

Report of the Board of Directors

First quarter accounts 2018

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

Main points first quarter 2018:

- Good profits from banking operations, subsidiaries and product companies
- Profit was NOK 466m, and NOK 99m better than in the first quarter of 2017. The improvement is mainly due to increased operating income, improved return on financial assets and reduced loan losses
- CET1 capital ratio as at 31. december 17 has been corrected from 14.9 per cent to 14.6 per cent, CET1 capital in first quarter remain unchanged
- Strong financial position
- Considerable increase in customers and high growth in all product areas

Post-tax profit of NOK 466m

- Pre-tax profit: NOK 596m (466m)
- Post-tax profit: NOK 466m (367m)
- Return on equity: 11.2 per cent (9.4 per cent)
- CET1 capital ratio: 14.6 per cent (14.7 per cent)
- Growth in lending: 7.9 per cent (8.1 per cent) and in deposits: 8.2 per cent (9.9 per cent)
- Retail loans account for 66 per cent (65 per cent) of total lending
- Losses on loans and guarantees: NOK 48m (89m)
- Earnings per equity certificate (EC): NOK 2.21 (1.74). Book value per EC: NOK 76.53 (72.31)

Profit NOK 99m better than in first quarter 2017

SpareBank 1 SMN achieved a pre-tax profit of NOK 596m (466m) in the first quarter of 2018. The net profit is NOK 466m (367m) and return on equity is 11.2 per cent (9.4 per cent).

Overall operating income in the first quarter came to NOK 1,110m (988m), an increase of NOK 122m from the previous year. NOK 87m of the income growth derives from increased activity at the bank's subsidiaries SpareBank 1 SMN Regnskapshuset and SpareBank 1 Markets.

Operating expenses came to NOK 645m (571m) in the first quarter of 2018. The increase of NOK 74m is in its entirety due to increased activity at the subsidiaries.

Return on financial assets was NOK 180m (138m), of which the profit share from owner interests and related companies accounted for NOK 79m (71m).

The Group lost NOK 48m (89m) on loans and guarantees to customers, mainly in oil-related activity.

Sound growth was recorded in lending and deposits in the 12 months to end-March of 2018. Lending rose by 7.9 per cent (8.1 per cent) and deposits by 8.2 per cent (9.9 per cent).

As at 31 March 2018 the CET1 ratio was 14.6 per cent (14.7 per cent). The CET1 target is 15.0 per cent.

The price of the bank's equity certificate (MING) at quarter-end was NOK 80.90 (66.50). A cash dividend of NOK 4.40 (3.00) per EC has been paid in 2018 for the year 2017.

Earnings per EC were NOK 2.21 (1.74). The book value per EC was NOK 76.53 (72.31).

Increased net interest income

Net interest income rose by NOK 35m to NOK 568m (533m) in the first quarter of 2018. The increase is in all essentials attributable to increased lending to and deposits from retail and corporate customers alike.

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

The market interest rate as expressed by three-month NIBOR has edged up in 2018 after a long period of decline. This has put pressure on lending margins in the first quarter concurrent with an improving deposit margin. This development is expected to continue in the period ahead.

Increased other income

Commission and other operating income has risen by NOK 87m to NOK 542m (455m) 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 combined in the first quarter totalled NOK 103m (76m).

Income from SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt rose by NOK 26m as a result of growth and improved margins on residential mortgages.

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

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

Commission income (NOKm)	January - March		
	2018	2017	Change
Payment transfers	52	50	2
Creditcard	15	15	0
Saving products	26	21	5
Insurance	43	41	2
Guarantee commission	17	18	-0
Real estate agency	83	91	-8
Accountancy services	115	99	16
Markets	65	31	34
Other commissions	23	13	10
Commissions ex SB1 Boligkreditt and SB1 Næringskreditt	439	378	61
Commissions SB1 Boligkreditt	99	72	27
Commissions SB1 Næringskreditt	3	4	-0
Total commissions	542	455	87

Good return on financial investments

Overall return on financial investments was NOK 99m (66m). This breaks down as follows:

- Gain and dividend of NOK 7m (9m) on shares of the bank and subsidiaries
- Financial derivatives yielded gains of NOK 119m (minus 3m). This is largely gains on fixed income instruments. The relatively large gains are ascribable to the interest rate increase through the first quarter. This is counteracted in part by losses on the fixed interest portion of the bond portfolio, which shows overall losses of NOK 59m (gain of NOK 49m)
- 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 4m (11m)
- Income of NOK 11m (6m) on 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 17m (12m)
- Financial instruments used by the bank for hedging purposes have shown a gain of NOK 1m (loss of NOK 16m)

