	7.4 %	7.2 %	7.3 %	7.4 %
Key figures ECC									
ECC share price at end of period (NOK)	84.20	90.90	84.50	80.90	82.25	81.25	71.75	66.50	64.75
Number of certificates issued, millions 1)	129.62	129.44	129.31	129.38	129.38	129.40	129.54	129.48	129.64
Booked equity capital per ECC (including dividend) 1)	83.87	82.57	80.21	76.53	78.81	79.18	75.40	72.31	73.35
Profit per ECC, majority 1)	1.90	2.32	3.54	2.21	2.63	2.42	1.92	1.74	2.21
Price-Earnings Ratio 1)	11.05	9.77	5.97	9.16	7.81	8.40	9.32	9.58	7.32
Price-Book Value Ratio 1)	1.00	1.10	1.05	1.06	1.04	1.03	0.95	0.92	0.88

1) Defined as alternative performance measures, see attachment to the quarterly report

Equity capital certificates

Stock price compared with OSEBX and OSEEX

1 Jan 2017 to 31 Dec 2018

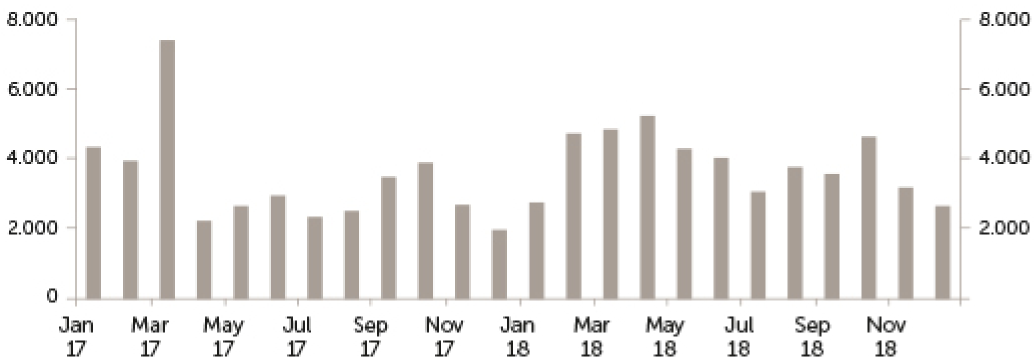


OSEBX = Oslo Stock Exchange Benchmark Index (rebased)

OSSEX = Oslo Stock Exchange ECC Index (rebased)

Trading statistics

1 Jan 2017 to 31 Dec 2018



Total number of ECs traded (1000)

20 largest ECC holders	Number	Share
VPF Nordea Norge Verdi	6,572,299	5.06 %
State Street Bank and Trust CO (nominee)	4,013,854	3.09 %
Sparebankstiftelsen SMN	3,965,391	3.05 %
VPF Odin Norge	3,726,686	2.87 %
VPF Danske Invest Norske Aksjer Inst. II	3,334,265	2.57 %
Verdipapirfondet DNB Norge (IV)	2,961,197	2.28 %
JP Morgan Chase Bank (nominee)	2,669,005	2.06 %
VPF Pareto Aksje Norge	2,356,459	1.81 %
State Street Bank and Trust CO (nominee)	2,203,038	1.70 %
Morgan Stanley And Co Intl plc	2,098,751	1.62 %
VPF Alfred Berg Gambak	1,924,604	1.48 %
Pareto AS	1,821,202	1.40 %
VPF Danske Invest Norske Aksjer Inst. I	1,772,092	1.36 %
Forsvarets Personellservice	1,717,046	1.32 %
JP Morgan Chase Bank (nominee)	1,714,638	1.32 %
MP Pensjon PK	1,568,771	1.21 %
VPF Nordea Kapital	1,423,991	1.10 %
VPF Nordea Avkastning	1,289,111	0.99 %
VPF Storebrand Norge I	1,208,665	0.93 %
JP Morgan Chase Bank (nominee)	1,163,440	0.90 %
The 20 largest ECC holders in total	**49,504,505**	**38.13 %**
Others	80,331,938	61.87 %
Total issued ECCs	**129,836,443**	**100.00 %**

Dividend policy

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

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

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