Capital gains/dividends, shares (NOKm)	January - March		
	2018	2017	Change
Capital gains shares	7	9	-2
Gain/(loss) on derivatives	119	-3	122
Gain/(loss) on other financial instruments at fair value (FVO)	4	11	-6
Foreign exchange gain/(loss)	11	6	5
Gain/(loss) on certificates and bonds	-59	49	-108
Gain/(loss) on shares and share derivatives at SpareBank 1 Markets	17	12	6
Gain/(loss) on financial instruments related to hedging	1	-16	16
Net return on financial instruments	99	66	33

Product companies and other related companies

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

SpareBank 1 Gruppen

SpareBank 1 Gruppen owns 100 per cent of the shares of SpareBank 1 Forsikring, SpareBank 1 Skadeforsikring, ODIN Forvaltning and SpareBank 1 Gruppen Finans. SpareBank 1 SMN's stake in SpareBank 1 Gruppen was unchanged at 19.5 per cent at the end of the first quarter of 2018. SpareBank 1 Gruppen's post-tax profit in the first quarter of 2018 was NOK 184m (372m). SpareBank 1 Forsikring contributes 80 per cent of the profit. A weaker performance by the insurance arm compared with an excellent first quarter in 2017 explains the profit decline shown by SpareBank 1 Gruppen.

SpareBank 1 SMN's share of the profit for the first quarter of 2018 was NOK 36m (66m).

SpareBank 1 Boligkreditt

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

As of 31 March 2018 the bank has sold loans totalling NOK 36.4bn (33.8bn) to SpareBank 1 Boligkreditt, corresponding to 36.2 per cent (37.0 per cent) of the bank's overall loans to retail borrowers.

The bank's stake in SpareBank 1 Boligkreditt is 19.9 per cent, and the bank's share of that company's profit in the first quarter of 2018 was NOK 3m (minus 24m).

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

SpareBank 1 Næringskreditt

SpareBank 1 Næringskreditt was established along the same lines and with the same administration as SpareBank 1 Boligkreditt. As at 31 March 2018, loans worth NOK 1.5bn (2.2bn) had been sold to SpareBank 1 Næringskreditt.

SpareBank 1 SMN's stake in the company is 33.5 per cent, and the bank's share of the company's profit for the first quarter of 2018 was NOK 4m (8m). The bank's holding reflects the bank's relative share of sold loans to commercial property and the bank's stake in BN Bank. Of aggregate loans at SpareBank 1 Næringskreditt, 43 per cent have been transferred from BN Bank.

SpareBank 1 Kredittkort

Profit in the first quarter of 2018 was NOK 30m (9m). 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 in the first quarter of 2018 was NOK 5m (2m), and the bank's share of the portfolio is NOK 849m (840m).

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

In 2017 work on the LOfavør portfolio reflected start-up and one-time costs, and the portfolio will make a positive contribution to the SpareBank 1 Alliance in 2018.

On behalf of the SpareBank 1 Alliance, SpareBank 1 Kredittkort was commissioned to deliver credit products to an expanded Vipps. The agreement is to be implemented in the course of 2018.

BN Bank

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

BN Bank recorded a profit of NOK 87m (89m) in the first quarter of 2018 providing a return on equity of 9.8 per cent (10.2 per cent). SpareBank 1 SMN's share of the profit of BN Bank in the first quarter of 2018 was NOK 29m (30m) adjusted for the profit share in BN Bolig.

After the decision to wind down the focus on financing of commercial property, the corporate portfolio has been reduced by NOK 18.4bn or 57 per cent since 30 June 2015. This has helped to improve SpareBank 1 SMN's financial position and to enhance the profitability of the remaining corporate portfolio of BN Bank.

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

BN Bank has resolved to strengthen its product platform through a cautious focus on consumer lending. In addition the company has, in collaboration with Eiendomsmeidler 1 Midt Norge, established the company BN Bolig in which BN Bank holds a 50 per cent stake. The focus on estate agency in the Oslo market is

intended to strengthen residential mortgage lending for BN Bank. To support the focus on estate agency, the bank's board of directors have also adopted a new focus on funding of housing projects. This will involve a controlled, gradual build-up of the portfolio.

SpareBank 1 Betaling (Vipps)

In autumn 2017 the SpareBank 1 Alliance's mobile payments service mCASH was amalgamated with Vipps. Several Norwegian bank groupings joined the company on the owner side, and all Norwegian banks have Vipps as their mobile payments service. BankID and BankAxept are to merge with Vipps to compete in the arena for payment solutions for the future, and the merger was approved by the Norwegian Competition Authority on 27 april 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). In the course of 2018 Vipps will launch a number of services designed to simplify bank customers' everyday life, and its integration of accounts will ensure that costs are kept down.

SpareBank 1 Betaling posted in the first quarter a deficit of NOK 14m which constitutes the company's share of Vipps' financial result. SpareBank 1 SMN's share of this deficit is NOK 3m.

Operating expenses

Overall Group operating expenses rose by NOK 74m in the first quarter of 2018 to total NOK 645m (571m).

The parent bank shows no change in costs in the 12 months to end-March. Improved efficiency and effectiveness have enabled lower staffing and reduced costs. Since 31 December 2014 the number of FTEs at the parent bank has been reduced by 139 to 581 at the end of the first quarter of 2018. Changing customer behaviour and new technology set the stage for increased efficiency gains. In parallel with this, a focus on new technology has increased IT and development costs, and will continue to do so. However, the target of zero growth in costs is maintained.

Total costs among the subsidiaries came to NOK 338m (266m) having risen by NOK 73m in the 12 months to end-March. Of this, NOK 14m refers to SpareBank 1 Regnskapshuset SMN's acquisitions, about NOK 40m to the build-up of SpareBank 1 Markets and NOK 5m to the BN Bolig venture.

SpareBank 1 Regnskapshuset SMN's acquisitions provide income growth and profit growth for the company. Increased capacity through new appointments has enabled strong income growth at SpareBank 1 Markets and the potential for further growth is high.

The cost-income ratio was 50 per cent (51 per cent) for the Group, 38 per cent (40 per cent) for the parent bank.

Reduced losses and low defaults

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

Net loan losses of NOK 48m (89m) were recorded in the first quarter. Net loan losses measure 0.13 per cent of total outstanding loans (0.26 per cent).

A net loss of NOK 50m (87m) was recorded on loans to corporates in the first quarter of 2018, in all essentials related to offshore exposures.

A net gain of NOK 2m (loss of 2m) was recorded on loans to retail borrowers in the first quarter of 2018.

Write-downs on loans and guarantees total NOK 1,143m (919m) at 31 March 2018.

Total problem loans (defaulted and doubtful) come to NOK 1,647m (1,289m), or 0.99 per cent (0.92 per cent) of gross outstanding loans, including loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. After implementation of IFRS 9 as from 1 January 2018, all loans classified in stage 3 in the expected credit loss model are defined as problem loans.

Defaults in excess of 90 days totalled NOK 289m (211m), measuring 0.19 per cent (0.15 per cent) of gross outstanding loans.

Other doubtful exposures total NOK 1,358m (1,078m), i.e. 0.90 per cent (0.77 per cent) of gross outstanding loans.

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

Total assets of NOK 152bn

The bank's assets totalled NOK 152bn at 31 March 2018 (142bn), having risen by NOK 10bn or 7.1 per cent in the past year. The increase in total assets is a consequence of increased lending and a higher liquidity holding.

As at 31 March 2018 loans worth a total of NOK 38bn (36bn) have been sold from SpareBank 1 SMN to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. These loans do not figure as loans in the bank's balance sheet. The comments covering lending growth do however include loans sold to SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt.

High growth in residential mortgage lending

Total outstanding loans have risen by NOK 11.0bn (10.5bn) or 7.9 per cent (8.1 per cent) in the 12 months to end-March to reach NOK 151.1bn (140.0bn) as at 31 March 2018.

- Loans to personal borrowers rose in the 12 months to end-March by NOK 9.1bn (9.0bn) to reach NOK 100.4bn (91.3bn). Growth of 10.0 per cent (11.0 per cent)
- Loans to corporates rose in the 12 months to end-March by NOK 1.9bn (1.9bn) to reach NOK 50.6bn (48.7bn). Growth of 4.0 per cent (3.1 per cent)
- Loans to personal borrowers accounted for 66 per cent (65 per cent) of total loans to customers at end-March 2018

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

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

(For distribution by sector, see note 5).

Good deposit growth

Customer deposits rose by NOK 5.8bn (3.1bn) in the 12 months to end-March to reach NOK 75.9bn (70.2bn). This represents a growth of 8.2 per cent (9.9 per cent).

- Personal customer deposits rose by NOK 2.3bn (1.4bn) or 7.7 per cent (5.0 per cent) to reach NOK 32.0bn
- Corporate deposits rose by NOK 3.5bn (4.9bn) or 8.6 per cent (13.8 per cent) to NOK 43.9bn.
- The deposit-to-loan ratio at SpareBank 1 SMN was 67 per cent (67 per cent), excluding SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt. The deposit-to-loan ratio including SpareBank 1 Boligkreditt and SpareBank 1 Næringskreditt was 50 per cent (50 per cent).

(For distribution by sector, see note 9).

Investment products

The customer portfolio of off-balance sheet investment products totalled NOK 10.0bn (9.0bn) at 31 March 2018. The increase of NOK 1.0bn is a result of good sales and value increases, especially as regards equity funds and active asset management.

Saving products, customer portfolio (NOKm)	January - March		Change
	2018	2017	
Equity funds	6,026	5,405	621
Pension products	794	777	17
Active management	3,244	2,853	391
Total	10,064	9,053	1,029

Insurance

The bank's insurance portfolio increased by 9 per cent in the 12 months to end-March. Growth was satisfactory as regards non-life and personal insurance alike.

Insurance, premium volume (NOKm)	January - March		Change
	2018	2017	
Non-life insurance	782	742	40
Personal insurance	333	310	23
Occupational pensions	259	213	46
Total	1,374	1,265	109

Retail Banking

Outstanding loans to retail borrowers total NOK 105bn and deposits total NOK 38bn as at 31 March 2018. These are loans to and deposits from wage earners, agricultural customers and sole proprietorships.

Operating income totalled NOK 501m (432m) in the first quarter of 2018 of which net interest income accounted for NOK 296m (259m) and commission income for NOK 204m (173m). Income has increased mainly due to increased lending and higher commission income from other financing income, investment products, payments and insurance. Overall income rose by NOK 69m. Return on capital employed in the retail banking segment was 14.5 per cent (14.9 per cent). Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin in the first quarter of 2018 was 1.79 per cent (1.81 per cent), while the deposit margin was 0.14 per cent (0.24 per cent) measured against three-month NIBOR. The market interest rate expressed by three-month NIBOR has edged up in 2018 after a long period of decline.

Retail lending and retail deposits grew by 10.0 per cent (10.5 per cent) and 8.2 per cent (3.8 per cent) respectively in the 12 months to end-March.

Lending to retail borrowers consistently carries low direct risk, as reflected in continued very low losses. There are no indications of increased loss and default levels in the bank's residential mortgage portfolio. The portfolio is secured on residential property.

Corporate Banking

Outstanding loans to corporates total NOK 40bn and deposits total NOK 37bn as at 31 March 2018. This is a diversified portfolio of loans to and deposits from corporate customers in Trøndelag and Møre and Romsdal.

Operating income totalled NOK 314m (325m) in the first quarter of 2018. Net interest income was NOK 263m (276m), while commission income and return on financial investments totalled NOK 51m (49m).

Overall net losses recorded in the corporate banking segment have declined and amounted to NOK 50m (87m) in the first quarter of 2018. The losses are in all essentials related to the challenges faced in oil-related activity.

Return on capital employed for the corporate banking segment was 10.1 per cent (9.6 per cent) in the first quarter of 2018. Regulatory capital of 15.0 per cent is used as capital employed, corresponding to the Group's targeted CET1 capital ratio.

The lending margin was 2.62 per cent (2.71 per cent) and the deposit margin was minus 0.05 per cent (minus 0.06 per cent) in the first quarter of 2018.

Lending grew by 1.6 per cent (0.7 per cent) and deposits by 6.8 per cent (17.9 per cent) in the 12 months to end-March.

Subsidiaries

The subsidiaries posted an overall profit of NOK 65.1m (57.4m) before tax in the first quarter of 2018.

Pre-tax profit (NOKm)	January - March		
	2018	2017	Change
EiendomsMegler 1 Midt-Norge	-7.6	4.0	-11.6
SpareBank 1 Finans Midt-Norge	38.0	28.1	9.9
SpareBank 1 Regnskapshuset SMN	16.8	15.5	1.4
Sparebank 1 Markets Group	7.1	3.5	3.6
SpareBank 1 SMN Invest (incl. Grilstad Marina)	4.3	0.9	3.3
Other companies	5.6	5.4	0.1
Total	64.2	57.4	6.8

Eiendomsmeidler 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's ambition is 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. This represents a focus on estate agency in the Oslo market which, in addition to enhancing earnings from estate agency, will contribute to stronger residential mortgage lending growth for BN Bank in this market.

EiendomsMegler 1's pre-tax profit in the first quarter of 2018 came to minus NOK 7.6m (4.0m). The profit performance is weakened by:

- Reduced income as a result of fewer dwelling units sold. 1,483 dwelling units were sold in the first quarter of 2018 compared with 1,719 in the same period of 2017
- NOK 10m in negative profit related to start-up costs for BN Bolig (8m). EiendomsMegler 1 Midt-Norge consolidates BN Bolig's profit as a subsidiary

SpareBank 1 Finans Midt-Norge delivered a profit of NOK 38.0m in the first quarter of 2018 (28.1m), and shows strong profit growth as a result of high growth in income, moderate cost growth and good risk management. The company's business areas are mainly leasing to the SMB market and car loans to retail customers. The company operates leasing and car loan agreements worth a total of NOK 6.4bn (5.4bn), of which leasing agreements account for NOK 2.9bn (2.5bn) and car loans for NOK 3.5bn (2.9bn). The company also offers consumer loans, and at year-end this portfolio was worth NOK 226m (147m).

The company has seen good growth, in particular in car loans with growth of 20 per cent over the last 12 months. The Samspar banks in SpareBank 1 held a 27.9 per cent stake in SpareBank 1 Finans Midt-Norge at end-March 2018 and Sparebanken Sogn og Fjordane a stake of 7.5 per cent. SpareBank 1 SMN owns 64.6 per cent of the shares of SpareBank 1 Finans Midt-Norge.

SpareBank 1 Regnskapshuset SMN posted a pre-tax profit of NOK 16.8m (15.5m) in the first quarter of 2018. As from 2017 the company substantially expanded its business in Møre and Romsdal with the acquisition of a large company and has acquired a further nine companies in Trøndelag and in Møre and Romsdal. It now has 440 employees, 10,000 customers and offices in 40 locations. This has contributed to profit growth and to a considerable increase in income and expenses alike.

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

Sparebanken SMN Invest invests in shares, mainly in regional businesses. The company posted a profit of NOK 4.3m (0.9m) in the first quarter of 2018.

Value changes and realisation of losses or gains on the company's overall holding of shares account for minus NOK 0.1m of the company's net total income. The company has in addition ownership interests in the property company Grilstad Marina and its share of the latter's profit in the first quarter of 2018 was NOK 4.4m (2.7m).

SpareBank 1 Markets is a subsidiary of SpareBank 1 SMN with a stake of 66.7 per cent. The company is headquartered in Oslo and has offices in Trondheim, Ålesund and Stavanger. It has a staff of 134.

SpareBank 1 Markets wholly owns SpareBank 1 Kapitalforvaltning (formerly Allegro Kapitalforvaltning and SpareBank 1 Nord-Norge Forvaltning). The company is at centre-stage in SpareBank 1 Markets' focus on asset management with aggregate total assets of NOK 12bn. The company has a staff of 15.

SpareBank 1 Markets' Group pre-tax profit in the first quarter of 2018 was NOK 7.1m (3.5m). The Group has seen a positive income trend in the first quarter, in particular in equity trading and fixed income / forex derivatives.

In 2017 SpareBank 1 Markets made a number of staff appointments which have boosted earnings in the equity and bond issue market on Oslo Børs.

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

Satisfactory funding and good liquidity

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

The bank has liquidity reserves of NOK 24bn and has the funding needed for 26 months of ordinary operation without fresh external finance.

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

The LCR is calculated at 162 per cent as at 31 March 2018 (136 per cent). The requirement is 100 per cent.

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

The bank's funding sources and products are amply diversified. At 31 March 2018 the proportion of the bank's overall money market funding in excess of 1 year was 80 per cent (88 per cent).

SpareBank 1 Boligkreditt is the bank's most important source of funding, and loans totalling NOK 36bn have been sold as at 31 March 2018.

Rating

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

Financial position

Historical figures are restated due to an error found in the treatment of the share of the fund for unrealised gains from related companies. This reduces the reported common equity tier 1 (CET1) capital. A correction for the fourth quarter of 2017 is also made to repurchase agreements and collaterals related to the calculation of capital charges for the transitional arrangement (Basel 1 floor), entailing an increase in risk weighted assets compared to the originally reported figure. The CET1 capital ratio is accordingly revised from 14.9 per cent to 14.6 per cent as at 31 December 2017.

The CET1 capital ratio as at 31 March 2018 was 14.6 per cent as against 14.6 per cent at the end of the year. The Group's CET1 capital ratio target is 15.0 per cent. The government authorities' CET1 capital ratio requirement is 14.1 per cent.

Risk weighted assets increased by 1.3 per cent in the first quarter. This is balanced by an increase in CET1 capital resulting from a good profit performance in the first quarter of 2018.

The CET1 capital ratio is 0.4 percentage point below the target level. The forecast for 2018 shows that when dividend from SpareBank 1 Gruppen, disposal of SpareBank 1 Kvartalet and results for the rest of the year are taken into account, the board of directors assume and expect the target level to be attained. The leverage ratio is 7.3 per cent (7.3 per cent).

As at 31 December 2017 the countercyclical buffer was raised from 1.5 per cent to 2.0 per cent, bringing the CET1 ratio requirement to 12.0 per cent, including combined buffer requirements. When a Pillar 2 requirement of 2.1 per cent is added, the overall government requirement rises to 14.1 per cent.

Finanstilsynet's final assessment of add-ons for risks not sufficiently covered under Pillar 1 was set at 2.1 per cent in 2015. This add-on relates mainly to owner risk, market risk and credit concentration risk. The add-on is subject to review by Finanstilsynet every second year, and Finanstilsynet will set a new Pillar 2 add-on in the course of 2018. SpareBank 1 SMN aims for an excess buffer about 1 per cent higher than overall Pillar 1 and Pillar 2 requirements to absorb fluctuations in risk weighted assets and in the Group's profits. In light of this the Group's capital target is set at 15 per cent.

The bank's equity certificate (MING)

The book value of the bank's EC as at 31 March 2018 was NOK 76.53 (72.31) and earnings per EC were NOK 2.21 (1.74).

The Price / Income ratio was 9.16 (9.58) and the Price / Book ratio was 1.06 (0.92).

As at 31 March 2018 the EC was priced at NOK 80.90 and dividend of NOK 4.40 per EC has been paid in 2018 for the year 2017.

Risk factors

The Group's problem loans are low, but reflect the challenges facing the offshore industry. Loans to oil-related activity account for 3.0 per cent of the Group's overall outstanding loans as at 31 March 2018. 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 defaulted and problem exposures are in evidence.

Positive growth signals are noted both internationally and in Norway. A weaker Norwegian krone has impacted positively on Norwegian export industries, but some strengthening of the krone is expected ahead. Real wage growth is expected to be moderate. The bank considers the loss risk in the bank's retail market portfolio to remain low – also in a situation of some increase in the interest rate level. 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 is somewhat lower, but still considerably higher than wage growth. Households' debt are on a high level. An interest rate hike could prompt a higher savings rate

among Norwegian households, which could result in reduced turnover in parts of Norwegian business and industry.

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

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

Outlook

The accounts for the first quarter of 2018 show good sales, robust growth and good earnings. There is further potential for efficiency gains and profit improvement across the Group.

A rising level of market interest rates will reduce net interest income somewhat in the short term.

Economic prospects for Trøndelag and Møre and Romsdal are good. The Bank's corporate expectation barometer as of first quarter 2018 shows increased optimism among business leaders.

There are grounds to expect the strong growth in residential mortgage lending to subside somewhat, but the board of directors expects the bank, due to its sound distribution concept and strong selling power, to continue to win market shares in our catchment area in 2018 as previously.

The bank will continue its efforts to strengthen its market position among small and medium-sized businesses.

Loan losses are considerably lower in first quarter of 2018 compared with the previous year. The restructuring of the oil service industry is completed, and prospects are better as a result of a higher oil price. However, the directors do not rule out the possibility of new challenges in this industry. The bank's wider loan portfolio shows minimal losses and defaults and the board of directors expects this picture to persist in 2018.

The Directors are not satisfied with CET1 ratio of 14.6 per cent. However, the forecast for the year show that the target of 15 per cent will be attained by yearend 2018. The board of directors is otherwise well satisfied with the Group's performance and results thus far in 2018 and expects 2018 to be a good year for SpareBank 1 SMN.

Trondheim, 3. May 2018
The Board of Directors of SpareBank 1 SMN

Kjell Bjordal
(chair)

Bård Benum
(deputy chair)

Paul E. Hjelm-Hansen

Mette Kamsvåg

Morten Loktu

Janne Thyø Thomsen

Tonje Eskeland Foss

Erik Gunnes
(employee rep.)

Venche Johnsen
(employee rep.)

Finn Haugan
(Group CEO)